

**Department of Environment and Conservation
Division of Solid Waste Assistance**

**Review of Improper Grant Reimbursement Claims
Submitted by Agricenter International, Inc.**

NOVEMBER 2002

Arthur A. Hayes, Jr., CPA, JD, CFE

Director

Glen McKay, CIA, CFE, CISA

Assistant Director

Chas Taplin, CPA, CFE

Audit Manager

Trey King, CFE

Jim Intermaggio, JD

Misty Cutshall

Audit Investigators

Amy Brack

Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

Special investigations are available on-line at www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

November 22, 2002

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Milton H. Hamilton, Jr., Commissioner
Department of Environment and Conservation
401 Church Street
Nashville, Tennessee 37243-0435

Ladies and Gentlemen:

Transmitted herewith is a special report on the review of alleged improper grant reimbursement requests submitted by Agricenter International, Inc., and paid by the Tennessee Department of Environment and Conservation (TDEC). Agricenter International, Inc. (hereinafter referred to as Agricenter), is a nonprofit corporation located in Memphis, Tennessee. Agricenter received a TDEC Innovative Technology (landfill) Grant in fiscal year 1997 in the amount of \$370,000 solely to purchase an innovative material, a blended soil aggregate produced from a byproduct of the processing of cottonseed. This material was purchased from Extrusion Technologies, Inc., for the purpose of capping the Shelby County landfill in place of topsoil or clay.

This review was initiated after Extrusion Technologies alleged that Agricenter had not paid it for services it had provided to Agricenter. At that time in March 1999, TDEC had paid Agricenter a total of \$768,000 (\$370,000 in reimbursements for expenses allegedly incurred under the TDEC landfill grant and \$398,000 in reimbursements for expenses allegedly incurred under a TDEC recycling grant).

Our review of the landfill grant revealed that in 1997, Agricenter's president, with assistance from the president of Extrusion Technologies, misrepresented the true cost of the material to TDEC. As represented to TDEC during the negotiations and documented in Agricenter's proposed landfill grant budget, Agricenter's cost for the material would be \$385,000 (110,000 cubic yards @ \$3.50 per cubic yard). In fact, Agricenter and Extrusion Technologies had previously negotiated a side agreement for Agricenter to purchase the material from Extrusion Technologies for only \$185,000 (\$1.68 per cubic yard) and have it delivered to the landfill for \$55,000 (\$0.50 per cubic yard). After the start of the grant period, January 1, 1997, Agricenter immediately submitted an invoice to TDEC for \$385,000. There did not appear to be any business reason for Agricenter to submit the overstated invoice other than to divert grant funds to unjustly enrich Agricenter. Disbursement of the entire grant amount at that time would have enabled Agricenter to improperly divert \$185,000. The purpose of the grant was not to provide Agricenter with funding in excess of the cost of the material or to offset/fund Agricenter's administrative

costs, but rather to assist Agricenter in the ongoing development of new technology by providing funds solely for the purchase of the innovative material.

The receipt of the extra \$185,000 did not occur in January 1997 as Agricenter's president had planned. After receiving the invoice for the material totaling \$385,000, TDEC only paid one-half, consistent with the department's practice of paying half of each invoice to ensure that Agricenter provided the full amount of its matching in-kind contributions. Furthermore, the department's system of disbursing the grant funds to Agricenter meant that invoices for Agricenter's matching expenses, for items such as infrastructure and delivery costs, would have to be submitted before the entire \$370,000 in grant funds would be disbursed. The delivery of material to the landfill was initiated in the summer of 1997, and other than the application of grass seed, the project was completed in December 1997.

In a further development, in the latter part of 1997, Agricenter and its external auditor determined that the amount of material actually used to cap the landfill was less than half the amount on Agricenter's invoice to TDEC in January 1997. This lesser amount of material used on the project resulted in less money "due to" Extrusion Technologies from Agricenter per the side agreement, which was based on the amount of material actually used. Other agreements (real estate leases) between Agricenter and Extrusion Technologies were also affected because they too were based on the amount of material sold by Extrusion Technologies. Because a lesser amount of material was used, Agricenter's external auditor determined that Extrusion Technologies had been overpaid by Agricenter because Extrusion had already received \$185,000 relating to its material and hauling of 110,000 cubic yards originally estimated. After being notified of the overpayment, Extrusion Technologies' president replied to Agricenter and its external auditor on December 12, 1997, that he had revised the material invoice downward to reflect the actual amount delivered. Extrusion Technologies' president also changed his position on the cost of the material. He notified Agricenter that he was, in essence, no longer willing to provide the material to them at a discounted price (for \$1.68 per cubic yard) per the side agreement. By increasing the unit price, Extrusion Technologies was offsetting the reduction in material used to maintain the total cost of the side agreement.

Until this notification from Extrusion Technologies, Agricenter and its external auditor had not notified or consulted with TDEC in regard to the deficit in the actual material used. In fact, the external auditor did not even mention the difference between the side agreement and the grant budget in his audit report on Agricenter for the year ended June 30, 1997. It appears that the deficit and the differences between the side agreement and the grant budget were not significant issues with Agricenter and its external auditor until Extrusion Technologies' president was no longer willing to honor the original side agreement and notified them that he was submitting a revised invoice. Upon TDEC's receipt of the revised invoice, Agricenter was then faced with deficiencies in the material expenses and in its matching in-kind contributions. It appears that Agricenter representatives, realizing that the department might learn of the revised invoice, presented the revised invoice to the department and sought to overcome the shortfall through other purported expenses.

In light of this reduction in the amount of material used, the position change of Extrusion Technologies, and the lack of its matching in-kind contributions, Agricenter initiated renegotiations of the grant budget between Agricenter and TDEC. During the renegotiations in December 1997, Agricenter's president and external auditor discussed the reduction in the actual amount of material needed for the landfill project and significant offsetting expenses related to Agricenter's alleged management and administration of the grant, but Agricenter's president and external auditor did not disclose the side agreement to TDEC. At that point, TDEC agreed to reimburse Agricenter for other items it understood to be true costs of Agricenter. In fact, some of the renegotiated items were actually paid for by Shelby

County and did not even pertain to the landfill project. Another renegotiated item was the result of an exchange without a cash outlay by Agricenter. Agricenter's president and external auditor remained silent during the meeting with TDEC staff, although Agricenter representatives knew that Agricenter had not incurred any true costs associated with some of the items. Ultimately, both the misrepresentations by Agricenter regarding the cost of the material and hauling and the later omission of facts by Agricenter regarding the renegotiated items resulted in TDEC's overpayment to Agricenter.

Agricenter's president stated that TDEC knew and approved of the side agreement from the beginning. However, if TDEC had known about the side agreement, "a written approval of the State" was required according to the grant contract. As of the date of this report, no documentation has been found to support the alleged approval by the state. Furthermore, he stated that the grant award was merely payment for Agricenter's performance in showing an innovative use for what would otherwise be a waste product. However, had the grant really been based solely on performance, Agricenter would not have had to explain the reduction in materials. The reduction would have been irrelevant. If TDEC had known about the side agreement, no budget renegotiations would have been necessary because the department would have already known that it was paying much more than Agricenter's actual costs. Hence, based on presently available information, TDEC was not aware of the side agreement. Furthermore, the provisions of the side agreement were contrary to TDEC's apparent intentions as evidenced by relevant documentation and consistent statements and actions of TDEC staff, which initially were to disburse grant funds solely for the material used in the project.

In regard to the actions of TDEC staff concerning the landfill grant contract, this review determined that department staff acted in good faith. TDEC staff had no reason to suspect that the original invoice of \$385,000 did not represent Agricenter's true project costs until the end of the project in December 1997. At that time, Agricenter's representatives disclosed the reduction in materials and presented TDEC staff with a request to consider additional expenses for reimbursement. TDEC staff had no reason to doubt the validity of the additional expenses presented. TDEC staff renegotiated those items to be reimbursed after it was disclosed that the project had been completed with less than half of the estimated materials. In assisting Agricenter in revising the grant budget and in efforts to close out the grant, TDEC staff, without knowledge of the true nature of the costs, agreed to reimburse Agricenter for some items that did not involve a cash outlay by Agricenter.

TDEC staff clearly intended to reimburse Agricenter for its actual costs related to both the material and hauling, in good faith relied on Agricenter's representations related to those costs, and embodied what they understood to be Agricenter's true costs in the renegotiated grant budget. Thus, it would be improper for TDEC to reimburse Agricenter for expenses that TDEC did not intend to pay and that Agricenter did not incur. The primary transaction in the landfill grant was the acquisition of the material for capping the landfill. The actions of Agricenter and Extrusion Technologies call into question the credibility of all of their representations to the department, including the true costs of the material. Extrusion Technologies could not provide documentation to support its cost in the material. In fact, there apparently were no substantial costs for moving the material. Extrusion Technologies was paid to remove the material from the company that originally produced it. Under the circumstances, the best evidence of the true cost of the material appears to be the side agreement between Agricenter and Extrusion Technologies. Because the actual costs to Agricenter for material and hauling are embodied in the side agreement, not the renegotiated grant budget, the side agreement should become the basis for reimbursement for those items. On the basis of the side agreement, the unit price per cubic yard for material and delivery to the landfill site was \$2.18 (material unit costs of \$1.68 plus hauling costs of \$0.50). Agricenter's representatives did not extend this price to the state. We determined from the load tickets that the actual amount of material used was 47,871 cubic yards. Therefore, upon extending this

Page Four
November 22, 2002

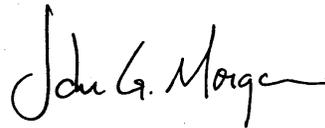
amount to the grant contract, the amount eligible for state reimbursement should be \$104,359 (47,871 cubic yards @ \$2.18). All other expenses totaling \$265,641 were ineligible because Agricenter did not incur the costs.

In light of the misrepresentations made by Agricenter's representatives, we submitted our findings to the Office of the State Attorney General and the Office of the District Attorney General, Thirtieth Judicial District (Shelby County), on May 1, 2001. On July 23, 2002, Agricenter's president, Extrusion Technologies' president, and Agricenter's external auditor were indicted on charges of theft of property over \$60,000 and conspiracy to commit theft of property over \$60,000. A trial date has not been set as of the date of this report.

Regarding the recycling grant, the review determined that Agricenter invoiced TDEC for administrative costs that were both estimated, rather than actual expenses, and outside the grant period. Agricenter also failed to maintain its recycling operations for the required five-year period. These issues resulted in additional overpayments of \$156,276 to Agricenter.

The report recommends that Agricenter repay TDEC a total of \$421,917 (\$265,641 related to landfill grant overpayments and \$156,276 related to recycling grant overpayments).

Sincerely,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury

JGM/ct

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Special Report

Department of Environment and Conservation Division of Solid Waste Assistance

Review of Improper Grant Reimbursement Claims Submitted by Agricenter International, Inc.

November 2002

ORIGIN OF THE REVIEW

In March 1999, the Office of the Comptroller of the Treasury received information that the Tennessee Department of Environment and Conservation (TDEC) had reimbursed Agricenter International, Inc. (Agricenter), for grant expenses that Agricenter had not incurred. Agricenter is a nonprofit corporation located in Memphis, Tennessee. This matter was referred to TDEC's Division of Internal Audit, which reviewed all TDEC grants to Agricenter. At that time, Agricenter had received two TDEC grants in fiscal year 1997: a \$370,000 landfill grant to cap the Shelby County landfill and a \$398,000 recycling grant to establish a regional recycling center in Shelby County. The combined total of the two grants was \$768,000.

TDEC's Internal Audit Division determined that Agricenter had received reimbursement for expenses that it had not incurred and reported its findings on June 15, 1999. The total questioned amount determined by TDEC's internal audit was \$322,374.

Agricenter responded to the TDEC internal audit with a "Grant Audit Position Paper" on August 2, 1999. Agricenter's response stated that it had relied on advice, guidance, and authorization from TDEC officials at all times and contended that a repayment to TDEC was not warranted. Therefore, the Division of State Audit initiated an independent review of the actions and documentation of both Agricenter and TDEC.

OBJECTIVES OF THE REVIEW

The objectives of the review included determining, based on presently available information, the nature and extent of any possible improprieties relating to the claims for reimbursement submitted by Agricenter, and paid by TDEC, under both the landfill grant and the recycling grant. The objectives further involved determining any possible errors and omissions on the part of TDEC officials and identifying possible weaknesses in TDEC's internal controls over the payment of grant funds to grantees.

In addition, the objectives included reporting the results of the review to TDEC management and referring the findings, if appropriate, to the Office of the State Attorney General and other relevant state agencies.

SCOPE OF THE REVIEW

Division of State Audit staff reviewed TDEC's internal audit reports and demand letters and Agricenter's response; interviewed current and former TDEC officials, Agricenter's representatives, and Agricenter's vendors; examined TDEC's grant files and available supporting documentation relating to Agricenter's invoices to TDEC; and traced TDEC payments to Agricenter.

RESULTS OF THE REVIEW

The primary findings of the review are the following:

- Our review of the landfill grant revealed that in 1997, Agricenter's president, with assistance from the president of Extrusion Technologies, misrepresented the true cost of the material to TDEC. As represented to TDEC during the negotiations and documented in Agricenter's proposed landfill grant budget, Agricenter's cost for the material would be \$385,000 (110,000 cubic yards @ \$3.50 per cubic yard). In fact, Agricenter and Extrusion Technologies had previously negotiated a side agreement for Agricenter to purchase the material from Extrusion Technologies for \$185,000 (\$1.68 per cubic yard) and have it delivered to the landfill for \$55,000 (\$0.50 per cubic yard). After the start of the grant period, January 1, 1997, Agricenter immediately submitted an invoice to TDEC for \$385,000. There did not appear to be any business reason for the submission of the overstated invoice for \$385,000 other than to divert \$185,000 in grant funds to unjustly enrich Agricenter. The purpose of the grant was not to provide Agricenter with funding in excess of the actual cost of the material or to supplement Agricenter's administrative costs, but rather to assist Agricenter in the ongoing development of new technology by providing funds solely for the purchase of the innovative material.
- The receipt of the extra \$185,000 did not occur in January 1997 as Agricenter's president had planned. After receiving the invoice for the material totaling \$385,000, TDEC only paid one-half, consistent with the department's practice of paying half of each invoice to ensure that Agricenter provided the full amount of its matching in-kind contributions. Furthermore, the department's system of disbursing the grant funds to Agricenter meant that invoices for Agricenter's matching expenses, for items such as infrastructure and delivery costs, would have to be submitted before the entire \$370,000 in grant funds would be disbursed. The delivery of material to the landfill was initiated in the summer of 1997, and other than the application of grass seed, the project was completed in December 1997.
- In a further development, in the latter part of 1997, Agricenter and its external auditor determined that the amount of material actually used to cap the landfill was less than half the amount on Agricenter's invoice to TDEC in January 1997. This lesser amount of material used on the project resulted in less money "due to" Extrusion Technologies from Agricenter per the side agreement, which was based on the amount of material actually used. Other agreements (real estate leases) between Agricenter and Extrusion Technologies were also affected because they too were based on the amount of material sold by Extrusion Technologies. Because a lesser amount of material was used, Agricenter's external auditor determined that Extrusion Technologies had been overpaid by Agricenter because Extrusion had already received \$185,000 relating to its material and hauling of 110,000 cubic yards originally estimated. After being notified of the overpayment, Extrusion Technologies' president replied to Agricenter and its external auditor on December 12, 1997, that he had revised the material invoice

downward to reflect the actual amount delivered. Extrusion Technologies' president also changed his position on the cost of the material. He notified Agricenter that he was, in essence, no longer willing to provide the material to them at a discounted price (for \$1.68 per cubic yard) per the side agreement. By increasing the unit price, Extrusion Technologies was offsetting the reduction in material used to maintain the total costs of the side agreement.

- Until this notification from Extrusion Technologies, Agricenter and its external auditor had not notified or consulted with TDEC in regard to the deficit in the actual material used. In fact, the external auditor did not even mention the difference between the side agreement and the grant budget in his audit report on Agricenter for the year ended June 30, 1997. It appears that the deficit and the differences between the side agreement and the grant budget were not significant issues with Agricenter and its external auditor until Extrusion Technologies' president was no longer willing to honor the original side agreement and notified them that he was submitting a revised invoice. Upon TDEC's receipt of the revised invoice, Agricenter was then faced with deficiencies in the material expenses and in its matching in-kind contributions. It appears that Agricenter representatives, realizing that the department might learn of the revised invoice, presented the revised invoice to the department and sought to overcome the shortfall through other purported expenses.
- The subsequent disclosure of the change in material to TDEC would have significantly reduced the unjust benefits Agricenter was to receive from its originally overstated invoice for \$385,000. The deduction of the unused material from the invoice brought the stated costs of material used down from \$385,000 to \$179,448.50. Based on presently available information, Agricenter's president and external auditor, in an effort to avoid this reduction of payments and to obtain the grant funds still outstanding, represented that it had incurred significant other costs on the project and requested that those other costs be considered for reimbursement. TDEC, in good faith, agreed to amend the grant budget to allow Agricenter to be reimbursed for additional items other than the material.
- The budget amendment process occurred in December 1997, after the material had been moved and placed in the landfill and all that remained was seeding the area. Agricenter's president and external auditor maintained that additional items for which they sought reimbursement were final costs and were supported by adequate documentation. At that point, TDEC agreed to reimburse Agricenter for other items it reasonably understood to be true costs of Agricenter. In fact, some of the renegotiated items were actually paid for by Shelby County and did not even pertain to the landfill project. Another renegotiated item was exchanged without a cash outlay by Agricenter. Agricenter's representatives remained silent, although the representatives knew that Agricenter had not incurred any true costs associated with some of the items. Ultimately, both the misrepresentations by Agricenter regarding the cost of the material and hauling and the later omission of facts by Agricenter regarding the renegotiated items resulted in TDEC's overpayment to Agricenter.
- Agricenter's revised totals for cubic yards of material and associated hauling costs were overstated. After its external audit, Agricenter reported to TDEC that 51,271 cubic yards of material had been actually used on the landfill project, instead of the 110,000 cubic yards that Agricenter had originally invoiced TDEC for. TDEC reimbursed Agricenter for 51,271 cubic yards at a rate of \$3.50 per cubic yard. This review determined that only 47,871 cubic yards were actually used, a difference of 3,400 cubic yards. The unit cost of \$3.50 per cubic yard does not appear to be based on any reasonable market valuation. In fact, Extrusion Technologies could not provide the auditors its costs associated with the material or its basis for developing its rate of \$3.50 per cubic yard. Thus, the \$3.50 rate must be regarded as subjectively established without reference to market value.
- In amending the landfill grant budget in December 1997, TDEC officials agreed to reimburse Agricenter for other items it understood to be true costs of Agricenter. The department agreed to reimburse Agricenter \$94,403 for road construction costs, which had actually been paid by Shelby

County, and \$26,000 for the use of a tractor, which had been obtained through a barter exchange with United Equipment, Inc. As a result, Agricenter was also overpaid a total of \$120,403.

- Agricenter's president stated that TDEC knew and approved the side agreement from the beginning. However, if TDEC had known about the side agreement, "a written approval of the State" was required according to the grant contract. As of the date of this report, no documentation has been found to support the alleged approval by the state. Furthermore, he stated that the grant award was merely payment for Agricenter's performance in showing an innovative use for what would otherwise be a waste product. However, had the grant really been based solely on performance, Agricenter would not have had to explain the reduction in materials. The reduction would have been irrelevant. If TDEC had known about the side agreement, no budget renegotiations would have been necessary because the department would have already known that it was paying much more than Agricenter's actual costs. Hence, based on presently available information, TDEC was not aware of the side agreement. Furthermore, the provisions of the side agreement were contrary to TDEC's apparent intentions as evidenced by relevant documentation and consistent statements and actions of TDEC staff, which were to disburse grant funds solely for the material used in the project.
- In regard to the actions of TDEC staff concerning the landfill grant contract, this review determined that department staff acted in good faith. TDEC staff had no reason to suspect that Agricenter's invoices did not represent Agricenter's true costs and also had no reason to doubt the information provided to them by Agricenter during the budget renegotiations. Based on presently available information, we determined that TDEC staff did not knowingly authorize the reimbursement of Agricenter for expenses it did not incur. In fact, TDEC staff agreed to reimburse Agricenter only for those items that they understood to be true costs of Agricenter. We also determined that TDEC staff did not provide Agricenter inaccurate information relating to grant terms and conditions, documentation requirements, or cost methodologies.
- TDEC staff clearly intended to reimburse Agricenter for its actual costs related to both the material and hauling, in good faith relied on Agricenter's representations related to those costs, and embodied what they understood to be Agricenter's true costs in the renegotiated grant budget. Thus, it would be improper for TDEC to reimburse Agricenter for expenses that TDEC did not intend to pay and that Agricenter did not incur. The primary transaction in the landfill grant was the acquisition of the material for capping the landfill. The actions of Agricenter and Extrusion Technologies call into question the credibility of all of their representations to the department, including the true cost of the material. Extrusion Technologies could not provide documentation to support their cost in the material. In fact, there apparently were no substantial costs for moving the material. Extrusion Technologies was paid to remove the material from the company that originally produced it. Under the circumstances, the best evidence of the true cost of the material appears to be the side agreement between Agricenter and Extrusion Technologies.
- Because the actual costs to Agricenter for material and hauling are embodied in the side agreement, not the renegotiated grant budget, the side agreement should become the basis for reimbursement for those items. On the basis of the side agreement, the unit price per cubic yard for material and delivery to the landfill site was \$2.18 (material unit costs of \$1.68 plus hauling costs of \$0.50). Agricenter's representatives did not extend this price to the state. We determined from the load tickets that the actual amount of material used was 47,871 cubic yards. Therefore, upon extending this amount to the grant contract, the amount eligible for state reimbursement should be \$104,359 (47,871 cubic yards @ \$2.18). All other expenses totaling \$265,641 were ineligible because Agricenter did not incur the costs.
- Agricenter terminated the recycling operation after three years. The recycling grant specified that Agricenter would continue to perform recycling operations for four years after the grant, for a total of

five years of operations. According to the grant contract, if recycling operations ceased, Agricenter would be required to reimburse the department for a pro rata share of the equipment (20% per year) based on the years the equipment was not used. Because the remaining two years of operations did not occur, 40% was not utilized. Therefore, the department is due a reimbursement from Agricenter of \$75,409 (40% of the \$188,522 equipment cost).

- Agricenter claimed \$110,667 in management and administrative costs associated with the recycling grant. These reported costs were both estimated, rather than actual expenses, and outside the grant period. The purported expenses were not supported by adequate documentation of actual costs and were estimated over the five-year period of recycling operations, not the one-year grant period. Because the grant contract specified that grant funds could only be used for costs incurred during the grant period, estimated future costs are not eligible for reimbursement. To credit Agricenter with a reasonable amount of administrative costs it likely incurred, this review referred to TDEC's recycling grant guidelines, which limit administrative costs to 10 percent of total grant awards. Since the grant was \$398,000, 10 percent would be \$39,800. Therefore, TDEC overpaid Agricenter \$70,867, the difference in the estimated five-year costs of \$110,667 and the allowable costs of \$39,800 for the one-year grant.
- Agricenter claimed \$10,000 in program development and training costs associated with the recycling grant. Agricenter's response was that it would continue to incur costs, presumably for training connected with the recycling grant. Agricenter did not have any support for these claimed expenses, and therefore, TDEC should request that Agricenter repay the \$10,000.

RECOMMENDATIONS

The report recommends that Agricenter repay TDEC a total of \$421,917 (\$265,641 related to landfill grant overpayments and \$156,276 related to recycling grant overpayments).

This review resulted in eight recommendations to the department designed to strengthen TDEC's internal controls related to grant administration. The recommendations include the development of appropriate policies and procedures, definitions, and checklists, and the implementation of effective supervisory monitoring and oversight. This review also recommended that TDEC management consider barring Agricenter from receiving future grants from the state.

REFERRAL

In light of the misrepresentations made by Agricenter's representatives, we submitted our findings to the Office of the State Attorney General and the Office of the District Attorney General, Thirtieth Judicial District (Shelby County), on May 1, 2001. On July 23, 2002, Agricenter's president, Extrusion Technologies' president, and Agricenter's external auditor were indicted on charges of theft of property over \$60,000 and conspiracy to commit theft of property over \$60,000. A trial date has not been set as of the date of this report.

"Audit Highlights" is a summary of the special report. To obtain the complete special report, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

Special investigations are available on-line at www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us.

**Department of Environment and Conservation
Division of Solid Waste Assistance**

**Review of Improper Grant Reimbursement Claims
Submitted by Agricenter International, Inc.**

November 2002

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Origin of the Review	1
Objectives of the Review	1
Scope of the Review	2
Background	2
DETAILS OF THE REVIEW	4
Landfill Grant Issues	4
Materially Misleading Proposed Budget	4
Actual Cost of Materials to Agricenter	9
Less Material Was Used than First Estimated	10
Role of Agricenter's Chief Financial Officer	12
Personal Benefit for Agricenter's President	13
Questionable Items	13
Questioned Costs – Landfill Grant	17
Recycling Grant Issues	19
Lack of Supporting Documentation	19
Questioned Costs – Recycling Grant	21
Total Repayment Due to the Department	22
Need for Enhanced Internal Controls	22
Referral	23
RECOMMENDATIONS	23

TABLE OF CONTENTS (CONT.)

EXHIBITS	<u>Page</u>
Exhibit 1: TDEC Internal Audit Report – Landfill Grant	25
Exhibit 2: TDEC Internal Audit Report – Recycling Grant	36
Exhibit 3: Agricenter’s Grant Audit Position Paper	43
Exhibit 4: Landfill Grant Contract, GR 97-11148-00	91
Exhibit 5: Landfill Grant Contract, GR 97-11148-01	96
Exhibit 6: Landfill Grant Contract, GR 97-11148-02	99
Exhibit 7: Recycling Grant Contract, GR 97-11139-00	102
Exhibit 8: Recycling Grant Contract, GR 97-11139-01	108
Exhibit 9: State of Tennessee Invoice for Reimbursement Form	109
Exhibit 10: Agreement for Detailing Grant Operations (Landfill Grant)	111
Exhibit 11: Landfill Grant Timeline	112
Exhibit 12: Extrusion Technologies’ \$385,000 Material Invoice	113
Exhibit 13: Agricenter’s \$385,000 Invoice for Reimbursement	114
Exhibit 14: Landfill Proposed Budget Revision	115
Exhibit 15: Billy Carter’s Statement, August 23, 2000	119
Exhibit 16: Extrusion Technologies’ \$179,000 Material Invoice	121
Exhibit 17: Extrusion Technologies’ \$67,050 Hauling Invoice	122
Exhibit 18: Shelby County Roads Department’s Infrastructure Proposal	123
Exhibit 19: Shelby County Roads Department’s Infrastructure Invoice	124

TABLE OF CONTENTS (CONT.)

	<u>Page</u>
Exhibit 20: United Equipment's Tractor Invoice	125
Exhibit 21: Landfill Grant Schedule of Questioned Costs	126
Exhibit 22: Agreement for Detailing Grant Operations (Recycling Grant)	127
Exhibit 23: Recycling Grant Schedule of Questioned Costs	129
Exhibit 24: Schedule of Total Questioned Costs	130
Exhibit 25: Handwritten Summary	131

**Department of Environment and Conservation
Division of Solid Waste Assistance
Review of Improper Grant Reimbursement Claims
Submitted by Agricenter International, Inc.
November 2002**

INTRODUCTION

ORIGIN OF THE REVIEW

In March 1999, the Office of the Comptroller of the Treasury received information that the Tennessee Department of Environment and Conservation (TDEC) had reimbursed Agricenter International, Inc., for grant expenses that the company had not incurred. Agricenter International, Inc. (hereinafter referred to as Agricenter), is a nonprofit company located in Memphis, Tennessee. The information was referred to TDEC's Division of Internal Audit, which reviewed all TDEC grants to Agricenter. At that time, Agricenter had received two TDEC grants, a landfill grant in 1997 for \$370,000 to cap the Shelby County landfill and a recycling grant, also in 1997, for \$398,000 to establish a regional recycling center in Shelby County. The two grants together totaled \$768,000.

TDEC's Internal Audit Division issued two audit reports, one on each grant, on June 15, 1999. (See Exhibits 1 and 2.) With reference to the landfill grant, on June 23, 1999, TDEC issued a demand letter to Agricenter requesting repayment of \$187,453, the overpayment determined by TDEC's internal auditors to be due the department. Regarding the recycling grant, also on June 23, TDEC issued a second demand letter to Agricenter requesting repayment to TDEC of \$134,921, the overpayment determined by TDEC's internal auditors to be due the department. Thus, the questioned amount totaled \$322,374.

Agricenter responded to the two internal audit reports and the two demand letters with a "Grant Audit Position Paper" to TDEC on August 2, 1999. (See Exhibit 3 for the text of Agricenter's response.) Because Agricenter's response stated that Agricenter representatives had relied on advice, guidance, and authorization from TDEC officials at all times, the Division of State Audit initiated an independent review of the actions and documentation of both Agricenter and TDEC.

OBJECTIVES OF THE REVIEW

The objectives of the review were

- to determine, based on presently available information, the nature and extent of any possible improprieties relating to the claims for reimbursement submitted by Agricenter, and paid by TDEC, under both the landfill and the recycling grants;

- to determine any possible errors and omissions on the part of TDEC officials;
- to identify any possible weaknesses in TDEC's internal controls over the payment of grant funds to grantees;
- to report the results of our review to TDEC management and recommend appropriate action to correct any deficiencies; and
- to refer the findings, if appropriate, to the Office of the State Attorney General and other relevant state agencies.

SCOPE OF THE REVIEW

We reviewed TDEC's internal audit reports and demand letters and Agricenter's response. We interviewed relevant current and former TDEC officials as well as Agricenter's president, Mr. James B. Wadlington; Agricenter's chief financial officer, Mr. Billy Carter; Agricenter's external auditor, Mr. John D. Davis, Jr., CPA; and Extrusion Technologies, Inc.'s president, Mr. James Downing. Officials from vendors to Agricenter—Brown Trucking, Inc.; Canyon Equities, Inc.; Continental Engineering, Inc.; and United Equipment, Inc.—were also interviewed, as were officials from the Shelby County Department of Finance and Administration and the Shelby County Roads and Bridges Department.

We examined the landfill grant, effective January 1, 1997, as well as the two amendments to that grant. (See Exhibits 4, 5, and 6.) We also examined the recycling grant, effective July 1, 1996, as well as the sole amendment to that grant. (See Exhibits 7 and 8.) We reviewed all documentation contained in TDEC's landfill grant and recycling grant files.

We reviewed copies of all reimbursement invoices submitted by Agricenter to TDEC under both grant contracts. We examined copies of all supporting documentation provided to us by Agricenter. We also traced TDEC payments to Agricenter through the corresponding Automated Clearing House payment documentation.

BACKGROUND

Agricenter International, Inc.

Agricenter International, Inc. (Agricenter), is a nonprofit corporation located in Memphis. According to corporation documents filed with the Tennessee Secretary of State, the corporation was created in 1979 under the name Mid-South Agri-Center, Inc., and was renamed Agricenter International, Inc., in 1982. The corporation is located on a 1,000-acre tract adjacent to the Shelby County Penal Farm property. It leases that land from the Shelby County Agricenter Commission, which was created by Chapter 141 of the Private Acts of the State of Tennessee, enacted in 1981. According to Agricenter's charter (amended and restated most recently in

1984), the purposes for which the corporation is organized are the promotion of educational and applied research endeavors intended for the improvement of agriculture worldwide by the establishment of an Agricenter at Memphis, Tennessee. The 1984 charter also stated that the corporation's purpose is to provide one convenient location for exhibition, demonstration, research, and educational and meeting use for the agri-business industry. Agricenter is governed by a board of trustees.

Innovative Technology Grants

In fiscal year 1997 (July 1, 1996 – June 30, 1997), pursuant to Chapter 846 of the Public Acts of the State of Tennessee, enacted in 1966, TDEC initiated an Innovative Technology Grant program. TDEC offered matching grants to persons to promote the development of new technology for solid waste and recovered materials management, the use of solid waste as a fuel substitute, or innovative solid waste management infrastructure development. Matching grants require grantees to match the grant funds awarded to them with “in-kind” contributions directly related to the completion of the project. In-kind contributions may include out-of-pocket expenses, as well as donated materials, facilities, and services. TDEC's Division of Solid Waste Assistance was responsible for administering the grant program. The division stated that its priorities for 1997 were projects that contributed significantly to (1) source reduction/waste prevention; (2) development of efficient, cost-effective recycling/composting infrastructures; and (3) efficient, cost-effective end-use markets for recyclables.

