MEMORANDUM REPORT ON REVIEW OF MISSION WEST VIRGINIA, INC. HURRICANE, WEST VIRGINIA

STRIVING FOR TECHNOLOGICAL EMPOWERMENT WHILE PROVIDING UNLIMITED POTENTIAL

ARC Grant Number: WV-14468-C2-05

Grant Period: September 1, 2005 through August 31, 2006

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Report Number: 10-03

Date: February 4, 2010

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ARC Grant Number: WV-14468-C2-05

Grant Period: September 1, 2005 through August 31, 2006

Prepared By:

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TO: Appalachian Regional Commission (ARC)
Office of Inspector General (OIG)

FROM: Tichenor & Associates, LLP
Louisville, Kentucky

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report Number: 10-03

SUBJECT: Memorandum Review Report on Mission West Virginia, Inc., Striving for Technological Empowerment while Providing Unlimited Potential, ARC Grant Number: WV-14468-C2-05.

PURPOSE: The purpose of our review was to determine if (a) the total funds provided to Mission West Virginia, Inc. for its Striving for Technological Empowerment while Providing Unlimited Potential grant were expended in accordance with the ARC approved grant budget and did not violate any restrictions imposed by the terms and conditions of the grant; (b) the accounting, reporting, and internal control systems provided for disclosure of pertinent financial and operating information; and (c) that the objectives of the grant are being met.

BACKGROUND: ARC awarded Grant Number WV-14468-C2-05 to Mission West Virginia, Inc. for the period September 1, 2005 through August 31, 2006. Total grant funding was for an amount not to exceed $208,068 or 80% of actual, reasonable, and eligible project costs. ARC required that the grant be matched with $52,017 or 20% in cash, contributed services, or in-kind contributions, as approved by the ARC. The ARC made five payments totaling $190,647.

The purpose of the grant was to provide funds to establish fourteen computer labs in distressed counties in West Virginia. Furthermore, the grant would underwrite the acquisition of computer equipment/software, administrative costs, travel costs, consultant services, phone line internet connectivity costs, installation and set-up of equipment, and supplies. The labs were expected to benefit over 1,000 individuals in need of workforce training programs and adult education programs.

SCOPE: We performed a program review of the grant as described in the Purpose above. Our review was based on the terms of the grant agreement and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. Specifically, we determined if the tasks described above were being performed, if the accountability over ARC funds is sufficient as required by applicable Office of Management and Budget (OMB) Circulars, and if Mission West Virginia, Inc. was in compliance with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with Mission West Virginia, Inc. personnel. Our results and recommendations are based upon those procedures. These review procedures were performed in accordance with applicable Government Auditing Standards.

RESULTS: The following results are based on our review performed at Mission West Virginia, Inc.'s office in Hurricane, West Virginia, on January 22, 2008 through January 30, 2008.

A. Incurred Costs

Mission West Virginia, Inc.'s financial records report total program costs of $235,723 (see **Appendix A** – Worksheet for Reimbursement Request) for the period from September 1, 2005 through August 31, 2006. Of these costs, $190,647 (80.88%) was attributed to ARC expenditures, with the remaining $45,076 (19.12%) attributed to matching and in-kind expenditures.

During the course of the review, we reviewed the direct, indirect, and matching costs claimed and noted the following instances of noncompliance which are described in the accompanying findings.

1. Improper Location of Six Project Sites

The ARC Grant Agreement requires Mission West Virginia, Inc. to establish fourteen computer labs in West Virginia counties designated as "distressed" by the ARC.

Mission West Virginia, Inc. actually established fifteen computer labs; however, six of the labs were not in counties designated as "distressed" by the ARC. The cost of establishing a lab outside of the approved project area is not allowable.

The proportional cost of the nine labs in the approved project area is 9/15 or 60% of the total reported program costs. After reducing total program costs to 60% of total reported program costs, total program costs are $141,434, of which $113,147 (80%) is attributed to ARC costs and $28,287 (20%) is attributed to matching costs.

Recommendation:

We recommend that ARC require that Mission West Virginia, Inc. revise its final Request for Advance or Reimbursement (Standard Form 270) submitted to ARC to show

total grant costs of $141,434, with $113,147 attributed to ARC costs and $28,287 attributed to matching costs.

