



April 10, 2000

MEMORANDUM FOR The Federal Co-Chairman
 ARC Executive Director

SUBJECT: OIG Reports

Enclosed are copies of the following reports for which our records do not indicate transmittal to your office. The reports were previously distributed to the grantees. In most instances, the reports were closed on issuance based on the absence of material findings.


- 00-13(H) Benton County, Mississippi, Head Start Facility
- 00-14(H) Team Pennsylvania Entrepreneurial Education Program
- 00-15(H) Team Pennsylvania Entrepreneurial Network Initiative
- 00-16(H) Northern Tier Pennsylvania RPDC Administrative Grant
- 00-17(H) New York State Technical Assistance
- 00-20(H) Kentucky Regional Diabetes Healthcare Delivery in Appalachia
- 00-21(H) Tennessee Technical Assistance
- 00-22(H) Clay County, Tennessee, Industrial Project
- 00-23(H) Southwest Virginia Higher Education Center
- 00-24(H) Appalachian Rural Systemic Initiative, Kentucky
- 00-25(H) Dental Care, Cumberland Plateau Health District, Virginia
- 00-29(H) Carraway Life Saver Program, Alabama
- 00-31(H) Alabama J-1 Followup Visits

These reviews generally disclosed that grant funds were accounted for, controls were in place, and project tasks were completed.

Report 00-15(H), Team Pennsylvania Entrepreneurial Network Initiative, contains several open issues with respect to a small claim for costs incurred prior to grant start; \$3,185 in unsupported matching costs; and subrecipient monitoring.

Report 00-20(H), Regional Diabetes Healthcare Delivery in Appalachia, questions \$12,247 in personnel costs incurred outside the grant period. Report 00-21(H), Tennessee Technical Assistance recommends improved identification of performance measures and results.

Several reports are awaiting auditee comments with a primary issue noted in these reports being limited grantee oversight or monitoring of subrecipients or subcontractors with the result being difficulty to assess whether the activities performed were commensurate with the costs incurred.


Hubert N. Sparks
Inspector General

Enclosures

cc: Ms. Judy Rae

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Alabama
Georgia

Kentucky
Maryland

Mississippi
New York

North Carolina
Ohio

Pennsylvania
South Carolina

Tennessee
Virginia

West Virginia



October 13, 2000

MEMORANDUM FOR The Federal Co-Chairman
 ARC Executive Director
 ARC General Counsel

SUBJECT: OIG Reports

The following reports are forwarded:


00-6(H)	NC-7780-76/77	Technical Assistance
00-9(H)	MD-12355	Export Expansion
00-25(H)	VA-12337	Leadership and Civic Development
00-40(H)	WV-12696	Training, Wood Technology Center
00-41(H)	WV-11311	Mountaineer Food Bank
00-43(H)	TN-12461	Telecommunications Initiative
00-44(H)	KY-12872	Training Welfare Recipients
00-55(H)	NY-12870	Meat Processing Services to Small Producers
00-56(H)	NY-13307	Technical Assistance to Producers
0057(H)	NY-13107	Electronic Communications
00-59(H)	TN-12858	Communication and Technology System
00-60(H)	CO-12988	Assist Displaced Employees

In most cases, the reviews disclosed no matters needing further attention. Reports and issues for which followup action is appropriate included:

- 00-6(H) —NC-7780, Technical Assistance. Open issues pertain to conference travel, documentation of charges, budgeting process, timely reporting, and deobligations.
- 00-9(H) —MD-12355, Expand Exports through Creation of an International Trade Assistance Center. Open issues pertain to costs questioned by the grantee's independent auditor (\$59,295) and a duplicate payment.
- 00-40(H) —WV-12696, Expand Training and Services Offered at the Wood Technology Center. Open issues pertain to expenditures after the end of the grant period (\$24,685), use of unexpended funds (\$3,220), exceeding line item approved budget, and changes in scope.

- 00-41(H) —WV-11311, Mountaineer Food Bank. Open issues pertain to purchase of equipment not in budget (\$10,693) and exceeding line item budget approval.

The absence of progress reports by grantees was noted in several reports; and while this was not considered a significant issue in the cases noted, consideration could be given to the general issue of quarterly progress reports and/or the need for followup to obtain required reports.