In fiscal year 1997, TDEC awarded three Innovative Technology Grants totaling \$595,000. TDEC awarded \$370,000 (62%) to Agricenter; \$125,000 (21%) to Signal Mountain Cement in Chattanooga; and \$100,00 (17%) to County Plastics in Gainesboro. The grant to Agricenter (the landfill grant) was for the purpose of capping the Shelby County landfill using innovative material in place of topsoil or clay. TDEC approved the landfill grant to Agricenter so that Agricenter could utilize wastes for further processing that would create a blended aggregate top soil as cover for the county's landfill, resulting in the conversion of the county's property next to Agricenter into land with multiple uses. The material to be used by Agricenter was a blended soil aggregate material produced from a by-product of the cotton milling process. The material would purportedly result in substantial savings over the estimated cost of capping the landfill using traditional materials. The county would receive benefit from the project if the material proved suitable as a replacement for topsoil. Although Agricenter and Extrusion Technologies were expected to contribute matching expenses, both were positioned to gain from future sales of the material.

Materials Recovery Facility Grants

Also in fiscal year 1997, TDEC awarded four Materials Recovery Facility Grants totaling \$1,195,500. TDEC awarded \$398,000 (33%) to Agricenter; \$397,500 (33%) to the Town of Jonesborough; \$212,000 (18%) to Williamson County; and \$188,000 (16%) to North Central Recycling in Hartsville. The grant to Agricenter (the recycling grant) was for the purpose of establishing a facility for processing recyclable materials from multiple local governments. TDEC funded the total budget of \$398,000 for the recycling grant.

TDEC Invoice for Reimbursement Form

TDEC's invoice for reimbursement form is designed for the reimbursement of actual expenses incurred. (See Exhibit 9.) The form is entitled "State of Tennessee Invoice for Reimbursement," and it provides seven columns for recording budget amounts, expenses, payments, and grant amounts. Column #3 refers directly to "actual expenditures," and column #4 refers to "payments invoiced to date." On the back of the state reimbursement form are instructions for completing the form. The instructions for column #3 ("cumulative year-to-date actual expenditures") states, "Total amount spent to date for each budget line item."

The three signature lines on the form are for the grantee's authorized representative who submits the invoice, the TDEC staff member who reviews the invoices, and the TDEC staff member who approves the invoice for payment. Above the "Grantee's Authorized Signature" line is the printed statement, "I certify to the best of my knowledge and belief that all expenditures were made in accordance with contract conditions and that payment is due and has not been previously requested." According to TDEC program staff, the contract and the reimbursement form were established to ensure that costs were actually incurred and paid prior to the submission of those expenses for reimbursement by TDEC.

Over the life of the landfill grant, Agricenter submitted three invoices, which together equaled the entire grant amount of \$370,000. Mr. Carter, Agricenter's chief financial officer, signed each invoice as Agricenter's authorized signatory. TDEC paid Agricenter through electronic fund transfers.

With regard to the recycling grant, Agricenter submitted six invoices, which together equaled the entire grant amount of \$398,000. Mr. Wadlington, Agricenter's president, signed the first invoice, while Mr. Carter signed the remaining five invoices. As with the landfill grant, TDEC paid Agricenter through electronic fund transfers.

DETAILS OF THE REVIEW

LANDFILL GRANT ISSUES

Materially Misleading Proposed Budget

From our review, we determined that the initial budget submitted to the department regarding the costs of the project to be incurred by Agricenter was materially misleading. Specifically, the budget prepared and submitted by Agricenter's representatives did not accurately reflect the true costs associated with the "materials" line item for the project. The budget submitted by Agricenter in December 1996, and approved by the state effective January 1, 1997, clearly indicated that the cost of the blended aggregate materials would be \$385,000. On the face of this document, it was clear that the cost of materials to Agricenter would be \$385,000. The budget also clearly specified that TDEC grant funds totaling \$370,000 were

solely allocated for the \$385,000 “materials” purchase. Additionally, the budget indicated that all other costs, including those associated with the equipment and labor of the project, would be borne by Agricenter as an in-kind match. (See Exhibit 4.)

This understanding of the nature of material costs is supported by Agricenter’s response to the department’s internal audit report, which states that “Agricenter contracted with Extrusion Technologies to purchase [emphasis added] 110,000 cubic yards of blended aggregate materials at \$3.50 per cubic yard.” Although no written contract supports this specific agreement between Agricenter and Extrusion Technologies, Mr. Wadlington stated that this agreement existed. However, a written side agreement corresponding to the “materials” transaction between Agricenter and Extrusion Technologies, dated December 16, 1996, reflects a far different understanding. (See Exhibit 10.)

A timeline of events related to the landfill grant is exhibited in this report. (See Exhibit 11.)

Prior Written Side Agreement between Agricenter and Extrusion Technologies

In a prior written side agreement effective December 16, 1996, Mr. Downing, president of Extrusion Technologies, agreed to provide Agricenter 110,000 cubic yards of material “delivered to the landfill site sufficient to complete the job” for \$240,000. The side agreement, entitled “Agreement for Detailing Grant Operations,” stated that it was “made and entered into” on December 16, 1996, “as expanded explanation of the Innovative Technology grant operations agreement,” and that it “related to the State of Tennessee Innovative Technology Grant in the amount of \$370,000.” The document was dated January 16, 1997, and was signed by Mr. Downing for Extrusion Technologies and Mr. Wadlington for Agricenter.

Pursuant to the side agreement, the \$240,000 represented the cost of the material and delivery to the landfill site. To determine the cost of the material alone, we reviewed associated documents related to the relationship between Agricenter and Extrusion Technologies and interviewed both Mr. Wadlington and Mr. Downing. The cost of the material can be derived from the following information. First, pursuant to a 1994 lease agreement between Agricenter and Extrusion Technologies, Extrusion Technologies was obligated to pay Agricenter \$0.50 per cubic yard of finished product sold. Based on 110,000 cubic yards, Extrusion Technologies was obligated to pay Agricenter \$55,000. Second, according to our interviews with both Mr. Wadlington and Mr. Downing, Extrusion Technologies verbally agreed to deliver the material to the landfill site for the same amount as its obligation under the lease agreement: \$55,000. Since Extrusion Technologies owed Agricenter \$55,000 based on the \$0.50 per cubic yard surcharge under the terms of its 1994 lease agreement, and since Agricenter owed Extrusion Technologies \$55,000 for hauling per their verbal agreement, the two amounts cancelled each other out, with a net of zero. Thus, according to Mr. Wadlington and Mr. Downing, they agreed that Agricenter could retain the \$55,000. Consequently, the cost of the material to Agricenter was \$185,000 (\$240,000 less \$55,000 = \$185,000), or \$1.68 per cubic yard, based on the amount of 110,000 cubic yards.

According to the side agreement, Agricenter would receive \$111,000 for “operations and maintenance” (30 percent of \$370,000), and \$18,500 was to be distributed to the project’s consultant. The remaining \$500 of the \$370,000 was not allocated in the side agreement.

Further, a handwritten summary dated December 19, 1996, and entitled “landfill budget” appears very similar to the side agreement and provides additional support for the intentions of the agreement between Mr. Wadlington and Mr. Downing (see Exhibit 25). Mr. Wadlington stated that he prepared this document, and Mr. Downing acknowledged that he initialed the document. The handwritten summary appears to further contradict the landfill grant provisions, which specify that the state would only pay for the 110,000 cubic yards of material. All other costs of the landfill grant, including labor, equipment, and hauling of materials, were to be borne by Agricenter or given to Agricenter as donations to fulfill the matching requirements of the grant. The handwritten summary details the planned disbursements of the \$370,000 landfill grant among the parties, contrary to the agreement with the state. According to the summary, Agricenter was to receive \$166,000 (\$111,000 plus \$55,000 relating to the prior contract between Agricenter and Extrusion Technologies); Extrusion Technologies was to receive \$185,000, which was “enough to cap the landfill”; and \$18,500 would be disbursed to Mr. Michael Vaughn, Agricenter’s grant consultant. The handwritten summary was obtained from the working papers of certified public accountant Mr. John D. Davis, Jr., with whom Agricenter had contracted to perform the annual audit of Agricenter International for the year ended June 30, 1997.

Agricenter established a separate bank account for receipt of state grant disbursements and for payment of grant expenses. Payments out of Agricenter’s designated bank account containing the grant reimbursements of \$370,000 (three deposits) directly reflect this side agreement rather than the original and renegotiated grant budgets. Extrusion Technologies was paid \$185,000, and the consultant was paid \$18,500. The remaining funds of \$166,500 (consisting of Agricenter’s operations and management expenses of \$111,000, the \$55,000 due from Extrusion Technologies, and the unallocated \$500) were paid to Agricenter’s operating account.

Extrusion Technologies’ Position

Mr. Downing stated that his company, Extrusion Technologies, was a “subcontractor” of Agricenter’s and that it was not a party to the grant between the department and Agricenter. According to Mr. Downing, he agreed to supply Agricenter 110,000 cubic yards of material for \$185,000 (\$1.68 per cubic yard) and to deliver the material to the landfill site in lieu of paying Agricenter \$55,000 under their lease agreement. According to Mr. Downing, there never was an agreement that Agricenter would purchase 110,000 cubic yards of material at \$3.50 per cubic yard. However, it is his position that the “fair market value” for the materials was \$385,000. Mr. Downing stated that in order to sell his product and remain in the project for which only \$370,000 in grant funds was available, he agreed to supply the material for only \$185,000. Mr. Downing stated that although Mr. Wadlington told him that only \$370,000 in grant funds was available, he was not told that the entire grant budget was for the material. Mr. Downing stated he assumed that \$111,000 in grant funds, specified in the side agreement to be distributed to

Agricenter, was actually budgeted to Agricenter's operations and management in the grant contract.

According to Mr. Downing, he invoiced Agricenter for \$385,000 (110,000 cubic yards x \$3.50 per cubic yard). (See Exhibit 12.) Mr. Downing stated that he was told to bill for the entire \$385,000 by both Agricenter's president and chief financial officer and he prepared the invoice accordingly, even though he was to only receive \$185,000. Mr. Downing stated that his invoice did not show his donated portion for the remaining \$200,000. Mr. Downing stated that his tax accountant, Mr. Larry Collins, had advised him that this "donated" portion could be used to reduce his personal tax liability. However, Extrusion Technologies' corporate tax returns for both 1997 and 1998 did not show this alleged donation, and Mr. Collins disputes that he ever advised Mr. Downing on the matter. The effect of not disclosing the \$200,000 was that the \$385,000 invoice was a misrepresentation of Agricenter's true costs, which were only \$185,000.

Agricenter's Position

Mr. Wadlington stated that a verbal agreement between Agricenter and Extrusion Technologies for the landfill grant was made for the purchase of 110,000 cubic yards of material at \$3.50 per cubic yard. Although Mr. Wadlington did not recall how Extrusion Technologies derived this unit price, he stated that Mr. Downing represented that this was a fair price for the material. Mr. Wadlington stated that once it was determined that the department had only \$370,000 for the grant, Mr. Wadlington presented Mr. Downing with the written side agreement. He stated that Mr. Downing agreed to supply the material for only \$185,000 and to haul the material to the landfill, a \$55,000 value, which would be retained by Agricenter because Extrusion Technologies owed Agricenter an off-setting \$55,000 amount, pursuant to their 1994 lease agreement. According to Mr. Wadlington, the \$111,000 to be retained by Agricenter for the management and operations of the grant specified in the side agreement was derived through multiplying the grant award (\$370,000) by 30 percent, which he viewed as a standard overhead and management rate.

Mr. Wadlington stated that the side agreement between Agricenter and Extrusion Technologies was presented to the department before the grant was awarded to Agricenter. He also stated that TDEC was informed of the agreement through conversations with Agricenter representatives. Mr. Wadlington stated that the department knew that the budget line item for the material was not reflective of the actual costs. Mr. Wadlington agreed that the budget was not sufficiently specific for one to determine that Agricenter had not incurred a liability for the \$385,000. He stated that a detailed budget describing the side agreement was not submitted because it was known and approved by TDEC and that initially both Agricenter and the department approached the grant as a total project rather than a reimbursement for specific line items in the budget. Mr. Wadlington stated that \$370,000 was the amount the department agreed to pay for Agricenter to complete the project rather than an actual cash outlay for the materials. Mr. Wadlington acknowledged that the budget, which his company had developed and presented to TDEC, was poorly written, but he said that he was not overly concerned because the department was aware of the side agreement.

Agricenter's External Auditor's Position

Mr. Davis stated he was told by Mr. Wadlington, Mr. Downing, and Mr. Vaughn that the side agreement was an integral part of the landfill grant. He said that from the beginning of the Agricenter International audit he was told that TDEC officials knew about the side agreement and had agreed to it. Despite the significant differences between the grant and the side agreement, Mr. Davis did not attempt to clarify those differences with state officials.

TDEC's Position

TDEC officials dispute that they had conversations with Agricenter representatives regarding the side agreement between Agricenter and Extrusion Technologies and state they were not aware of this side arrangement. If TDEC had known about the side agreement, "a written approval of the State" was required according to the grant contract. As of the date of this report, no documentation has been found to support the alleged approval by the state. According to TDEC officials, Agricenter represented to them verbally and in the initial grant proposal that Agricenter had contracted with Extrusion Technologies for 110,000 cubic yards of aggregate material at \$3.50 per cubic yard for total costs of \$385,000. TDEC officials stated that they believed that Agricenter's submission of the \$385,000 invoice from Extrusion Technologies meant that Agricenter had incurred a liability of \$385,000 or that Agricenter had paid the entire invoice. (See Exhibit 13.)

Agricenter's Improper Submission of the Invoice for Materials

Notwithstanding Agricenter's position that the parties to the written side agreement (Agricenter and Extrusion Technologies) intended the true cost of materials to be only \$185,000, Agricenter requested the invoice for materials from Extrusion Technologies specifically for \$385,000. Thus, Agricenter's invoice to TDEC, which reflected the \$385,000 cost for materials and which also included the Extrusion Technologies invoice for \$385,000 as an attachment, materially misrepresented the underlying reality.

Based on presently available information, there was no business reason for overstating these costs other than to disguise the true costs to trigger payment of the entire grant award. Mr. Downing knew or should have known that the misleading invoice was going to be used by Agricenter to effectuate payment from TDEC. If Mr. Downing was acting in good faith, the invoice to Agricenter should have reflected the actual charges to Agricenter. In reviewing the invoice, it would have been impossible for TDEC or any other third party to know that Extrusion Technologies only expected to receive payment of \$185,000. Furthermore, if Agricenter had been acting in good faith, it would have submitted the written side agreement as its proposed budget. In fact, no evidence was found that TDEC was aware that Agricenter was actually purchasing the material for \$185,000 and not for \$385,000 as stated on the invoice submitted by Agricenter to the department for payment.

The attempted diversion of \$185,000 to Agricenter did not occur in January 1997 following the submission of Extrusion Technologies' \$385,000 invoice to the department. After receiving the \$385,000 invoice, TDEC only paid one-half to Agricenter, consistent with the

department's practice of paying half of each invoice to ensure that Agricenter provided the full amount of its matching in-kind contributions. As a result, Agricenter did not receive the extra \$185,000 (grant amount of \$370,000 less the expense of the material to Extrusion Technologies of \$185,000) beyond the actual cost in the materials.

Furthermore, the department's system of disbursing the grant funds to Agricenter meant that invoices for Agricenter's matching expenses for items, such as infrastructure and delivery costs, would have to be submitted before the entire \$370,000 in grant funds would be disbursed. In this manner, the department's payment for the materials, in effect, would be disbursed on an invoice by invoice basis, until the entire grant amount had been disbursed. The evident purpose of this practice is to exhibit appropriate fiduciary responsibility for state funds by not disbursing all grant funds at the beginning of the grant period, and also by not disbursing grant funds without evidence of performance and matching in-kind contributions.

Thus, before authorizing payment, the department required evidence that Agricenter had performed the requisite grant activities and that Agricenter had provided its requisite in-kind match. In light of TDEC's method for reimbursing Agricenter for the material, the diversion of the remaining funds would have been delayed until the completion of the project had it not been for a significant change in the amount of material actually used on the project, as noted later in this report.

Actual Cost of Materials to Agricenter

The grant provided that Agricenter would be reimbursed for its cost of the material. During the review, Mr. Wadlington attempted to change the focus of the review away from actual costs and towards the invoiced "price" to the state. Mr. Downing attempted to support his unit price to Agricenter of \$3.50 based on a couple of examples; neither transaction was comparable to the deal with Agricenter in terms of volume, and one transaction was a donation rather than a sale.

In reality, the \$3.50 price did not appear to have any objective basis in the sense of a true arm's-length transaction between Agricenter and Extrusion Technologies. In fact, the true price to Agricenter of \$1.68 was reflected in the side agreement between Agricenter and Extrusion Technologies. This agreement reflects the actual distribution of funds between the parties in exchange for the material.

In the invoice presented to the department by Agricenter from Extrusion Technologies, the "cost" to Agricenter was \$3.50 per cubic yard. However, the true "price" to Agricenter from Extrusion Technologies was not reflected in the invoice. Instead, the cost was established in the side agreement. This price of \$1.68 per cubic yard was dramatically less than the "price" stated in the invoice. The fact that the true "price" was the amount noted in the side agreement is established by the fact that the distribution of funds by Agricenter to Extrusion Technologies for the material is consistent with the side agreement and not the invoice.

Less Material Was Used than First Estimated

In the process of completing the project, Agricenter encountered an unexpected setback. The grant contract had to be renegotiated after an annual audit was conducted of Agricenter's financial transactions, including its grant activities, by Mr. Davis. He brought attention to the fact that the amount of materials reported by Mr. Wadlington as actually used on the project was far less than the engineering firm's estimated amount. Specifically, Mr. Wadlington reported that only 51,271 cubic yards of aggregate material was used rather than 110,000 cubic yards.

This lesser amount of material used on the project resulted in less money "due to" Extrusion Technologies from Agricenter per the side agreement, which was based on the amount of material actually used. Other agreements (real estate leases) between Agricenter and Extrusion Technologies were also affected because they too were based on the amount of material sold by Extrusion Technologies. Because a lesser amount of material was used, Agricenter's external auditor determined that Extrusion Technologies had been overpaid by Agricenter because Extrusion had already received \$185,000 relating to its material and hauling of 110,000 cubic yards originally estimated. After being notified of the overpayment, Extrusion Technologies' president replied to Agricenter and its external auditor on December 12, 1997, that he had revised the material invoice downward to reflect the actual amount delivered. Extrusion Technologies' president also changed his position on the cost of the material. He notified Agricenter that he was, in essence, no longer willing to provide the material to them at a discounted price (for \$1.68 per cubic yard) per the side agreement. By increasing the unit price, Extrusion Technologies was offsetting the reduction in materials used, to maintain the total cost of the side agreement.

Apparently, neither TDEC nor Agricenter could have accurately known how much aggregate material would be needed to complete the project. Continental Engineering, Inc., an engineering firm that had previously been hired by Shelby County officials to assess the landfill, estimated the project would require 110,000 cubic yards of topsoil to complete.

Mr. Davis, Agricenter's external auditor, stated that he was informed by Mr. Wadlington and Mr. Downing that the side agreement, although separate from the grant, was made an integral part of the grant by Mr. Wadlington and Mr. Downing. Mr. Davis stated that he trusted the parties involved, including Mr. Vaughn. He also stated that no contrary information was revealed in his audit that would have led him to question whether TDEC was aware of the side agreement.

Mr. Davis was of the opinion that the grant requirements had been fulfilled in that the Agricenter had "purchased" 110,000 cubic yards of the aggregate material. He had this opinion irrespective of the facts that Agricenter's payment to Extrusion Technologies (\$185,000) did not match Extrusion Technologies' invoice (\$385,000) submitted to the state and that the grant and budget did not match the side agreement. In fact, his audit report on Agricenter, dated October 11, 1997, and intended for use by the Department of Environment and Conservation, did not reflect any liability or notes regarding these discrepancies. Neither did his report note the discrepancy in the amount of aggregate material actually used on the project.

In light of the reduction in the amount of material used, the position change of Extrusion Technologies, and the lack of its matching in-kind contributions, Mr. Wadlington requested a meeting with TDEC officials to renegotiate the grant budget. Agricenter's audit position paper states that the meeting was requested "to make certain that Agricenter would receive the \$111,000 it was due for administrating the landfill grant and that the vendor, Extrusion Technologies, would receive the \$240,000 for its participation in the project and any possible reportable conditions in grant administration be eliminated." However, TDEC officials stated that the written side agreement between Agricenter and Extrusion Technologies remained undisclosed to them at the meeting.

At the December 18, 1997, meeting between TDEC and Agricenter, Mr. Wadlington and Mr. Davis represented that Agricenter's operating and administrative costs were over \$210,000, rather than the side agreement amount of \$111,000. Mr. Davis states in his audit work papers that Agricenter did not document these costs purported to be related to the grant and was not required by TDEC to specifically account for such costs. According to Mr. Carter, the \$210,000 figures were "plugged" into the revised budget to make up for deficiencies in costs in both columns and were not based on the actual direct and indirect costs associated with the grant activities. Mr. Davis stated that Mr. Carter told him there was supporting documentation to justify the "project administration" costs included in the revised budget. Mr. Davis stated that he had not reviewed the supporting documentation. Mr. Carter denies stating there was supporting documentation to justify administrative costs.

TDEC officials agreed to allow the grant budget to be amended, based on Agricenter's and Mr. Davis' representations. However, this amended budget was made without TDEC's knowledge of the written side agreement between Agricenter and Extrusion Technologies.

During the December 18, 1997, meeting, TDEC, in good faith, agreed to pay for some of the costs of items initially under the category of Agricenter's matching in-kind contributions. Agricenter's revised budget, as initially presented to the department, included Agricenter's management and administrative costs to be reimbursed with grant funds. However, TDEC staff returned those related amounts to Agricenter's in-kind match on the budget. TDEC, in turn, agreed that grant funds could be used to cover costs associated with a portion of the hauling, equipment, and infrastructure (those costs associated with outside vendors) rather than Agricenter's management and administrative costs. At that point, TDEC agreed to reimburse Agricenter for these other items, which it understood to be true costs of Agricenter. (See Exhibit 14.) In fact, some of the renegotiated items were actually paid for by Shelby County or were the result of an exchange without a cash outlay by Agricenter. Both Mr. Wadlington and Mr. Davis remained silent, although they knew that Agricenter had not incurred any true costs associated with some of the items. Ultimately, both the initial misrepresentations regarding the cost of the material and the later omission of facts regarding the renegotiated items resulted in TDEC's overpayment to Agricenter.

According to Mr. Wadlington, he and Mr. Davis met with TDEC officials on December 18, 1997, to present a proposal to revise the budget. Mr. Wadlington stated that during the meeting he was silent and allowed Mr. Davis to discuss the matter. Mr. Davis stated that Mr. Wadlington had told him that TDEC officials knew about the side agreement and that he went to

the meeting to resolve the grant budget in light of the lesser amount of material actually used on the project. Mr. Davis stated that both he and Mr. Wadlington presented Agricenter's proposal, but he was unsure whether the side agreement was ever discussed. Mr. Davis stated that Ms. Joyce Dunlap, TDEC Program Manager, may have misunderstood him to say that expenses for the tractor and for the roads were cash expenses of Agricenter. He stated that since Ms. Dunlap chose to revise the line items in the budget, he assumed she understood the facts. Mr. Davis admits he knew the tractor was donated and he knew or should have known that the alleged expenses for the road were not cash expenses of Agricenter.

The versions of what was represented to the department differ greatly between Agricenter and TDEC, and there is no documentation to support the content of conversations between the two parties. Therefore, in this review, significant weight was placed on the terms of the grant and the budget attached to the grant. The original budget appears to clearly state that Agricenter would be reimbursed for its costs associated with the material and Agricenter would match these costs by supplying the labor and equipment on the project or acquire the labor and equipment through third parties as donations to Agricenter. The grant contract and budget appear complete and straightforward, and they do not reference other documents or agreements.

Agricenter's president stated that the grant award was merely for Agricenter's performance in showing an innovative use for what would otherwise be a waste product. However, based on presently available information, TDEC was not aware of the side agreement. Furthermore, the provisions of the side agreement were contrary to TDEC's apparent intentions, as evidenced by relevant documentation and consistent statements and actions of TDEC staff, which were to disburse grant funds solely for the material used in the project.

Had the grant really been based solely on performance, Agricenter would not have had to explain the reduction in materials. The reduction would have been irrelevant. If TDEC had known about the side agreement, no budget renegotiations would have been necessary because the department would have already known that it was paying much more than Agricenter's actual costs.

Role of Agricenter's Chief Financial Officer

Mr. Billy W. Carter, Agricenter's chief financial officer, confirmed that he signed all three reimbursement requests submitted to the state. Mr. Carter said that he signed the first request form although the form was not completed. He stated that Mr. Vaughn took the request and Extrusion Technologies' invoice for \$385,000 to department officials in Nashville.

The versions of who was ultimately responsible for the expenses recorded on the last two requests differ greatly and are conflicting. Although Mr. Carter's signature is on the last two requests, he stated that he signed the second request at Mr. Wadlington's direction. Mr. Carter does take responsibility for preparing the revised budget taken to Nashville by Mr. Wadlington and Mr. Davis for the December meeting. However, he stated that both Mr. Wadlington and Mr. Davis prepared the final (third) request after he had signed the blank request form.

Mr. Wadlington's version is that he trusted that Mr. Davis and Mr. Carter would ensure the requests were accurate and appropriate.

Mr. Davis said that both Mr. Carter and Mr. Wadlington were responsible for the requests and the revised budget. He stated that he did review the budget revisions before the December meeting with department officials.

Mr. Carter stated that during the budget renegotiations, he advised both Mr. Wadlington and Mr. Davis that items appearing in the amended budget were improper because those items were not legitimate expenses. Mr. Carter also stated that although his signature is on the final reimbursement request, he did not approve of the request for funds, which were actually in-kind contributions. He stated that he signed the reimbursement request at the direction of Mr. Wadlington. Mr. Carter prepared a written statement to this effect on August 23, 2000. (See Exhibit 15.) Mr. Carter knew, or should have known, that his actions in signing incorrect invoices were improper. He should have notified Agricenter's Board of Directors and the department that Agricenter's president had pressured him to submit false information to the department.

Personal Benefit for Agricenter's President

With Agricenter's positive change in its financial position from both the landfill grant and the recycling grant, Mr. Wadlington received a personal benefit of \$10,000. According to Mr. Davis, certified public accountant, Agricenter was operating at a loss prior to Mr. Wadlington's appointment as president. He stated that the grants Agricenter received from TDEC contributed to Agricenter's financial turnaround. According to Mr. Davis, Agricenter's Board of Directors approved a \$10,000 bonus to Mr. Wadlington in light of this financial turnaround. According to Agricenter's payroll reports, Mr. Wadlington received the \$10,000 bonus in June 1997.

Questionable Items

This review determined that the disclosure of the change in the reported amount of material used on the project threatened to significantly reduce the unjust benefits Agricenter would receive from the originally overstated invoice for material. This review also determined Agricenter was overpaid in regard to actual material and associated hauling costs. Furthermore, in amending the landfill grant budget, TDEC officials agreed to reimburse Agricenter for other items it reasonably understood to be true costs of Agricenter. This resulted in additional overpayments to Agricenter for road construction costs and use of a tractor.

Agricenter Miscalculated the Amount of Material Delivered to the Landfill Site

On January 23, 1997, Agricenter submitted its first reimbursement request for landfill grant funds. The request was for \$385,000 for materials, and it included Extrusion Technologies' invoice for \$385,000, which TDEC staff understood was Agricenter's cost for the materials. We have determined that this invoice amount was just an estimate based on the

expected need of 110,000 cubic yards of aggregate material. Extrusion Technologies' price for the material was purportedly \$3.50 per cubic yard. During the December 18, 1997, meeting between Agricenter and TDEC, Agricenter submitted a revised invoice for materials totaling \$179,448.50. (See Exhibit 16.) This amount was based on 51,271 cubic yards of aggregate material at the same unit price of \$3.50 per cubic yard. We have determined that this revised invoice amount was based on Mr. Wadlington's incorrect calculations of total cubic yards used based on the load tickets. Based on our review of the load tickets, we determined that only 47,871 cubic yards of aggregate material was actually used on the project.

Invoice for Materials Hauled by Extrusion Technologies

Extrusion Technologies had agreed to supply the estimated 110,000 cubic yards of material for \$185,000 in the written side agreement with Agricenter and was to receive credit from Agricenter for \$55,000 against its lease payments due to Agricenter for the hauling of the material. From TDEC's point of view, the hauling costs were part of Agricenter's matching in-kind expenses as indicated in the original budget, but those exact total costs for the hauling were not specified. After the hauling of the material to the landfill was completed and it was determined that less material was used than originally invoiced, Extrusion Technologies invoiced Agricenter on December 12, 1997 (see Exhibit 17), for hauling 44,700 cubic yards of material, which totaled \$67,050 (\$1.50 per cubic yard). (This was the second invoice to Agricenter from Extrusion Technologies, the first one being the \$385,000 invoice for the material itself.) However, the \$67,050 amount was based on Mr. Wadlington's incorrect calculations. Mr. Wadlington determined that a total of 51,271 cubic yards of material had been hauled to the landfill and that the portion that Extrusion Technologies had hauled totaled 44,700 cubic yards. Brown Trucking, Inc., had hauled the remainder of the material.

At the December 18, 1997, meeting with the department, Agricenter submitted Extrusion Technologies' invoice for \$67,050. No corresponding request for reimbursement was necessary because TDEC did not adjust Agricenter's prior reimbursement requests to reflect the change in the amount of material actually used. Although TDEC did not correct the prior requests, it did agree to move the costs associated with the hauling of the material from the in-kind column to the grant column. In effect, TDEC agreed to reimburse Agricenter for these costs, since the cost for materials was less than \$385,000.

In the report by TDEC's internal auditors, they recommended that this \$67,050 be recovered from Agricenter since it had not paid Extrusion Technologies. We concur in part. The actions of Agricenter and Extrusion Technologies call into question the credibility of all their representations, including the true cost of hauling the material to the landfill. However, the department did agree to reimburse Agricenter for the material and hauling costs. As will be discussed further in this report, the most accurate basis for the material and hauling costs appears to have been established in the side agreement between Agricenter and Extrusion Technologies. According to representatives from both entities, the hauling costs in the side agreement were set at 50 cents per cubic yard of material hauled and not the \$1.50 rate presented in Extrusion Technologies' December invoice.

Invoice for Roadwork

From the information gathered in this review, Agricenter did not incur costs associated with the roadwork. Therefore, those costs, totaling \$94,402, were not allowable costs under the revised grant agreement for reimbursement. Agricenter submitted two requests for reimbursement, one on April 30, 1997, and the other on December 19, 1997, for roadwork related to the landfill project. Accompanying these two requests were a proposal and one invoice from the Shelby County Roads and Bridges Department. (See Exhibits 18 and 19.) Originally, the entire roadwork was budgeted under the in-kind column, but \$94,402 was moved to the grant column on December 18, 1997. According to the amended landfill grant budget, Agricenter was to be reimbursed for \$94,402 and was to contribute \$14,597 for roadwork for a total of \$109,000 in roadwork.

This review confirmed that the roadwork in question was performed by the Shelby County Roads and Bridges Department and paid for by Shelby County. Agricenter did not have a cash outlay related to this roadwork.

TDEC initially agreed it would accept the roadwork expenses as part of Agricenter's in-kind match. Once TDEC reclassified \$94,402 to the grant column, during the grant renegotiations, the item therefore became an item for which TDEC would reimburse Agricenter for its actual costs. TDEC agreed to reimburse Agricenter for the roadwork because it understood the roadwork costs to be actual costs of Agricenter. However, since Agricenter incurred no costs for the roadwork, the Shelby County funds appropriated for Agricenter's benefit are not allowable charges to the grant. At the December 18, 1997, meeting, Agricenter's representatives remained silent about the roadwork costs, although the representatives knew or should have known that Agricenter had not incurred any actual costs associated with the roadwork.

TDEC's internal auditors questioned the entire payment to Agricenter for the roadwork and recommended that Agricenter repay the \$94,402. We concur.

Mr. Michael Swift, Administrator of Finance with Shelby County, told us that if our review determined that TDEC paid Agricenter for all or a portion of the road, which had actually been financed with Shelby County Capital Improvement Project funds, then Shelby County would expect repayment from Agricenter for that portion paid by Shelby County. If Agricenter does not repay TDEC for this amount, the county will seek recovery from Agricenter.