We also recommend that ARC require Mission West Virginia, Inc. to return $77,500 of disallowed grant costs. (See **Appendix B** – Calculation of Disallowed Costs Charged to the ARC Grant)

ARC's Response:

In response to our draft report, ARC stated they had determined that the questioned costs were appropriate given the terms of the grant and the legitimacy of the incurred charges and, accordingly, no disallowance will be required. See **Appendix C** for ARC's complete response.

Auditor's Comment:

*Because locating 6 of 15 labs in non-distressed counties was outside the scope of the grant agreement, we continue to recommend the disallowance of $77,500 of project costs. See **Appendix D** for auditors' complete comments.*

2. Inadequately Documented Payroll Charges

OMB Circular A-122, Attachment B, para. 7.m.(2)(a) states that reports of salaries and wages must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates, such as estimates determined before the services are performed, do not qualify as support for charges to awards and are expressly unallowable. OMB Circular A-122 does allow for the interim use of estimated costs provided they are adjusted to actual costs at least annually.

For the first two months of the twelve month grant period, predetermined budget estimates were used to charge salary and benefits cost to the ARC. These charges were not adjusted to actual costs as required by federal cost principles.

For the first two months of the grant period, September and October 2005, Mission West Virginia, Inc. reported personnel salary costs of $10,032, with $8,026 attributed to ARC costs and $2,006 attributed to matching costs, and associated fringe benefits of $3,418, with $2,734 attributed to ARC costs and $684 attributed to matching costs. Because Mission West Virginia, Inc. used predetermined estimates, and not actual costs, these amounts should be disallowed.

Recommendation:

Because personnel salary and associated fringe benefits for the first two months of the grant period, combined, are $13,450 (5.71%) of the total reported grant costs of

$235,723, we recommend that ARC require that Mission West Virginia, Inc. further revise its final Request for Advance or Reimbursement (Standard Form 270) submitted to ARC to show total grant costs of $133,358 (a reduction of $8,076 or 5.71% from the revised total grant costs calculated in Finding #1, above), with $106,686 (80%) attributed to ARC costs and $26,672 (20%) attributed to matching costs.

We also recommend that ARC require Mission West Virginia, Inc. to return an additional $6,461 of disallowed costs. (See **Appendix B** – Calculation of Disallowed Costs Charged to the ARC Grant)

ARC's Response:

In response to our draft report, ARC stated they had determined that the questioned costs were appropriate given the terms of the grant and the legitimacy of the incurred charges and, accordingly, no disallowance will be required. See **Appendix C** for ARC's complete response.

Auditor's Comment:

*Because predetermined budget estimates of employees' time are expressly disallowed under OMB Circular A-122, we continue to recommend the disallowance of $6,461 of salary and benefit costs. See **Appendix D** for auditors' complete coments.*

3. Matching Costs

The grant agreement states that the grantee shall be paid by the ARC a total sum not to exceed $208,068 of actual, reasonable and eligible project costs. The grantee shall pay, or cause to be paid, the non-ARC share of $52,017 in cash, contributes services, or in-kind contributions as approved by the ARC. The grantee's $52,017 match requirement represents 20% of the total budgeted project cost of $260,085.

The grant was closed out with final ARC costs of $190,647 (80.88%), final matching costs of $45,076 (19.12%), and total costs of $235,723. As the grant requires a 20% match, Mission West Virginia, Inc. should have matched $47,145, which is $2,069 more than what was reported.

Recommendation:

If the ARC agrees with our two previous recommendations, Mission West Virginia, Inc. will have more than met the required match of $26,672 (calculated in Finding #2, above) and no further recommendation will be made. However, if ARC disagrees with our two previous recommendations, then we would recommend that ARC require Mission West Virginia, Inc. to return $2,069 of unmet matching costs.

ARC's Response:

In response to our draft report, ARC stated that Mission West Virginia, Inc. provided evidence of a payment that was not charged to the ARC grant because of miscoding and that the payment was sufficient to offset the recommended recovery. See **Appendix C** for ARC's complete response.

Auditor's Comment:

*We accept ARC's statement that Mission West Virginia, Inc. has provided sufficient evidence that the required matching costs were met. As a result, this finding is considered closed. See **Appendix D** for auditors' complete comments.*

B. Internal Controls

During the course of the review, we reviewed the Mission West Virginia, Inc.'s system of internal controls. One area of weakness was identified that could have affected the accountability of costs or compliance with the terms of the grant agreement.

1. Completion of Draft Final Report

The grant agreement requires that Mission West Virginia, Inc. complete a draft final report to be submitted for ARC approval within one month after the end of the period of performance.