Hubert N. Sparks
Inspector General

Enclosures

cc: Ms. Judy Rae

**Final Independent Accountant's Report on
Applying Agreed Upon Procedures to
Grant Agreement Expenditures**

**Grant VA-12337-96/97
Virginia Department of Housing and Community Development
Richmond, Virginia**

**Submitted to the
OFFICE OF INSPECTOR GENERAL
OF THE
APPALACHIAN REGIONAL COMMISSION**

Report No. 00-25 (H)

May 12, 2000

TABLE OF CONTENTS

Background and Objective.....	1
Scope and Methodology	2
Results.....	4
Conclusion	5
Distribution	5
Management's Comments	6

FINAL INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES TO GRANT AGREEMENT EXPENDITURES

To the Inspector General of the Appalachian Regional Commission:

BACKGROUND AND OBJECTIVES

The Appalachian Regional Commission (ARC) is a regional economic development agency representing a unique partnership of Federal, state, and local government. The ARC is composed of the Governors of the 13 Appalachian states and a Federal Co-Chair appointed by the President. The geographical boundaries of the Appalachian Region extend from the southern tier counties in central and western New York to the northern counties in Alabama and Mississippi.

Each year Congress appropriates funds that ARC allocates among its member states in line with an allocation formula which is intended to provide a fair and reasonable distribution of available resources among the 13 Appalachian member states.

The ARC awarded Grant VA-12337-96/97 to the Virginia Department of Housing and Community Development (DHCD) to provide funds for a leadership and civic development initiative for Appalachian Virginia. The purpose of the project was to create a challenge grant program, provide training, coordinate technical assistance, and hold a civic leadership conference for community development organizations that design and implement innovative service delivery efforts.

ARC Grant Agreement VA-12337-96 had been extended three times since it was initially signed in March 1997. The extended grant, which ultimately covered a 3-1/3 year period of performance from February 18, 1997 through June 30, 2000, called for the ARC to contribute \$122,044 towards estimated total project costs of \$152,555. The agreed upon challenge grant matches or other state and local contributions were to be made in the form of cash, contributed services, or in-kind contributions, as approved by ARC. The agreed upon combined contributions, by entity, were to be as follows:

- ARC -- \$ 122,044 or 80.0% of estimated total project costs.
- Challenge grant matches -- \$ 25,000 or 16.4% of estimated total project costs.
- Other state/local match -- \$ 5,511 or 3.6% of estimated total project costs.

The grantee entered into sub-grant agreements with four entities. The dollar amounts of these sub-grant agreements and their required local matches were as follows:

Sub-grantee	Sub-grant Amount	Required Match
Coalition For Jobs & The Environment	\$ 27,500	\$ 7,000
Russell County Chamber of Commerce	30,000	7,500
Southwest Virginia Civic Development	40,000	10,000
Lonesome Pine Office on Youth	<u>2,500</u>	<u>625</u>
Totals	<u>\$100,000</u>	<u>\$ 25,125</u>

Leon Snead & Company, P.C. is under contract to the Office of Inspector General (OIG) of the ARC to provide audit services. We performed agreed upon procedures on the grant expenditures reported to the ARC for the period October 1, 1996 through September 30, 1999. Our objective was to determine if the reported grant expenditures were allowable, allocable, and reasonable.

SCOPE AND METHODOLOGY

We have performed the procedures enumerated below, which were agreed to by the Inspector General of the Appalachian Regional Commission solely to assist you in evaluating purchasing of goods and services by the ARC. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountant's. The sufficiency of these procedures is solely the responsibility of the specified users of the report.

Consequently we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The provisions of OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations"; OMB Circular A-110 "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Learning, Hospitals, and Other Non-Profit Organizations"; OMB Circular A-122 "Cost Principles for Non-Profit Organizations"; the Federal Drug-Free Workplace Act of 1998 (Public Law 100-690); the Federal Anti-Lobbying Act (Public Law 101-121); the Federal Procurement Regulations (FAR); other Federal, state, or local procedures designed to insure fair and non-discriminatory procedures were used for the selection of participants; agreed to procedures that emphasize the expenditure of grant funds in line with the provisions of the grant agreement; and the ARC Code were used as the basis for determining allowable costs and compliance requirements. These agreed upon procedures were performed in accordance with generally accepted auditing standards and *Government Auditing Standards*, 1994 version, as amended, issued by the Comptroller General of the United States.