Furthermore, after discussing the roadwork and related invoices with the former and current Shelby County Roads Department superintendents, it was clear that approximately \$88,000 of the total \$109,000 in reported roadwork expenses did not even pertain to the landfill project. According to Mr. Charles Brown, the current superintendent for the Shelby County Road Department, and the former superintendent, Mr. Ed Haley, several roadwork items on invoices submitted by Agricenter officials to the department had nothing to do with the landfill project. Those items were the \$7,880 for truck scales, the \$14,000 for a concrete pad, \$19,280 for the replacement of 600 feet of curb and gutter, \$11,606 for drainage work along Moore Road, and \$35,000 for surface drainage work north and south of Moore Road.

Invoice for Tractor

The expenses for the use of a tractor were originally budgeted in January 1997, as part of Agricenter's in-kind match. In the budget amendment of December 1997, TDEC staff moved \$26,000 of those costs to the grant column, for which it agreed to reimburse Agricenter. The \$26,000 was moved by Ms. Joyce Dunlap, Program Manager, and was solely based on Agricenter's revised budget proposal, not on invoices submitted by Agricenter. In extending additional reimbursable items to Agricenter during the budget revision process, Ms. Dunlap chose to move one-half of the alleged costs of the tractor rather than the administrative expenses Agricenter had proposed.

From the information gathered in this review, it is evident that Agricenter subsequently submitted an invoice for the use of a tractor although this item did not result in a cash outflow for Agricenter. A request for reimbursement, dated December 19, 1997, was submitted by Agricenter to TDEC totaling \$288,692. This amount included \$52,000 for the use of a tractor, and the \$52,000 was supported by an invoice from United Equipment, Inc., for the use of a tractor valued at \$52,000. (See Exhibit 20.) The United Equipment invoice for the tractor indicated it was a "donation." Agricenter received payment on June 10, 1998, for \$140,346 of the requested reimbursement, the remainder under the landfill grant.

When questioned about the tractor donation, Agricenter's president stated that the use of the tractor was not a donation, but rather a service received in lieu of charges to United Equipment for its use of Agricenter's facilities. Therefore, it was Agricenter's position that although this barter agreement with United Equipment did not result in a cash outlay for Agricenter, it, in effect, did defer revenue it would have otherwise received from United Equipment. United Equipment confirmed this barter arrangement. Mr. Thomas Wilson, president of United Equipment, stated that when the initial arrangements were discussed, the "donation" of the tractor was exchanged for Agricenter's "donation" of exhibition space to Case Corporation, a third party from which United Equipment purchases its inventory of machinery.

On the other hand, Mr. Carter, Agricenter's chief financial officer, stated that the tractor was strictly a donation on the part of United Equipment and was not related to the Case Corporation's exhibit. Mr. Carter further stated that Case Corporation's use of Agricenter's facilities for the exhibit was not recorded on Agricenter's accounting records and that Agricenter did not maintain any documentation to support the use of the tractor on the landfill project. Mr. Carter stated that the barter exchange story was fabricated by Mr. Wadlington, after the fact, specifically for the purposes of justifying TDEC's reimbursement to Agricenter.

Because of the lack of supporting documentation maintained by Agricenter in regard to both the actual use of the tractor on the landfill project and its out-of-pocket expenses relating to the use of its facilities by Case Corporation, the actual costs of this exchange could not be determined. Furthermore, such an exchange was not authorized in the grant contract. According to the contract's language regarding reimbursements for "actual costs" only, none of the costs associated with the barter exchange would be allowable as grant reimbursements under these circumstances. Moreover, the grant contract did not provide for the reimbursement for donated equipment or services.

However, “barter exchanges” of this nature and donations would be allowable as in-kind matching expenses. In this case, a United Equipment representative confirmed that the fair market value for the use of the tractor was \$52,000. Therefore, the \$52,000 should be regarded as part of Agricenter’s in-kind matching expenses under the grant. As Agricenter has already received payment for one-half of this item, TDEC’s overpayment to Agricenter was \$26,000. TDEC’s internal audit report recommended recovery of the \$26,000 from Agricenter. We concur.

Questioned Costs - Landfill Grant

From the outset of the landfill grant, Agricenter representatives misrepresented their true costs to TDEC relating to the project. Based on presently available information, Mr. Wadlington’s intention for Agricenter to receive improper enrichment from the grant funds was clear. TDEC’s intentions were also clear. It initially agreed that the grant funds would only be used to reimburse Agricenter for its costs associated with the purchase of the material. When presented with the shortage in the actual material used on the project, TDEC had the option of demanding repayment for the overpayment. However, acting in good faith and not wishing for Agricenter to incur out-of-pocket expenses for nonbudgeted items related to the project, TDEC agreed that the remaining grant funds could be used to offset other costs it understood to be true costs to Agricenter.

The apparent intentions of TDEC, as evidenced by relevant documentation and consistent statements and actions of TDEC staff relative to this grant award, were twofold. First, under the terms of the original grant, the documentation, statements, and actions of TDEC staff are consistent in that the department’s intentions were to disburse grant funds solely for the material used in the project. Second, after the grant budget was renegotiated, the documentation, statements, and actions of TDEC staff were consistent with the department’s intentions to disburse grant funds for material and other additional tangible expenses for which Agricenter had incurred cash outlays. These additional items included roadwork costs, hauling expenses, and the use of a tractor. The reasons these additional items were reclassified as grant reimbursable is that they were directly related to the project and also directly associated with the material. During the grant renegotiations, TDEC staff specifically excluded from grant reimbursement those items associated with Agricenter’s project management, general and administrative expenses, equipment rental, and consulting and auditing fees.

Based on presently available information, we determined that Agricenter’s actual material and hauling costs were not reflected in the renegotiated grant contract budget because Agricenter deliberately misrepresented those costs to TDEC by overstating them. In actuality, the costs to Agricenter were embodied in the side agreement between Agricenter and Extrusion Technologies. Unbeknownst to TDEC, the material and hauling costs were substantially less than the costs reflected in the renegotiated grant contract budget. Moreover, also unknown to TDEC, the side agreement provided for the significant diversion of grant funds to Agricenter.

TDEC staff clearly intended to reimburse Agricenter for its costs related to the material and hauling, in good faith relied on Agricenter’s representations related to those costs, and embodied what they understood to be Agricenter’s costs in the renegotiated grant contract

budget. Thus, it would be improper for TDEC to reimburse Agricenter for expenses that TDEC did not intend to pay and that Agricenter did not incur. The primary transaction in the landfill grant was the acquisition of the material for capping the landfill. The actions of Agricenter and Extrusion Technologies call into question the credibility of all of their representations to the department, including the true costs of the material. Extrusion Technologies could not provide documentation to support its cost in the material. In fact, it was paid to remove the material from the company that originally produced it. Under the circumstances, the best evidence of the true cost of the material appears to be the side agreement between Agricenter and Extrusion Technologies. Because the costs to Agricenter for material and hauling are embodied in the side agreement, not the renegotiated grant contract budget, the side agreement should become the basis for reimbursement for those items. On the basis of the side agreement, the unit price per cubic yard for material and delivery to the landfill site was \$2.18 per cubic yard (\$240,000 divided by 110,000 cubic yards = \$2.18 per cubic yard). Agricenter's representatives did not extend this price to the state. We determined from the load tickets that the actual amount of material used was 47,871 cubic yards. Therefore, upon extending this amount to the grant contract, the amount eligible for state reimbursement should be \$104,358.78 (47,871 x \$2.18 = \$104,358.78). All other expenses totaling \$265,641 were ineligible because Agricenter did not incur the costs.

The side agreement also included expenses for Agricenter's operations and management and the project consultant's fees. With regard to those items, first, they were not included as eligible for grant reimbursement under the original grant budget. Second, during the budget renegotiations in December 1997, when Agricenter proposed including some administrative costs and the consultant's fees, TDEC staff specifically excluded those items from state reimbursement. Further, their inclusion in the side agreement represents an improper attempt on the part of Agricenter to obtain state reimbursement for items that TDEC staff clearly rejected for reimbursement. Consequently, the renegotiated grant budget should be the controlling authority with respect to TDEC's intentions and obligations for payment. On the basis of the renegotiated grant budget, Agricenter's claims to \$111,000 for operations and management and \$18,500 for the project consultant's fees are without contractual foundation. In addition, a \$500 unspecified expense, included in the side agreement, also is without an appropriate basis for payment because the expense item is not identified and thus cannot be placed in any of the grant-eligible categories.

Our review further determined that Agricenter submitted invoices for items actually paid by Shelby County (\$94,403 for roadwork) or obtained as the result of an exchange without any cash outlay by Agricenter (\$26,000 for use of a tractor). Because Agricenter did not incur expenses for these items, they are not eligible for grant reimbursement.

Based on presently available information, TDEC should request that Agricenter repay \$265,641 for indicated expenses relating to the items in the amended budget which were not actual expenses. The \$265,641 consists of four overpayment items: 1) \$75,090 for materials; 2) \$70,148 for hauling; 3) \$94,403 for roadwork; and 4) \$26,000 for the tractor. (See Exhibit 21.)

After receiving the repayment of \$265,641 from Agricenter, TDEC would have only paid for actual costs incurred by Agricenter under the revised budget agreed upon by both parties. In

returning the \$265,641 to TDEC, Agricenter would not have received payment for “operations and management,” as indicated in its written side agreement with Extrusion Technologies, which was not made part of the grant agreement and which was never the intention of TDEC’s officials. In addition, Agricenter would not have received payment for items for which it incurred no expenses.

RECYCLING GRANT ISSUES

Lack of Supporting Documentation for Agricenter’s Recycling Grant Expenses

In a similar manner to the landfill grant, Agricenter entered into a written side agreement with Extrusion Technologies on December 16, 1996, for Extrusion Technologies to perform all the day-to-day operations of the recycling grant. (See Exhibit 22.) This agreement did not, however, affect the disbursements of the \$398,000 of grant funds. The recycling grant was strictly a reimbursement grant, meaning that TDEC would reimburse Agricenter for its actual costs of the budgeted equipment expenses totaling \$214,000 and the budgeted project services and expenses totaling \$184,000. These two categories were later revised to \$188,522 for equipment and \$209,478 for project services and expenses (overhead). According to the written side agreement, Extrusion Technologies would essentially have the use of the recycling equipment for recycling related to the grant and other recycling projects at no cost and Agricenter would not charge the company for leasing Agricenter’s facilities (a \$25,000 annual lease). In the written side agreement, Agricenter agreed to modify the building leased by Extrusion Technologies on Agricenter’s premises and to supply management and accounting functions to Extrusion Technologies as required by the grant.

The time frame of the recycling grant was July 1, 1996, through June 30, 1997. The terms of the grant stated that the recycling funds were for the purpose of establishing, upgrading, or expanding recycling operations. The grant contract also stated that once the recycling operations were established and the grant was closed out, Agricenter would continue to perform recycling operations for four years after the grant year, for a total of five years of operations. According to the grant contract, if recycling operations ceased, Agricenter would be required to reimburse the department for a pro rata share of the equipment based on the years the equipment was not used.

In TDEC’s internal audit report, the auditors stated that \$134,921 in project costs were questioned because these expenses were not adequately documented (time spent on the project was not documented on timesheets, and there were no supporting invoices for “training,” “site preparation,” and “design”). Costs of \$120,667 of the total \$134,921 in project questioned costs included \$49,000 for “project manager,” \$27,334 for “secretarial administration,” \$34,333 for “accounting and purchasing,” and \$10,000 for training.

Administrative Costs

Agricenter’s response was that it based its \$110,667 in estimated administrative costs on the ratio of total overhead to total revenues and that the department approved of this method.

Agricenter's response also stated that total administrative costs were estimated for a five-year period. TDEC officials stated that it was made clear to Agricenter's representatives before the grant was awarded that the budgeted amounts for administering the recycling grant should have been based on a one-year period. These statements were consistent with the express terms of the grant, as noted below. TDEC officials denied that they approved the grant knowing administrative costs were based on a five-year period.

In reviewing the budget and other relevant correspondence in the grant file, we found no evidence to support Agricenter's statements that the department approved reimbursing Agricenter for five years of administrative costs. The grant did not specify that Agricenter's future costs for years two through five would be reimbursed, nor did it specify that those costs would be paid in advance. In fact, the grant stated that it would end on June 30, 1997, and that "The State shall have no obligation for services rendered by the Grantee (Agricenter) which are not performed within the specified period." We also found no evidence that the department approved the use of the ratio of total overhead to total revenues to calculate the administrative expenses for the recycling grant.

Unlike the landfill grant, the recycling grant specifically allowed for some reimbursement of general and administrative costs. It appears reasonable that Agricenter incurred some costs associated with general and administrative expenses on the recycling project. In determining a reasonable amount to credit Agricenter towards administrative costs that they failed to document but likely incurred, this review referred to the department's *Grants for Materials Recycling and Processing Facility Guidelines*. These guidelines limit allowable administrative expenses to 10 percent of the entire grant award. The limit set forth in the guidelines appears reasonable given the fact that such grants are intended for entities that already have recycling operations in place. Therefore, grant funds were not intended to replace funding already allocated to pay staff costs to operate the facility, but rather were intended to supplement existing operations.

In this situation, Agricenter's grant totaled \$398,000. Therefore, this review credited Agricenter with 10 percent of \$398,000, or \$39,800. The remaining \$70,867 (\$110,667 in management and administrative fees less \$39,800) was questioned. TDEC should request that Agricenter repay the \$70,867.

Training Costs

In TDEC's internal audit report, the auditors also questioned \$10,000 budgeted for "training." Agricenter's response was that it "will continue to incur costs," presumably for training. However, Agricenter could not provide any support for these expenses. The \$10,000 was questioned. TDEC should request that Agricenter repay the \$10,000.

Equipment Costs

TDEC's internal audit report did not question the termination of recycling operations by Agricenter. In fact, the recycling operations did not function for the entire five-year period. Neither the internal audit report nor Agricenter's response to the audit dealt with the issue regarding the closure of the recycling operations. According to Extrusion Technologies'

president, Mr. Downing, the recycling operations ended approximately on June 30, 1999 (three years into the project). Mr. Wadlington confirmed that Extrusion Technologies pulled out of the project and that Agricenter had not resumed recycling operations but has maintained physical possession of the equipment.

With Agricenter's failure to maintain the recycling operations for five years, Agricenter was not in compliance with the terms of the grant contract. Agricenter may take the position that the grant did not specify that the five-year period had to be consecutive years, and that would appear to be true. However, a reasonable amount of time has passed since the termination of the project (over three years) and it does not appear that Agricenter has put forth a good-faith effort into returning the equipment to the department or in restarting the recycling operations.

The grant contract included a clause entitling the department to a refund for the equipment in the event of Agricenter's noncompliance with the terms of the grant. According to the grant, the refund is to be based on 20 percent per year that the equipment is not utilized for recycling purposes. In this case, 40 percent was not utilized because two years of operations did not occur, and therefore \$75,409 is questioned (40 percent of \$188,522). TDEC should request that Agricenter repay the \$75,409.

Technical Support, Site Preparation, and Design Costs

TDEC's internal auditors questioned expenses totaling \$14,254 because the expenses were not supported. The \$14,254 included \$1,453 for "technical support," \$5,000 for "site preparation," and \$7,801 for "design," as indicated on the June 16, 1997, reimbursement request submitted by Agricenter. Agricenter responded to TDEC's internal audit and stated that the questioned "external expenses" relating to technical support and operations of the recycling facility were supported by invoices from White Oak Construction Company, hired to construct the storage bins for the recycled materials. Approximately \$35,000 in construction costs appears to have been incurred by Agricenter.

A representative from White Oak Construction stated that besides the construction of the storage bins, \$14,335.93 of the work, performed by the company and charged to Agricenter, dealt with installing hoses and other necessary items to ensure that the recycling equipment worked properly. We could not obtain a detailed description as to what the budgeted items for "technical support," "site preparation," and "design" pertained to specifically. However, it would appear that the supporting invoice from White Oak Construction and a negotiated check for \$14,335.93 from Agricenter to White Oak Construction are reasonably sufficient grounds to grant Agricenter credit for \$14,254 in expenses associated with preparing the facilities for use.

Questioned Costs - Recycling Grant

Based on presently available information, TDEC should request that Agricenter repay \$156,276 for indicated expenses relating to the items in the amended budget which were not actual expenses. The \$156,276 consists of three overpayment items: 1) \$70,867 for administrative costs; 2) \$10,000 for training costs; and 3) \$75,409 for unused equipment. (See Exhibit 23.)

After receiving the repayment of \$156,276 from Agricenter, TDEC would have only paid for actual costs incurred by Agricenter under the revised budget agreed upon by both parties. In returning the \$156,276 to TDEC, Agricenter would not have received payment for items for which it incurred no expenses.

Total Repayment Due to the Department

From this review, it appears that Agricenter should repay a total of \$421,917 (\$265,641 from landfill grant overpayments and \$156,276 from recycling grant overpayments) to TDEC. Agricenter's repayment would be for invoices it submitted under both grants for which it did not incur a related expense and for those invoices that were not adequately supported. (See Exhibit 24.)

NEED FOR ENHANCED INTERNAL CONTROLS

Our review determined that TDEC staff acted in good faith in administering the landfill and recycling grants and interacting with Agricenter's representatives. TDEC staff had no reason to suspect that Agricenter's invoices did not represent Agricenter's true costs and also had no reason to doubt the information provided to them by Agricenter during the budget renegotiations. Based on presently available information, we determined that TDEC staff did not knowingly authorize the reimbursement of Agricenter for expenses it did not incur. In fact, TDEC staff agreed to reimburse Agricenter only for those items that they understood to be true costs of Agricenter. We also determined that TDEC staff did not provide Agricenter inaccurate information relating to grant terms and conditions, documentation requirements, or cost methodologies.

Based on our examination of TDEC's grant administration activities, our review identified five critical areas in which TDEC management should strengthen internal controls by developing appropriate policies, procedures, and guidelines relating to grant awards, grant amendments, and grant reimbursements. The institution of a combination of written policies and procedures, guidelines, checklists, training, and monitoring would appear to be appropriate. Also, in carrying out their responsibilities, TDEC staff should exercise more skepticism and be sensitive to indications of irregularities. First, TDEC staff should ensure they have obtained an appropriate understanding of budget line items when approving grant awards. Second, TDEC should clarify whether TDEC grants are for expenses actually incurred and paid prior to submission of claims for reimbursement, or for incurred liabilities, or for both paid expenses and incurred liabilities. If the department determines that TDEC grants are for expenses incurred and paid, then appropriate proof of payment should be required. Third, TDEC should establish enhanced internal controls to ensure that TDEC staff do not approve estimates, projected costs, or donations for grant reimbursement. Fourth, during budget renegotiations, TDEC staff should define categories, clarify criteria, and, if necessary, inquire about the classifications of state-reimbursable expenses and in-kind matching contributions. Fifth, TDEC should ensure that TDEC staff perform a thorough and complete overall review of the grant contract, contract amendments, reimbursement invoices, and payments prior to authorizing final payment. The

review should include a documented comparison of budget line items with invoiced items. The final payment should not be released until the contract terms have been met.

REFERRAL

In light of the misrepresentations by Mr. Wadlington, Mr. Downing, and Mr. Davis, we submitted our findings to the Office of the State Attorney General and the Office of the District Attorney General, Thirtieth Judicial District (Shelby County), on May 1, 2001.

On July 23, 2002, Mr. Wadlington, Mr. Downing, and Mr. Davis were indicted on charges of theft of property over \$60,000 and conspiracy to commit theft of property over \$60,000. A trial date had not been set as of the date of this report.

RECOMMENDATIONS

Our review resulted in the following recommendations:

Agricenter

Agricenter's Board of Directors should consider the information presented in this report as it relates to the repayment requested of Agricenter totaling \$421,917 and the misrepresentations by Agricenter's top management. The board should comply with TDEC's request for repayment of \$421,917.

TDEC

1. TDEC management should promptly request that Agricenter repay \$421,917.
2. TDEC management should establish policies and procedures to ensure that TDEC staff properly review each budgeted line item with the grantee prior to the award of grants. The items in the budget should be presented with appropriate detail to mitigate any misunderstandings.
3. TDEC management should define "expenses" in its policies and grant contracts. If TDEC management determines that reimbursements under grants shall be restricted to prior cash payments by the grantee rather than the grantee incurring a liability (payment due), then TDEC management should formally require proof of payment before issuing grant funds as reimbursements. The requirements should be explained in written policies and procedures and communicated promptly to appropriate TDEC staff, as well as current and prospective grantees. TDEC management should also institute a monitoring system to ensure full compliance by TDEC staff with the new policies and procedures.

4. TDEC management should establish a checklist to ensure that TDEC staff appropriately review supporting documentation for reimbursement invoices to prevent payment of estimated or proposed expenses or payment for donated items. TDEC management also should institute a monitoring system by supervisory staff to ensure that TDEC staff responsible for reviewing and approving reimbursement invoices conduct a careful, thorough, and appropriate examination of supporting documentation.
5. TDEC management should ensure that during budget renegotiations TDEC staff define categories, clarify criteria, and, if necessary, inquire about the classifications of state reimbursable expenses and in-kind matching contributions. TDEC management should ensure that TDEC staff formally document the issues discussed and decisions made at budget revision meetings between TDEC staff and grantees, including the rationales for decisions relating to budget adjustments.
6. TDEC management should establish policies and procedures requiring TDEC staff to perform a thorough and complete overall review of grant contract, grant budget, amendments, reimbursement invoices, supporting documentation, and payments prior to authorizing final payment for any state grant. The policies and procedures should contain a checklist and other documentation, and the review should include a documented comparison of budget line items with invoiced items. That documentation should be retained in the grant file. The final payment should not be released until the contract terms have been met. TDEC management should institute a monitoring system to ensure that TDEC staff are appropriately conducting final prepayment reviews.
7. TDEC management should establish policies and procedures requiring TDEC staff to date stamp all documents received, record telephone calls and meetings in a log, record the substance of contacts by grantees, and formalize significant decisions and the rationales for them. TDEC supervisors should monitor staff performance of these activities.
8. TDEC management should require grantees to disclose all side agreements, lease agreements, and any other contracts, written or verbal, that affect TDEC grants.
9. TDEC management should consider barring Agricenter from receiving future grants from the state.

EXHIBIT 1

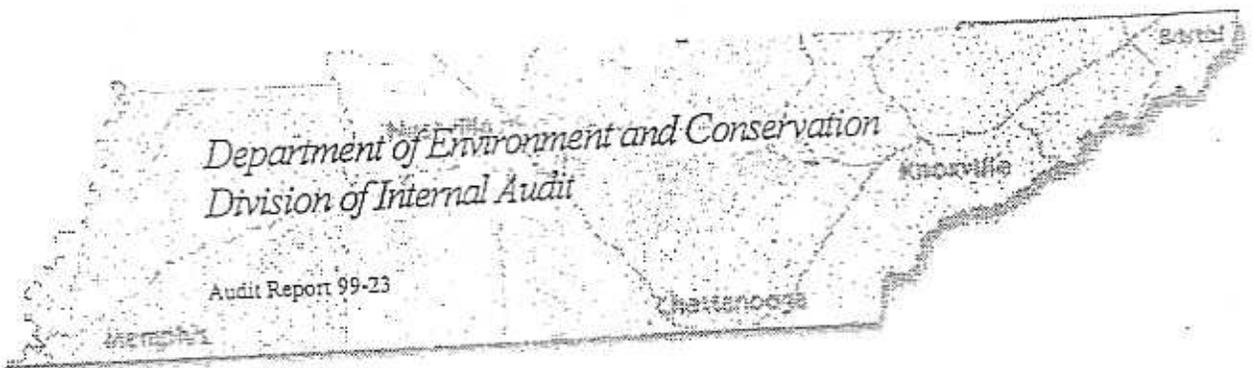
State of Tennessee



Audit Report

Agricenter International, Inc.

Innovative Technology Grant GR-97-11148-00



For Period January 1, 1997 through August 31, 1998

Source: TDEC Internal Audit

EXHIBIT 1 (Cont.)

AGRICENTER INTERNATIONAL, INC.
INNOVATIVE TECHNOLOGY GRANT GR-97-11148-00

AUDIT

FOR THE PERIOD

JANUARY 1, 1997 THROUGH AUGUST 31, 1998

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTION</u>	
Purpose of the Audit	1
Audit Authority	1
Scope of Audit	1
Background	2
Results of Audit	3
<u>RESULTS OF THE AUDIT</u>	
1. Expenses Reimbursed by TDEC Were Not Incurred	3
2. In-kind Expense were Not Properly Supported	5

EXHIBIT 1 (Cont.)

PURPOSE OF THE AUDIT

On March 11, 1999 the Tennessee Department of Environment and Conservation (TDEC), Division of Internal Audit was notified of a complaint registered through the State Comptroller concerning a grant received by Agricenter International, Inc. (Agricenter). The complaint alleged that the Agricenter had been reimbursed for expenditures that had not been incurred under a grant from the State of Tennessee to the Agricenter. Once it was determined that the grant in question was made by TDEC (GR-97-11148-00) the purpose of the audit became a determination as to whether the reimbursements to the Agricenter were allowable under the Grant and whether the Agricenter had otherwise complied with the terms of the Grant.

The Comptroller's Office has been involved in the planning and conduct of this audit since March 26, 1999.

AUDIT AUTHORITY

Section D.7. of the grant contract asserts that "The Grantee shall maintain documentation for all charges against the state under this Grant. The books, records and documents of the Grantee, insofar as they relate to work performed or money received under this Grant, shall be maintained for a period of three (3) full years from the date of the final payment, and shall be subject to audit, at any reasonable time and upon reasonable notice, by the state agency or the Comptroller of the Treasury or their duly appointed representatives."

Section B.5. of the grant contract states that "The payment of an invoice by the State shall not prejudice the State's right to object to or question any invoice or matter in relation thereto. Such payment by the State shall neither be construed as acceptance of any part of the work or service provided nor as an approval of any part of the costs invoiced therein. Grantee's invoice shall be subject to reduction for amounts included in any invoice or payment theretofor made which are determined by the State, on the basis of audits conducted in accordance with the terms of this Grant, not to constitute allowable costs. Any payment shall be reduced for over-payments, or increased for under-payments on subsequent invoices."

SCOPE OF THE AUDIT

To accomplish the objectives of the audit, a review of all pertinent records relating to the Innovative Technology Grant GR-97-11148-00, as amended, was made. This included a review of the grant contracts, cancelled checks, bank statements, invoices, check registers and requests for reimbursement. In addition, discussions and interviews were held with various participants in this Grant, both internal and external to TDEC, as well as visits to the Agricenter to observe the landfill.

The audit was performed in accordance with the "Standards for the Professional Practice of Internal Auditing" published by the Institute of Internal Auditors and accordingly included such tests as considered necessary in the circumstances. It should be noted that various sampling techniques were used in performing audit procedures. The conclusions obtained from these

EXHIBIT 1 (Cont.)

samples were considered applicable to the remaining non-sampled items. Mike Gaines, Audit Director and John Williams, Auditor IV, conducted the audit.

During the audit it was learned that the Agricenter had received a second grant from TDEC to construct and operate a Material Recycling Facility on the Agricenter grounds (GR-97-11139-00). Because of the allegations made in the original complaint, the audit scope was expanded to encompass the Material Recycling Facility Grant; however, the results of that audit will be discussed in a separate report.

BACKGROUND

The Shelby County Agricenter Commission was created in 1981 by the Shelby County government for the purpose of creating, planning, and supervising the construction and use of the Agricenter to serve as a regional resource and technological center for all aspects of agriculture. Fletcher F. Maynard, Jr., Chairman of the Board currently heads the Shelby County Agricenter Commission. The Agricenter is a non-profit corporation located in Memphis, Tennessee on a 1,000 acre tract adjacent to Shelby Farms and is currently headed by James B. Wadlington, President. The primary purpose of the Agricenter is to assist farmers through educational programs and demonstrations of the most advanced agricultural technologies and products.¹

In February 1997 TDEC awarded Grant contract GR-97-11148-00 to the Agricenter for the purpose of applying a final cap to the Shelby County Landfill so it could be officially closed. Following closure, it was envisioned that the tract of land could be converted into recreational facilities as determined by Shelby County. The final cap was to be a blended soil aggregate material produced from cellulose based organic waste from cotton fibers. The use of this material was considered to be an innovative technology because it converted the waste into a reusable product. Furthermore, this material would be much less costly to Shelby County than alternative materials such as clay or topsoil.

The original Grant covered the period January 1, 1997 through December 31, 1997. The total budget for this project was \$748,000 of which TDEC funded \$370,000. The Agricenter was to furnish the remainder of the budget. The Budget List attached to the original Grant specified that TDEC would pay for the Agricenter to purchase 110,000 cubic yards of the blended aggregate materials at \$3.50 per cubic yard.² This was the only item to be purchased with the State Grant funds. (See Attachment A)

During a routine audit conducted in 1997 by the Agricenter's independent Certified Public Accountant it was found that only 51,271 total cubic yards of material was used to cap the landfill.³ Since this was substantially less than the 110,000 cubic yards originally anticipated, Agricenter requested an amendment to the Grant in December 1997.

¹ Source Agricenter Web Site, <http://www.agricenter.org>

² Although the total value of the 110,000 cubic yards was \$385,000 TDEC's commitment was limited to 370,000.

³ An annual audit, conducted by either the Comptroller's Office or an approved independent CPA, is required in Section D.8. of the Grant.

EXHIBIT 1 (Cont.)

The Agricenter justified the request by stating that while it did not require as much material as originally anticipated to cap the landfill they had incurred other expenses to carry out the Grant which were not included in the original budget. Those items included material hauling, the purchase of a tractor, and building an access road to the landfill. The proposed amendment was discussed with TDEC in December 1997 and approved in January 1998. The amendment did not change TDEC's \$370,000 commitment but did change the Budget List line items that would be reimbursed with Grant funds. (See Attachment B) The amendment also extended the term of the Grant from December 31, 1997 to August 1998.

RESULTS OF THE AUDIT

The audit resulted in two material findings. The details of the specific weaknesses are in the following section along with recommendations of appropriate actions to correct these deficiencies.

FINDINGS

1. EXPENSES REIMBURSED BY TDEC WERE NOT INCURRED

Finding

The Grant contract section B.1. requires that "The Grantee shall be compensated based upon the Budget attached to and made part of this grant and referenced as Attachment 1." Section B.4. goes on to require that "The Grantee shall submit all invoices, in a form acceptable to the State with all of the necessary supporting documentation, prior to any reimbursement of allowable costs." These sections indicate that Grant expenditures must be incurred to be eligible for reimbursement. However, the Agricenter requested and received grant funds totaling \$187,453 for expenses it did not incur.

Discussion

The amended Budget List approved by TDEC in January 1998 (See Attachment B) identifies those expenses of the project that were classified as reimbursable under the Grant and those in-kind expenses which were to be provided by the Agricenter. The following reimbursements, while listed as being allowable for reimbursement by the State, are questioned:

<u>Amended Budget Line Item</u>	<u>Amount</u>	<u>Reason Item Questioned</u>
Hauling of Material	\$ 67,050	Vendor was not paid.
Equipment - Tractor	26,000	Tractor was donated.
Infrastructure - Road	94,403	Shelby County paid for road.
Total Questioned Items	\$187,453	

A more detailed discussion of each of these items is discussed in the following sections.

EXHIBIT 1 (Cont.)

Hauling of blended aggregate materials used to cap the landfill

The amount questioned for this item is \$67,050 and results from the Agricenter not paying a vendor, Extrusion Technologies, Inc. (E.T.I.), that performed work to accomplish the Grant.

E.T.I., a vendor from whom the Agricenter purchased all of the blended aggregate material used to cap the landfill, presented an invoice to the Agricenter for \$67,050 on December 2, 1997 for hauling the material to the landfill site. This expense was added as a reimbursable expenditure under the amended grant contract. Since the previously filed reimbursement requests were not amended to reflect the amended grant contract, Agricenter did not include this invoice with a reimbursement request. It was simply used by the Agricenter to justify a previously overpaid invoice for materials.

However, in verifying that the individual vendors had been paid for the items reimbursed by TDEC under the Grant it was learned that E.T.I. had never been paid for this work. The Agricenter acknowledges that it never paid E.T.I. for this work and that it is currently in litigation with E.T.I. due to the non-payment.

This Grant is a reimbursement contract that requires that the Agricenter pay invoices before they are reimbursed. Since the Grantee did not expend monies to pay this invoice, the invoice is not reimbursable and cannot be used as justification for previously overpaid expenditures for which the Agricenter had already received reimbursement.