Mission West Virginia, Inc. submitted a draft final report on December 19, 2006. This was 110 days after the end of the period of performance, which ended August 31, 2006.

Recommendation:

We recommend that ARC require Mission West Virginia, Inc. to complete draft final reports in a timely manner on any future ARC grants.

ARC's Response:

ARC did not respond to our draft report concerning this recommendation.

Auditor's Comment:

Because ARC did not respond to our draft report concerning this recommendation, we continue to recommend that ARC require Mission West Virginia, Inc. complete draft final reports in a timely manner on any future ARC grants.

C. Program Results

Our review of Mission West Virginia, Inc.'s Striving for Technological Empowerment while Providing Unlimited Potential grant indicated that the specific objectives identified in the grant were achieved. The grant objective was to benefit 1,000 users and the grantee reported that over 4,600 users benefited.

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, Kentucky
January 30, 2008

APPENDIX A

WORKSHEET FOR REIMBURSEMENT REQUEST

Worksheet for Reimbursement Request

Mission West Virginia, Inc.
ARC Grant #: WV-14468-C2-05

Reimbursement Period from 9/1/2005 to 8/31/2006

Approved Budget Category	Approved Budget	Actual Matching (Non-ARC) Cost	Actual ARC Cost	Total Cost	Total Program Outlays to Date	Budget Balance Remaining
Personnel	$ 65,013.00	$ 14,854.73	$ 59,418.91	$ 74,273.64	$ 74,273.64	$ (9,260.64)
Fringe Benefits	22,755.00	4,976.29	19,905.18	24,881.47	24,881.47	(2,126.47)
Travel	7,500.00	6,751.28	1,038.36	7,789.64	7,789.64	(289.64)
Equipment	111,533.00	-	102,961.67	102,961.67	102,961.67	8,571.33
Supplies	3,500.00	941.26	376.48	1,317.74	1,317.74	2,182.26
Contractual	21,100.00	390.90	3,518.14	3,909.04	3,909.04	17,190.96
Construction	-	-	-	-	-	-
Indirect Cost	23,644.00	11,253.19	1,525.81	12,779.00	12,779.00	10,865.00
Other Approved Line Items:	5,040.00	5,907.97	1,902.60	7,810.57	7,810.57	(2,770.57)
Totals	$ 260,085.00	$ 45,075.62	$ 190,647.15	$ 235,722.77	$ 235,722.77	$ 24,362.23

Appendix A

APPENDIX B

CALCULATION OF DISALLOWED COSTS CHARGED TO THE GRANT

MISSION WEST VIRGINIA, INC.
ARC GRANT NUMBER: WV-14468-C2-05

CALCULATION OF DISALLOWED COSTS CHARGED TO THE ARC GRANT

Finding #1: Improper Location of Six Project Sites

Location of Labs	Number	% of Total
Distressed counties	9	60.00%
Transitional counties	6	40.00%
Totals	15	100.00%

	Total grant costs	$ 235,723	
	% of labs located in distressed counties	x .60	
(1)	Revised total grant costs	$ 141,434	
	Less grantee matching share (20%)	(28,287)	
	Revised ARC share (80%)	$ 113,147	
	Less original ARC share	(190,647)	
	Disallowed costs charged to ARC grant		$ (77,500)

Finding #2: Inadequately Documented Payroll Charges

Costs reported to ARC for WV-14468-C2-05 for September and October 2005:

Personnel salary costs	$ 10,032
Fringe benefits costs	3,418
Total reported personnel salary and fringe benefits costs	$ 13,450
% personnel salary and fringe benefits costs for September and October 2005 ($13,450 / $235,723)	5.71%

Revised total grant costs - from (1) above	$ 141,434	
% personnel salary and fringe benefits costs	x .0571	
Disallowed personnel salary and fringe benefits costs	$ (8,076)	
Less grantee matching share (20%)	1,615	
Disallowed ARC personnel salary and fringe benefits costs		$ (6,461)

Revised Final Worksheet for Reimbursement Request after Disallowed Costs Charged to the ARC Grant

Approved Budget Category	Allowable Matching Cost	Allowable ARC Cost	Allowable Total Cost
Personnel	$ 7,713	$ 30,850	$ 38,563
Fringe Benefits	2,571	10,283	12,854
Travel	935	3,739	4,674
Equipment	12,356	49,422	61,778
Supplies	158	633	791
Contractual	469	1,876	2,345
Construction	-	-	-
Indirect Cost	1,533	6,134	7,667
Other Approved Line Items	937	3,749	4,686
Totals	$ 26,672	$ 106,686	$ 133,358