Office of Management and Budget (OMB) Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations" requires entities that pass federal funds through to other entities to monitor subrecipient activities to obtain reasonable assurance

that the subrecipient has expended the federal funds in compliance with federal requirements. Pass-through entities are accountable for all grant funds regardless of dollar amount. Grantees can comply with Circular A-133 requirements for subrecipient monitoring in various ways, including (1) conducting on-site field visits to subrecipient locations, (2) engaging independent accountants to review sub-recipient grant records, (3) requiring sub-recipients to be independently audited and to furnish the grantee copies of the resultant independent audit reports, and (4) requiring the sub-recipients to support all requests for reimbursement or matching contributions reported with properly executed payrolls, time records, invoices, contracts, vouchers, or other documents evidencing in proper detail the nature and propriety of the subrecipient's charges or contributions.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the financial statements of the grantee. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We performed agreed upon procedures on grant expenditures to the ARC for the period October 1, 1996 through September 30, 1999. We reviewed the available documentary support for selected reported grant expenditures. We also reviewed documentary support to determine if the grantee met the agreed upon challenge grant match and other state and local match participation percentages and dollar amounts. Finally, we performed selected tests as necessary to determine if the expenditures charged to ARC Grant VA-12337-96/97 were allowable, allocable, and reasonable.

We visited the grantee's office in Richmond, Virginia on February 3, 2000 and performed the following procedures:

- We discussed the grant expenditure process and internal controls with Virginia Department of Housing and Community Development (DHCD) officials.
- We obtained copies of all available grantee documentation which supported the claimed \$90,688 in total challenge grant expenditures, \$7,071 in conference expenditures, \$682 in Virginia DHCD cash matching expenditures, and the reported \$34,942 in subgrantee matching expenditures totaling \$133,383. We reviewed this documentation to determine if it adequately supported the reported grant fund and matching expenditures.

The dollar amount of reported subgrantee expenditures, and subgrantee match amounts, were as follows:

Sub-grantee	Sub-grant Expenditures	Reported Match
Coalition For Jobs & The Environment	\$ 26,266	\$ 12,942
Russell County Chamber of Commerce	21,922	5,662
Southwest Virginia Civic Development	40,000	15,110
Lonesome Pine Office on Youth	<u>2,500</u>	<u>1,222</u>
Totals	<u>\$ 90,688</u>	<u>\$ 34,942</u>

- We summarized all grantee reported grant expenditures, by expenditure type, from August 1997 through September 1999. We reviewed all of the available documentary support for these expenditures, including state, local, and community participation as follows:

Challenge Grant Expenditures	\$ 90,688
Conference Expenditures	7,071
State Matching Expenditures	682
Reported Subgrantee Matches	<u>34,942</u>
Total	<u>\$ 133,383</u>

- We reviewed subgrantee correspondence files and obtained copies of documentation of interest which was not included in the subgrantee payment files.

The grantee provided us with 300 pages of additional documentary support in response to our draft report. In May, 2000 we reviewed all of the additional documentary support the grantee provided for the expenditures listed below, including state, local and community participation, as follows:

Coalition For Jobs & The Environment Challenge Grant Expenditures	\$ 26,266
Coalition For Jobs & The Environment Grant Matching Expenditures	12,942
Russell County Chamber of Commerce Challenge Grant Expenditures	21,922
Russell County Chamber of Commerce Grant Matching Expenditures	5,662
Virginia Water Project / SE/R-CAP Challenge Grant Expenditures	40,000
Virginia Water Project / SE/R-CAP Grant Matching Expenditures	<u>15,110</u>
Total ARC Challenge Grant & Grant Matching Expenditures Reviewed	<u>\$121,902</u>

RESULTS

No exceptions were noted.

CONCLUSION

Based on the results of our agreed upon procedures, in our opinion, all of the claimed \$90,688 in total challenge grant expenditures, \$7,071 in conference expenditures, \$682 in Virginia DHCD cash matching expenditures, and the reported \$34,942 in subgrantee matching expenditures totaling \$133,383 reported for ARC Grant VA-12337-96/97 were allowable, allocable and reasonable and should be accepted by the ARC.