Equipment - Tractor

The amount questioned for this item is \$26,000 and results from the Agricenter receiving reimbursement from TDEC for a tractor that was donated to the Agricenter by United Equipment, Inc.

On August 26, 1997 United Equipment, Inc. submitted an invoice to the Agricenter to document the donation of a \$52,000 Case tractor to the Agricenter. The invoice clearly states that the Shelby County Landfill TDEC Grant was to be charged, that the tractor was a donation to the Agricenter, and that the Agricenter owed no money. The Agricenter submitted the invoice to TDEC for reimbursement on December 19, 1997 and was reimbursed \$26,000 (50% of the value as stipulated in the amended Budget List) on June 10, 1998.

United Equipment, Inc. confirmed that the tractor had been donated and that the Agricenter had made no payment for the tractor. The Agricenter acknowledges that the tractor was donated and that it did not actually expend any monies for the tractor.

Donations such as these can be used by the Agricenter to satisfy its in-kind requirement but are not reimbursable since no expenditure was made.

EXHIBIT 1 (Cont.)

Infrastructure – Road

A road was built on the Agricenter property by the Shelby County Road Department to provide a direct route from the area used to store the landfill cap material to the Landfill. This was done to avoid the need for trucks to use a busy thoroughfare adjacent to the Agricenter.

The road was constructed by the Shelby County Road Department and paid for by Shelby County. The funding for the road came from capital improvement project (CIP) funds which had been dedicated to projects to be completed at the Agricenter by the Shelby County Commission. The CIP funds are requested annually by the Agricenter, and other Shelby County government departments, and the Shelby County Commission approves a certain number of those requests through resolution.⁴

Following completion of the road, the Agricenter notified the Shelby County Director of Administration and Finance and the County paid the vendor, in this case the Shelby County Road Department. Since no portion of this transaction passed through the Agricenter's accounts (no revenue or expense) the expenditure by the County cannot be construed as an expense of the Agricenter and cannot be presented by the Agricenter for reimbursement.

Since the Agricenter expended no monies on the road, it is similar to a donation and can be used by the Agricenter to satisfy its in-kind requirement. However, the road is not reimbursable as a grant expenditure. The Agricenter submitted invoices to TDEC for reimbursement of road building expenses on April 30, 1997 and December 19, 1997 and was reimbursed on May 19, 1997 and June 10, 1998.

Recommendation:

Agricenter should reimburse TDEC \$187,453 for unsupported grant expenditures.

2. IN-KIND EXPENSES WERE NOT PROPERLY SUPPORTED

Finding

In-kind contributions made by the Agricenter were \$245,465 less than that required by the Grant. The shortfall resulted from either a lack of supporting documentation (\$138,502) or contributions that were never made (\$106,962).

⁴ The road construction was approved by Shelby County Commission Resolution #30, CIP Project # 1900-1904 in the FY 97-98 CIP Budget.

EXHIBIT 1 (Cont.)

Discussion

The amended Budget List specified that the Agricenter would provide in-kind expenditures of \$378,000.⁵ However, the total in-kind expenditures submitted by the Agricenter were only \$239,498, resulting in a shortfall of \$138,502. Additionally, \$106,962 in Project Management and General and Administrative expenses submitted as in-kind expenditures were not supported by appropriate documentation.

<u>Amended Budget Line Item</u>	<u>Amount</u>	<u>Reason Item Questioned</u>
Project Management	\$ 76,962	No supporting time records.
General and Administrative	30,000	No itemized expenses.
In-Kind Shortfall	138,503	No expenditures exist.
Total Questioned Items	\$ 245,465	

A more detailed discussion of each of these items is discussed in the following sections. If the Agricenter repays TDEC for the roadwork (\$94,403) and the tractor (\$26,000) questioned in Finding 1, and counts those two items toward the unsupported in-kind expenditures, the unsupported amount would be reduced to \$125,062.

Project Management

Project management costs were comprised of salary expense incurred by the Agricenter for managing the Landfill project. The Agricenter submitted an invoice dated December 19, 1997 claiming \$76,962 of project management expenditures. The Agricenter personnel stated on several occasions that this amount was a "plug figure" to close out the remaining balance on the project. No supporting documentation to support those salary amounts was provided.

In an attempt to justify these expenses, the Agricenter prepared a schedule of salary expense incurred on the project at Internal Audit's request in March 1999. This schedule indicated that the time the President, the CFO, and the Assistant to the President spent on the project equated to \$153,903.⁶ However, the Agricenter was unable to provide time records showing the amount of time these employees actually spent on the grant. Without this supporting documentation, it cannot be substantiated that the Agricenter incurred the \$76,962 of project management expense.

⁵ An in-kind expenditure could have been a cash expenditure by Agricenter or the fair market value of goods or services donated to the grant project.

⁶ This amount was calculated by taking the employee's salary multiplied by the number of months in the Grant and the estimated percentage of time spent on the Grant. The President and CFO were both estimated to have spent 50% of their time on the Grant during the twenty-month period.

EXHIBIT 1 (Cont.)

General and Administrative

The Agricenter submitted an invoice dated December 19, 1997 for \$30,000 of General and Administrative cost based on a set administrative cost factor applied to the total project cost ($\$748,000 \times 8.15\% = \$60,962$). Again, the Agricenter was unable to provide documentation of actual expenses incurred; therefore, it cannot be substantiated that the Agricenter incurred \$30,000 of general and administrative expenses.

In-Kind Shortfall

Section A.1. of the Grant contract states that "By August 31, 1998, the Grantee shall provide documentation of the in-kind match and the purchased materials as authorized in the approved Budget List." Despite this time limitation, on several occasions during the audit, the Agricenter was requested to submit, and given the opportunity to provide, supporting documentation for any Grant related expenses that it had incurred in addition to those already submitted to TDEC. No additional expenditures were provided.

Since the total project budget of the Grant contract was \$748,000 and the total amount of project expenses submitted by the Agricenter was only \$609,497 an expenditure shortfall of \$138,503 exists. Since the Agricenter did not meet its required in-kind contribution, Section A.1. has been violated.

Recommendation:

The Agricenter should have made and properly documented all in-kind expenditures to support the project costs as required by the Grant contract. In-kind expenditures must be identifiable to the Grant and appropriate time records should support any salary expenses. Furthermore, the General and Administrative expenses should be supported by actual expenditures by the Agricenter or through donated goods and services.

Section D.4. of the contract states that "If the Grantee fails to properly perform its obligations under this Grant or violates any terms of this Grant, the State shall have the right to immediately terminate the Grant and withhold payments in excess of fair compensation for completed services."

Since the Grant is closed it is not possible to terminate the Grant. However, TDEC management should consider and evaluate whether the Agricenter's failure to meet its required in-kind has violated the terms of the Grant to the extent TDEC should seek reimbursement of a portion of the in-kind shortage.

EXHIBIT 1 (Cont.)

99-23
Attachment A

AGRICENTER INTERNATIONAL, INC.

BUDGET LIST

ATTACHMENT I

PROJECT COSTS

Soil Amendment: blended aggregate materials 110,000 cubic yards X \$3.50/cyd	\$370,000.00
In-Kind Match which includes the following: Materials certification, preparation, hauling Equipment - Tractor with laser guided leveler Infrastructure - On site public roads & trails Labor, fuel, utilities, Irrigation system, seed, fertilizer Engineering services	\$378,000.00
TOTAL PROJECT COSTS	\$748,000.00
LESS IN-KIND MATCH	\$378,000.00
TOTAL GRANT AMOUNT	\$370,000.00

EXHIBIT 1 (Cont.)

99-23
Attachment B

AGRICENTER INTERNATIONAL, INC.

BUDGET LIST

ATTACHMENT I-A

PROJECT COSTS:	INKIND	GRANT
SOIL AMENDMENT: blended aggregate materials. 51,271 cubic yards x \$3.50/cyd=		179,448.50
MATERIAL: certification, preparation, hauling. 44,700 cubic yards x 1.50/cyd=		67,050.00
EQUIPMENT: 1 tractor with laser guided leveler. 520 hours x \$100=	26,000.00	26,000.00
INFRASTRUCTURE; on site public roads & trails	14,596.75	94,403.25
Additional Material Hauling. 243 loads x \$12.75/load		3,098.25
In-Kind Match which includes the following: Labor, fuel, utilities, irrigation system, seed, fertilizer, engineering, professional consulting fees, certified audit fees, equipment rental, project management, general and administrative	\$337,403.25	
TOTAL PROJECT COSTS	\$378,000.00	\$370,000.00
PROJECT TOTAL	\$748,000.00	
TOTAL GRANT AMOUNT	\$370,000.00	

EXHIBIT 2

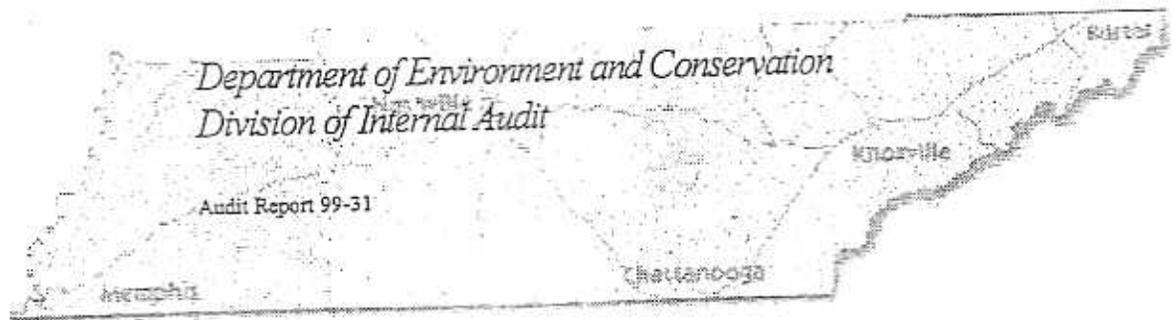
State of Tennessee



Audit Report

Agricenter International, Inc.

Material Recycling Grant GR-97-11139-00



For Period July 1, 1996 through June 30, 1997



Source: TDEC Internal Audit

EXHIBIT 2 (Cont.)

**AGRICENTER INTERNATIONAL, INC.
MATERIAL RECYCLING GRANT GR-97-11139-00**

AUDIT

FOR THE PERIOD

JULY 1, 1996 THROUGH JUNE 30, 1997

TABLE OF CONTENTS

<u>INTRODUCTION</u>	<u>Page</u>
Purpose of the Audit	1
Audit Authority	1
Scope of Audit	1
Background	2
Results of Audit	3
 <u>RESULTS OF THE AUDIT</u>	
1. Expenses Reimbursed by TDEC Were Not Properly Supported	3

EXHIBIT 2 (Cont.)

PURPOSE OF THE AUDIT

On March 11, 1999 the Tennessee Department of Environment and Conservation (TDEC), Division of Internal Audit was notified of a complaint registered through the State Comptroller concerning a grant received by Agricenter International Inc. (Agricenter). The complaint alleged that the Agricenter had been reimbursed for expenditures that had not been incurred under an Innovative Technology Grant (GR-97-11148-00) from the State of Tennessee to the Agricenter. It was determined that this grant was awarded by TDEC. The results of that audit were discussed in a separate audit report (99-23). During that audit it was learned that the Agricenter had received a second grant from TDEC to construct and operate a Material Recycling Facility on the Agricenter grounds (GR-97-11139-00). This audit resulted because of the allegations made in the original complaint. The purpose of this audit is to determine whether the reimbursements to the Agricenter were allowable under the Grant and whether the Agricenter had otherwise complied with the terms of the Grant.

The Comptroller's Office has been involved in the planning and conduct of this audit since March 26, 1999.

AUDIT AUTHORITY

Section D.7. of the grant contract asserts that "The Grantee shall maintain documentation for all charges against the state under this Grant. The books, records and documents of the Grantee, insofar as they relate to work performed or money received under this Grant, shall be maintained for a period of three (3) full years from the date of the final payment, and shall be subject to audit, at any reasonable time and upon reasonable notice, by the state agency or the Comptroller of the Treasury or their duly appointed representatives."

Section B.5. of the grant contract states that "The payment of an invoice by the State shall not prejudice the State's right to object to or question any invoice or matter in relation thereto. Such payment by the State shall neither be construed as acceptance of any part of the work or service provided nor as an approval of any part of the costs invoiced therein. Grantee's invoice shall be subject to reduction for amounts included in any invoice or payment theretofor made which are determined by the State, on the basis of audits conducted in accordance with the terms of this Grant, not to constitute allowable costs. Any payment shall be reduced for over-payments, or increased for under-payments on subsequent invoices."

SCOPE OF THE AUDIT

To accomplish the objectives of the audit, a review of all pertinent records relating to the Materials Recycling Grant GR-97-11139-00, as amended, was made. This included a review of the grant contracts, cancelled checks, bank statements, invoices, check registers and requests for reimbursement. In addition, discussions and interviews were held with various participants in this Grant, both internal and external to TDEC, as well as visits to the Agricenter to observe the recycling center.

EXHIBIT 2 (Cont.)

The audit was performed in accordance with the "Standards for the Professional Practice of Internal Auditing" published by the Institute of Internal Auditors and accordingly included such tests as considered necessary in the circumstances. It should be noted that various sampling techniques were used in performing audit procedures. The conclusions obtained from these samples were considered applicable to the remaining non-sampled items. Mike Gaines, Audit Director and John Williams, Auditor IV, conducted the audit.

BACKGROUND

The Shelby County Agricenter Commission was created in 1981 by the Shelby County government for the purpose of creating, planning, and supervising the construction and use of the Agricenter to serve as a regional resource and technological center for all aspects of agriculture. Fletcher F. Maynard, Jr., Chairman of the Board currently head the Shelby County Agricenter Commission. The Agricenter is a non-profit corporation located in Memphis, Tennessee on a 1,000 acre tract adjacent to Shelby Farms and is currently headed by James B. Wadlington, President. The primary purpose of the Agricenter is to assist farmers through educational programs and demonstrations of the most advanced agricultural technologies and products.¹

In January 1997 TDEC awarded Grant contract GR-97-11139-00 to the Agricenter for the purpose of establishing a facility for processing recycling materials from multiple local governments. The grant contract section A.7. and A.8. requires that the facility must operate five years to avoid a penalty² and Agricenter "must submit on a quarterly basis a project status report, which gives the status of construction and purchase of equipment and volumes of recyclable materials received and processed."

The original Grant covered the period January 1, 1997 through December 31, 1997. TDEC funded the total budget for this project of \$398,000. An amendment to the Grant contract was requested and approved by TDEC in June 1997. The amendment did not change TDEC's \$398,000 commitment but did change the Budget List line items that would be reimbursed with Grant funds. The amended Budget List specified that TDEC would reimburse Equipment items totaling \$188,522 and Project Services and Expenses of \$209,478. (See Attachment A)

RESULTS OF THE AUDIT

The audit resulted in one material finding. The details of the specific weaknesses are in the following section along with recommendations of appropriate actions to correct these deficiencies.

¹ Source Agricenter Web Site, <http://www.agricenter.org>

² If the facility is operated less than five years, Agricenter must refund the grant award on a pro-rata basis.

EXHIBIT 2 (Cont.)

FINDINGS

1. PROJECT EXPENSES WERE NOT PROPERLY SUPPORTED

Finding

Documentation for project expenses was not adequate. The amount of questionable reimbursements is \$134,921 and results from either a lack of supporting documentation or expenses that were not incurred. The Grant contract, Section B.1. requires that "The Grantee shall be compensated based upon the Budget attached to and made part of this grant and referenced as Attachment 1." Additionally, Section B.4. specifies that "The Grantee shall submit all invoices, in a form acceptable to the State with all of the necessary supporting documentation, prior to any reimbursement of allowable costs." These sections indicate that Grant expenditures must be incurred to be eligible for reimbursement.

Discussion

The Agricenter sent six reimbursement requests to obtain the grant funding. For the equipment items listed on the Budget List, the Agricenter sent copies of vendor invoices. For the items classified as Project Services and Expenses, the Agricenter billed TDEC directly for those line items. The following expenses did not have the appropriate supporting documentation:

<u>Amended Budget Line Item</u>	<u>Amount</u>	<u>Reason Item Questioned</u>
Program Development/Training	\$ 10,000	No itemized expenses.
Project Manager	49,000	No supporting time records.
Secretarial, administration	27,334	No supporting time records.
Accounting, purchasing	34,333	No supporting time records.
Technical support, operations	1,453	No itemized expenses.
Site Preparation	5,000	No itemized expenses.
Design and Planning	7,801	No itemized expenses.
Total Questioned Items	\$ 134,921	

The Agricenter personnel stated that TDEC had been billed for these expenses based the percentage of time completed during the grant period.³ Each reimbursement request had the pro-rata share of each line item listed above. Despite numerous requests by the auditors, no supporting documentation could be produced by the Agricenter to support these expenses.

A more detailed discussion of each of these items is discussed in the following sections.

³ Reimbursement amount = Budgeted Amount x (# of Months Since Last Reimbursement/12)

EXHIBIT 2 (Cont.)

Program Development/Training

This amount was to provide training for staff to operate the recycling center. The Agricenter could not provide any itemized expenses for this line item, therefore \$10,000 of program development/training expense could not be supported.

Project Management. Secretarial. administration. Accounting. purchasing

These costs were considered as salary expense incurred by the Agricenter for managing and administratively supporting the recycling project. However, the Agricenter was unable to provide actual time records showing the amount of time the employees actually spent on the Grant. Without this supporting documentation, it cannot be substantiated that the Agricenter incurred the \$110,667 of these expenses.

Technical Support. Operations

The budget list allowed \$33,333 of expenses for Technical Support and Operations Expense. Agricenter made six payments for consulting services totaling \$31,880, which left a remaining balance of \$1,453. Since no further documentation was provided to indicate expenditures, it cannot be substantiated that the Agricenter incurred the remaining \$1,453 of Technical Support and Operations Expense.

Site Preparation. Design and Planning

The budget list allowed for \$5,000 for site preparation and \$7,801 for design and planning expenses. These expenses were to be the cost of designing the facility and preparing the site for use as a recycling facility. The Agricenter could not provide any itemized expenses for this line item, therefore; none of the \$12,801 claimed as expenses could be substantiated.

Recommendation:

Agricenter should reimburse the Department \$134,921 for unsupported grant expenditures.

EXHIBIT 2 (Cont.)

99-31
Attachment A

AGRICENTER INTERNATIONAL, INC.

BUDGET LIST

ATTACHMENT I-A

<u>Equipment</u>	
Vertical Baler	\$8,000
Can Flattener-blower	\$3,500
Truck Scales	\$25,000
Forklift	\$19,222
Plastic grinder	\$4,950
Cump truck	\$25,000
Storage bins	\$10,000
Screening equipment	\$13,850
Dryer	\$24,000
Front end loader	<u>\$55,000</u>
Subtotal	\$188,522
<u>Project Services & Expenses</u>	
Pre-paid lease	\$30,000
Program development/training	\$10,000
Project manager	\$49,000
Secretarial, administration	\$27,334
Accounting, purchasing	\$34,333
Technical support, operations	\$34,299
Scales Substructure	\$7,800
Geotech Services	\$2,139
Electrical Hookups	\$1,772
Site Preparation	\$5,000
Design and Planning	<u>\$7,801</u>
Subtotal	\$209,478
Total Grant Amount	<u>\$398,000.00</u>

EXHIBIT 3



Agricenter International
7777 Walnut Grove Road
Memphis, TN 38120
Telephone 901-757-7777
Fax 901-757-7783

GRANT AUDIT POSITION PAPER

BACKGROUND

Background information relevant to the current situation to frame the issues is necessary. In early 1996, Mr. James Downing, President of Extrusion Technologies, Inc. ("ETI") a tenant at Agricenter International, Inc. ("Agricenter"), introduced me to Mr. Mike Vaughn of Nashville, TN. Mr. Vaughn represented himself as having expertise in writing and securing grants. Because Agricenter had an interest in this area, it engaged him as a grant consultant. Mr. Vaughn's fee for any grant he obtained on behalf of Agricenter was to be on a percentage sliding scale that would reduce in amount as the grant figure increased. For example, Mr. Vaughn might receive 10% on a \$100,000 grant, but only 5% on a million-dollar grant. Payment of this fee would be fulfilled only as grant funds were expended. This payment plan avoided a commission payment for funds that might not otherwise be expendable.

After working with Mr. Downing, and myself, Mr. Vaughn developed the ideas behind the two grants that were subsequently awarded to Agricenter. In the development of these grants, Mr. Vaughn and I worked closely with the Tennessee Department of Environment and Conservation ("TDEC") and its agents: Commissioner Mr. Justin Wilson, Mr. Paul Evans Davis, Ms. Joyce Dunlap, Ms. Ann McDowell and Mr. Wayne Brashear. Once the grants were written, Agricenter relied on the above-mentioned group to ensure that the objectives of the grants and the budget items were properly stated. A copy of all documented support of the operation of the grants was given to the grant administrative team (GAT). Examples of these documents include the two respective agreements (See Exhibits 1 & 2) between ETI and Agricenter stipulating responsibility for individual matters and the flow of grant funds. Detailed

Page 1

Source: TDEC Internal Audit

EXHIBIT 3 (Cont.)

discussions were held to ensure proper support for individual budget items, including the cost allocation distribution method for administrative line item justification (to be explained below).

Subsequent to the grants being awarded, numerous telephone calls were made to the above-mentioned members of the GAT to guarantee that all grant action taken by Agricenter was acceptable by the parties involved (See Exhibit 3). Agricenter diligently followed these instructions, and, until the TDEC audits were initiated, no notification of any errors or flawed information was furnished to Agricenter.

The recent audit conducted by Mr. Mike Gaines, Director of Internal Audit, and Mr. John Williams, found alleged technical errors amounting to some \$332,000. Agricenter takes the position that it relied solely on the instructions and information supplied by the GAT that created any technical errors. The allegations have created an unfortunate situation following a very successful completion of the two worthwhile grants.

Before proceeding with a detailed examination of the respective TDEC Audit reports ("Reports") dated June 23, 1999, it will be helpful to clarify certain terminology and misunderstandings contained within the reports. Agricenter has numbered the areas that need clarification below:

INNOVATIVE TECHNOLOGY GRANT

A. Innovative Technology Grant (GR-97-11148-00)-(hereafter referred to as the "Landfill Grant")

1. The purpose of the Landfill Grant was to demonstrate innovative technology, i.e. the alternative use of spent composted cotton linters. The landfill was the place of demonstration. It was not the reason the Landfill Grant was awarded.
2. Agricenter was created by a State Act.
3. Mr. Hamilton Smythe, III, is Chairman of the Agricenter Commission. The Agricenter Commission owns 1000 acres of property which it acquired from Shelby County Government. Agricenter International, Inc., leases and manages the property. Mr. Fletcher F. Maynard, Jr., is currently Chairman of the Board of Directors of Agricenter International, Inc.
4. Agricenter contracted with ETI to purchase 110,000 cubic yards (See Exhibit 4) of blended aggregate materials at \$3.50 per cubic yard; but, the State chose to reimburse the Agricenter only \$192,500 rather than the \$370,000 as stipulated in the Landfill Grant and which Agricenter was entitled to receive. Agricenter maintained its books and records under the accrual method of accounting and was advised by TDEC that the submission of the invoice from ETI was proper. Submission of the invoice from ETI for reimbursement was proper under the accrual method of accounting because Agricenter was obligated to pay the invoice. TDEC's Internal Audit Department indicated during their

EXHIBIT 3 (Cont.)

field audit examination that TDEC should have reimbursed Agricenter for \$370,000 as a cash line item at the time the invoice was submitted. Simply put, the initial reimbursement error by TDEC's Grant Administrative Team is the cause for the subsequent difficulties incurred in the administration of the Landfill Grant. This error by TDEC is one of the reasons for the technical difficulties applicable to the Landfill Grant cited in the reports.

5. Agricenter did not request an amendment to the Landfill Grant in December 1997 because of other expenses incurred by Agricenter necessary to carry out the Grant. Rather, the meeting was requested to make certain that Agricenter would receive the \$111,000 it was due for administrating the Landfill Grant and that the vendor, ETI, would receive the \$250,000 for its participation in the project and any possible reportable conditions in grant administration be eliminated. These respective payments were documented in a contract between Agricenter and the vendor, copies of which had been previously submitted to TDEC as part of the Landfill Grant operational procedures (See Exhibits 1 & 2). Agricenter supplied these respective contracts before award of the Grant, during the completion of the Landfill Grant, and at the conclusion of the Landfill Grant.
6. Agricenter did not purchase a tractor, but, rather used a Case articulating front-end loader to load the compost trucks for transport of materials to the landfill. This piece of equipment was secured from Case Corporation and delivered through Case United Equipment, Inc.. Because of this arrangement, Agricenter did not charge Case for an industrial show at the Agricenter, the show having a Fair Market Value of \$54,000 (See Exhibit 5). Additionally, Case Corporation's presence at the Agricenter is not without cost to Agricenter. Case receives service to the training center, meeting and convention space, and an advertising opportunity to the more than 700,000 people who visit the Agricenter annually. This relationship has an estimated value of approximately \$50,000.
7. Agricenter never stated to any TDEC employee that \$76,962 of project management expenditures was a "plug figure" to close out the Grant. All project management expenditures requested for reimbursement under both the Landfill Grant and Materials Recycling Grant were made under a specific allocation of total Agricenter overhead method approved by TDEC during and after the Landfill Grant period. Specifically, it is Agricenter's position that \$106,962 of project expenses were incurred under the Landfill Grant and that the alleged \$138,503 in-kind shortfall does not exist.
8. Agricenter did incur \$187,453 in expenses which the TDEC proposes to disallow.

EXHIBIT 3 (Cont.)

Review of the TDEC Audit findings dated June 23, 1999 in detail as it concerns the Landfill Grant

1. The Landfill Grant was, as indicated by the TDEC Director of Internal Audit, Mr. Gaines, a performance based grant. In other words, the Agricenter was only to be paid for the purchase of 110,000 cubic yards of blended aggregate materials at \$3.50 a cubic yard with a maximum reimbursement of \$370,000 under the terms of the original grant. (See page 2, paragraph 5 of the TDEC audit report dated June 23, 1999). Agricenter did, in fact, contract with ETI to purchase 110,000 cubic yards of blended aggregate materials and properly submitted a request for reimbursement based upon advice from TDEC. However, TDEC reimbursed the Agricenter only \$192,500 (See Exhibit 6) and accounted for the remaining \$192,500 (\$385,000 - \$192,500) as an in-kind contribution. TDEC subsequently reimbursed the Agricenter on a prorated 50/50 basis between in-kind and cash line items on every subsequent request for all other line items contained in the original budget because of this initial reimbursement error. It appears that TDEC made these payments as if the grant were a 50/50 matching grant. However, the grant document does not support this position.
2. As a result of the preceding documented TDEC reimbursement error and the fact that only 51,271 cubic yards of blended aggregate materials were necessary to complete the demonstration by the date of the Independent Audit Report, a meeting was requested by both the Agricenter and the Independent Auditor with TDEC to make certain that any technical deficiencies made in the administration of either grant would not harm any of the participating parties. The vendor, ETI, was asked to attend this meeting, but ETI declined. A meeting was subsequently held in Nashville, Tennessee, on December 18, 1997, at TDEC's administration offices. Those in attendance included Mr. Paul E. Davis and Ms. Dunlap from TDEC, Mr. Wadlington from the Agricenter, and Mr. Davis, CPA, the independent Agricenter auditor. A proposed revised budget (See Exhibit 7) was submitted by the Agricenter which fully reflected the economic realities of the Landfill Grant, if it were decided by the TDEC officials that the original budget could not be used (as previously documented). Agricenter never represented to the TDEC officials that the road, built on Agricenter property by the Shelby County Road Department to provide a direct route from the area used to store the blended aggregate material to the Agricenter, was a cash expenditure of Agricenter under the terms of the Landfill Grant. Agricenter has represented this particular item as an in-kind item both under the original terms of the Landfill Grant and under its proposed amendment. (To reiterate, Agricenter did not recommend a proposed amendment; but, had formulated an amendment only if TDEC deemed it necessary.) The intent of the meeting was not to embarrass any party at TDEC for any possible errors made by TDEC in the administration of the Landfill Grant funds; but, rather, to make certain that all parties who participated in the Landfill Grant

EXHIBIT 3 (Cont.)

would receive monies to which they were entitled under the contract and that no reportable conditions existed.

The referenced officials at TDEC decided that it was necessary to revise the initial Grant budget since only 51,271 cubic yards of the 110,000 cubic yards of blended aggregate materials purchased were required to complete the project. The revised amendment (See Exhibit 8) as formulated by TDEC accounted for the \$109,000 access road as a \$4,596.75 in-kind and \$94,403.25 cash line item. TDEC recognized that the funds utilized by Agricenter for payment to Shelby County were derived from Capital Improvement Funds (CIP) and not Landfill Grant funds. However, the above-mentioned officials indicated that they would get the necessary authority for the line item approval. Please note that the road in question had already been built.

In much the same manner, TDEC officials accounted for the \$52,000 front-end loader (referred to by TDEC officials and auditors as a tractor) as a \$26,000 in-kind and \$26,000 cash line item in the revised amendment. Once again, please note that the use of the front-end loader had already been provided. As before, the TDEC officials indicated they would get the necessary authority for the line item approval. Once again, Agricenter never represented that this particular expenditure was paid out of Landfill Grant funds. This particular item had been accounted for as a \$52,000 in-kind line item under both the original Grant and the proposed (see Exhibit 7) amendment formulated by the Agricenter, if such proposed amendment were deemed necessary. The \$52,000 was the Fair Market Value of services provided by Case Corporation through Case United Equipment, Inc., its dealer.

The revised amendment formulated by TDEC accounted for \$67,050 as a cash line item for the hauling of blended aggregate materials by the vendor to the Landfill. The \$67,050 plus the \$179,448.50 amount (accounted for as the purchase cost of the 51,271 cubic yards of blended aggregate materials used for demonstrating the purpose of the Landfill Grant) equals \$246,498.50. This approximated the \$250,000 otherwise due the vendor under the terms of the contract between the Agricenter and the vendor. It was always the understanding of Agricenter that this contract was part of the Grant and the ultimate disbursement of funds would be made under those terms. Agricenter had previously paid the vendor \$185,000 of the \$192,500 received from TDEC on the initial request for reimbursement. Once again, TDEC has indicated it should have reimbursed the Agricenter \$370,000 for the purchase of 110,000 cubic yards of blended aggregate materials. The balance of \$61,498.50 (\$179,448.50 plus \$67,050.00 - \$185,000) plus \$4,800 for vendor equipment rental totaled the \$66,298.50 that was credited (See Exhibit 9) to the vendor's account. The credit to the vendor's account was made on advice of counsel because of certain irregularities resultant from an external review that indicated

EXHIBIT 3 (Cont.)

possible involvement of grant funds. Failure to proceed in this manner would have shown Agricenter to be a poor steward of State funds.

3. The \$138,503 alleged shortfall identified in the TDEC audit was apparently derived (the method was not clearly identified) by subtracting the \$385,000 cost of the blended aggregate material to be purchased by the Agricenter through ETI (See Exhibit 4) from the \$246,498.50 project cost item for soil amendment and material in the revised Landfill grant. As indicated in the TDEC audit, the budget lists attached to the original Landfill Grant specified that TDEC would pay for Agricenter to purchase 110,000 cubic yards of blended aggregate material at \$3.50 per cubic yard. As previously indicated, Agricenter did not request an amendment to the Landfill Grant in December, 1997. Agricenter did request that TDEC determine if such amendment were necessary due to the fact that only 51,271 cubic yards were necessary to complete the successful demonstration of the Landfill Grant purpose and that no reportable conditions existed. Agricenter also requested that any amendment still result in all parties receiving the amount of money due under the original budget. It is the position of the Agricenter that any alleged \$138,503 shortfall was caused by TDEC errors in Landfill Grant administration as attested to by Mr. Gaines, TDEC's Director of Internal Audit.
4. In addition to the preceding statement, the Agricenter also incurred additional in-kind costs not identified in the TDEC audit examination. Specifically \$70,000 of in-kind costs were incurred related to the use of Agricenter's farm tractor and bulldozer. (See Exhibit 10).