APPENDIX C

ARC'S RESPONSE

APPALACHIAN
REGIONAL
COMMISSION

A Proud Past,
A New Vision

Date: October 22, 2009

To: Clifford Jennings, ARC Inspector General

From: Thomas Hunter, ARC Executive Director

Subject: Report on Telecommunications Project, **STeP UP**

Grantee: Mission West Virginia

Attached to this memorandum is an explanation of the Commission's determination that the payments questioned in the above-referenced audit report of Mission West Virginia were appropriate given the terms of these grants and the legitimacy of the incurred charges. Accordingly, no disallowance is required. The explanation was prepared by the Commission's General Counsel, Charles Howard. Please contact him if you have questions.

We do agree with your assessment that Mission West Virginia's accounting procedures during the first two grant years were inadequate. We are confident that the organization has successfully addressed these deficiencies, but, in any future grants to Mission West Virginia, we will provide extra attention to this aspect of their grants management performance. Thank you.

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Date: September 14, 2009
To: Thomas Hunter, Executive Director
From: Charles Howard, General Counsel
Subject: Inspector General Reports on the Mission West Virginia **STeP UP** Projects (WV-14468, C1, C2, & C3)

The ARC Inspector General has issued four draft Reports that cover the first four years of the Mission West Virginia telecommunications project, Striving for Technological Empowerment While Providing Unlimited Potential (**STeP UP**) (WV-14468, C1, C2 and C3).[1] This project was designed to increase computer access in distressed counties in West Virginia. Over the period covered by the four grants, approximately 60 computer labs were established and/or improved, with ARC funds being used largely for equipment purchase and personnel costs associated with installation, servicing, general computer technical assistance, and training. Performance results exceeded projected estimates for these grants, sometimes by significant margins.

While finding that the specific objectives of the grants were achieved in each instance, the IG's Reports recommend that ARC require the return of $199,790 of the $684,392 in grant funds paid to Mission West Virginia for program expenses. The recommended recoveries fall primarily into two general categories: placement of labs in non-distressed counties in the first, third, and fourth years of the project ($91,419) and inadequately documented payroll charges in the first, second, and third years ($106,302).[2] There is no indication in the reports that the grant funds were used for any purpose other than the purchase of computer equipment, personnel, and other miscellaneous costs associated with the establishment or improvement of computer labs in West Virginia.

The findings in these reports regarding placements of labs in non-distressed counties are accurate. For the reasons given below, however, these placements were not improper under the grants and ARC should not attempt to recover the grant funds used for the placements.

Likewise, the findings in the reports regarding inadequately documented payroll charges are accurate. Under the totality of the circumstances surrounding these grants, however, there is a strong likelihood that these charges were legitimately incurred in the performance of project activities, and the Commission is justified in allowing them to stand.

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[1] An ARC grant for the fifth year of the **STeP UP** project was not included among the IG's Reports.

[2] The report for the third year also recommended recovery of $2,069 in unmet matching costs. Mission West Virginia has provided evidence of a payment that was not charged to the ARC grant during that grant year because of miscoding. The payment, in the amount of $2,200, was for the program evaluation of the **STeP UP** project and was fully eligible under the ARC grant. Our acceptance of this payment offsets the recommended recovery.

Mission West Virginia

Mission West Virginia is a 501(c)(3) organization formed in 1997 to foster a "union of effort" between public and private organizations in West Virginia. It places particular emphasis on communities of faith. Among its various initiatives are adoption and foster care, health, public assistance, and computer literacy programs. Mission West Virginia has its main office in Hurricane, West Virginia, and operates a 13,000-square-foot warehouse and computer assembly workshop in Huntington.

The focus of Mission West Virginia's work through the ARC grants was computer literacy in technologically under-served regions. Through its **STeP UP** program, Mission West Virginia set up computer labs in local churches, libraries, and community centers; provided free formal classes in computer literacy; and provided internet access for personal or other use. One of its main goals was to help residents of West Virginia develop modern workforce skills.

