

**MEMORANDUM REPORT ON REVIEW OF
OHIO MID-EASTERN GOVERNMENTS ASSOCIATION
(OMEGA)
CAMBRIDGE, OHIO**

**SECTION 302 (A)(1) ADMINISTRATIVE GRANT FOR LOCAL
DEVELOPMENT DISTRICT**

ARC Grant Number: OH-0707C-C32

Grant Period: January 1, 2001 through December 31, 2001

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Report Number: 04-02

Date: December 5, 2003

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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: 04-02

SUBJECT: Memorandum Review Report on Ohio Mid-Eastern Governments
Association (OMEGA), Section 302 (A)(1) Administrative Grant
for Local Development District, ARC Grant Number: OH-0707C-
C32.

PURPOSE: The purpose of our review was to determine if (a) the total funds provided to OMEGA for its Administrative 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 OH-0707C-C32 to OMEGA for the period January 1, 2001 through December 31, 2001. Total grant funding was for an amount not to exceed \$178,000 or 49 percent of actual, reasonable, and eligible project costs. ARC required that the grant be matched with \$184,099 or 51 percent in cash, contributed services, or in-kind contributions, as approved by the ARC. The ARC made four equal payments to OMEGA in January, April, June, and October of 2001, totaling \$178,000.

The grant is to provide funds for the purpose of assisting and enabling OMEGA to establish and expand economic development services that are deemed to be useful and pertinent to the accomplishment of the objective and purposes of the ARC.

The main objective of OMEGA is to help local entities in a ten-county Appalachian region plan and develop projects to boost economic activity and the quality of life for the citizens of the region. In addition, OMEGA researches sources of funding available to local entities, and assists in the application and reporting process for the applicable funding. OMEGA staffs an office of approximately ten people who work together to fulfill these objectives.

The funds will provide assistance to OMEGA to pay for the costs of operating the office, which consist primarily of personnel costs and indirect costs.

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 OMEGA was in compliance with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with OMEGA 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 OMEGA in Cambridge, Ohio, on September 29, 2003 through October 2, 2003.

A. Incurred Costs

OMEGA's financial records report total program costs of \$353,110 for the calendar year 2001. Of these costs, \$173,595 (49%) was attributed to ARC expenditures, with the remaining \$179,515 (51%) attributed to matching and in-kind expenditures.

During the course of the audit, we reviewed the direct, indirect, and in-kind costs claimed and determined that in general the funds had been expended as shown in the financial records. However, while reviewing the final report prepared by OMEGA for the grant period, it was noted that a discrepancy existed between the financial records and Form 269, the "Financial Status Report (Long Form)".

The Financial Status Report completed by OMEGA for the period January 1, 2001 through December 31, 2001, reports total outlays of \$362,099, with the total amount divided as follows: \$33,237 as Third Party (in-kind), \$150,862 as all Other Recipient Outlays, and \$178,000 as ARC Share of Outlays. Based upon the review of OMEGA's financial records, it was determined that total outlays were \$353,110, with the total amount divided as follows: \$38,996 as Third Party (in-kind), \$140,519 as all Other

Recipient Outlays, \$173,595 as ARC Share of Outlays, \$178,000 as ARC Funds Authorized, and \$4,405 as Unobligated Balance of ARC Funds.

RECOMMENDATION:

We recommend that OMEGA restate and resubmit Form 269 “Financial Status Report (Long Form) to the ARC, in order to show actual associated costs with the grant. We also recommend that OMEGA consult with the ARC’s Division of Finance and Administration to determine how the unobligated balance of ARC Funds should be represented in future grant activity. Provision 4 of the Grant Offer Letter states:

“Surplus funds, if any, remaining from previous budget year shall be applied to the current year’s program with appropriate adjustments made to the schedule above, in a manner to be determined by ARC’s Division of Finance and Administration.”

GRANTEE’S RESPONSE:

In a letter dated November 14, 2003, OMEGA stated the following in response to the recommendation:

“OMEGA will restate and resubmit Form 269 “Financial Status Report” to the ARC and show the actual associated costs to the grant. In addition, we will hold discussion with ARC’s Division of Finance and Administration in order to determine how the unobligated balance of ARC funds (\$4,405) should be addressed.”