RECAP

LANDFILL GRANT

1. Agricenter did contract with ETI to purchase the 110,000 cubic yards of blended aggregate materials from the vendor as stipulated in the original Landfill Grant, and should have been reimbursed \$370,000. ETI did purchase the 110,000 cubic yards of blended aggregate materials; but, only 51,271 cubic yards were needed to complete the project. TDEC stated that the initial reimbursement error was the starting point for most of the subsequent technical problems experienced in the administration of the Landfill Grant. The TDEC Auditors stated that TDEC revised the original budget in error as well. Additionally, the Grant Administrative Team approved \$111,000 in general and administrative expenses for the Landfill Grant at inception of the Grant and did not indicate at the December 18, 1997, meeting that any other supporting documents were required.
2. Agricenter did pay the Vendor, ETI by officially applying \$67,050 to the vendor's account as previously indicated.

EXHIBIT 3 (Cont.)

3. The \$26,000 charge for the front-end loader/tractor is a valid charge due to the fair market value barter exchange between Agricenter and Case Corporation and approved by TDEC.
4. The \$94,403 is a valid line item cash charge based on Agricenter's value allocation authority of CIP funds approved by TDED.
5. The \$138,503 in-kind shortfall as explained in item 3 of page 6 was caused by the TDEC Grant administration error. Also, \$70,000 of in-kind services incurred by Agricenter as explained in item 4 of page 6 must be taken into account.

SUMMARY

Agricenter fully cooperated with TDEC, Mr. Paul E. Davis, Ms. Dunlap, Mr. Brashear, and Ms. McDowell in proposing and reviewing the respective Grants and the method of reimbursement prior to them being approved. Agricenter fully complied with TDEC's requirements regarding the administration of Grant funds and brought its concerns to TDEC in its many telephone calls for assistance (See Exhibit 3) and in extreme detail during the December 18, 1997, meeting with the TDEC administrative team. From the Agricenter's viewpoint, any and all errors identified were the direct result of inaccurate information it received on numerous occasions from TDEC personnel as detailed previously and in the summary. The fact is the grant was successfully implemented at the specified cost determined in accordance with protocols and procedures specifically approved by TDEC. To change the rules at this time would unjustly penalize Agricenter and irreparably damage its reputation.

MATERIALS RECYCLING GRANT

B. Materials Recycling Grant (GR97-1139-00)-(hereafter referred to as the "Recycling Grant")

1. The letter addressed to Mr. Wadlington, President of Agricenter International, dated June 23, 1999, concerning the Recycling Grant erroneously refers to the same Grant as the Innovative Technology Grant.
2. Agricenter was created by a State Act.
3. Mr. Hamilton Smythe, III, is Chairman of the Agricenter Commission. The Agricenter Commission owns 1000 acres of property which it acquired from Shelby County Government. Agricenter International, Inc., leases and manages the property. Mr. Fletcher F. Maynard, Jr., is currently Chairman of the Board of Directors of Agricenter International, Inc.
4. On April 13, 1999, an initial meeting was held at TEDC to investigate the complaint registered through the State Comptroller's Office concerning the referenced Grants. Mr. Williams and Ms. Dunlap

EXHIBIT 3 (Cont.)

represented TDEC. Mr. Wadlington and Mr. Billy Carter, Agricenter CFO represented the Agricenter. Mr. John Davis, Jr., CPA, Agricenter's independent auditor also attended this meeting. Prior to the meeting, Mr. Williams indicated for the very first time that the TDEC did not have sufficient supporting detail for the line items subsequently referenced in the TDEC audit report dated June 23, 1999, despite the fact that the supporting detail for these particular line items had been previously approved by TDEC three times: at submission of the grants, during the administration of the grants, and during the December 18, 1997 meeting. Consequently, Agricenter in good faith attempted to supply TDEC with additional supporting detail which TDEC deemed relevant, including detail of the specific costs, i.e. salaries, payroll taxes, etc., to meet the new standards being imposed. The TDEC auditors indicated that none of this documentation was acceptable since the documentation had not been created during the grant period.

5. The statement in the TDEC report that numerous requests were made by the TDEC auditors for documentation for the line items in question is not accurate. There were requests for new documentation after the fact (Grant Period) to the referenced line items; but, that documentation was deemed unacceptable by TDEC auditors for the reasons indicated. To date, no written communication from TDEC other than the audit findings of June 23, 1999, has been received by Agricenter.
6. The Agricenter has and will continue to incur \$134, 921 in general administrative costs for the Recycling Grant which the TDEC audit proposes to disallow. A full examination of the facts not stated in the TDEC audit report will support this conclusion.

Review of the TDEC Audit findings dated June 23, 1999 in detail as concerns the Recycling Grant:

1. As indicated in the TDEC audit report dated June 23, 1999, there was an amendment to the Recycling Grant contract which was approved by TDEC in June of 1997. The amendment did not change TDEC's \$398,000 commitment; but, it did change the budget line items that would be reimbursed with Grant Funds. However, the amendment did not change Agricenter's methodology for requesting the reimbursements as stated in the original Recycling Grant. Specifically, Agricenter was to supply specific external documents which would show the purchase of \$188,522 in equipment, \$88,811 in external technical and operational support, and \$120,667 for the general and administrative expenses to be incurred by the Agricenter over a 5 year period. The TDEC audit fully supports the fact that the Agricenter did purchase the \$188,522 in equipment. The TDEC audit (with correction noted) concludes that the Agricenter incurred only \$73,591 for external Technical and operational support and no costs whatsoever for the internal administration expenses required for the administration of the Recycling Grant over a 5 year period.

EXHIBIT 3 (Cont.)

2. The facts show that Agricenter incurred \$108,006 for external expenses related to the technical and operations support of the Recycling Grant. Also, Agricenter maintains that the original manner in which the Agricenter had formulated the \$120,667 for internal administrative and general expenses to manage the Recycling Grant is still valid.
3. Copies of additional invoices supporting the \$108,006 for external expenses related to the technical support and operations of the recycling facility are enclosed. (See Exhibit 11 and 18)
4. As previously stated, TDEC reviewed and approved the manner in which the Agricenter had formulated its requests for reimbursement of its internal management and administrative costs in operating the recycling facility for a 5 year period. TDEC, once again, approved of this method at the referenced December 18, 1997, meeting and indicated that only an internal Agricenter invoice detailing the specific line items cited in the TDEC report was necessary to support this Recycling Grant. The methodology to support these particular line items was based on a cost allocation method for line item justification. Specifically, the ratio of Agricenter's general and administrative expenses (i.e. overhead) to total revenues was derived. This resultant overhead ratio (See Exhibit 12) was then applied to the recycling income in determining allowable general and administration expenses for the Recycling Grant. The same methodology was applied to the Landfill Grant (See Exhibit 12).
5. During the course of his audit examination, Agricenter's independent auditor, Mr. John Davis requested that TDEC be contacted and asked to make certain that the preceding method for determining general and administrative costs under both respective Grants as previously specified was allowable. TDEC indicated to Mr. Carter that this method was allowable and that no further information, data, or other evidential matter would be required for reimbursement to support the Grant. Also, the independent auditor tested the reasonableness of the respective general and administrative expenses incurred by the Agricenter and concluded that they were reasonable. (See Exhibits 13 & 14). Agricenter trusts that this documented independent analysis, confirmation, inquiry and observation made during the course of an independent CPA audit should be acceptable to support the reimbursement for general and administrative expenses under both grants (See Exhibits 15 & 16).

EXHIBIT 3 (Cont.)

RECAP

RECYCLING GRANT

1. The General and Administrative charges in the amount of \$120,667 as enumerated in items numbered 1-3 are supported by the cost allocation distribution method of assigning costs, an accepted industry standard. The TDEC's Grant Administrative Team accepted this method two times, first during the administrative period and again at the December 18, 1997, TDEC meeting.
2. TDEC's findings that would allow no internal administrative costs whatsoever over a 5-year period are illogical at best. Agricenter was given instructions on how to apply charges to these line items by TDEC administration and complied with these instructions. However, TDEC auditors have now informed Agricenter that this information was not accurate. The supplied documentation and independent auditor analysis should be used to determine whether the administrative expenses should be adjusted.
3. Item 4, the \$12,801 is accounted for and is supported on page 9, item 3.

SUMMARY

Agricenter fully cooperated with TDEC, Mr. Paul E. Davis, Ms. Dunlap, Mr. Brashear, and Ms. McDowell is proposing and reviewing the respective Grants and the method of reimbursement prior to them being approved. Agricenter fully complied with TDEC's requirements regarding the administration of Grant funds and brought its concerns to TDEC in its many telephone calls for assistance (See Exhibit 3) and in extreme detail during the December 18, 1997, meeting with the TDEC administrative team. From the Agricenter's viewpoint, any and all errors identified were the direct result of inaccurate information it received on numerous occasions from TDEC personnel as detailed previously and in the summary. The fact is the grant was successfully implemented as the specified cost determined in accordance with protocols and procedures specifically approved by TDEC. To change the rules at this date would unjustly penalize and irreparably damage its reputation.

EXHIBIT 3 (Cont.)

EXHIBITS

1. Contract between the Agricenter and ETI relating to the Landfill Grant.
2. Contract between the Agricenter and ETI relating to the Recycling Grant.
3. Telephone Call Log.
4. Purchase of 110,000 cubic yards of blended aggregate materials.
5. Front-end loader for \$54,000.
6. TDEC \$192,500 reimbursement and 50/50 allocation error.
7. Proposed Agricenter revised budget.
8. Revised TDEC amended budget.
9. December 20, 1999 letter to Mr. James Downing, President of Extrusion Technologies
10. \$70,000 in-kind costs for farm tractor and bulldozer use.
11. \$14,335 in additional expenses for project support.
12. Overhead ratio derived for both Grants.
13. Overhead ratio applied for Recycling Grant.
14. Overhead ratio applied for Landfill Grant.
15. Direct overhead method for Recycling Grant.
16. Direct overhead method for Landfill Grant.
17. Agricenter Attendance Records
18. \$20,079 in additional expenses for project support
19. ETI \$22,350 credit issued to the Agricenter
20. December 4, 1997 and December 10, 1997 CPA letter
related to subsequent TDEC meeting
21. Comparable Case Show of \$54,000
22. Case Show materials
23. CIP letter and documents
24. Financial summary for years 1996-1998

EXHIBIT 3 (Cont.)

Agricenter International Agreement For Detailing Grant Operations

EXHIBIT 1

This Agreement is made and entered into, the 16 day of December, 1996, by and between Agricenter International (ACI) and Extrusion Technologies (ETI) as expanded explanation of the Innovative Technology grant operations agreement, to wit:

Agree as follows as related to the State of Tennessee Innovative Technology Grant in the amount of \$370,000.00

1. Both ACI and ETI agree to adhere to the terms and conditions of the Recycling Grant between Agricenter and The Department of Environment and Conservation, State of Tennessee to ensure that one or both is not in Grant violation.
2. The original grant application was in excess of one million dollars and was reduced to \$370,000.00 and due to the importance of the grant to Shelby County ETI, Agricenter, and its consultant Mike Vaughn agreed to reduce the original numbers as follows in order to accomplish the task of demonstrating the use of composted linters atop the closed Shelby County landfill.
 - \$18,500.00 consultant fee for Mike Vaughn.
 - \$240,000.00 to ETI for material delivered to the landfill site sufficient to complete the job. Initial estimates were 110,000 cubic yards.
 - \$111,000.00 to Agricenter for operations and management.
 - The funding of the above figures will be by invoice for products and inkind invoices submitted to the state. ETI will be responsible for supplying invoices for work in which they are directly involved and will assist in securing inkind invoices for other areas basis the attached budget outline.

Scope of Operation

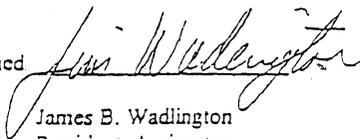
Cotton linters have been composted at Agricenter by ETI and the above grant issued to ACI to demonstrate new uses for the product. The demonstration will be accomplished by applying the material atop the Shelby County landfill which has sink holes due to the decomposition of the interior organics. Once the top dressing has been applied and grass established the project will be considered terminated.

There will be many potential uses of this 50 or so acres. It can be let natural for general public use or could be used as an organized sports and recreational park. The final uses will be in the hands of the owner, Shelby County Government.

Because funding was less than that requested the above set of numbers was agree upon by Agricenter and ETI. Each party agrees to do its utmost to assist all involved to see that the project is completed in a timely and professional manner.

Dated: January 16, 1997

Signed



James B. Wadlington
President, Agricenter



James Downing
President, ETI, Inc.

File: Downing Contract 370

EXHIBIT 3 (Cont.)

EXHIBIT 2

Agricenter International Agreement For Detailing Grant Operations

This Agreement is made and entered into, the 16 day of December, 1996, by and between Agricenter International (AI) and Extrusion Technologies (ETI) as expanded explanation of the recycling grant operations agreement, to wit:

Agree as follows as related to the State of Tennessee Recycling Grant in the amount of \$398,000.00.

1. Both ACI and ETI agree to adhere to the terms and conditions of the Recycling Grant between Agricenter and The Department of Environment and Conservation, State of Tennessee to ensure that one or both is not in Grant violation.
2. ETI agrees to perform all the day to day operations of recycling business in accordance with normally accepted business practices.
3. ETI agrees to keep operation visually acceptable to the Agricenter Board of Directors and the community. In the event that the recycling business grows to a point where it is difficult to maintain visual acceptability, ETI will move the business to another location off the Agricenter Grounds.
4. ETI will have use of all equipment for a \$1.00 per year for the five year period of the grant with an option to purchase the equipment for fair market value at the end of the grant term.
5. ETI agrees to assume all financial liability in reference to paragraph number A7 as explained in the Grant.
6. AI agrees to supply over site management and accounting functions as required by the Grant.

Scope of Operation

The scope of the operation will be detailed here and can be seen visually via the attached flow chart. Agricenter and ETI using funding from the Grant will modify the existing building where ETI is located to enclose the open area between the building and the now existing bunkers. This addition will allow the entire recycling operation to be enclosed and out of sight.

The ability of the recycling to be enclosed is accomplished by the use of compactors for bulky items while items such as plastics will be ground and stored in gaylords. Separation will be done both manually and by machine.

Most of the recycling source material will come from Hunt Wesson and is a combination of cardboard and two types of plastics, HDPE (milk type containers) and

EXHIBIT 3 (Cont.)

EXHIBIT 3

	Number	Date	Time
Tara Dunlop	532-0075	8/16/98	11:36
		6/23/98	09:14
		5/27/98	08:25
Wayne Brackner	532-8010	10/2/98	01:39
		10/2/98	02:01
Wayne Brackner	532-8010	5/14/98	02:02
		1/8/98	09:17
		5/19/97	08:57
		2/24/97	11:32
		5/14/98	10:55
		11/25/96	09:05
		11/25/96	10:36
Wayne Brackner	532-8010	5/16/97	10:36
		5/27/97	12:01
Paul & Dawn	532-0072	3/7/97	09:51
		1/22/97	09:06
		1/16/97	11:26
		1/7/97	10:39
		1/2/97	11:34
		1/2/97	10:27

Number	Date	Time
532-0091	12/19/96	11:09
	12/19/96	02:28
	1/31/97	09:59
	1/31/97	02:09
	2/18/97	08:00

EXHIBIT 3 (Cont.)

EXHIBIT 4

E.T.I. 
 Extrusion Technologies, Inc.
 7430 Moore Road
 Memphis, Tennessee 38120

901-384-7850

Fax: 901-384-7855

BILL TO
Agricenter Int'l 7777 Walnut Grove Road Memphis, TN 38119 Attn: Billy Carter

SHIP TO
Same

DATE	INVOICE NO.	P.O. NO.	TERMS	DUE	REP.	SHIP DATE
1/3/97	22053		Due on receipt	1/3/97	INWD	1/3/97
SERV. ...	ITEM	DESCRIPTION		QTY	RATE	AMOUNT
1/1/97	Soil Amend.	Cotton By-Products Cu. Yds.		110,000	3.50	385,000.00

EXHIBIT 3 (Cont.)

Exhibit 5 B



July 12, 1999

Jim Wadlington, President
Agricenter International Inc.
7777 Walnut Grove Road
Memphis, TN 38120

Dear Jim:

It was our pleasure to work with the Agricenter in support of the Land Fill Grant you received in the summer of 1997. The below statement is provided for your Land Fill Grant file as requested.

United Equipment Inc. and Case Corporation furnished a Case articulating front end loader, model 821B during the summer of 1997 for loading compost material on trucks as part of a grant Agricenter had received. Likewise, Agricenter provided space and facilities for a Case Industrial Show held July 16-18, 1997.

If you need additional information for your file, please let me know.

Sincerely,

A handwritten signature in cursive script that reads 'Thomas P. Wilson'.

Thomas P. Wilson
President

EXHIBIT 3 (Cont.)

EXHIBIT 7

AGRICENTER INTERNATIONAL, INC.
 INNOVATIVE TECHNOLOGY GRANT
 BUDGET OUTLINE (REVISED)

GRANT PERIOD
 JANUARY 1, 1997 - DECEMBER 31, 1997

DIRECT COSTS:	IN-KIND	GRANT
<i>SOIL AMENDMENT: blended aggregate materials.</i> client: E.T.I. 171 cubic yards x \$3.50/cy=		173,443.50
<i>MATERIAL: certification, preparation, hauling.</i> client: E.T.I. 700 cubic yards x 1.50/cy=		67,050.00
<i>EQUIPMENT: 1 tractor with laser guided leveler.</i> client: Case Equipment hours x \$100=	52,000.00	
<i>INFRASTRUCTURE: on site public roads & trails.</i> client: Shelby County Road Department	109,000.00	
<i>OPERATION: fuel, utilities.</i> client: Shelby County Government, Agricenter	29,000.00	
<i>IRRIGATION SYSTEM: seed, fertilizer.</i> client: Agricenter	16,000.00	
<i>ENGINEERING.</i> client: Continental Engineering	55,000.00	
<i>ADDITIONAL MATERIAL HAULING.</i> client: Brown Trucking Co. Loads x \$12.75/load		3,096.25
<i>PROFESSIONAL GRANT SERVICES.</i> client: Canyon Equities, Inc.		14,500.00
<i>PROFESSORIAL AUDIT FEES.</i> client: John Davis, CPA		3,700.00
<i>EQUIPMENT RENTAL.</i> client: Agricenter, E.T.I.	1,855.45	4,300.00
<i>PROJECT MANAGEMENT.</i> client: Agricenter	80,400.00	59,200.00
<i>PERSONNEL AND ADMINISTRATIVE.</i> client: Agricenter	35,744.55	25,203.25
TOTAL.....	373,000.00	370,000.00

EXHIBIT 3 (Cont.)

EXHIBIT 8

AGRICENTER INTERNATIONAL, INC.

BUDGET LIST

ATTACHMENT I-A

PROJECT COSTS:	INKIND	GRANT
SOIL AMENDMENT: blended aggregate materials, 51,271 cubic yards x \$3.50/cyd=		179,448.50
MATERIAL: certification, preparation, hauling, 44,700 cubic yards x 1.50/cyd=		67,050.00
EQUIPMENT: 1 tractor with laser guided leveler, 520 hours x \$100=	26,000.00	26,000.00
INFRASTRUCTURE; on site public roads & trails	14,596.75	94,403.25
Additional Material Hauling, 243 loads x \$12.75/load		3,098.25
In-Kind Match which includes the following: (Labor, fuel, utilities) irrigation system, seed, fertilizer, engineering, professional consulting fees, certified audit fees, equipment rental, project management, general and administrative	\$337,403.25	
TOTAL PROJECT COSTS	\$378,000.00	\$370,000.00
PROJECT TOTAL	\$748,000.00	
TOTAL GRANT AMOUNT	\$370,000.00	

EXHIBIT 3 (Cont.)

John D. Davis, Jr., CPA^{CPA}
Certified Public Accounting Firm

EXHIBIT 9

2510 Durrell Trail Drive
 Collierville, TN 38017
 901-854-1200
 Fax: 901-853-3421

December 20, 1997

Mr. James Downing
 Extrusion Technologies, Inc.
 7430 Moore Road
 Memphis, TN 38120

Dear James,

Please be advised that James Wadlington and I met with several representatives of the Tennessee Department of Environment and Conservation (TDEC) on December 18, 1997. The purpose of the meeting was to submit a revised budget for the Innovative Environmental Technology Grant (hereafter referred to as the Landfill grant) based on the actual cubic yards of compost materials delivered to the Landfill as evidenced by your final invoice. Based upon the tentative approval of the revised budget, Extrusion Technologies, Inc. (hereafter referred to as ETI), ETI would be due the following amounts:

Line Category			
1. Soil Amendment - 51,271 cu. yds. @ \$ 3.50	\$		179,448.50
2. Material Hauling - 44,700 cu. yds. @ \$ 1.50			67,050.00
3. Equipment rental -			<u>4,800.00</u>
Subtotal before payments & additional rents			251,298.50
Less: payments to date			<u>(185,000.00)</u>
Subtotal before additional rents	\$		66,298.50
Less: additional rents:			
1. Materials sold 44,700 cu. yds. @ .50 cents			(22,350.00)
2. Grants received (\$251,298.50+\$30,000 Prepaid rents \$25,000 prior year grant)			<u>(15,314.93)</u>
Net amount due ETI before Buckeye rent			28,633.57
Loss: amount due Agricenter regarding Buckeye			<u>(42,133.22)</u>
Net amount due to ETI or (owed) the Agricenter from ETI	\$		<u>(13,500.65)</u>

Once again, we do not have any invoices from Buckeye which would resolve that particular matter as stipulated in your lease. I sincerely hope that all the other points are mutually agreed upon. Please contact me at your convenience.

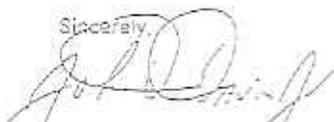
Sincerely,


EXHIBIT 3 (Cont.)

EXHIBIT 10

FARM TRACTOR AND BULLDOZER VALUES FOR WORK DURING LANDFILL GRANT PROJECT

ITEM	Total Hours	Value per Hour	Total	
Farm Tractor	140	100	14,000	Pricing source local tractor dealership
Bulldozer	560	100	56,000	Pricing source local industrial supplier
		Totals	70,000	

Compiled by Jim Wadlington

7-2-99

Jim Wadlington

EXHIBIT 3 (Cont.)

AGRICENTER INTERNATIONAL

EXHIBIT 11

ACCOUNT NO.	VOUCHER	INVOICE NUMBER	VENDOR	INVOICE DATE	INVOICE AMOUNT	AMOUNT PAID	CHECK NO.	DISCOUNT TAKEN
	1000	EV 14 14 11874444	CON					
CHECK TOTAL								



AGRICENTER INTERNATIONAL
7777 Walnut Grove Road
Memphis, TN 38120

NASHOBA BANK
MEMPHIS, TN 38115
26-292-840

0305

PAY

FOURTEEN THOUSAND THREE HUNDRED THIRTY-FIVE *****
AND 93/100 DOLLARS*****

CHECK NO.	CHECK DATE	VENDOR NO.
004209	07/17/97	2319

CHECK AMOUNT
14,335.93

TO THE
ORDER
OF

WHITE OAK CONSTRUCTION CO
P. O. BOX 1127

BALD KHOB AR 72010

AGRICENTER INTERNATIONAL

NOT NEGOTIABLE

⑆004237⑆ ⑆001003920⑆ ⑆000086⑆

EXHIBIT 3 (Cont.)


 Ontario
 Auditor General
 43rd Floor
 100 Queen Street West
 Toronto, Ontario
 M5H 2B2

AIR-CENTRE INTERNATIONAL INC.
 WARRANT THAT RE GRANT K&A 1/1/90
 - IN BASED 6/22/97

	DESCRIPTION	
	EXHIBIT 12	
1	T TOTAL INCOME FROM GRANTS	
2	UNDER GRANT	
3	AEROC GRANT - 2004	21020
4	LANDFILL GRANT	
5	CASH	201601
6	IN-KIND MATERIALS	262658
7		4811892
8	RECYCLING GRANT	382805
9	TOTAL GRANT INCOME - GRAP	5924747
10		
11	II TOTAL REVENUE A/G	7502080
12		
13	III RATIO OF GRANT INCOME /	
14	TOTAL REVENUE	32.8%
15		
16		
17	IV TOTAL ADMINISTRATIVE EXPENSES	529849
18		
19	TOTAL REVENUE A/G	7502080
20		
21	RATIO AM EXP / TOTAL REVENUE	13.1%
22		
23	V LIST OF REASONABLENESS OF	
24	K&A ALLOWED FOR GRANTS:	
25		
26	A AEROC	
27	NO SPECIFIC K&A DOCUMENTED.	
28	NO TEST APPLIED	
29		
30	B LANDFILL GRANT	
31	NO SPECIFIC K&A DOCUMENTED, BUT A VICE	
32	APPLYMENT CONTRACT BEHIND ASSETS FOR	
33	AGI K&A APPROVED BY T&E FOR 7/1/90	
34		
35	A RATIO OF OVERALL A/G GRANT INCOME TO	32.8%
36	TOTAL INCOME	
37	TOTAL AM ADM. EXP. 13.1%	529,849
38		
39	REASONABLE TEST - TOTAL K&A FOR BOTH GRANTS	1081190
40		

EXHIBIT 3 (Cont.)



43-401
43-204
1/1/78

2007-2008 FISCAL YEAR REPORT

1/1/78

	DISCUSSION	TOTAL AMOUNTS	EXHIBIT 13
1	✓ TEST OF REASONABLENESS IS CONTINUED (OPTIONAL)		
2			
3			
4	REASONABLENESS LIMIT - METHOD ONE - FOR ALL TRANSFERRED FUNDS	1081190	(SEE 14) (2) (3)
5			
6			
7	TOTAL REVENUE - LAAP	8772747	
8	LESS: BOND - NO FFA STATE	22000	
9		8772747	
10			
11	RATIO LANDFILL GRANT MONY		
12	TOTAL GRANT MONY		
13	382,555 ÷ 867,747	44.1%	
14			
15	AMOUNT APPLIED - METHOD ONE		
16	108,190 (2) 44.1% - 100% RATIO	47712	
17			
18			
19	✓ B. RATIO OF ALL OVERALL FFA - METHOD TWO - ENTIRE RATIO		
20			
21			
22	LANDFILL GRANT MONY IN TOTAL	7250010	
23	OVERALL ALL RATIO - ADM EXP	13.1%	
24			
25	AMOUNT APPLIED - TOTAL FUNDS	97708	
26			
27	✓ C. CONCLUSION RE LANDFILL GRANT & ADM ALLOCATIONS		
28			
29			
30	A) BASED ON EITHER METHOD, THE FFA AMOUNT ALLOCATED TO THE LANDFILL GRANT UNDER THE 1988 DEC APPROVAL APPEARS REASONABLE SINCE METHOD ONE DID NOT TAKE INTO ACCOUNT THE TOTAL PAYMENTS (1785,00) LAAP MONY FOR THE GRANT.		
31			
32			
33			
34			
35	B) MAY NEED TO REVIEW OTHER ALLOCATIONS, LATER TO TEST OVERALL REASONABLENESS, BUT ALTHOUGH THE ANALYTICAL TEST INDICATED ABOVE IS SUFFICIENT, NO SPECIFIC LINE ITEM (E.G. PAYROLL MONY, ETC) COMPARED WITH REQUIRED BY DEC.		
36			
37			
38			
39			14-1 (2) (3)
40			

EXHIBIT 3 (Cont.)

OVERALL TEST OF GRANT-ASSY EXP/RENT
 YEAR ENDED 9/30/10

DESCRIPTION	TOTAL	AMOUNT
EXHIBIT 14		
✓ TEST OF RESPONSIBILITY OF GRANT FEE ALLOWED		
5 RECYCLE GRANT		
SALE PRICE FEE ALLOWED IN GRANT TO RECY IN # 131 592 (SEE 14-5/6 BE)		
A) RATIO OF OVERALL GRANT INCOME/TOTAL INCOME	92.9%	(SEE 14-1) (C)
TOTAL GRANT INCOME - GRANT	\$ 894,787	(SEE 14-1) (C)
METHOD ONE FOR ALL GRANTS - 1 YR PERIOD	\$ 108,190	(SEE 14-1) (C)
LESS: AMOUNT ALLOCATED TO DANFEL'S GRANT	47,714	(SEE 14-1) (C)
METHOD ONE - RECYCLE GRANT	\$ 60,476	
NUMBER OF YRS. OF GRANT	5 YRS	
TOTAL 5 YR PERIOD	\$ 302,380	
B) RATIO OF OVERALL RECYCLE GRANT EXPENSE/TOTAL TOTAL RECYCLE	13.1%	(SEE 14-1) (C)
RECYCLE GRANT INCOME/TOTAL	\$ 390,000	
METHOD TWO - RECYCLE GRANT	\$ 12,438	
NUMBER OF YRS. OF GRANT	5 YRS	
TOTAL 5 YR PERIOD	\$ 62,190	
✓ CONCLUSION RE RECYCLE GRANT		
OVERALL TEST FOR BOTH METHODS FOR A 1 YR PERIOD (9/30/10) OR OR # 131 592 IMPLY THAT THE FEE ALLOCATED BY FIDELITY OF # 131 592 MAY HAVE BEEN TOO HIGH. BUT THE PARTICULAR GRANT WILL REMAIN 5 YRS OF RECYCLE GRANT BY ALL ALLOWABLE FOR THE RECYCLE GRANT UNDER EITHER METHOD BEING REASONABLE FOR A 1 YR PERIOD THE # 131 592 APPEARS REASONABLE FOR A 1 YR PERIOD		
NET & TOTAL ALLOCATIONS DID NOT EXCEED 1% OF THE INCOME FOR THE YEAR AND WOULD NOT BE A BURDEN TO OTHER IN SUBSEQUENT YEAR AN REVIEW PROVIDED ONLY.		

EXHIBIT 3 (Cont.)

431024

BUDGET FOR LRA 2021
YEAR ENDED 6/30/22

1/14/22

	EXHIBIT 15
<u>DIRECT METHOD - BUDGET LIMIT</u>	
I DIRECT METHOD	
FUND ALLOCATION REMOVED WOULD NOT EXCEED FUND BUDGET LIMIT	
COST INCURRED IN BUDGET LIMIT	
II INDIRECT METHOD (MANAGEMENT ADMINISTRATION COST)	
THE INDIRECT COSTS FOR THE BUDGET LIMIT WERE APPROXIMATELY THE SAME AS FOR LAND AND WATER BASED ON THE BASIS OF THE COST OF THE EMPLOYEES WORKING ON 10-10-20	
TOTAL INDIRECT WITH PAYROLL TAXES PER WIP 19-1-20	64900
ESTIMATED TO EACH SUCCESSIVE YEAR	20%
ESTIMATED ANNUAL FOR SUCCESSIVE YEARS	129800
REMAINING ANNUAL COST (47% X 129800)	61806
TOTAL YEAR COST	67986
	116654
TOTAL LRA - DIRECT METHOD FOR BUDGET LIMIT 5 yr PERIOD	
WIP 19-1-20	116654
ADD: ESTIMATED ORIGINAL PLANT ACQUISITION COST FOR 5 yr PERIOD	
372,000 X .01 X 5 yrs	18600
TOTAL LRA - DIRECT METHOD FOR 5 yr PERIOD	135254
LESS: AMOUNT FOR BUDGET LIMIT - 10-5-20	139,500
DIFFERENCE - SHORTFALL	(3024)
SHORTFALL OF 2021 IN ALLOCATION TO BUDGET LIMIT IN EVALUATING AN INTERIORAL SWAP VS SUBSEQUENT YEAR FROM 17% OF THE TOTAL LIMIT	10,000

EXHIBIT 3 (Cont.)

Exhibit 17A

EXHIBIT 17(A)

DATE: JULY 22, 1999
TO: JAMES B. WALDRINGTON
FROM: BILLY W. CARTER *BW*
SUBJ: 1327 AGRICENTER ATTENDANCE RECORD

PLEASE BE ADVISED THAT THE FOLLOWING SALARIED EMPLOYEES WHO PARTICIPATED IN THE ADMINISTRATION AND MANAGEMENT OF THE RECYCLING FACILITY GRANT WERE TO MY KNOWLEDGE AT THE AGRICENTER EACH WORKDAY IN 1997 EXCEPT FOR THE FOLLOWING ABSENCES:

EDWARD BECTON:

14 DAYS..... VACATION
01 DAYS..... SICK LEAVE
00 DAYS..... BUSINESS TRAVEL OR CONVENTIONS
00 DAYS..... OTHER EXCUSES/ABSENCES
15 DAYS... TOTAL

BILLY CARTER:

07 DAYS..... VACATION
13 DAYS..... SICK LEAVE
00 DAYS..... BUSINESS TRAVEL OR CONVENTIONS
00 DAYS..... OTHER EXCUSES/ABSENCES
20 DAYS... TOTAL

MARY CHAMBERLAIN:

11 DAYS..... VACATION
1.5 DAYS..... SICK LEAVE
30 DAYS..... BUSINESS TRAVEL OR CONVENTIONS
00 DAYS..... OTHER EXCUSES/ABSENCES
42.5 DAYS TOTAL

WILLIAM (BILL) HARRIS

12 DAYS..... VACATION
00 DAYS..... SICK LEAVE
00 DAYS..... BUSINESS TRAVEL OR CONVENTIONS
00 DAYS..... OTHER EXCUSES/ABSENCES
12 DAYS... TOTAL

JAMES B. WALDRINGTON:

08 DAYS..... VACATION
00 DAYS..... SICK LEAVE
00 DAYS..... BUSINESS TRAVEL OR CONVENTIONS
00 DAYS..... OTHER EXCUSES/ABSENCES
08 DAYS... TOTAL

EXHIBIT 3 (Cont.)