As part of **STeP UP**, Mission West Virginia intended to establish state-of-the-art computer labs serving ARC distressed counties. Each lab would have broadband internet access and be equipped with ten new computers, one networked printer, and one scanner. The establishment of these labs entailed identifying lab sites; ordering, building, and testing computers; distributing, installing, and setting them up; holding orientation sessions for the lab site coordinators; advertising the **STeP UP** program; and recruiting students. Mission West Virginia was responsible for and involved in each step of the process. In addition to establishing new labs, Mission West Virginia also monitored existing labs by, for example, relocating under-used labs or replacing personnel to better serve its users.

Mission West Virginia has consistently either achieved or surpassed its project goals in terms of labs established, users served, and courses offered. The success of **STeP UP** can be attributed not only to Mission West Virginia's devoted staff but to efficient, strategic integration with the existing community. Because it housed computer labs in existing structures, such as local churches, it did not need to devote resources to building construction. Further, such grass roots integration enabled Mission West Virginia to benefit from the existing networks of churches and community centers. Thus, though Mission West Virginia's operation of the **STeP UP** program was labor-intensive, due to its efficiency, it was able not only to establish computer labs in the targeted distressed counties but to extend the benefits of its services to other West Virginia counties as well.

<u>Lab Placements in Non-distressed Counties</u>

ARC should not agree with the recommended recovery of more than $90,000 representing project activities in counties that were not distressed counties for the following reasons:

1.) Most importantly, Mission West Virginia fully carried out its responsibilities under each of these grants. It made placements in all the distressed counties for which it had requested ARC grant funds and also made the number of placements that it had promised for each county in its grant applications. In fact, Mission West Virginia surpassed its goals: Its work benefited other distressed and non-distressed counties in West Virginia, and performance results far exceeded original estimates.

The benefits realized in other counties in no way diminished project performance but may be viewed as a welcome bonus benefit from a highly successful effort by a dedicated grantee.

2.) There is no evidence that Mission West Virginia at any time deliberately circumvented grant requirements or made lab placements that deviated from its understanding of its responsibilities under the grants. Rather, Mission West Virginia appears to have been motivated throughout the grant period by a desire to maximize project benefits for its target population and other communities in West Virginia. For example, Mission West Virginia made placements in several non-distressed counties specifically to provide convenient service to residents in distressed counties where broadband access was problematic. In another example, Mission West Virginia upgraded sites in a transitional county that had received a lab when it was designated distressed. In yet another instance, Mission West Virginia placed a lab in a transitional county apparently by inadvertence on the assumption that it was distressed. None of these actions evinces an intent to deceive ARC or violate grant conditions.

3.) ARC was given ample notice of most, if not all, of these lab placements in reports filed with ARC during the term of the grants, and ARC offered no objections to the placements. Rather, ARC and West Virginia State officials responsible for the administration of these grants seem to have encouraged Mission West Virginia to exercise its own discretion to place labs at sites most advantageous to meeting project objectives.

4.) Mission West Virginia has maintained a cooperative posture throughout our review, supplying copious records and detailed explanations of its conduct. In addition, Mission West Virginia has offered to remove the equipment placed in non-distressed counties during the ARC grant period and place it in distressed counties if requested to do so by ARC.

Mission West Virginia achieved its specific project goals in the ARC-assisted **STeP UP** program. The IG's Reports, however, have read these grants as extremely restrictive as to the extension of project benefits, when, in fact, they were not intended to be so read and they were certainly not so administered. ARC and State personnel administering these grants did not attempt to thwart Mission West Virginia's efforts to expand the project's service area; on the contrary, there is every indication that Mission West Virginia was encouraged to cover as broad a service area as possible as long as the original service area received full project benefits. In no instance were project benefits diminished in the original service area in ARC distressed counties. As the IG's Reports note for each project reviewed, "the specific objectives identified in the grant were achieved."

The broad coverage achieved by these grants and the impressive performance results in terms of service not only to the specific target populations but also to many additional West Virginia communities is a sign of a successful project, and it would serve no useful purpose and would appear unnecessarily punitive to require the return of grant funds under these circumstances or to require Mission West Virginia to dismantle the existing labs in transitional counties and move them to distressed counties. Accordingly, we should not accept the recommendations in the IG's Reports for the recovery of the funds applied to establishing and improving computer labs in non-distressed counties.