DISTRIBUTION

This report is intended for the information and use of the OIG and management of the ARC and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Leon Snead & Company, P.C.
LEON SNEAD & COMPANY, P. C.

May 12, 2000

MANAGEMENT'S COMMENTS



COMMONWEALTH of VIRGINIA

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Division of Community Development
April 14, 2000

James S. Gilmore, III
Governor

Barry E. DuVal
Secretary of
Commerce and Trade

William C. Shelton
Director

Ms. Alexis M. Stowe
Vice President
Leon Snead and Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, MD. 20850

Subject: Comments/Response to Draft Audit Report on Grant Agreement
Expenditures Audit: Grant VA-12337-96/97
Appalachian Regional Commission

Dear Ms. Stowe:

The purpose of this letter is to respond formally to your letter and draft audit report dated March 14, 2000. We hope by this letter and subsequent correspondence with you and/or the Appalachian Regional Commission to address the concerns raised in your audit report.

On page 6 of your report, the auditor notes that one of our sub-grantees, The Russell County Chamber of Commerce did not meet its matching grant funds requirement. You state "One of the grantees' 4 sub-grantees, Russell County Chamber of Commerce, appears to have provided only \$5,662 of its required \$7,500.00 match". We find this concern to be without merit. Sub-grantees were required to provide a 25% cash match for the grant funds they expended. The Russell County Chamber received a \$30,000 grant from our office. However, as your report correctly notes elsewhere—\$21,922.00 in expenditures was necessary to complete the project. Consequently, the \$5,662.00 in reported matching funds expended meets the twenty-five percent match requirement. We ask that you remove this concern/condition from your audit report.

On page 7 of your report, you note that certifications of cash matches are not adequate proof that the grantee made the required grant matches. Early in the period covered by these grants, our agency financial staff informed us that certification met ARC requirements in this matter. Since this is not the case, we will move immediately address this by one or both of the methods suggested in your letter. You also allude to there not being adequate documentation of sub-grantee expenditures of grant funds, We will also address this by one of the methods noted below.



We felt from the outset of these subgrants that we in conjunction with subgrantees narrowly defined the scope of work. Subgrantees clearly demonstrated the need for grant funds in their proposals and accompanying budgets. Consequently, as long as grantees requested reimbursement for expenditures that were within the scope of work and the delineated project budget, that the expenditures were appropriate. We scrupulously checked each voucher and questioned or disallowed any expenditure that did not fit the defined scope of work.

In order to clear up any possible confusion regarding alleged unsupported grantee expenditures and to assuage the concerns of your audit staff, we are asking our subgrantees to provide us with additional documentation to support subgrantee expenditures as you requested. We are asking them to provide us with an independent organizational audit for the accounting period(s) covered by the grant. If an audit is unavailable, we are asking that they provide us with all documentation relevant to the grant expenditures. This documentation will include payrolls, time records, invoices, contracts, vouchers or other documents evidencing in proper detail the nature and propriety of the subrecipient's expenditures.

We hope to have this information very shortly and we will forward it to you as soon as possible. If you have any questions, please do not hesitate to contact Harris Bibbs, the member of my staff with direct administrative oversight of this project at (804) 371-7078.

Sincerely,


Greg Brittingham
Associate Director

Cc: Ed Schantin



September 25, 2000

Mr. Greg Brittingham
Center on Rural Development
Virginia Department of Housing
and Community Development
501 North Second Street
Richmond, VA 23219-1321

Re: OIG Report CO-25 (H)
Grant No. VA-12337

Dear Mr. Brittingham:

Enclosed is a copy of the report dealing with a grant to provide funds for a leadership and civic development initiative for Appalachian Virginia. The work was performed by auditors with Leon Snead and Company P.C., under contract with my office.

As noted there are no open issues and we consider the report closed.

A copy of the report is being provided to the Federal Co-Chairman, ARC Executive Director and Virginia State Alternate.

The courtesies and cooperation afforded the auditor were appreciated.

Sincerely,


Hubert N. Sparks
Inspector General

Enclosure