EX Exhibit 17 c

NAME	SALARY DATE	TOTAL TO DATE	S I C Y L E A V E												
			JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	
1937															
3.00 HOURS-ACCRUED-333-MONTH															
SECTON, E.	05-May-38														
	01/13/86	556.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	TIME DEDUCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	556.00	564.00	572.00	580.00	588.00	596.00	604.00	612.00	620.00	628.00	636.00	644.00	652.00	660.00
.....															
.....	01/25/92	93.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	TIME DEDUCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	93.00	101.00	109.00	117.00	125.00	133.00	141.00	149.00	157.00	165.00	173.00	181.00	189.00	197.00
.....															
.....	12/01/95	172.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	TIME DEDUCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	172.00	182.00	192.00	202.00	212.00	222.00	232.00	242.00	252.00	262.00	272.00	282.00	292.00	302.00
.....															
.....	04/06/92	407.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	TIME DEDUCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	407.00	415.00	423.00	431.00	439.00	447.00	455.00	463.00	471.00	479.00	487.00	495.00	503.00	511.00
.....															
.....	11/01/94	184.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	TIME DEDUCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	184.00	192.00	200.00	208.00	216.00	224.00	232.00	240.00	248.00	256.00	264.00	272.00	280.00	288.00
.....															
.....	03/16/95	140.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	TIME DEDUCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	140.00	148.00	156.00	164.00	172.00	180.00	188.00	196.00	204.00	212.00	220.00	228.00	236.00	244.00
.....															
.....	05/01/92	356.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	TIME DEDUCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	356.00	364.00	372.00	380.00	388.00	396.00	404.00	412.00	420.00	428.00	436.00	444.00	452.00	460.00
.....															
.....	07/01/87	645.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	TIME DEDUCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	645.50	653.50	661.50	669.50	677.50	685.50	693.50	701.50	709.50	717.50	725.50	733.50	741.50	749.50
.....															
.....	05/01/84	862.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	TIME DEDUCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	862.00	870.00	878.00	886.00	894.00	902.00	910.00	918.00	926.00	934.00	942.00	950.00	958.00	966.00
.....															
.....	11/06/95	112.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	TIME DEDUCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	112.00	120.00	128.00	136.00	144.00	152.00	160.00	168.00	176.00	184.00	192.00	200.00	208.00	216.00
.....															
.....	12/01/96	4.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	TIME DEDUCT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	4.00	12.00	20.00	28.00	36.00	44.00	52.00	60.00	68.00	76.00	84.00	92.00	100.00	108.00

EXHIBIT 3 (Cont.)

Exhibit 18

WHITE OAK CONSTRUCTION CO., INC.
P. O. BOX 1129 BALDWIN, AR 72010
PH: (501) 724-0024 FAX: (501) 724-0023

18

Invoice

DATE	INVOICE #
3-18-97	101

BILL TO:

Agricenter International Inc.
7777 Walnut Grove Rd.
Memphis, TN 38120

P.O. NUMBER	TERMS	PROJECT
9703	Due Upon Receipt	Contract Work

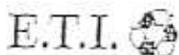
QUANTITY	DESCRIPTION	DATE	AMOUNT
	Labor and material on 6'0" X 4'0" roof truss building and bins.		20,079.00

Pd. 5-24-97

EXHIBIT 3 (Cont.)

Exhibit 19

INVOICE



Extrusion Technologies, Inc.

7430 Moore Road
Memphis, Tennessee 38120

Ph: 901-384-7850

Fax: 901-384-7855

BILL TO
Agricenter International Billy Carter 7777 Walnut Grove Road Memphis, Tn 38119

DATE	INVOICE NO.
12/2/97	3225

SHIP TO
same

DATE	INVOICE NO.	P.O. NO.	TERMS	DUE	REP
12/02/97	3225		due upon rec	ON RECEIPT	FWD
SERVI...	ITEM	DESCRIPTION	QTY	RATE	AMOUNT
12/1/97	Soil Amend... credit	Hauling - 44,700 Cu.Yd. Credit- 5.50 Cu Yd. Rent	44,700 44,700	1.50 -0.50	67,050.00 ✓ -22,350.00 ✓

Not Paid

EXHIBIT 3 (Cont.)

Exhibit 20 A-1

John D. Davitt, Jr., CPA
Certified Public Accounting Firm

8 Dibrell Trail Drive
Cullerstown, TN 38017
901-854-1263
Fax 901-853-3401

December 4, 1997

Mr. James Downing, President
Extrusion Technologies, Inc.
7430 Moore Road
Memphis, TN 38120

Dear James,

As a result of my audit examination of the Agricenter International, Inc. (hereafter referred to as the Agricenter) financial statements for the period ended June 30, 1997, it is my opinion that certain contractual matters between the Agricenter and Extrusion Technologies, Inc. (hereafter referred to as ETI) need to be resolved. These respective contractual matters and relevant commentary are as follows:

1. Additional rent under current terms and conditions of lease.

There were, based on trip tickets, 50,387 cu yards of compost material delivered to the landfill. 9,680 cu yards of this amount were from material other than the compost project. Thus, 40,707 cu yards of compost material was delivered to the landfill applicable to the Innovative Technology Grant (hereafter referred to as the Landfill Grant). Based upon the lease between Agricenter and ETI, ETI is obligated to pay the Agricenter \$20,353.50 since the Agricenter is owed .50 cents per cu. yard of finished product sold.

2. Overpayment for materials and hauling related to the Landfill Grant:

The Landfill Grant was based upon an engineered survey of 110,000 cu yards of aggregate blended material to complete the job. Agricenter paid ETI \$185,000 for 110,000 cu yards of actual material which ETI was to deliver to the landfill. Trip tickets indicate that 50,387 cu yards of material was delivered. Based on this fact, Agricenter has overpaid ETI \$88,815 for both supplying and delivering the material as follows:

EXHIBIT 3 (Cont.)

Exhibit 20 A-2

Page 2

Amount paid to ETI for 110,000 cu. yards of material less:	\$185,000
cost of 40,707 cu yards of material (185,000 divided 110,000 x 40,707) =	<u><68,388></u>
Overpayment for materials	\$116,612
Less: amount due ETI for hauling	<u><27,797></u>
Total Due Agricenter	<u>\$ 88,815</u>

5. Additional ETI liability under memorandum agreement for tailings waste/salvage material disposal.

Based upon my review of the reference contract agreement, ETI was paid \$250,358.05 by the Buckeye Cellulose Corporation (hereafter referred to as Buckeye). My calculation is based on the 40,707 cu. yards of compost materials hauled to the landfill by ETI. Allowing for a 50% shrinkage factor, the 40,707 cu yards would have represented \$1,414 of raw materials delivered by Buckeye. Allowing for the forty (40) cubic yard containers, the weight of each container being 9.46 short tons, and Buckeye paying ETI Thirteen (\$13.00) per short ton of tailings, my calculation of the liability is as follows:

\$13.00 X 9.46 =	\$122.98 paid for 40 cu. yds.	
\$122.98 divided 40 =	\$3.075 per yd for tailings	
40,707 cu yd @2.0 =	\$81,414	
Amount paid per yd.	<u>3.075</u>	
Amount paid ETI =	\$250,358.05	
% Due Agricenter	<u>x 40%</u>	
Sub-Total	100,139.22	
Amount Paid to Agricenter	<u>58,000.00</u>	
Amount Due Agricenter	<u>\$42,139.22</u>	

The percentage due Agricenter is based on Paragraph 10 of the current lease between Agricenter and ETI.

4. Additional liability under current terms and conditions of lease due to grants

Paragraph 11. of the referenced lease indicates that ETI is to pay the Agricenter five per cent (5%) of all grant monies received by ETI from any source whatsoever. Therefore, the amount due the Agricenter by ETI for grants may be computed as follows:

EXHIBIT 3 (Cont.)

Exhibit 20 A-3

Page 3

\$185,000.00	cash received under the landfill grant
30,000.00	prepaid rent under the recycle grant
<u>25,000.00</u>	Aquaculture Grant Received in 1995-96 Time Frame
\$230,000.00	Sub-Total
<u>88,815.00</u>	Overpayment to be recovered
\$141,185.00	Net grants received
<u>@5%</u>	Percentage due the Agricenter
\$ 7,059.00	Amount due the Agricenter

In summary, the Agricenter is due \$158,366.72 by ETI based on my preceding computations as follows:

1. Additional rent	\$20,353.50
2. Vendor overpayment	88,815.00
3. Additional ETI liability re: Buckeye	42,139.22
4. Additional ETI liability re: grants	<u>7,059.00</u>
	<u>\$158,366.72</u>

My audit report and examination was completed on October 11, 1997. Based upon all relevant data not being available at that time, we did not believe it necessary to disclose the matters addressed. At this time, however, all relevant facts are documented and must be either disclosed in next year's audit examination or to the State in this year's report on compliance if not resolved.

Based on ETI's long-standing relationship and the spirit of cooperation between the Agricenter and ETI, I'm optimistic that the matters addressed can be resolved and the \$158,366.72 mutually agreed upon as an amount due the Agricenter by ETI based on factual contract agreements and actions which occurred, primarily during the past fiscal year. Hopefully, a mutual financial arrangement for repayment of this amount can be agreed upon between the respective parties.

I'm prepared to meet with you and James Wadlington of Agricenter as soon as possible.

Sincerely,



John D. Davis, Jr., CPA

EXHIBIT 3 (Cont.)

Exhibit 20 B

John D. Davis, Jr., CPA
Certified Public Accounting Firm

2510 Dibrell Trail Drive
Collierville, TN 38017
901-854-1263
Fax 901-853-3431

December 10, 1997

Mr. James Downing, President
Extrusion Technologies, Inc.
7430 Moore Road
Memphis, TN 38120

Dear James,

I sincerely regret that you have decided not to meet with me and James Wadlington as concerns my December 4, 1997 correspondence to your office. The purpose of the meeting was to review the applicable contracts and audit evidence supporting the conclusions and facts enumerated upon in the cited correspondence. Also, there were certain revisions to the facts stated in that letter. For example, there were 51,271 cu yards of compost material delivered to the landfill rather than the stated 50,387 cu yards as 884 cu yards of materials delivered by Brown Trucking Company was not included. This fact reduces what I believe you owe Agricenter to \$137,792.72 in total concerning all issues rather than the \$158,366.72 cited in the referenced correspondence. The amount due Agricenter on grant overpayment decreases to \$68,241 from \$88,315.

The fundamental point of the entire matter is that 50,387 cu yards of compost material rather than 110,000 cu yards of material as invoiced were delivered to the landfill. I firmly believe that the Tennessee Department of Environment and Conservation (TDEC) needs to resolve this particular issue as concerns how the final disposition of the grant funds are made. It was my opinion that all parties would mutually agree on this point. We then could proceed to meet with the Tennessee Department of Environment and Conservation (TDED) together with a consensus of opinion on the most equitable treatment of the disposition of those funds. Please find enclosed applicable copies of the respective contracts that I believe support the conclusions drawn in my December 4, 1997 correspondence. Once again, I will meet with you to review your interpretation of those

EXHIBIT 3 (Cont.)

Exhibit 21

05-24-99

AGRICENTER INTERNATIONAL, INC.
 BUD TO ACTUAL COMPARATIVE/CURR ACTUAL TO PRIOR ACTUAL
 JULY 1, 1998 - JUNE 30, 1999

"AAT & SITE SPECIFIC"		98-99	98-99 YTD	99-99 YTD	98-99 YTD	ACTUAL	ACTUAL YTD	ACTUAL YTD
		APPROVED	ACTUAL	BUDGET	BUDGET	98-99 YTD	97-98/98-99	97-98/98-99
ACCOUNT NO.	DESCRIPTIONS	BUDGET	98/98/99	98/98/99	VARIANCE	98/98/99	\$ VARIANCE	% VARIANCE
REVENUE								
1	600.0002 SALES-EXHIBIT SPACE (AAT)	40,000	37,240	40,000	(2,760)	41,340	(6,440)	-11.54%
2	600.0004 SALES-EXHIBIT SPACE (SS)	1,000	1,960	1,000	960	1,100	9	2.00%
3	600.0005 AAT ADMISSION	1,000	0	1,000	(1,000)	1,155	(1,155)	-100.00%
4	600.0006 SITE SPECIFIC REGISTRATION	2,000	0	2,000	(2,000)	2,215	(2,215)	-100.00%
5	600.0010 SPONSORSHIP (AAT)	0	0	0	0	0	0	0.00%
6	600.0012 SPONSORSHIP (SS)	1,200	0	1,200	(1,200)	1,200	0	0.00%
7	600.0014 OTHER INCOME (AAT)	2,800	143	2,600	(2,457)	2,275	(2,603)	-367.16%
8	600.0016 OTHER INCOME (SS)	1,200	0	1,200	(1,200)	1,500	(1,500)	-100.00%
9	TOTAL REVENUE	50,000	39,013	50,000	(10,987)	53,261	(13,346)	-26.44%
EXPENSES								
13	600.7000 ADVERTISING (AAT)	500	10,561	500	(9,061)	1,000	6,499	89.92%
14	600.7002 ADVERTISING (SS)	0	0	0	0	0	0	0.00%
15	600.7004 AUTO & TRAVEL	0	0	0	0	24	(24)	0.00%
16	600.7006 ADVISORY COMMITTEE (ATT)	1,400	351	1,400	1,049	1,500	(1,149)	-82.07%
17	600.7008 CASUAL LABOR	50	0	50	50	47	(3)	-6.00%
18	600.7010 ENTERTAINMENT (AAT)	1,400	368	1,400	1,032	1,438	(38)	-2.71%
19	600.7012 EQUIPMENT RENTAL (AAT)	1,500	361	1,500	1,139	1,278	(222)	-14.80%
20	600.7014 EQUIPMENT RENTAL (SS)	0	0	0	0	0	0	0.00%
21	600.7016 INSURANCE (AAT)	12,000	10,143	12,000	1,857	13,210	(1,067)	-8.89%
22	600.7018 MANAGEMENT CONTRACT (AAT)	500	235	500	265	432	(68)	-13.60%
23	600.7020 OFFICE SUPPLIES (AAT)	40	0	40	40	27	(13)	-32.50%
24	600.7022 OFFICE SUPPLIES (SS)	1,600	2,145	1,600	(545)	1,810	(210)	-13.13%
25	600.7024 POSTAGE (AAT)	0	0	0	0	0	0	0.00%
26	600.7026 POSTAGE (SS)	5,000	2,703	5,000	2,297	5,251	(251)	-5.02%
27	600.7028 PROMOTION (AAT)	1,200	0	1,200	1,200	1,261	(61)	-5.08%
28	600.7030 PROMOTION (SS)	1,200	0	1,200	1,200	1,261	(61)	-5.08%
29	600.7032 RECEPTION & MEAL FUNCTIONS (AAT)	20	0	20	20	31	(11)	-55.00%
30	600.7034 RECEPTION & MEAL FUNCTIONS (SS)	600	249	600	351	392	(208)	-34.67%
31	600.7036 SECURITY GUARDS (AAT)	2,400	0	2,400	2,400	2,932	(532)	-22.17%
32	600.7038 SPEAKER EXPENSE (SS)	100	103	100	3	101	(1)	-1.00%
33	600.7040 TELEPHONE (AAT)	0	0	0	0	0	0	0.00%
34	TOTAL EXPENDITURES	32,943	33,749	32,943	4,206	33,704	(6,955)	-21.19%
35	EXCESS REV/(EXPENS)	17,057	5,264	17,057	(11,793)	19,557	(14,291)	-83.24%
36	TOTAL REVENUE	50,000	39,013	50,000	(10,987)	53,261	(13,346)	-26.44%
37	TOTAL EXPENDITURES	32,943	33,749	32,943	4,206	33,704	(6,955)	-21.19%

This document is the most comparable Agricenter event which uses both inside and outside space to that of the Case event. Please note that the above event is a two show and converted to a three day basis below. The cost numbers reflected here on a three day basis equal \$48,339.75 compared to the barter value of the Case show of \$54,000.00.

EXHIBIT 3 (Cont.)

Exhibit 22



We want you to join us and Case Corporation for ShowCASE "An Interactive Field Event"

Please be our guest for the most valuable industry event of the year. Take this opportunity to see, operate and learn about the full line of Case Construction Equipment offered by United Equipment of Memphis, Nashville, and Jonesboro:

21B Series Wheel Loaders and Tool Carriers • 90B Series Excavators • Crawler Dozers
World Leading Loader Backhoes • Fork Lifts • Skip Loaders
Skid Steer Loaders • Trenchers • All New Directional Drills
All New & Exciting XT Series of High Reach / Heavy Lift Skid Steer Loaders

Meet our entire United Equipment team. See how Case Construction Equipment answers your needs from more than 20 Case product specialists and trainers. Discuss financing packages with Case Credit representatives. Discover how attachments make your equipment more versatile from the manufacturer's representatives. Join us for a delicious lunch!

EXHIBIT 3 (Cont.)

JUL-19-99 MON 11:12 AM 2

FAX NO: E463796

Exhibit 23 A



**Shelby County
Tennessee**

July 19, 1999

Jim Rouff, Mayor

Jim Wadlington, President
Agricenter International, Inc.
7777 Walnut Grove Road
Memphis, Tennessee 38120

Dear Jim:

As you requested, following is a brief statement which outlines the basics of the Shelby County Capital Improvement Funds ("CIP") budgeting process as it relates to the upkeep of the Agricenter, a County owned facility.

Annually, Agricenter International's management identifies needed projects where CIP funds are required. The request is reviewed by the Mayor and his staff along with all similar projects presented by County departments. Based on County funds available, monies are allocated to needed projects by the County Commission. Depending on the size and complexity of the project, Agricenter may be permitted to implement and manage their projects to completion.

It is Agricenter management's responsibility to identify CIP needs from time to time and with County approval, redesignate their available CIP funds to projects of highest priority. This reassignment generally results in the elimination of projects from a current budget and their re-evaluation with the overall amount of needed projects by the County Commission prior to beginning of the next fiscal year.

If you need additional information, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Ted Fox".

Ted Fox
Director of Public Works

TF/cis

EXHIBIT 3 (Cont.)

Exhibit 23 B-1

AGRICENTER INTERNATIONAL, INC.

C I P FY 1997 - 1998

ACTUAL COST TO REPLACE/REPAIR HVAC UNITS:	
RESOLUTION NO. 29	78,650.00
RESOLUTION NO. 15	48,600.00
RESOLUTION NO. 16	76,245.00
TOTAL HVAC COSTS	203,495.00
AMOUNT APPROVED IN PROPOSED CIP BUDGET	(118,825.00)
COST IN EXCESS OF AMOUNT APPROVED	84,670.00
AMOUNTS USED TO MAKE UP DIFFERENCE:	
PROPOSED BUDGET LINE ITEM NO. 1 RENOVATION OF D-WING	7,012.00
PROPOSED BUDGET LINE ITEM NO. 3 CARPET REPLACEMENT	11,975.00
PROPOSED BUDGET LINE ITEM NO. 4 ELECTRICAL OUTLETS AND WIRING	20,683.00
PROPOSED BUDGET LINE ITEM NO. 5 ROAD IMPROVEMENTS TO RADAR TOWER CONSTRUCTION OF PARKING LOT	45,000.00
AMOUNT USED FROM OTHER LINE ITEMS	84,670.00

This exhibit illustrates that the actual cost to replace/repair the HVAC units was \$84,670 in excess of the capital improvements budget for this particular item. This resulted in the elimination of \$84,670 for otherwise allowable approved capital improvement items no. 1,3,4 and 5

EXHIBIT 3 (Cont.)

Exhibit 23 B-2

IF Request 4 FY 97-98

AGRICENTER INTERNATIONAL, INC.
PROPOSED NEEDS FOR
CAPITAL IMPROVEMENTS

BRIDGE

CONSTRUCTION OF WATER DRAINAGE, CONSTRUCTION OF PARKING
IMPROVEMENTS OF ROADS:

is greatly in need of an additional parking lot to be located
Agricenter and Show Place Arena. This parking lot would be close
to the entrance of AI and would accommodate SENIOR CITIZENS and the
attending shows, events and EARLY VOTING at AI.

The roads into and around Agricenter are in very poor condition.
Work is needed to improve this condition. Work would be done
by the Road Department and they have submitted the following:

1. Road improvements to Radar Tower based on preliminary
plan and location.
2. Parking lot with Handicap Raaps including 2" overlay Asphalt.
3. Road Replacement 500'+/curb and gutter.
4. Drainage Area Improvement north of R.V. Park.
5. Surface Drainage of R. V. Park.
6. More Road Drainage and Shoulder Improvement; Walnut Grove
Road to Germantown Parkway.

15,000.00	Used for H/A/C
30,000.00	" " "
19,200.00	- Used
5,440.00	- Used
35,000.00	- Used
11,506.00	Used

CONSTRUCTION OF ALL WEATHER ROAD:

15,100.00 Used

An all weather road is needed along the south side of Walnut Grove Road.
It would run from Moore Road to the west, to intersect with the landfill.
This road includes 8 inches of road gravel, drain pipes, labor and
materials to complete the job. This road is to be used to haul required
materials to County Landfill to comply with State Grant.

000000000000
000000000000
000000000000

SPECIAL PROJECTS DIVISION
AGRICENTER

REVENUE SOURCE/ ALLOCATION TYPE	PRIOR YEARS	FY 1997-98	FY 1998-99	FY 1999-2000	FY 2000-2001	FY 2001-2002	FIVE YEAR TOTAL
G.O. BONDS	\$60,646	\$556,934	\$0	\$0	\$0	\$0	\$556,93
TOTAL REVENUES	\$60,646	\$556,934	\$0	\$0	\$0	\$0	\$556,93
CONSTRUCTION	\$0	\$521,934	\$0	\$0	\$0	\$0	\$521,93
OTHER COSTS	60,646	35,000	0	0	0	0	35,00
TOTAL ALLOCATIONS	\$60,646	\$556,934	\$0	\$0	\$0	\$0	\$556,93
COUNTY'S SHARE OF ALLOCATIONS	\$60,646	\$556,934	\$0	\$0	\$0	\$0	\$556,93

PROJECT DESCRIPTION

FY 97-98 Replace 11 air conditioning units, renovate to add additional office space, replace carpeting and covebase, install additional electrical outlets and wiring, correct drainage, construct a parking lot and pave access roads, and construct an all weather road.

EXHIBIT 3 (Cont.)

Exhibit 23 D

Item # 19

Prepared by Dilly Carter

Commissioner SISSON

Approved by [Signature]
County Attorney

Resolution Appropriating Funds To Austein Mechanical Contractors, Inc.,
In The Amount Of \$78,650.00 For Emergency Replacement Of Two (2) HVAC
Units, C.I.P.-Project # 1900-1904, Agricenter International, FY97-98.

WHEREAS, Agricenter International had to replace, on an emergency basis, Two (2) HVAC units after twelve (12) years of usage, and

WHEREAS, Shelby County Support Services has obtained three (3) proposals to replace said HVAC units, the low proposal being submitted by Austein Mechanical Contractors, Inc.; and

WHEREAS, the cost to replace said units was \$78,650.00 with replacement of said HVAC units being performed by Austein Mechanical Contractors, Inc.; and

WHEREAS, Funds are available in the Fiscal Year 1997-1998 C.I.P. Budget, Project Number 1900-1904, Agricenter International.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF SHELBY COUNTY, TENNESSEE, That the funds in the amount of \$78,650.00 are hereby appropriated to Austein Mechanical Contractors, Inc. from the FY 97-98 C.I.P. Project Number 1900-1904, Agricenter International.

BE IT FURTHER RESOLVED, That the County Mayor and the Director of Administration and Finance are authorized to issue their warrant or warrants in amounts not to exceed \$78,650.00 to Austein Mechanical Contractors, Inc. for the purposes contained in this resolution and to take proper credit in their accounting thereof.

[Signature]
JIM ROUNT
County Mayor

Date 9-15-97

ATTEST:

[Signature]
Cynthia L. Phillips
Clerk of County Commission

ADOPTED: SEPTEMBER 9, 1997

EXHIBIT 3 (Cont.)

Exhibit 23 E

Item # 10 Prepared by Billy Carter
Commissioner BENDTORFF Approved by [Signature]
County Attorney

Resolution Appropriating Funds to Air Technical Services, Inc., In The Amount Of \$48,600.00 For Emergency Replacement Of One (1) HVAC Unit, C.I.P. Project #1900-1904, Agricenter International, FY97-98.

WHEREAS, Agricenter International had to replace, on an emergency basis, One (1) 55 Ton HVAC unit after twelve (12) years of usage; and

WHEREAS, Shelby County Support Services has obtained three (3) proposals to replace said HVAC units, the low proposal being submitted by Air Technical Services, Inc.; and

WHEREAS, the cost to replace said units was \$48,600.00 with replacement of said HVAC units being performed by Air Technical Services, Inc.; and

WHEREAS, Funds are available in the Fiscal Year 1997-1998 C.I.P. Budget, Project Number 1900-1904, Agricenter International.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF SHELBY COUNTY, TENNESSEE, That the funds in the amount of \$48,600.00 are hereby appropriated to Air Technical Services, Inc. from the FY 97-98 C.I.P. Project Number 1900-1904, Agricenter International.

BE IT FURTHER RESOLVED, That the County Mayor and the Director of Administration and Finance are authorized to issue their warrant or warrants in amounts not to exceed \$48,600.00 to Air Technical Services, Inc. for the purposes contained in this resolution and to take proper credit in their accounting thereof.

[Signature]
JIM ROUNT
County Mayor

Date: 11-14-97

ATTEST:
[Signature]
Clerk of County Commission

EXHIBIT 3 (Cont.)

Exhibit 23 F

Item # 16 Prepared by Billy Carter
Commissioner Rendtorff Approved by [Signature]
County Attorney

Resolution Appropriating Funds to Austein Mechanical Contractors, Inc., In The Amount of \$76,245.00 For Replacement of Three (3) HVAC Units, C.I.P. Project #1900-1904, Agricenter International, FY97-98.

WHEREAS, Agricenter International has a need to replace, on an as needed basis, Three (3) HVAC units after twelve (12) years of usage; and

WHEREAS, Shelby County Support Services has obtained proposals on units RTU #20, RTU#1 and RTU #35 with the low proposals being submitted by Austein Mechanical Contractors, Inc.; and

WHEREAS, the cost to replace said (3) units is \$76,245.00 with replacement of said HVAC units to be performed by Austein Mechanical Contractors, Inc.

WHEREAS, Funds are available in the Fiscal Year 1997-1998 C.I.P. Budget, Project Number 1900-1904, Agricenter International.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF SHELBY COUNTY, TENNESSEE, That the funds in the amount of \$76,245.00 are hereby appropriated to Austein Mechanical Contractors, Inc. from the FY97-98 C.I.P. Project Number 1900-1904, Agricenter International.

BE IT FURTHER RESOLVED, That the County Mayor and the Director of Administration and Finance are authorized to issue their warrant or warrants in amounts not to exceed \$76,245.00 to Austein Mechanical Contractors, Inc., for the purposes contained in this resolution and to take proper credit in their accounting thereof.

[Signature]
JIM ROUNT
County Mayor

Date: 1-30-98

ATTEST:
[Signature]
Clerk of County Commission

ADOPTED: January 26, 1998

EXHIBIT 3 (Cont.)



STATE OF TENNESSEE
DEPARTMENT OF ENVIRONMENT AND CONSERVATION
21ST FLOOR
L&C TOWER
401 CHURCH STREET
NASHVILLE, TENNESSEE 37243-1530

June 23, 1999

Mr. James Wadlington, President
Agricenter International, Inc.
7777 Walnut Grove Road
Memphis, Tennessee 38120

Dear Mr. Wadlington:

In January 1997, the State of Tennessee (State) and the Tennessee Department of Environment and Conservation (TDEC) approved an Innovative Technology Grant (GR-97-11148-00) for Agricenter International, Inc. (Agricenter). The Grant, which was to be completed by August 31, 1998, was to apply a blended soil aggregate material to the closed Shelby County Landfill as the final cap. The Grant totaled \$748,000 and required TDEC to fund \$370,000 while the Agricenter was to provide in-kind funds of \$378,000.

In March 1999 the State Comptroller received a complaint stating that TDEC had reimbursed the Agricenter for items which the Agricenter had not paid. The complaint, when received by TDEC was forwarded to our Internal Audit Division for further investigation. Our Internal Audit Division has completed its audit and questions three items that TDEC previously reimbursed. (See attached audit report)

The three items questioned are:

1. Non-payment of a vendor for material hauling (\$67,050),
2. A tractor that was donated to the Agricenter (\$26,000), and
3. A road that was built and paid for by Shelby County (\$94,403).

The audit report concludes that since the Agricenter did not pay for these items, TDEC should not have made reimbursement to the Agricenter. Based on this analysis, we believe the Agricenter was overpaid by \$187,453.

EXHIBIT 3 (Cont.)

HORIZONTEK INTERNATIONAL, INC.
 INCOME AND EXPENSE STATEMENT
 PERIOD ENDED JUNE 30,
 1996 - 1998

Exhibit 24
 Prepared By: VD
 Approved By: 7/2/99

WILSON JONES COMPANY 5704 GREEN 7204 BUFF

	1996	1997	1998
<u>REVENUES</u>			
FRANCHISE INCOME	\$ -	\$ 892,747	\$ 278,257
ALL OTHER INCOME	143,767	1,632,533	1,737,495
TOTAL REVENUES	\$ 143,767	\$ 2,525,280	\$ 2,015,752
<u>EXPENSES</u>			
ADMINISTRATION EXPENSE	\$ 303,160	\$ 329,049	\$ 357,840
ALL OTHER EXPENSES	1,162,537	2,011,036	1,645,910
TOTAL EXPENSES	\$ 1,465,697	\$ 2,340,085	\$ 2,003,750
NET INCOME (LOSS)	\$ (23,020)	\$ 184,395	\$ 11,997

NOTE:

1. REDUCED BY \$270,000 FOR RENTAL EXPENSES PREVIOUSLY CHARGED TO BUILDING AND FURNISHING IN PRIOR YEARS

EXHIBIT 4

GRANT
BETWEEN THE
DEPARTMENT OF ENVIRONMENT AND CONSERVATION
STATE OF TENNESSEE
AND
AGRICENTER INTERNATIONAL, INC.

Whereas, T.C.A. 68-211-830 states, "...the department may award matching grants to persons to promote the development of new technology for solid waste and recovered materials management, the use of solid waste as a fuel substitute, or innovative solid waste management infrastructure development,"

This Grant, by and between the State of Tennessee, Department of Environment and Conservation, hereinafter referred to as the State and AGRICENTER INTERNATIONAL, INC., hereinafter referred to as the Grantee, is for promoting the development of new technology for solid waste and recovered materials management, as further defined in "Scope of Services," below.

A. SCOPE OF SERVICES:

1. By December 31, 1997, the Grantee shall provide documentation of the in-kind match and the purchased materials as authorized in the approved Budget List, Attachment I, for the purpose of converting cellulose based organic waste into reusable products through innovative composting technologies.
2. By December 31, 1997, the Grantee shall apply the blended soil aggregate materials to the closed Shelby County Landfill as the final cap.
3. The Grantee shall not be authorized to purchase any materials that are not contained in the approved Budget List, Attachment I.
4. If the Grantee desires to undertake activities other than those described in the approved Budget List, Attachment I, the Grantee shall obtain written approval and authorization from the State prior to completing such additional activities.
5. The Grantee must obtain all appropriate state and local permits prior to starting construction of the project.
6. The Grantee must submit on a quarterly basis a project status report which provides the volume of materials used and the percentage of the project's completion attained.