Inadequately Documented Payroll Charges

The IG's Reports recommend the recovery of more than $100,000 from Mission West Virginia for salary and benefit expenses charged to these grants in the first, second, and third years, for which adequate records were not maintained and which had been charged on the basis of budget estimates rather than actual recorded hours as required by OMB Circular A-122.[3] The recommended recovery is based solely upon record keeping and reporting anomalies and does not bear any suggestion that the ARC grant funds were misspent or otherwise improperly applied. As discussed below, because the record demonstrates the high likelihood that these funds were properly applied to carry out ARC grant activities, we should not accept the recommendations for their recovery in the IG's Reports.

Missing Payroll Records

Mission West Virginia has explained that it kept payroll records throughout all the grant periods but that most records for the first grant year and some of the records for the second year cannot be located at this time. Mission West Virginia believes that these records may have been lost due to the flooding of its warehouse facility in Huntington. Although these records are no longer available, Mission West Virginia has provided extensive records for the periods immediately preceding and succeeding this gap. These are detailed payroll records on which each employee would indicate hours worked on a daily basis and note the number of hours chargeable to different Mission West Virginia accounts or grants. Mission West Virginia claims, and the claim appears credible, that its employees similarly filled out detailed time sheets during the period for which no records can now be produced and that these records were lost by accident.

Under these circumstances, and absent any indication that grants funds were misspent, Mission West Virginia's failure to produce payroll records should not serve as the basis for a demand that grant funds be returned to ARC. Mission West Virginia has demonstrated that it did not neglect to have its employees prepare proper time sheets. That some of these records have been lost is unfortunate, but this fact does not support a supposition that the ARC grant funds were not applied to achieve the grant objectives. As will be discussed further below, all the indications derived from these files support the contrary inference that Mission West Virginia accomplished more work, not less.

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[3] Mission West Virginia rectified its accounting procedures early in the third grant year, and thereafter no further concerns were noted in the reports.

To prevent future loss, Mission West Virginia relocated its records storage to a new warehouse; where financial and organizational documents are placed on the top tier of pallet racks in boxes, inaccessible without a forklift, and out of reach of any possible flooding. Mission West Virginia has also started requiring all employees to back up their timesheets, now done on Excel spreadsheets, routinely. Additionally, Mission West Virginia's Director of Accounting Services will continue to keep hard copies of employee timesheets.

ARC believes that Mission West Virginia's responses to this issue and its establishment of preventive measures for the future are adequate, and consequently we should not agree to the recommendation that funds be recovered on account of missing payroll records.

Charges Based on Budget Estimates

Although it is probable that Mission West Virginia employees filled out time sheets that noted the hours they devoted to different accounts or grants, during the first two ARC grant years and a portion of the third, payment requests to ARC were based not on the actual hours reported on the time sheets but on the budget estimates included with the project application. As the IG's Reports note, according to OMB Circular A-122, salary time can be charged against a grant in this fashion only if the estimates are later reconciled with actual hours worked on the grant. Mission West Virginia has explained that, for most employees assigned to work on the ARC-supported **STeP UP** project, the actual number of hours routinely exceeded the budget estimates but that it was the organization's standard procedure to charge only the number of hours that had originally been budgeted regardless of how many were actually worked. Since Mission West Virginia did not intend to charge more than the originally estimated amount, it did not reconcile actual hours to estimated hours.

Unfortunately, most of the payroll records that would support this explanation are among those that have been lost. Interestingly, however, some records have been located, and they tend to support Mission West Virginia in this respect. Hand-kept time sheets during the second grant year by [redacted], Mission West Virginia's then Executive Director, are fairly complete, covering approximately ten months of the grant year. These records demonstrate that [redacted] consistently exceeded, in actual hours devoted to the ARC grant, the budget estimate of his time (though the budget estimate was used as the sole basis for payment requests). Records for employee [redacted], covering a sixteen month span (with some gaps) during the second and third grant years, also show that his actual hours averaged more than the budget estimates of his time during that period. [4] Sketchy time-sheet records of other employees also appear to confirm this practice.