AUDITOR’S RESPONSE:

We have reviewed and agree with OMEGA’s response to the recommendations listed above.

B. Internal Controls

During the course of the audit, we reviewed OMEGA’s system of internal controls. Two areas of weakness were identified that could have affected the accountability of costs or compliance with the terms of the grant agreement.

1. Segregation of Duties

Proper internal control procedures require that there be an adequate segregation of duties to ensure the proper safeguard of assets.

Due to the limited number of OMEGA’s staff, there exists an absence of appropriate segregation of duties consistent with appropriate control objectives. The duties of

receiving, disbursing, recording, and reconciliation of bank accounts are not separated, which could lead to the possibility of the misappropriation of cash.

OMEGA does not have the ability or funds to increase the number of staff to ensure that adequate internal controls are in place to safeguard against the misappropriation of cash.

RECOMMENDATION:

While we understand that a complete segregation of duties is impracticable and unaffordable in a small office with limited personnel, we believe that some relatively minor changes could be made that would assist in improving controls. Some of the suggested changes are as follows:

1. All checks signed by a person or persons not having access to accounting records, cash receipts, or petty cash funds.
2. Bank reconciliation duties segregated from cash receipts and/or cash disbursements duties.
3. Adequate bonding insurance specifically covering employees authorized to sign checks.

GRANTEE'S RESPONSE:

In a letter dated November 14, 2003, OMEGA stated the following in response to the recommendations:

“We preface our response by stating the OMEGA office services a large jurisdictional area totaling 5,020 square miles, servicing approximately 600,000 residents within a 10 county area. Primary funding has remained level for the past 12 years and operational costs have skyrocketed. We have survived and balanced our budget by cutting operational costs and with a reduction in work force. In these difficult economic times many of our communities and counties are financially fragile and they ask for the OMEGA staff to fill their voids and do more and more of their planning, administration and grant writing.

We will continue to monitor segregation of duties within our fiscal office and provide the necessary training to insure proper quality of work.

Regarding recommendation #1, we advise that only board officers (4) are authorized to sign accounts payable checks. Payroll checks are permitted to be signed by five (5) OMEGA staff members with our fiscal officer and myself included in the five (5). Our fiscal officer only signs a payroll check when all other eligible individuals are out of the office on the day payroll is processed. Each payroll check requires two (2) signatures. I ask that this authorization be allowed and assure the ARC Program this action of allowing the fiscal officer to sign payroll checks will only occur in emergency situations.

Regarding recommendation #2, we state that the OMEGA secretary is now handling cash receipts and deposits as they are received. Our cash receipts consist of checks received for annual dues and checks or cash received for registration fees for our board meetings. The cash disbursement process is somewhat more complicated and requires us to train someone who has never done this task before. We assure you as time and work allow, a second person will be trained to do the work task of cash disbursements.

Regarding recommendation #3, we advise that all staff and board members authorized to sign checks currently have bond coverage of \$50,000 per individual. We are comfortable with this amount. If there is a required or preferred amount we ask to be advised and assure you we will comply.”

AUDITOR’S RESPONSE:

We have reviewed and agree with OMEGA’s response to the recommendations listed above.

2. Rental Agreement Should be in Writing

OMEGA is currently leasing their office space from an outside third party. However, no written agreement specifying all aspects of the lease could be found. OMEGA stated that they have leased the office space for many years at the same rate.

RECOMMENDATION:

To protect OMEGA and to eliminate potential problems that can arise from unwritten agreements, we recommend that a written lease agreement be prepared and signed. The agreement should name the parties involved and list the terms of the lease, the rentals, and the guarantees.

GRANTEE’S RESPONSE:

In a letter dated November 14, 2003, OMEGA stated the following in response to the recommendation:

“We agree with the above-mentioned recommendation and I have made contact with the owners of the building, the Guernsey County Commissioners, and asked that a formal written lease be prepared and signed by both entities. We have been promised that this document will be prepared in accordance with the recommendation.”

AUDITOR’S RESPONSE:

We have reviewed and agree with OMEGA’s response to the recommendations listed above.

C. Program Results

Our review of the OMEGA Section 302 (A)(1) Administrative Grant for Local Development District indicated that the specific objectives identified in the grant are being achieved.

Tichenor & Associates, LLP
Louisville, Kentucky
December 5, 2003