B. PAYMENT TERMS AND CONDITIONS

1. The Grantee shall be compensated based upon the Budget attached to and made part of this grant and referenced as Attachment I.
2. Attachment I represents the entire compensation due the Grantee for these services and all of the Grantee's obligations hereunder regardless of the difficulty, materials or equipment required. The line items in Attachment I include, but are not limited to, all applicable taxes, fees, overheads, profit and all other direct and indirect costs incurred or to be incurred, by the Grantee.
3. The Grantee shall adhere to the line item amounts in the Budget; however, the Grantee may off-set cost overruns in one line item with underruns in other line items, provided that such overruns do not exceed 10 percent (10%) of the line item amount. In the event the Grantee anticipates or incurs a cost overrun in excess of 10 percent (10%) in a line item, the Grantee shall inform the State and request an amendment to this Grant. The State shall review this request and make a determination if such an amendment shall be allowed. In the event the State determines that such an amendment is inappropriate, the additional costs incurred in excess of 10 percent (10%) shall not be considered allowable for reimbursement under this Grant.
4. The Grantee shall submit all invoices, in a form acceptable to the State with all of the necessary supporting documentation, prior to any reimbursement of allowable costs. Such invoices shall be submitted no more often than monthly and indicate at a minimum the line item budget, the amount charged, by line item, for the period invoiced, the amount charged to date, by line item, and the total amounts charged under this Grant for the period invoiced and the total amount charged to date.

Source: TDEC Grant Files

EXHIBIT 4 (Cont.)

Page 2 of 4

5. The payment of an invoice by the State shall not prejudice the State's right to object to or question any invoice or matter in relation thereto. Such payment by the State shall neither be construed as acceptance of any part of the work or service provided nor as an approval of any part of the costs invoiced therein. Grantee's invoice shall be subject to reduction for amounts included in any invoice or payment theretofore made which are determined by the State, on the basis of audits conducted in accordance with the terms of this Grant, not to constitute allowable costs. Any payment shall be reduced for over-payments, or increased for under-payments on subsequent invoices.
6. The State of Tennessee reserves the right to deduct from amounts which are or shall become due and payable to the Grantee under this Grant or any contract between the parties any amounts which are or shall become due and payable to the State of Tennessee by the Grantee.
7. In no event shall the maximum liability of the State under this Grant exceed THREE HUNDRED SEVENTY THOUSAND DOLLARS (\$370,000.00).
8. The Grantee shall complete and sign an "Authorization Agreement for Automatic Deposits (ACH Credits) Form". This form shall be provided to the Grantee by the State. Once this form has been completed and submitted to the State by the Grantee, all payments to the Grantee, under this or any other grant or contract the Grantee has with the State, shall be made through the State's Automated Clearing House wire transfer system. The Grantee shall not commence work or invoice the State for services until he has completed this form and submitted it to the State. The debit entries to correct errors authorized by the "Authorization Agreement for Automatic Deposits Form" shall be limited to those errors detected prior to the effective date of the credit entry. The remittance advice shall note that a correcting entry was made. All corrections shall be made within two banking days of the effective date of the original transaction. All other errors detected at a later date shall take the form of a refund, or in some instances, a credit memo if additional payments are to be made.

C. TERM

1. This Grant shall be effective on January 1, 1997, and shall end on December 31, 1997. The State shall have no obligation for services rendered by Grantee which are not performed within the specified period.

D. STANDARD TERMS AND CONDITIONS

1. The State is not bound by this Grant until it is approved by the appropriate State officials as indicated on the signature page of this Grant.
2. This Grant may be modified only by a written amendment which has been executed and approved by the appropriate parties as indicated on the signature page of this Grant.
3. The State may terminate the Grant by giving the Grantee at least ninety (90) days written notice before the effective termination date. The Grantee shall be entitled to receive equitable compensation for satisfactory authorized services completed as of termination date.
4. If the Grantee fails to properly perform its obligations under this Grant or violates any terms of this Grant, the State shall have the right to immediately terminate the Grant and withhold payments in excess of fair compensation for completed services. The Grantee shall not be relieved of liability to the State for damages sustained by virtue of any breach of this Grant by the Grantee.
5. The Grantee shall not assign this Grant or enter into a sub-grant or sub-contract for any of the services performed under this Grant without obtaining the prior written approval of the State. If such sub-grants or sub-contracts are approved by the State, they shall contain, at a minimum, Paragraphs D.6 and D.9 of this Grant.
6. The Grantee warrants that no part of the total Grant amount shall be paid directly or indirectly to an employee or official of the State of Tennessee as wages, compensation, or gifts in exchange for acting as officer, agent, employee, subcontractor, sub-grantee or consultant to the Grantee in connection with any work contemplated or performed relative to this Grant.

EXHIBIT 4 (Cont.)

Page 3 of 4

7. The Grantee shall maintain documentation for all charges against the State under this Grant. The books, records and documents of the Grantee, insofar as they relate to work performed or money received under this Grant, shall be maintained for a period of three (3) full years from the date of the final payment, and shall be subject to audit, at any reasonable time and upon reasonable notice, by the state agency or the Comptroller of the Treasury, or their duly appointed representatives. The records of not-for-profit entities shall be maintained in accordance with the Accounting Manual for the Recipients of Grant Funds in the State of Tennessee, published by the Tennessee Comptroller of the Treasury. The financial statements shall be prepared in accordance with generally accepted accounting principles.
 8. The Grantee shall prepare and submit, within nine (9) months after the close of the reporting period, an annual report of its activities funded under this Grant to the commissioner or head of the Granting agency, the Tennessee Comptroller of the Treasury, and the Commissioner of Finance and Administration. The annual report for any grantee that receives \$300,000.00 or more in aggregate federal funding for all its programs shall include audited financial statements. All books of account and financial records shall be subject to annual audit by the Tennessee Comptroller of the Treasury or the Comptroller's duly appointed representative. When an audit is required, the Grantee may, with the prior approval of the Comptroller, engage a licensed independent public accountant to perform the audit. The audit contract between the Grantee and the licensed independent public accountant shall be on a contract form prescribed by the Tennessee Comptroller of the Treasury. Any such audit shall be performed in accordance with generally accepted government auditing standards, the provisions of OMB Circular A-133, and the Audit Manual for Governmental Units and Recipients of Grant Funds, published by the Tennessee Comptroller of the Treasury. The Grantee shall be responsible for reimbursement of the cost of the audit prepared by the licensed independent public accountant. Payment of the audit fees of the licensed independent public accountant by the Grantee shall be subject to the provisions relating to such fees contained in the prescribed contract form noted above. Copies of such audits shall be provided to the State Granting Department, the Tennessee Comptroller of the Treasury, the Department of Finance and Administration, and shall be made available to the public.
 9. No person on the grounds of handicap or disability, age, race, color, religion, sex, national origin, or any other classification protected by Federal and/or Tennessee State constitutional and/or statutory law shall be excluded from participation in, or be denied benefits of, or be otherwise subjected to discrimination in the performance of this Grant or in the employment practices of Grantee. The Grantee shall, upon request, show proof of such non-discrimination, and shall post in conspicuous places, available to all employees and applicants, notices of non-discrimination.
 10. The Grantee agrees to carry adequate public liability and other appropriate forms of insurance.
 11. The Grantee agrees to pay all taxes incurred in performance of the Grant.
 12. The State shall have no liability except as specifically provided in the Grant.
 13. The Grantee shall comply with all applicable Federal and State laws and regulations in the performance of the Grant.
 14. The Grant shall be governed by laws of State of Tennessee.
 15. The Grantee shall provide reports to the State as called for in Section A - Scope of Services.
 16. Reimbursement for the cost of goods, materials, supplies, equipment and/or services shall require that such procurements be made on a competitive basis, including the use of competitive bidding procedures, where practical.
- E. SPECIAL TERMS AND CONDITIONS
1. Should any of these special terms and conditions conflict with any other terms and conditions of this Grant, these special terms and conditions shall control.

EXHIBIT 4 (Cont.)

Page 4 of 4

2. This Grant is subject to the appropriation and availability of State funds. In the event that the funds are not appropriated or are otherwise unavailable, the State reserves the right to terminate the Grant upon written notice to the Grantee. Upon receipt of the written notice, the Grantee shall cease all work associated with the Grant. Should such an event occur, the Grantee shall be entitled to compensation for all satisfactory and authorized services completed as of the termination date.

GRANTEE: AGRICENTER INTERNATIONAL, INC.

BY: James B. Wadlington 1-15-97
James B. Wadlington, President Date

DEPARTMENT OF ENVIRONMENT AND CONSERVATION

BY: Milton H. Hamilton, Jr. 2/5/97
Milton H. Hamilton, Jr. Commissioner Date

DEPARTMENT OF FINANCE AND ADMINISTRATION

BY: Joh D. Ferguson 2/12/97
Joh D. Ferguson, Commissioner Date

COMPTROLLER OF THE TREASURY

BY: William Snodgrass 2/19/97
William Snodgrass, Comptroller Date

EXHIBIT 4 (Cont.)

AGRICENTER INTERNATIONAL, INC.

BUDGET LIST

ATTACHMENT I

PROJECT COSTS

Soil Amendment: blended aggregate materials 110,000 cubic yards X \$3.50/cyd	\$370,000.00
In-Kind Match which includes the following: Materials certification, preparation, hauling Equipment - Tractor with laser guided leveler Infrastructure - On site public roads & trails Labor, fuel, utilities, irrigation system, seed, fertilizer Engineering services	\$378,000.00
TOTAL PROJECT COSTS	\$748,000.00
LESS IN-KIND MATCH	\$378,000.00
TOTAL GRANT AMOUNT	\$370,000.00

EXHIBIT 5

AMENDMENT #1 TO GRANT GR-97-11148-00

BETWEEN THE STATE OF TENNESSEE, DEPARTMENT OF ENVIRONMENT AND CONSERVATION AND AGRICENTER INTERNATIONAL, INC.

This Grant, by and between the State of Tennessee, Department of Environment and Conservation, hereinafter referred to as the State, and Agricenter International, Inc., hereinafter referred to as the Grantee, is hereby amended as follows:

1. Delete the following Section in its entirety:

- A.1. By December 31, 1997, the Grantee shall provide documentation of the in-kind match and the purchased materials as authorized in the approved Budget List, Attachment I, for the purpose of converting cellulose based organic waste into reusable products through innovative composting technologies.

and insert the following in its place:

- A.1. By August 31, 1998, the Grantee shall provide documentation of the in-kind match and the purchased materials as authorized in the approved Budget List, Attachment I-A, for the purpose of converting cellulose based organic waste into reusable products through innovative composting technologies.

2. Delete the following Section in its entirety:

- B.1. The Grantee shall be compensated based upon the Budget attached to and made part of this grant and referenced as Attachment I.

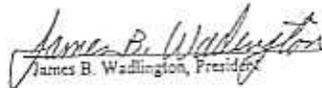
and insert the following in its place:

- B.1. The Grantee shall be compensated based upon the Budget attached to and made part of this grant and referenced as Attachment I-A.

The other terms and conditions of this Grant not amended hereby shall remain in full force and effect.

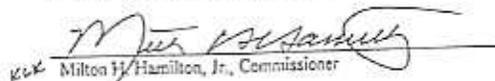
IN WITNESS WHEREOF:

AGRICENTER INTERNATIONAL, INC.:


James B. Wadlington, President

DATE: 12-22-97

DEPARTMENT OF ENVIRONMENT AND CONSERVATION:


Milton H. Hamilton, Jr., Commissioner

DATE: 1/28/98

Source: TDEC Grant Files

EXHIBIT 5 (Cont.)

APPROVED:

DEPARTMENT OF FINANCE AND ADMINISTRATION:

John D. Ferguson
John D. Ferguson, Commissioner

DATE: 5/13/98

COMPTROLLER OF THE TREASURY:

William R. Snodgrass
William R. Snodgrass, Comptroller of the Treasury

DATE: 5/12/98

EXHIBIT 5 (Cont.)

AGRICENTER INTERNATIONAL, INC.

BUDGET LIST

ATTACHMENT I-A

PROJECT COSTS:	INKIND	GRANT
SOIL AMENDMENT: blended aggregate materials. 51,271 cubic yards x \$3.50/cyd=		179,448.50
MATERIAL: certification, preparation, hauling. 44,700 cubic yards x 1.50/cyd=		67,050.00
EQUIPMENT: 1 tractor with laser guided leveler. 520 hours x \$100=	26,000.00	26,000.00
INFRASTRUCTURE; on site public roads & trails	14,596.75	94,403.25
Additional Material Hauling. 243 loads x \$12.75/load		3,098.25
In-Kind Match which includes the following: Labor, fuel, utilities, irrigation system, seed, fertilizer, engineering, professional consulting fees, certified audit fees, equipment rental, project management, general and administrative	\$337,403.25	
TOTAL PROJECT COSTS	\$378,000.00	\$370,000.00
PROJECT TOTAL	\$748,000.00	
TOTAL GRANT AMOUNT	\$370,000.00	

EXHIBIT 6

RECEIVED BY

MAR 10 1998

AMENDMENT #2
TO GRANT GR-97-11148-00
BETWEEN THE STATE OF TENNESSEE,
DEPARTMENT OF ENVIRONMENT AND CONSERVATION
AND
AGRICENTER INTERNATIONAL, INC.
TN SOLID WASTE ASSISTANCE

This Grant, by and between the State of Tennessee, Department of Environment and Conservation, hereinafter referred to as the State, and Agricenter International, Inc., hereinafter referred to as the Grantee is hereby amended as follows:

1. Delete following Section in its entirety:

- C. 1. This Grant shall be effective on January 1, 1997, and shall end on December 31, 1997. The State shall have no obligation for services rendered by the Grantee which are not performed within the specified period.

and insert the following in its place:

- C. 1. This Grant shall be effective on January 1, 1997, and shall end on August 31, 1998. The State shall have no obligation for services rendered by the Grantee which are not performed within the specified period.

2. Delete following Section in its entirety:

- A.3. The Grantee shall not be authorized to purchase any materials that are not contained in the approved Budget List, Attachment I.

and insert the following in its place:

- A.3. The Grantee shall not be authorized to purchase any materials that are not contained in the approved Budget List, Attachment I-A.

3. Delete following Section in its entirety:

- A.4. If the Grantee desires to undertake activities other than those described in the approved Budget List, Attachment I, the Grantee shall obtain written approval and authorization from the State prior to completing such additional services.

and insert the following in its place:

- A.4. If the Grantee desires to undertake activities other than those described in the approved Budget List, Attachment I-A, the Grantee shall obtain written approval and authorization from the State prior to completing such additional services.

Source: TDEC Grant Files

EXHIBIT 6 (Cont.)

4. Delete following Section in its entirety:

B.2. Attachment I represents the entire compensation due the Grantee for these services and all of the Grantee's obligations hereunder regardless of the difficulty, materials or equipment required. The line items in Attachment I include, but are not limited to, all applicable taxes, fees, overhead, profit and all other direct and indirect costs incurred or to be incurred, by the Grantee.

and insert the following in its place:

B.2. Attachment I-A represents the entire compensation due the Grantee for these services and all of the Grantee's obligations hereunder regardless of the difficulty, materials or equipment required. The line items in Attachment I-A include, but are not limited to, all applicable taxes, fees, overhead, profit and all other direct and indirect costs incurred or to be incurred, by the Grantee.

The other terms and conditions of this Grant not amended hereby shall remain in full force and effect.

IN WITNESS WHEREOF:

AGRICENTER INTERNATIONAL, INC.:

James B. Wadlington
James B. Wadlington, President

DATE: 3-9-98

DEPARTMENT OF ENVIRONMENT AND CONSERVATION:

Milton H. Hamilton, Jr.
Milton H. Hamilton, Jr., Commissioner

DATE: 4/3/98

APPROVED:

DEPARTMENT OF FINANCE AND ADMINISTRATION:

John D. Ferguson
John D. Ferguson, Commissioner

DATE: 4/14/98

COMPTROLLER OF THE TREASURY:

William R. Snodgrass
William R. Snodgrass, Comptroller of the Treasury

DATE: 4/16/98

EXHIBIT 6 (Cont.)

AGRICENTER INTERNATIONAL, INC.

BUDGET LIST

ATTACHMENT I-A

	INKIND	GRANT
PROJECT COSTS:		
SOIL AMENDMENT: blended aggregate materials. 51,271 cubic yards x \$3.50/cyd=		179,448.50
MATERIAL: certification, preparation, hauling. 44,700 cubic yards x 1.50/cyd=		67,050.00
EQUIPMENT: 1 tractor with laser guided leveler. 520 hours x \$100=	26,000.00	26,000.00
INFRASTRUCTURE; on site public roads & trails	14,596.75	94,403.25
Additional Material Hauling. 243 loads x \$12.75/load		3,098.25
In-Kind Match which includes the following: Labor, fuel, utilities, irrigation system, seed, fertilizer, engineering, professional consulting fees, certified audit fees, equipment rental, project management, general and administrative	\$337,403.25	
TOTAL PROJECT COSTS	\$378,000.00	\$370,000.00
PROJECT TOTAL	\$748,000.00	
TOTAL GRANT AMOUNT		\$370,000.00

EXHIBIT 7

GRANT
BETWEEN THE
DEPARTMENT OF ENVIRONMENT AND CONSERVATION
STATE OF TENNESSEE
AND
AGRICENTER INTERNATIONAL, INC.

This Grant, by and between the State of Tennessee, Department of Environment and Conservation, hereinafter referred to as the State and AGRICENTER INTERNATIONAL, INC., hereinafter referred to as the Grantee, is for the provision of establishing, expanding or upgrading a facility for processing recyclable materials from multiple local governments, as further defined in "Scope of Services," below.

A. SCOPE OF SERVICES:

1. By June 30, 1997, the Grantee shall purchase and utilize equipment and complete services authorized in the approved Budget List, Attachment I, for the purpose of establishing, expanding or upgrading a facility for processing recyclable materials from multiple local governments.
2. The Grantee shall not be authorized to purchase any equipment or complete any services that are not contained in the approved Budget List, Attachment I.
3. If the Grantee desires to undertake activities other than those described in the approved Budget List, Attachment I, the Grantee shall obtain written approval and authorization from the State prior to completing such additional activities.
4. The Grantee must obtain all appropriate state and local permits prior to starting construction of the project.
5. The Grantee must contract with multiple counties and multiple cities for collection, processing and marketing of recyclable materials to include materials to be used in the composting operation.
6. The Grantee must submit to the State's acceptance a copy of contracts with multiple counties and cities for collection, processing and marketing prior to receiving payment for any services or equipment purchases authorized under this grant.
7. The Grantee shall keep all equipment in a good and proper working order and insure that the equipment is being utilized for recycling/composting purposes within the terms and conditions of this Grant. If for any reason the Grantee fails to comply with this clause, the Grantee shall refund to the State the appropriate prorata share of funding as indicated in the following table:

Year 1	100% of Funding
Year 2	80%
Year 3	60%
Year 4	40%
Year 5	20%

8. The Grantee must submit on a quarterly basis a project status report which gives the status of construction and purchase of equipment and volumes of recyclable materials received and processed.

B. PAYMENT TERMS AND CONDITIONS

1. The Grantee shall be compensated based upon the Budget attached to and made part of this grant and referenced as Attachment I.
2. Attachment I represents the entire compensation due the Grantee for the service and all of the Grantee's obligations hereunder regardless of the difficulty, materials or equipment required. The line items in Attachment I

Source: TDEC Grant Files

EXHIBIT 7 (Cont.)

Page 2 of 5

include, but are not limited to, all applicable taxes, fees, overheads, profit and all other direct and indirect costs incurred or to be incurred, by the Grantee.

3. The Grantee shall adhere to the line item amounts in the Budget; however, the Grantee may off-set cost overruns in one line item with underruns in other line items, provided that such overruns do not exceed 10 percent (10%) of the line item amount. In the event the Grantee anticipates or incurs a cost overrun in excess of 10 percent (10%) in a line item, the Grantee shall inform the State and request an amendment to this Grant. The State shall review this request and make a determination if such an amendment shall be allowed. In the event the State determines that such an amendment is inappropriate, the additional costs incurred in excess of 10 percent (10%) shall not be considered allowable for reimbursement under this Grant.
4. The Grantee shall submit all invoices, in a form acceptable to the State with all of the necessary supporting documentation, prior to any reimbursement of allowable costs. Such invoices shall be submitted no more often than monthly and indicate at a minimum the line item budget, the amount charged, by line item, for the period invoiced, the amount charged to date, by line item, and the total amounts charged under this Grant for the period invoiced and the total amount charged to date.
5. The payment of an invoice by the State shall not prejudice the State's right to object to or question any invoice or matter in relation thereto. Such payment by the State shall neither be construed as acceptance of any part of the work or service provided nor as an approval of any part of the costs invoiced therein. Grantee's invoice shall be subject to reduction for amounts included in any invoice or payment theretofore made which are determined by the State, on the basis of audits conducted in accordance with the terms of this Grant, not to constitute allowable costs. Any payment shall be reduced for over-payments, or increased for under-payments on subsequent invoices.
6. The State of Tennessee reserves the right to deduct from amounts which are or shall become due and payable to the Grantee under this Grant or any contract between the parties any amounts which are or shall become due and payable to the State of Tennessee by the Grantee.
7. In no event shall the maximum liability of the State under this Grant exceed THREE HUNDRED NINETY-EIGHT THOUSAND DOLLARS (\$398,000.00).
8. The Grantee shall complete and sign an "Authorization Agreement for Automatic Deposits (ACH Credits) Form". This form shall be provided to the Grantee by the State. Once this form has been completed and submitted to the State by the Grantee, all payments to the Grantee, under this or any other grant or contract the Grantee has with the State, shall be made through the State's Automated Clearing House wire transfer system. The Grantee shall not commence work or invoice the State for services until he has completed this form and submitted it to the State. The debit entries to correct errors authorized by the "Authorization Agreement for Automatic Deposits Form" shall be limited to those errors detected prior to the effective date of the credit entry. The remittance advice shall note that a correcting entry was made. All corrections shall be made within two banking days of the effective date of the original transaction. All other errors detected at a later date shall take the form of a refund, or in some instances, a credit memo if additional payments are to be made.
9. The Grantee shall submit proof of establishment of a financial accounting system in accordance with TCA 65-211-674 prior to any payment by the State to the Grantee.
10. Grant disbursements shall not be made to the Grantee if the Grantee becomes delinquent in making any payment to the Department of Environment and Conservation.

C. TERM

1. This Grant shall be effective on July 1, 1996, and shall end on June 30, 1997. The State shall have no obligation for services rendered by the Grantee which are not performed within the specified period.

EXHIBIT 7 (Cont.)

Page 3 of 5

D. STANDARD TERMS AND CONDITIONS

1. The State is not bound by this Grant until it is approved by the appropriate State officials as indicated on the signature page of this Grant.
2. This Grant may be modified only by a written amendment which has been executed and approved by the appropriate parties as indicated on the signature page of this Grant.
3. The State may terminate the Grant by giving the Grantee at least ninety (90) days written notice before the effective termination date. The Grantee shall be entitled to receive equitable compensation for satisfactory authorized services completed as of termination date.
4. If the Grantee fails to properly perform its obligations under this Grant or violates any terms of this Grant, the State shall have the right to immediately terminate the Grant and withhold payments in excess of fair compensation for completed services. The Grantee shall not be relieved of liability to the State for damages sustained by virtue of any breach of this Grant by the Grantee.
5. The Grantee shall not assign this Grant or enter into a sub-grant or sub-contract for any of the services performed under this Grant without obtaining the prior written approval of the State. If such sub-grants or sub-contracts are approved by the State, they shall contain, at a minimum, Paragraphs D.6 and D.9 of this Grant.
6. The Grantee warrants that no part of the total Grant amount shall be paid directly or indirectly to an employee or official of the State of Tennessee as wages, compensation, or gifts in exchange for acting as officer, agent, employee, subcontractor, sub-grantee or consultant to the Grantee in connection with any work contemplated or performed relative to this Grant.
7. The Grantee shall maintain documentation for all charges against the State under this Grant. The books, records and documents of the Grantee, insofar as they relate to work performed or money received under this Grant, shall be maintained for a period of three (3) full years from the date of the final payment, and shall be subject to audit, at any reasonable time and upon reasonable notice, by the state agency or the Comptroller of the Treasury, or their duly appointed representatives. The records of not-for-profit entities shall be maintained in accordance with the Accounting Manual for the Recipients of Grant Funds in the State of Tennessee, published by the Tennessee Comptroller of the Treasury. The financial statements shall be prepared in accordance with generally accepted accounting principles.
8. The Grantee shall prepare and submit, within nine (9) months after the close of the reporting period, an annual report of its activities funded under this Grant to the commissioner or head of the Granting agency, the Tennessee Comptroller of the Treasury, and the Commissioner of Finance and Administration. The annual report for any grantee that receives \$200,000.00 or more in aggregate federal funding for all its programs shall include audited financial statements. All books of account and financial records shall be subject to annual audit by the Tennessee Comptroller of the Treasury or the Comptroller's duly appointed representative. When an audit is required, the Grantee may, with the prior approval of the Comptroller, engage a licensed independent public accountant to perform the audit. The audit contract between the Grantee and the licensed independent public accountant shall be on a contract form prescribed by the Tennessee Comptroller of the Treasury. Any such audit shall be performed in accordance with generally accepted government auditing standards, the provisions of OMB Circular A-133, and the Audit Manual for Governmental Units and Recipients of Grant Funds, published by the Tennessee Comptroller of the Treasury. The Grantee shall be responsible for reimbursement of the cost of the audit prepared by the licensed independent public accountant. Payment of the audit fees of the licensed independent public accountant by the Grantee shall be subject to the provisions relating to such fees contained in the prescribed contract form noted above. Copies of such audits shall be provided to the State Granting Department, the Tennessee Comptroller of the Treasury, the Department of Finance and Administration, and shall be made available to the public.

EXHIBIT 7 (Cont.)

Page 4 of 5

9. No person on the grounds of handicap or disability, age, race, color, religion, sex, national origin, or any other classification protected by Federal and/or Tennessee State constitutional and/or statutory law shall be excluded from participation in, or be denied benefits of, or be otherwise subjected to discrimination in the performance of this Grant or in the employment practices of Grantee. The Grantee shall, upon request, show proof of such non-discrimination, and shall post in conspicuous places, available to all employees and applicants, notices of non-discrimination.
10. The Grantee agrees to carry adequate public liability and other appropriate forms of insurance.
11. The Grantee agrees to pay all taxes incurred in performance of the Grant.
12. The State shall have no liability except as specifically provided in the Grant.
13. The Grantee shall comply with all applicable Federal and State laws and regulations in the performance of the Grant.
14. The Grant shall be governed by laws of State of Tennessee.
15. The Grantee shall provide reports to the State as called for in Section A - Scope of Services.
16. Reimbursement for the cost of procuring goods, materials or services shall be subject to the Grantee's compliance with applicable federal procurement requirements. The determination of cost shall be governed by the cost principles set forth in Title 48 of the Code of Federal Regulations, Chapter 1, Part 31, relative to public contracts and property management.
17. Reimbursement for the cost of goods, materials, supplies, equipment and/or services shall require that such procurements be made on a competitive basis, including the use of competitive bidding procedures, where practical.

E. SPECIAL TERMS AND CONDITIONS

1. Should any of these special terms and conditions conflict with any other terms and conditions of this Grant, these special terms and conditions shall control.
2. This Grant is subject to the appropriation and availability of State and/or Federal funds. In the event that the funds are not appropriated or are otherwise unavailable, the State reserves the right to terminate the Grant upon written notice to the Grant. Upon receipt of the written notice, the Grantee shall cease all work associated with the Grant. Should such an event occur, the Grantee shall be entitled to compensation for all satisfactory and authorized services completed as of the termination date.
3. The Grantee agrees to be responsible for the accountability of equipment purchased with funds provided under this Grant, in which the State retains an interest, as described below:
 - a. The Grantee shall identify all equipment purchased in its reimbursement requests.
 - b. The Grantee shall maintain accounting records for all equipment purchased. Records shall contain the following:
 - i. Equipment description.
 - ii. Date of purchase.
 - iii. Equipment cost.
 - iv. Depreciation method.
 - v. Monthly depreciation amount.
 - c. The Grantee shall take legal title to all equipment purchased, subject to State's equitable interest therein, to the extent of its prorata share, based upon the State's contribution to purchase price.
 - d. The Grantee shall request written approval from State for any proposed disposition of equipment.

EXHIBIT 7 (Cont.)

- e. The Grantee shall notify State, in writing, of any equipment loss, describing reason(s) for the loss.
- f. Upon termination of the Grant, where a further grantual relationship is not entered into, all equipment shall be disposed of in one of the following ways:
 - i. Equipment may be returned to State or transferred to any party designated by State by refunding to Grantee the prorata amount of the residual value based upon original contribution to purchase price; or
 - ii. Equipment may be retained by the Grantee through an agreement whereby State maintains control over the jurisdiction, utilization, and final dispositions of equipment; or
 - iii. In such other manner as parties may agree from among alternatives approved by Tennessee Department of General Services as appropriate.
- g. Should the equipment be destroyed, lost or stolen, the Grantee shall be responsible to the State for the prorata amount of the residual value at the time of loss based upon the State's original contribution to the purchase price.

GRANTEE: AGRICENTER INTERNATIONAL, INC.

BY: James B. Wadlington 1-2-97
 James B. Wadlington, President Date

DEPARTMENT OF ENVIRONMENT AND CONSERVATION

BY: Milton H. Hamilton, Jr. 1/27/97
 Milton H. Hamilton, Jr., Commissioner DATE Date

DEPARTMENT OF FINANCE AND ADMINISTRATION

BY: John D. Ferguson 1/28/97
 John D. Ferguson, Commissioner Date

COMPTROLLER OF THE TREASURY

BY: William Snodgrass _____
 William Snodgrass, Comptroller Date

EXHIBIT 7 (Cont.)

AGRICENTER INTERNATIONAL, INC.

BUDGET LIST

ATTACHMENT I

<u>Equipment</u>	
Vertical Baler	\$8,000
Can Flattener-blower	\$10,000
Truck Scales	\$25,000
Forklift	\$30,000
Plastic grinder	\$10,000
Dump truck	\$25,000
Storage bins	\$10,000
Screening equipment	\$17,000
Dryer	\$24,000
Front end loader	<u>\$55,000</u>
Subtotal	\$214,000
<u>Project Services & Expenses</u>	
Pre-paid lease	\$30,000
Program development/training	\$10,000
Project manager	\$49,000
Secretarial, administration	\$27,334
Accounting, purchasing	\$34,333
Technical support, operations	<u>\$33,333</u>
Subtotal	\$184,000
Total Grant Amount	\$398,000.00

EXHIBIT 8

AMENDMENT #1 TO GRANT #GR-97-11139-00

BETWEEN

AGRICENTER INTERNATIONAL, INC.

AND

STATE OF TENNESSEE

DEPARTMENT OF ENVIRONMENT AND CONSERVATION

WHEREAS, Agricenter International, Inc. and the State of Tennessee, Department of Environment and Conservation, entered into Grant No. GR-97-11139-00 on January 28, 1997, for the provision of establishing, expanding or upgrading a facility for processing recyclable materials from multiple local governments.

WHEREAS, the said parties desire to amend said Grant in the manner described below.

NOW, THEREFORE, the parties hereby amend said Grant as follows:

1. Budget List, Attachment I is amended as follows:
 - a. By deleting therefrom the following:
Budget List, Attachment I
 - b. By substituting in lieu thereof the following:
Budget List, Attachment I-A
2. The other terms and provisions not amended hereby shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have by their duly authorized representatives set their signatures.

GRANTEE: AGRICENTER INTERNATIONAL, INC.

BY: James B. Wadlington 5-27-97
James B. Wadlington, President Date

DEPARTMENT OF ENVIRONMENT AND CONSERVATION

BY: Milton H. Hamilton, Jr. 6/21/97
Milton H. Hamilton, Jr., Commissioner Date

DEPARTMENT OF FINANCE AND ADMINISTRATION

BY: John D. Ferguson 6/30/97
John D. Ferguson, Commissioner Date

COMPTROLLER OF THE TREASURY

BY: NA
William Snodgrass, Comptroller Date

Source: TDEC Grant Files

**STATE OF TENNESSEE
INVOICE FOR REIMBURSEMENT**

INVOICE NUMBER

INVOICE DATE

GRANTEE NAME _____
 GRANTEE ADDRESS _____
 CITY / STATE / ZIP _____

LOCAL AGENCY TO PROCESS INVOICE: DIVISION OF SOLID WASTE ASSISTANCE

GRANT NUMBER _____
 CONTACT PERSON _____

VENDOR ID NUMBER _____
 PHONE NUMBER _____

COST CATEGORY <small>(from Budget List, Attachment I of Grant)</small>	A TOTAL GRANT BUDGET	B CUMULATIVE YTD ACTUAL EXPENDITURES THROUGH	C PAYMENTS INVOICED TO DATE	D AMOUNT DUE (B - C)	E GRANT BALANCE REMAINING (A - B)	STATE USE ONLY
						ADJUSTMENTS TO PAYMENT
1.						
2.						
3.						
4.						
5.						
6.						
7.						
8.						
9.						
10.						
11.						
12.						
13.						
14.						
15.						
TOTAL						

I certify to the best of my knowledge and belief that the data above are correct and that all expenditures were made in accordance with the contract conditions and that payment is due and has not been previously requested.