Further, we have ample evidence that supports the supposition that Mission West Virginia employees worked at least, if not more than, the estimated hours based on the highly active and labor-intensive

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[4] Mission West Virginia had budgeted 15% of [redacted] time in the second year for the **STePUP** program in its grant application. His time sheets from that year show that 23% of his time was actually devoted to the program. Though the budget estimates for [redacted] time were 30% in the second grant year and 35% in the third year, he averaged 40% of his time on the **STePUP** project. While both [redacted] and [redacted] occasionally worked less on the ARC grant than estimated in the budgets, on average over the period covered, they both significantly exceeded the estimates.

nature of Mission West Virginia's efforts to accomplish the objectives of the **STeP UP** project. For example, not only did Mission West Virginia employees scout out appropriate sites for computer labs and make arrangements for placements at those sites with local organizations. They also ordered, received, and assembled computer equipment; transported it to different sites; and installed it. Though some of this work was accomplished at Mission West Virginia's main office (then in St. Alban's, West Virginia) and some was accomplished at its warehouse in Huntington, a great deal was accomplished at approximately sixty different sites scattered throughout the State. Moreover, Mission West Virginia's participation in this project was not merely a turn-key operation, whereby Mission West Virginia would simply install labs and then let the new owners fend for themselves. To the contrary, Mission West Virginia personnel provided a great deal of upgrading, training, and other technical assistance at individual sites. Their involvement continued long after these sites were established throughout the five-year grant period (and continues to this day). Because of the labor-intensive nature of its **STeP UP** project and because Mission West Virginia undertook continuing responsibility for maintenance of labs it established, it is not a stretch to think that its employees consistently worked at least, if not more than, the hours budgeted in the grant during the first and second grant years.

There is further support for the idea that Mission West Virginia employees were working sufficient hours to comply with the grant during the first two grant years, for which records were lost, by using, for comparison purposes, the level of Mission West Virginia's activity in the last three grant years, for which accurate and complete records were maintained. During these last three grant years, Mission West Virginia provided the same services and charged the ARC grants for equipment and personnel costs in roughly the same ratios as it did in the first two grant years. Because the work programs described in the project applications and reported on for the first two grants years are very similar to those for the last three grant years, there is every reason to believe that the undocumented payroll charges in the first two grant years were consistent with the properly documented payroll charges in the following three years of the grant and that, by extension, the hours worked by Mission West Virginia employees in the first two years were, as in the last three years, also compliant with the grant.

ARC has a firm basis for accepting as genuine the inadequately documented payroll charges incurred during the **STeP UP** project based on the records we do have, the reported labor-intensive nature of the grant activity, Mission West Virginia's success in reaching its objectives, and the comparison between activities during the first two grant years and the fully documented activities during the last three grant years of the **STeP UP** project. Accordingly, we should not accept the recommendations in the IG's Reports for the recovery of these funds.[5]

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[5] This memorandum should not be understood as an exoneration of Mission West Virginia's bookkeeping practices in the first two grant years. As the IG's Reports note, those practices were clearly inadequate for the recipient of a Federal grant. While we are confident that effective steps were taken to rectify this problem, future grants, if any, to Mission West Virginia will be closely monitored for purposes of assuring that proper accounting and bookkeeping practices continue to be observed.

APPENDIX D

AUDITORS' COMMENTS

AUDITORS' COMMENTS

Re:
1. WV-14468-03 – Mission WV Striving for Technological Empowerment While Providing Unlimited Potential (Report No. 10-01)
2. WV-14468-C1-04 – Mission WV Striving for Technological Empowerment While Providing Unlimited Potential (Report No. 10-02)
3. WV-14468-C2-05 – Striving for Technological Empowerment While Providing Unlimited Potential (Report No. 10-03)
4. WV-14468-C3-06 – Mission WV Striving for Technological Empowerment While Providing Unlimited Potential (Report No. 10-04)

In our four reports, listed above, covering the first four years of Mission West Virginia, Inc.'s telecommunications project, Striving for Technological Empowerment While Providing Unlimited Potential, we recommended that ARC disallow costs associated with (1) the improper location of project sites in the first, third, and fourth grant years of the project ($87,941) and (2) inadequately documented payroll charges in the first, second, and third grant years ($106,302). In the third year, we also recommended that ARC disallow $2,069 in unmet matching costs. See **Appendix E** for auditors' summary of recommended disallowed costs by grant, type of costs and amounts.

In response to our draft reports, ARC stated they had determined that the questioned costs were appropriate given the terms of the grants and the legitimacy of the incurred charges and, accordingly, no disallowance will be required. ARC also stated that Mission West Virginia, Inc. had provided evidence that the matching costs in the third year had been met. See **Appendix C** for ARC's complete response.

1. Improper Location of Project Sites

Concerning the improper location of project sites, we would like to note that each grant agreement clearly states that ARC funds will be used to help establish computer labs in **distressed** counties, while our findings indicated that 8 of 59 labs were established in non-distressed counties.

