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November 30, 2001

Mr. Hubert N. Sparks, Inspector General
Appalachian Regional Commission
1666 Connecticut Avenue, NW Room 215
Washington, DC 20235

RE: Final Reports on the Follow-up Review of The Foundation for Appalachian Ohio's
Organizational Development, ARC Grant Number OH-13743-I-302

Dear Mr. Sparks:

Enclosed please find five copies (two bound and three unbound) of our final report on the follow-up review of The Foundation for Appalachian Ohio's Organizational Development, ARC Grant Number OH-13743-I-302. It has been our pleasure working with you and your staff on this project. If we can be of additional assistance, please call (502) 245-0775.

Sincerely,


William R. Tichenor
Tichenor & Associates, LLP

Enclosures

**MEMORANDUM REPORT ON REVIEW OF THE
THE FOUNDATION FOR APPALACHIAN OHIO**

ORGANIZATIONAL DEVELOPMENT

ARC Grant No.: OH-13743-I-302

July 1, 2000 through June 30, 2001

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

Report Number: 02-1 (H)

Date: November 30, 2001

**MEMORANDUM REPORT ON REVIEW OF THE
THE FOUNDATION FOR APPALACHIAN OHIO**

ORGANIZATIONAL DEVELOPMENT

ARC Grant No.: OH-13743-I-302

July 1, 2000 through June 30, 2001

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 No. 02-1 (H)

SUBJECT TO: Memorandum Follow-up Review Report on The Foundation For
Appalachian Ohio Organizational Development Grant No: OH-13743-I-
302

PURPOSE: The purpose of our follow-up review was to determine if (a) the total funds claimed for reimbursement by The Foundation For Appalachian Ohio for its Organizational Development 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) the objectives of the grant had been met.

BACKGROUND: ARC awarded Grant Number OH-13743-I-302 to The Foundation For Appalachian Ohio for the period from July 1, 2000 through June 30, 2001. The purpose of the grant was to provide funds to The Foundation For Appalachian Ohio to support the foundation's second year of start-up operations, including staff additions, board and trustee recruitment, endowment building and marketing and outreach efforts.

The ARC grant funding for OH-13743-I-302 was for a sum not to exceed \$100,000 of actual, reasonable and eligible project cost. The Grantee was to provide state and local matching funds totaling \$226,127, in cash, contributed services or in-kind contributions, as approved by ARC.

The specific tasks were:

The Foundation For Appalachian Ohio will assist charitable donors to broaden and deepen investments for community development projects in Appalachian Ohio. ARC funds will support the Foundation's second year of start-up operations, including staff additions, board and trustee recruitment, endowment building and marketing and outreach efforts.

SCOPE: We performed a program review of the grant as described in the Purpose, above. Our review was based on the terms of the grant agreement and on the application of certain review procedures in accordance with the ARC, OIG Review Program. Specifically, we determined if the tasks listed above had been performed, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if The Foundation For Appalachian Ohio complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with The Foundation For Appalachian Ohio's personnel. Our results and recommendations are based on those procedures and were conducted in accordance with applicable Government Auditing Standards.

RESULTS: The following results were based on our review performed at The Foundation For Appalachian Ohio in Nelsonville, Ohio on August 28, 2001 through August 30, 2001.

A. Incurred Costs

The Foundation For Appalachian Ohio paid out program costs of \$326,127 for grant OH-13743-I-302, of which they claimed direct reimbursable costs from July 1, 2000 through June 30, 2001 of \$100,000 from ARC and matching costs of \$226,127. We reviewed the direct and matching costs incurred and determined that the funds had been expended as reported.

B. Internal Controls

We did identify two internal control weaknesses that could have affected the accountability of costs or compliance with the terms of the grant agreement.

1. Project Progress Reports were not submitted every 120 Days

During the grant period, progress reports were not prepared and submitted to ARC as required by the terms and conditions of the grant agreement. We noted that for grant OH-13743-I-302 the grantee did not issue a progress report for the first two 120 day periods. The grantee did however complete a narrative for the grant period with the final report. Failure to submit progress reports was also noted on ARC's review of grant OH-13223-I-302; report number: 01-25(H).

Grant Agreement Number OH-13743-I-302 between ARC and The Foundation For Appalachian Ohio Part I-3. Reports states:

“A progress report for every 120-day period of the grant and a final report are required under this agreement.”

OMB A-102, Subpart C, Section 41, para. (b)(3), Frequency, states:

“The Federal agency may prescribe the frequency of the report for each project or program. However, the report will not be required more frequently than quarterly. If the Federal agency does not specify the frequency of the report, it will be submitted annually. A final report will be required upon expiration or termination of grant support.”

The grantee did not receive a copy of the prior ARC report number: 01-25(H) until July of 2001 and was unable to take corrective action for this grant period. The grantee indicated that timely progress reports would be submitted for any future grants.

RECOMMENDATION:

We recommend that ARC require the grantee on any future grants, to submit progress reports every 120 days and complete a final report within 30 days of the end of the grant period.

2. Grant Expenditures Are Not Accounted For Separately

The accounting system maintained by The Foundation For Appalachian Ohio commingled all federal, private and public funds into a single general ledger account. Commingled funds were also noted on the prior ARC review of grant OH-13223-I-302; report number: 01-25(H).

OMB Circular A-110, Subpart C – Post-Award Requirements, .21 – Standards for financial management systems, states:

“(b) Recipients’ financial management systems shall provide for the following: (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program. (2) Records that identify adequately the source and application of funds for federally-sponsored activities. (3) Effective control over and accountability for all funds, property and other assets. (4) Comparisons of outlays with budget amounts for each award. (5) Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks. (6)

Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award. (7) Accounting records including cost accounting records that are supported by source documentation.”


The grantee is currently in the process of updating their accounting system. The new system is expected to be operational for the fiscal year beginning October 1, 2001. The system will allow the grantee to separately code and account for state and federal grants.

RECOMMENDATION:

We recommend that ARC require the grantee to use the new accounting system to separately code and account for future grants.

C. Program Results

Our review of The Foundation For Appalachian Ohio Organizational Development Grant indicated that the objectives of the grant had been met.


TICHENOR & ASSOCIATES, LLP
Louisville, Kentucky
August 30, 2001