For office use only
 Recommended for Payment: _____

GRANTEE'S AUTHORIZED SIGNATURE _____
 TITLE _____
 DATE _____

INVOICE REVIEWED BY (STATE) _____
 TITLE _____
 DATE _____

INVOICE CERTIFIED BY (STATE) _____
 TITLE _____
 DATE _____

Source: TDEC Internal Audit

EXHIBIT 9

**INSTRUCTIONS FOR COMPLETING
"STATE OF TENNESSEE - INVOICE FOR REIMBURSEMENT" FORM**

<u>GRANTEE NAME</u>	Name of Grantee as shown on Page 1 of grant document
<u>GRANTEE ADDRESS (City, State, Zip)</u>	Complete mailing address of Grantee
<u>INVOICE NUMBER</u>	Ascending, consecutive number assigned to this invoice by Grantee
<u>INVOICE DATE</u>	Date the invoice is prepared
<u>GRANT NUMBER</u>	Contract Number or "Z" number found at top of first page of grant document
<u>VENDOR ID NUMBER</u>	Federal Employer ID Number assigned to Grantee by the Federal Government
<u>CONTACT PERSON</u>	Person with a working knowledge of the grant and/or invoice
<u>PHONE NUMBER</u>	Telephone number where Contact Person can be reached
<u>COST CATEGORY</u>	List each budget line item as shown on the Budget List, Attachment I of grant document
<u>A - TOTAL GRANT BUDGET</u>	Total amount allocated for each budget line item from the Budget List, Attachment I of grant document
<u>B - CUMULATIVE YTD ACTUAL EXPENDITURES THROUGH</u>	Total amount spent to date for each budget line item. Enter invoice date or date of latest invoice if multiple invoices are being submitted.
<u>C - PAYMENTS INVOICED TO DATE</u>	Total amount previously submitted for reimbursement for each budget line item
<u>D - AMOUNT DUE</u>	Amount due on this invoice for each budget line item (Column B minus Column C)
<u>E - GRANT BALANCE REMAINING</u>	Amount of funds remaining for each budget line item (Column A minus Column B)
<u>GRANTEE'S AUTHORIZED SIGNATURE, TITLE, & DATE</u>	Signature and Title of person authorized to sign grant documentation with date signed
<u>ADJUSTMENTS TO PAYMENT:</u>	For State use only
<u>INVOICE REVIEWED BY (State)</u>	For State use only
<u>INVOICE CERTIFIED BY (State)</u>	For State use only

EXHIBIT 9 (Cont.)

EXHIBIT 10

Agricenter International Agreement For Detailing Grant Operations

This Agreement is made and entered into, the 16 day of December, 1996, by and between Agricenter International (ACI) and Extrusion Technologies (ETI) as expanded explanation of the Innovative Technology grant operations agreement, to wit:

Agree as follows as related to the State of Tennessee Innovative Technology Grant in the amount of \$370,000.00

1. Both ACI and ETI agree to adhere to the terms and conditions of the Recycling Grant between Agricenter and The Department of Environment and Conservation, State of Tennessee to ensure that one or both is not in Grant violation.
2. The original grant application was in excess of one million dollars and was reduced to \$370,000.00 and due to the importance of the grant to Shelby County ETI, Agricenter, and its consultant Mike Vaughn agreed to reduce the original numbers as follows in order to accomplish the task of demonstrating the use of composted linters atop the closed Shelby County landfill.
 - \$18,500.00 consultant fee for Mike Vaughn.
 - \$240,000.00 to ETI for material delivered to the landfill site sufficient to complete the job. Initial estimates were 110,000 cubic yards.
 - \$111,000.00 to Agricenter for operations and management.
 - The funding of the above figures will be by invoice for products and inkind invoices submitted to the state. ETI will be responsible for supplying invoices for work in which they are directly involved and will assist in securing inkind invoices for other areas basis the attached budget outline.

Scope of Operation

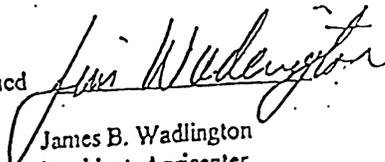
Cotton linters have been composted at Agricenter by ETI and the above grant issued to ACI to demonstrate new uses for the product. The demonstration will be accomplished by applying the material atop the Shelby County landfill which has sink holes due to the decomposition of the interior organics. Once the top dressing has been applied and grass established the project will be considered terminated.

There will be many potential uses of this 50 or so acres. It can be let natural for general public use or could be used as an organized sports and recreational park. The final uses will be in the hands of the owner, Shelby County Government.

Because funding was less than that requested the above set of numbers was agreed upon by Agricenter and ETI. Each party agrees to do its utmost to assist all involved to see that the project is completed in a timely and professional manner.

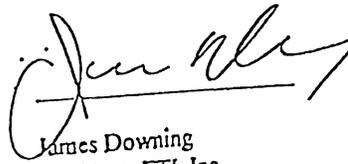
Dated: January 16, 1997

Signed



James B. Wadlington
President, Agricenter

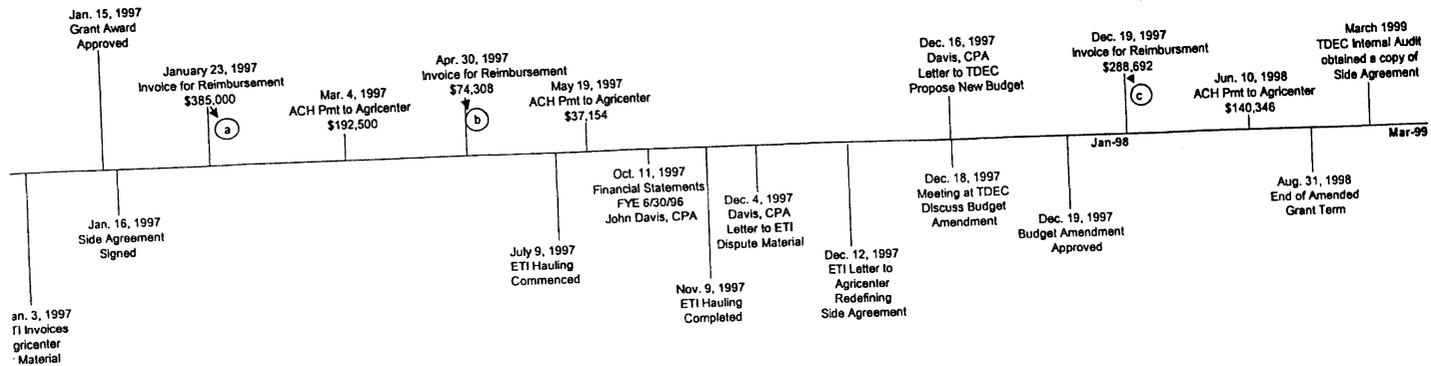
File: Downing Contract 370



James Downing
President, ETI, Inc.

Source: TDEC Internal Audit

EXHIBIT 11
Landfill Grant Timeline



Invoices for Reimbursement are as follows:

Vendor:	Amount:
	\$385,000.00
by County	37,980.00
County on Equities	11,570.00
Financial Eng.	24,758.00
Financial Eng.	15,062.00
and Equip.	52,000.00
by County	71,021.00
on Trucking	3,098.25
on Equities	1,155.00
on Equities	5,775.00
Davis, CPA	2,700.00
	4,800.00
center- Wages	26,118.99
center- Mgt.	76,961.76
center- Admin.	30,000.00

EXHIBIT 12



Extrusion Technologies, Inc.

7430 Moore Road
Memphis, Tennessee 38120

Ph: 901-384-7850

Fax: 901-384-7850

BILL TO
Agricenter Int'l 7777 Walnut Grove Road Memphis, TN 38119 Attn: Billy Carter

SHIP TO
Same

DATE	INVOICE NO.	P.O. NO.	TERMS	DUE	REP.	SHIP DATE
1/3/97	22053		Due on receipt	1/3/97	JWD	1/3/97
SERV. ...	ITEM	DESCRIPTION		QTY	RATE	AMOUNT
1/1/97	Soil Amend	Cotton By-Products Cu. Yds.		110,000	3.50	385,000.00
Thank you for your business!!					TOTAL	\$385,000.00

Source: TDEC Grant Files

DEC - 78

STATE OF TENNESSEE
INVOICE FOR REIMBURSEMENT

GRANTEE NAME Agricenter International Inc.
GRANTEE ADDRESS 7777 Walnut Grove Rd.
CITY/STATE/ZIP Memphis, TN. 38120

INVOICE NUMBER
ITG01

INVOICE DATE
1-23-97

STATE AGENCY TO PROCESS INVOICE: DIVISION OF SOLID WASTE ASSISTANCE
GRANT NUMBER Pending GR-97-11148-00 VENDOR ID NUMBER 62-1143306
CONTACT PERSON Billy Carter PHONE NUMBER (901) 757-7777

COST CATEGORY (from Budget List, Attachment I of Grant)	A TOTAL GRANT BUDGET	B CUMULATIVE YTD ACTUAL EXPENDITURES THROUGH <u>1/31/97</u>	C PAYMENTS INVOICED TO DATE	D AMOUNT DUE (B - C)	E GRANT BALANCE REMAINING (A - B)	STATE USE ONLY
						ADJUSTMENTS TO PAYMENT
1. Soil Amend: blended aggregate	370,000.	192,500	0	192,500	177,500	
2. Materials (Grant Amt)						
3.						
4. Required Tax/fee	378,000	192,500.	0	192,500	185,500	
5.						
6.						
7.						
8.						
9.						
10.						
11.						
12.						
13.						
14.						
15.						
TOTAL Project Costs	748,000	385,000.	0	385,000	363,000	

I certify to the best of my knowledge and belief that the data above are correct and that all expenditures were made in accordance with the contract conditions and that payment is due and has not been previously requested.

327.42-02

For office use only
Recommended for Payment: 192,500.00

GRANTEE'S AUTHORIZED SIGNATURE
Billy W. Carter
TITLE Chief Financial Officer
DATE 1-23-97

INVOICE REVIEWED BY (STATE)
Kathy Stouffer
TITLE Staff Proc Mgr
DATE 2/25/97

INVOICE CERTIFIED BY (STATE)
Wayne Brashear
TITLE GA2
DATE 2/25/97

Source: TDEC Grant Files

EXHIBIT 14

**AGRICENTER INTERNATIONAL, INC.
INOVATIVE TECHNOLOGY GRANT
BUDGET OUTLINE (REVISED)**

GRANT PERIOD
JANUARY 1, 1997 - DECEMBER 31, 1997

PROJECT COSTS:	INKIND	GRANT
1. SOIL AMENDMENT: blended aggregate materials. ✓ Supplier: E.T.I. 51,271 cubic yards x \$3.50/cyd=		179,448.50
2. MATERIAL : certification, preparation, hauling. ✓ Supplier: E.T.I. 44,700 cubic yards x 1.50/cyd=		67,050.00 3,098.25 ←
3. EQUIPMENT; 1 tractor with laser guided leveler. ✓ Supplier: Case Equipment 520 hours x \$100=	26,000 52,000.00 →	26,000.00
4. INFRASTRUCTURE; on site public roads & trails. ✓ Supplier: Shelby County Road Department <i>510 - TOTAL →</i>	14,596.75 109,000.00 →	94,403.25 <u>377,001.00</u>
5. Labor, fuel, utilities. Supplier: Shelby County Government, Agricenter	28,000.00	✓
6. Irrigation system, seed, fertilizer. Supplier: Agricenter	16,000.00	
7. Engineering. Supplier: Continental Engineering	55,000.00	
8. Additional Material Hauling. ✓ Supplier: Brown Trucking Co. 243 loads x \$12.75/load		3,098.25
9. Professional Grant Services. <i>CONSULTING FEES</i> Supplier: Canyon Equities, Inc.	18,500 ←	18,500.00
10. Certified Audit Fees. Supplier: John Davis, CPA	2,700 ←	2,700.00
11. Equipment Rental. Supplier: Agricenter, E.T.I.	6,655.45 1,855.45 ←	4,800.00
12. Project Management. Supplier: Agricenter	149,600.00 80,400.00 ←	69,200.00
13. General and Administrative. Supplier: Agricenter	60,947.80 35,744.55 ←	25,203.25
TOTAL	378,000.00 =====	370,000.00 =====
TOTAL; ALL SOURCES	748,000.00 =====	✓

Source: TDEC Grant Files

EXHIBIT 14 (Cont.)

Mail Amend Here ↓

John D. Davis, Jr., CPA
Certified Public Accounting Firm

2510 Dibrell Trail Drive
Collierville, TN 38017
901-854-1263
Fax 901-853-3431

December 16, 1997

T.E.
August 1, 1998

State of Tennessee
Department of Environment and Conservation
Mr. Wayne Bresure
401 Church Street
L & C Tower, 14th Floor
Nashville, TN 37243-0455

Reference: Innovative Technology Grant # GR-97-11148-00

Dear Mr. Bresure

Please find enclosed a proposed budget outline amendment to the referenced Innovative Environmental Technology Grant. The proposed amendment is required as the completion of the project required only 51,271 cubic yards of blended aggregate materials rather than the 110,000 cubic yards originally estimated. The proposed amendment still results in \$ 378,000 of inkind services and \$ 370,000 in cash payments for services as stipulated in the original \$ 748,000 grant. We will include all appropriate documentation required for the proposed amendment upon final submission.

Please let me know of any other information which you believe is required to resolve the matter addressed. Thank you.

Sincerely,

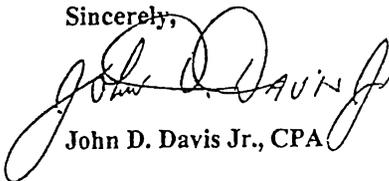

John D. Davis Jr., CPA

EXHIBIT 14 (Cont.)

AGRICENTER INTERNATIONAL, I NC.
 INOVATIVE TECHNOLOGY GRANT
 BUDGET OUTLINE (REVISED)

GRANT PERIOD
 JANUARY 1, 1997 - DECEMBER 31, 1997

PROJECT COSTS:	INKIND	GRANT
1. <i>SOIL AMENDMENT: blended aggregate materials.</i> Supplier: E.T.I. 51,271 cubic yards x \$3.50/cyd=		179,448.50
2. <i>MATERIAL : certification, preparation, hauling.</i> Supplier: E.T.I. 44,700 cubic yards x 1.50/cyd=		67,050.00
3. <i>EQUIPMENT; 1 tractor with laser guided leveler.</i> Supplier: Case Equipment 520 hours x \$100=	52,000.00	
4. <i>INFRASTRUCTURE; on site public roads & trails.</i> Supplier: Shelby County Road Department	109,000.00	
5. <i>Labor, fuel, utilities.</i> Supplier: Shelby County Government, Agricenter	28,000.00	
6. <i>Irrigation system, seed, fertilizer.</i> Supplier: Agricenter	16,000.00	
7. <i>Engineering.</i> Supplier: Continental Engineering	55,000.00	
8. <i>Additional Material Hauling.</i> Supplier: Brown Trucking Co. 243 loads x \$12.75/load		3,098.25
9. <i>Professional Grant Services.</i> Supplier: Canyon Equities, Inc.		18,500.00
10. <i>Certified Audit Fees.</i> Supplier: John Davis, CPA		2,700.00
11. <i>Equipment Rental.</i> Supplier: Agricenter, E.T.I.	1,855.45	4,800.00
12. <i>Project Management.</i> Supplier: Agricenter	80,400.00	69,200.00
13. <i>General and Administrative.</i> Supplier: Agricenter	35,744.55	25,203.25
TOTAL.....	378,000.00	370,000.00
TOTAL; ALL SOURCES.....	748,000.00	

EXHIBIT 14 (Cont.)



DEC - 20

AGRICENTER INTERNATIONAL

December 19, 1997

Mr. Paul Evans Davis
 TN. Dept. of Environment and Conservation
 L & C Tower, 14 th Floor
 401 Church Street
 Nashville, TN 37243-0455

Reference : Innovative Technology Grant
 # GR -97-11148-00

Dear Mr. Davis,

Please find enclosed a revised Budget Outline for the referenced Innovative Technology Grant. Request is hereby made that the following line item grant balances be transferred to cover the five (5) new line items and the revision of the original line items in the manner indicated as follows:

<u>Line Category</u>	<u>Budget Outline</u>		<u>Increase or</u>	<u>(Decrease)</u>	<u>Revised</u>	
	<u>Inkind</u>	<u>Grant</u>	<u>Inkind</u>	<u>Grant</u>	<u>Inkind</u>	<u>Grant</u>
1 Soil Amendment	\$ 15,000.00	370,000.00	(15,000.00)	(190,551.50)		179,448.50
2 Material	165,000.00		(165,000.00)	70,148.25		70148.25
3 Equipment	52,000.00		(26,000.00)	26,000.00	26,000.00	26,000.00
4 Infrastructure	60,000.00		(45,403.25)	94,403.25	14,596.75	94,403.25
5 Labor, fuel, utilities	15,000.00		13,000.00		28,000.00	
6 Irrigation System New Project	16,000.00				16,000.00	
Costs Added:						
7 Engineering	55,000.00				55,000.00	
8 Consulting Fees			18,500.00		18,500.00	
9 Audit Fees			2,700.00		2,700.00	
10 Equipment Rental			6,655.45		6,655.45	
11 Project Manager			149,600.00		149,600.00	
12 Gen. & Adm.			60,947.80		60,947.80	
Totals	\$ 378,000.00	370,000.00	0.00	0.00	378,000.00	370,000.00
Totals All Sources	\$ 748,000.00				\$ 748,000.00	

Please let me know if there is any other information required for the amendment of the grant in the manner indicated.

Sincerely,

James B. Wadlington
 James Wadlington
 President

EXHIBIT 15

State of Tennessee

County of Madison

AFFIDAVIT

I, Billy W. Carter, Inv. No. 426-7830

I reside at 376 Memphis-Belmont Road, Brentwood, TN 38135

Shelby County, I am the CFO of American Veterans
and was the CFO for the entire Contract term of
State Financing Grant No. 971114800 and Material
Recycling Grant No. 971112900. In my official capacity
as CFO I submitted invoice ITG 02 containing a
claim for reimbursement that I knew to be a
fraudulent representation of expenses incurred in
specifically, I submitted an invoice for \$7,880.00
which was a cost that I knew had already
been reimbursed under a separate State Grant
Agreement. Prior to submitting these invoices, I
had advised Jim Wadlington, President of American
Veterans that these claims were a fraudulent
representation that should not be made by American
against my advice, Jim Wadlington instructed me
to submit the invoice and I did so under duress.

Additional with regard to the Amended Bid
to the Landfill Grant I as CFO advised
Jim Wadlington and Tom Davis they were not
proper and ~~not~~ substantiated by legislators

H. J. [Signature]
Notary Public 9/23/00

Billy W. Carter
9/23/2000

EXHIBIT 15 (Cont.)

DL-509B

STATE OF TENNESSEE

*expense specifically, I informed them that if
I will, in proper form, be able to accept trainees
for the following contributions.*

I have read the foregoing statement consisting of 2 pages, each of which I have signed. I fully understand this statement and it is true, accurate and complete to the best of my knowledge and belief. I made the corrections shown and placed initials opposite each.

I made this statement freely and voluntarily without any threats or rewards, or promises of reward having been made to me in return for it.

Subscribed and sworn to before me this _____
day of _____, 19____.
at: _____

Billy D. Clark
(Signature of witness)
8/23/2000

(Signature)

(Name)

Misty Cutshall 8/23/2000
(Signature of witness)
Misty Cutshall 8/23/

EXHIBIT 16

E.T.I.
Extrusion Technologies, Inc.
 7430 Moore Road
 Memphis, Tennessee 38120

INVOICE

Ph: 901-384-7850

Fax: 901-384-7855

Corrected

DATE	INVOICE NO.
1/3/97	22053

BILL TO
Agricenter International Billy Carter 7777 Walnut Grove Road Memphis, Tn 38119

SHIP TO
same

DATE	INVOICE NO.	P.O. NO.	TERMS	DUE	REP.	
01/03/97	22053		due upon rec	01/03/97	JDW	
SERVI...	ITEM	DESCRIPTION		QTY	RATE	AMOUNT
1/1/97	Soil Amend...	Cotton By- Products Cu.Yd		51,271	3.50	179,448.50
Thank you for your business!					Total	179,448.50

Source: TDEC Grant Files

EXHIBIT 17

DEC - 47

INVOICE

E.T.I. 
Extrusion Technologies, Inc.
 7430 Moore Road
 Memphis, Tennessee 38120

Ph: 901-384-7850

Fax: 901-384-7855

BILL TO
Agricenter International Billy Carter 7777 Walnut Grove Road Memphis, Tn 38119

DATE	INVOICE NO.
12/2/97	3225

SHIP TO
same

DATE	INVOICE NO.	P.O. NO.	TERMS	DUE	REP	
12/02/97	3225		due upon rec	ON RECEIPT	JWD	
SERVI...	ITEM	DESCRIPTION		QTY	RATE	AMOUNT
12/1/97	Soil Amend... credit	Hauling - 44,700 Cu.Yd. Credit- \$.50 Cu Yd. Rent		44,700 44,700	1.50 -0.50	67,050.00 -22,350.00
Thank you for your business!				Total		544,700.00

Source: TDEC Grant Files

EXHIBIT 18

SHELBY COUNTY GOVERNMENT
DEPARTMENTAL COMMUNICATION

TO: Billy Carter, Chief Financial Officer
Agricenter International

FROM: Charles Brown, Deputy Administrator 
Roads & Bridges Department

DATE: March 11, 1997

SUBJECT: PROPOSED CONSTRUCTION FOR AGRICENTER INTERNATIONAL

The Shelby County Road Department proposed to perform the below listed projects for the stated dollars and in a time frame that does not interfere with its scheduled and necessary maintenance on the roads and bridges that we are responsible for.

- (1). Install substructure for truck scales as per plan. \$7,880.00
- (2). Add additional concrete pad as per plan. \$14,000.00
- (3). Construct 1500 foot all weather road as per plan. \$16,100.00

If you need further information, please call.

Source: TDEC Grant Files

EXHIBIT 19



**Shelby County
Tennessee**

DEC - 9

Jim Rout, Mayor

SHELBY COUNTY ROADS & BRIDGES DEPARTMENT
6449 HALEY ROAD
MEMPHIS, TN 38134

SEPTEMBER 15, 1997

INVOICE # 4216

AGIR-CENTER
7777 WALNUT GROVE ROAD
MEMPHIS, TN 38120

DATE	DESCRIPTION	AMOUNT
09-15-97	ROAD REPLACEMENT 600'=/CURB AND GUTTER	19,280.00
09-15-97	MOORE ROAD DRAINAGE AND SHOULDER IMPROVEMENT FROM EAST TO WEST	11,606.00
09-15-97	SURFACE DRAINAGE NORTH AND SOUTH OF MOORE ROAD	35,000.00
09-15-97	USE OF DOZER AT LANDFILL 30 HOURS AT \$80.00 PER HOUR	2,400.00
09-15-97	USE OF GRADER AT LANDFILL 30 HOURS AT \$52.00 PER HOUR	1,560.00
09-15-97	REPAIR TO BRIDGE ON MOORE ROAD DAMAGE BY TRUCKS HAULING TO LANDFILL	1,175.00
	TOTAL	<u>71,021.00</u>

Source: TDEC Grant Files

LANDFILL GRANT
QUESTIONED COSTS

Item	Description	Agricenter		Explanation	
		Reimbursement Claims	Eligible Expenses		Ineligible Expenses
1	Blended Aggregate Materials (This review determined that a total of 47,871 cubic yards of aggregate material was actually used).	\$179,448.50	\$104,358.78	\$75,089.72	The unit price agreed upon in the side agreement was \$2.18 per cubic yard of aggregate material and included hauling.
2	Material Hauling (Only 43,740 cubic yards was hauled by Extrusion Technologies).	\$67,050.00		\$67,050.00	Hauling costs already included above.
3	Additional Material Hauling (4,131 cubic yards was hauled by Brown Trucking).	\$3,098.25		\$3,098.25	Hauling costs already included above.
4	Equipment-tractor	\$26,000.00		\$26,000.00	Result of barter exchange and not a cash expense.
5	Infrastructure-roads	\$94,403.25		\$94,403.25	Paid for by Shelby County and was not related to project.
	Totals	\$370,000.00	\$104,358.78	\$265,641.22	

Source: Division of State Audit's analysis of Agricenter's reimbursement claims, grant contract, and side agreement between Agricenter and Extrusion Technologies.

EXHIBIT 21

EXHIBIT 22

Agricenter International Agreement For Detailing Grant Operations

This Agreement is made and entered into, the 16 day of December, 1996, by and between Agricenter International (AI) and Extrusion Technologies (ETI) as expanded explanation of the recycling grant operations agreement, to wit:

Agree as follows as related to the State of Tennessee Recycling Grant in the amount of \$398,000.00.

1. Both ACI and ETI agree to adhere to the terms and conditions of the Recycling Grant between Agricenter and The Department of Environment and Conservation, State of Tennessee to ensure that one or both is not in Grant violation.
2. ETI agrees to perform all the day to day operations of recycling business in accordance with normally accepted business practices.
3. ETI agrees to keep operation visually acceptable to the Agricenter Board of Directors and the community. In the event that the recycling business grows to a point were it is difficult to maintain visual acceptability, ETI will move the business to another location off the Agricenter Grounds.
4. ETI will have use of all equipment for a \$1.00 per year for the five year period of the grant with an option to purchase the equipment for fair market value at the end of the grant term.
5. ETI agrees to assume all financial liability in reference to paragraph number A7 as explained in the Grant.
6. AI agrees to supply over site management and accounting functions as required by the Grant.

Scope of Operation

The scope of the operation will be detailed here and can be seen visually via the attached flow chart. Agricenter and ETI using funding from the Grant will modify the existing building where ETI is located to enclose the open area between the building and the now existing bunkers. This addition will allow the entire recycling operation to be enclosed and out of sight.

The ability of the recycling to be enclosed is accomplished by the use of compactors for bulky items while items such as plastics will be ground and stored in gaylords. Separation will be done both manually and by machine.

Most of the recycling source material will come from Hunt Wesson and is a combination of cardboard and two types of plastics, HDPE (milk type containers) and PET (such as plastic coke bottles). When the truck arrives at the plant it will be weighed upon certified scales and a copy of the load ticket supplied to Agricenter accounting. The

Source: TDEC Internal Audit

EXHIBIT 22 (Cont.)

load will be separated by hand with the cardboard being placed in the compactor and the plastics being ground and placed in gaylords for shipment. Again, the outbound trucks will be weighted and a copy of the load ticket supplied to Agricenter Accounting. This will enable Agricenter to track the necessary data for the State and for ETI to evaluate different aspects of the business.

Currently the destinations for the outbound products are as follows:

Cardboard - Weyerhaeuser

PET plastic - Smurfit

HDPE plastic - FCR which is a MRF for the city of Memphis

Feed products - Are not actually a part of this grant but will market through Tennessee Valley Feed Merchants

Trash - That part of a load which cannot be recycled will be delivered to the BFI landfill

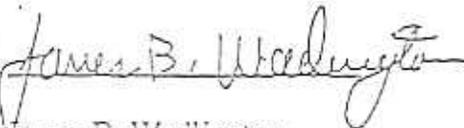
Future sources of non organic materials will come from waste generators in nearby counties. Where economically feasible waste can be identified collected and transported to the recycling center compactors will be installed. This will increase the density of the waste making economical transportation possible.

The recycling of organic material to feed additives will continue as in the past with source from Kellogg's and Cargill with the finished product being marketed by Tennessee Valley Feed Merchants.

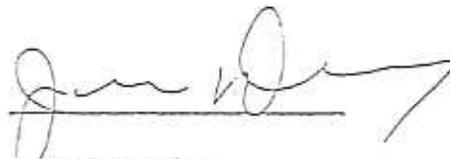
The only risk to either party in this agreement is that for some unexpected reason the operation had to shut down within five years then paragraph A7 of the Grant would go into effect. However, as ETI is willing to assumed the financial responsibility of this paragraph, no risk is presented to Agricenter International.

Dated: January 2, 1997

Signed



James B. Wadlington
President, Agricenter



James Downing
President, ETI, Inc.

**RECYCLING GRANT
Questioned Costs**

Item	Agricenter Reimbursement Claims	Eligible Expenses	Ineligible Expenses	Explanation
1	\$ 8,000.00	\$ 4,800.00	\$ 3,200.00	The equipment was not utilized for two of the five year period specified in the grant. Per the grant contract, the state is due 40% of the equipment cost.
2	\$ 3,500.00	\$ 2,100.00	\$ 1,400.00	See above.
3	\$ 25,000.00	\$ 15,000.00	\$ 10,000.00	See above.
4	\$ 19,222.00	\$ 11,533.20	\$ 7,688.80	See above.
5	\$ 4,950.00	\$ 2,970.00	\$ 1,980.00	See above.
6	\$ 25,000.00	\$ 15,000.00	\$ 10,000.00	See above.
7	\$ 10,000.00	\$ 6,000.00	\$ 4,000.00	See above.
8	\$ 13,850.00	\$ 8,310.00	\$ 5,540.00	See above.
9	\$ 24,000.00	\$ 14,400.00	\$ 9,600.00	See above.
10	\$ 55,000.00	\$ 33,000.00	\$ 22,000.00	See above.
11	\$ 30,000.00	\$ 30,000.00	\$ -	
12	\$ 10,000.00	\$ -	\$ 10,000.00	Agricenter could not provide support for the claimed expense.
13	\$ 49,000.00	\$ 17,622.24 (a)	\$ 31,377.76	Grant Guidelines specify that only 10% of grant funds can be disbursed for administrative expenses.
14	\$ 27,334.00	\$ 9,830.33 (a)	\$ 17,503.67	See above.
15	\$ 34,333.00	\$ 12,347.43 (a)	\$ 21,985.57	See above.
16	\$ 34,299.00	\$ 34,299.00	\$ -	
17	\$ 7,800.00	\$ 7,800.00	\$ -	
18	\$ 2,139.00	\$ 2,139.00	\$ -	
19	\$ 1,772.00	\$ 1,772.00	\$ -	
20	\$ 5,000.00	\$ 5,000.00	\$ -	
21	\$ 7,801.00	\$ 7,801.00	\$ -	
Total	\$ 398,000.00	\$ 241,724.00	\$ 156,276.00	
Percent	100%	61%	39%	
Notes:				
(a) The \$398,000 allowable administrative expense was allocated among the three administrative expense categories based on the weighted average method.				
Source: Division of State Audit Analysis of Agricenter's Reimbursement claims and Grant Contract Budgets, original and renegotiated.				

TOTAL QUESTIONED COSTS FOR
AGRICENTER INTERNATIONAL, INC.

<u>Item</u>	<u>Grant</u>	<u>Grant Amount</u>	<u>Amount Claimed</u>	<u>Eligible Expenses</u>	<u>Ineligible Expenses</u>	<u>Explanation</u>
1	Landfill Grant	\$370,000	\$370,000	\$104,359	\$265,641	See Exhibit 21
2	Recycling Grant	\$398,000	\$398,000	\$241,724	\$156,276	See Exhibit 23
Totals		\$768,000	\$768,000	\$346,083	\$421,917	
<p><u>Source:</u> Division of State Audit's analysis of Agricenter's grant contracts.</p>						

EXHIBIT 25

12-19-96

Landfill Budget:

370,000

18,500.00 VAUGHN

5%

111,000.00 AGRICULTURE

X 55,000.00 → ETI old contract → AGRICULTURE

NET 285,500.00 → Enough to cap landfill

Bonus may be in line for VAUGHN if we keep expenses low. Downing may do some and AGRICULTURE may be able to do some out the 111,000.00

185
55
240

NAP-14-4/50

Source: Mr. John Davis' Working Papers
"NAP" refers to Nonprofit Organizational Audit Program
used by Mr. John Davis, CPA