The grantee and ARC had sufficient opportunity to make changes in the scope of the project through grant amendments, but did not. When we requested that the grantee provide documentation for the approval of site changes, the grantee provided copies of a set of emails from early in the first grant period between the grantee, the West Virginia Development Office (WVDO), and ARC. In these emails, the grantee requested permission to locate a site in Boone County, a distressed county not on the original list. Approval was granted by ARC and WVDO because the new site was in a distressed county, which was consistent with goals and scope of the project in the grant agreement. The grantee never provided any documentation from ARC for the approval of any sites in non-distressed counties.

If it was the intent of ARC and Mission West Virginia, Inc. to change the scope of the grant agreements to include non-distressed counties, the grant agreements should have been modified accordingly.

In its response, ARC states that, "...Mission West Virginia surpassed its goals: Its work benefited other distressed and non-distressed counties in West Virginia, and performance results far exceeded original estimates. The benefits realized in other counties in no way diminished project performance but may be viewed as a welcome bonus benefit from highly successful effort by a dedicated grantee." However, ARC's response fails to acknowledge that funds spent in non-distressed counties could have been returned to ARC and used to fund other grants, since the purpose of these grants, as stated in the grant agreements, was only for **distressed** counties. Additionally, ARC's response fails to acknowledge that ARC funds spent in non-distressed counties were outside the scope of the grant agreements, whose only purpose was to locate lab sites in **distressed** counties.

Because locating 8 of 59 labs in non-distressed counties was outside the scope of the grant agreements, we continue to recommend the disallowance of $87,941 of project costs.

2. Inadequately Documented Payroll Charges

While agreeing with our assessment that accounting procedures were inadequate during the first two grant years, ARC's response indicates that Mission West Virginia, Inc. employees probably worked more hours on the project than was charged to the grants and states that, "Mission West Virginia has explained that ... the actual number of hours routinely exceeded the budget estimates but that it was the organization's standard procedure to charge only the number of hours that had originally been budgeted regardless of how many were actually worked."

However, OMB Circular A-122 expressly disallows the use of predetermined budget estimates as support for charges to grant awards. OMB Circular A-122 does allow for the interim use of estimated costs provided they are adjusted to actual costs at least annually. The grantee had opportunities to adjust estimated payroll costs to actual costs during the grant periods and at closeout, but did not. During the first three grant years, actual hours were never reconciled to estimated hours. Also, Mission West Virginia, Inc. never provided any documentation during the audit to support that the actual hours exceeded the budget estimates.

The cost principles contained in OMB Circular A-122 are designed to provide that the Federal Government bear its fair share of costs and to ensure that all federal grantees are treated fairly and equitably. Accordingly, ARC should require compliance with the cost principles established by OMB Circular A-122, since the majority of federal grantees, whether ARC or other federal agencies, do comply with those cost principles in the

administration of their grants. Additionally, the precedent set in this case could have negative implications for any current or future cases of inadequately documented payroll costs charged to ARC grants.

Because predetermined budget estimates of employees' time are expressly disallowed under OMB Circular A-122, we continue to recommend the disallowance of $106,302 of salary and benefit costs.

3. Unmet Matching Costs

Concerning the unmet matching costs in the third year of the project, we accept ARC's statement that Mission West Virginia, Inc. has provided sufficient evidence that the required matching costs were met. As a result, this finding is considered closed.

APPENDIX E

AUDITORS' SUMMARY OF RECOMMENDED DISALLOWED COSTS

Mission WV Striving for Technological Empowerment While Providing Unlimited Potential

Auditors' Summary of Recommended Disallowed Costs

	WV-14468-03	WV-14468-C1-04	WV-14468-C2-05	WV-14468-C3-06	Total
1. Improper location of site	$ 3,855 *(1 of 21 sites)*	$ - *(0 of 11 sites)*	$ 77,500 *(6 of 15 sites)*	$ 6,586 *(1 of 12 sites)*	$ 87,941 *(8 of 59 sites)*
2. Inadequately documented payroll	51,724	48,117	6,461	-	106,302
3. Unmet matching costs	-	-	2,069	-	2,069
Total original recommended disallowed costs	55,579	48,117	86,030	6,586	196,312
Adjusted disallowed costs	-	-	(2,069)	-	(2,069)
Total recommended disallowed costs after adjustment	$ 55,579	$ 48,117	$ 83,961	$ 6,586	$ 194,243