



Date: December 13, 2000
To: Hubert N. Sparks
Inspector General
RE: OIG Report 00-41(H), ARC Grant WV-11311

Your letter of September 25, 2000 to Rosemary Wagner, Region VII Planning and Development Council Executive Director, addressed a number of issues arising from an audit of the above referenced grant. Specifically, costs relating to purchases not previously approved by the Commission were of major concern.

After a review of the issues by staff, it has been determined that the grantee was acting within the parameters of the grant when purchasing both supplies and a forklift. One remedy recommended by the auditor was a retroactive approval of these costs. The grantee in their response to the auditor has requested this remedy. The State of West Virginia concurred in this requested during a telephone conversation between Ralph Goolsby, WV Program Manager, and Henry King of the ARC staff on December 12, 2000. A letter has been sent to the grantee extending retroactive approval of these expenditures.

This grant has been closed out and a final payment was made on March 21, 2000.

Thomas M. Hunter
Executive Director

Close - HS
1/23/01



APPALACHIAN
REGIONAL
COMMISSION

*A Proud Past,
A New Vision*

Office of the Inspector General

September 25, 2000

Ms. Rosemary Wagner
Executive Director
Region VII Planning and Development Council
4 West Main Street
Buckhannon, WV 26201

Re: OIG Report 00-41 (H)
Grant No. WV-11311

Dear Ms. Wagner:


Enclosed is a copy of the Final Report dealing with a grant to purchase equipment to expand the food storage capacity of the Mountaineer Food Bank. The review was performed by auditors with Leon Snead and Company, P.C., under contract with my office.

As noted, the open issues pertain to questioned costs of \$12,810, which consisted of the ARC portion (\$10,693) of purchases not previously approved and the ARC share (\$2,117) of expenditures above the pre-approved budget tolerance and \$3,297 in unexpended funds. We are recommending that ARC program staff review and resolve these issues.

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

The courtesies and cooperation afforded the auditor are appreciated.

Sincerely,


Hubert N. Sparks
Inspector General

Enclosure

*Final Pay.
made on
3/21/00 -
all funds
(186,008) expended.
HBL*

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

**Grant WV 11311-93-I
Region VII Planning and Development Council
Buckhannon, West Virginia**



**LEON SNEAD
& COMPANY, P.C.**

*Certified Public Accountants
& Management Consultants*

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

**Grant WV 11311-93-I
Region VII Planning and Development Council
Buckhannon, West Virginia**

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

Report No. 00-41 (H)

April 14, 2000

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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 Appalachian Regional Commission (ARC) awarded Grant WV-11311-93-I to the Region VII Planning and Development Council to provide funds to purchase equipment for a new warehouse facility which will enable the Mountaineer Food Bank (MFB), the subgrantee under the grant agreement, to consolidate its operations and expand its food storage capacity. Under a separate agreement with the U.S. Department of Housing and Urban Development the grantee, on behalf of the subgrantee, will build a new warehouse and office facility which will provide additional freezer and cooler space, and thus enable MFB to handle larger amounts of donated foods. ARC funds will be used to provide equipment for this new facility. In addition to the ARC funds the grantee shall pay, or cause to be paid, the same contribution (50% match) to the total project cost as the ARC.

Grant WV-11311-93-I has been amended six times since it was signed in September, 1993. The amendments extended the grant period of performance from September 13, 1993 through September 12, 1994 to September 13, 1993 through June 30, 2000. The Grant cover letter called for ARC to contribute up to \$186,008 towards the estimated total project cost. The ARC contribution was to be approximately 50% of actual, reasonable and eligible project cost, whichever was less. The grant amendments extended the grant period of performance, but involved no additional ARC funds. All other grant terms and conditions remained in full force and effect. It was anticipated that the Benedum Foundation would contribute \$160,000 (43%) and Hope Gas Inc. would contribute \$20,000 (5.4%). The final 1.6%, or \$6,007 grant match, was to be made by the Mountaineer Food Bank.

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 September 13, 1993 through the

dates of our visits to the subgrantee (March 31, 2000) and to the Grantee (April 12-14, 2000). The objectives of our agreed upon procedures were to determine whether the reported grant expenditures were allowable, allocable, and reasonable and whether the grantee and subgrantee were in compliance with applicable laws and regulations.

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 Accountants. 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 Office of Management and Budget (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 Acquisition 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.

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 noted that, as of April 14, 2000 the grantee had expended \$182,711 in ARC funds on fixed assets (freezers/coolers, mobile equipment, and computer equipment). The grantee also reported matching the ARC funds with \$182,711 in cash received from the Mountaineer Food Bank. The grantee had \$3,297 in unexpended ARC grant funds on hand as of April 14, 2000 and had asked the subgrantee to provide matching funds for this amount as soon as possible. The grantee has until June 30, 2000 to expend the remaining ARC grant and subgrantee matching funds.

We reviewed the available documentary support for all ARC grant and Mountaineer Food Bank (MFB) contributions/expenditures made between the date the grant expenditure period began (September 13, 1993) and April 14, 2000. Overall, we reviewed the documentary support for 100% (\$366,062) of the total reported through April 14, 2000 of ARC and MHB grant project expenditures. The reported MHB expenditures (\$183,351) included \$641 in non-matching grant expenditures which were not counted as part of the MHB ARC grant match. Our review was performed as necessary to determine if the expenditures charged to ARC Grant WV-11311-93-I were allowable, allocable, and reasonable and if the grantee and its' sub-grantee met the agreed upon local participation percentages and dollar amounts. We also obtained a copy of, and reviewed, the grantees Drug-Free Workplace Policy Draft and assured that it was posted in prominent locations in both the grantee and subgrantee workplaces.

We visited the subgrantee's warehouse/office complex office near Gassaway, West Virginia on March 31, 2000. We visited the grantee's offices in Buckhannon, West Virginia during the period April 12 -14, 2000.

Specifically we performed the following procedures:

- On March 31, 2000 we inventoried all of the fixed assets at the Mountaineer Food Bank in Gassaway, West Virginia which we could identify as having been purchased using ARC grant funds.
- We discussed the grant expenditure process and internal controls with Region VII officials in Buckhannon, West Virginia.
- We reviewed the detail support for all (100%) of the ARC grant fund and grantee/subgrantee grant matches charged to ARC Grant WV-11311-93-I between June 7, 1995 (the date the first grant expenditure was entered into the grantee's Cash Disbursements Journal) and April 14, 2000 (the date the audit fieldwork was completed) and agreed the grant expenditures to the entries shown in the grantee's Cash Receipts Journal, Cash Disbursements Journal, and General Ledger, as appropriate. Overall, we reviewed the documentary support for all \$365,421 in reported ARC grant and subgrantee matching expenditures and the \$641 in subgrantee non-grant matching expenditures.
- We compared the grant expenditures made with the approved project budget to determine if all the grant funds were spent only on items which were included in the original project budget, and if ARC approval had been requested and obtained for any items not included in the original project budget, or where the expenditure for any major (over \$5,000) budget line item was expected to exceed the original project budget amount by more than 10%.

- Finally, we obtained and reviewed, the grantee's Drug-Free Workplace Policy Draft and assured that it was posted in prominent locations in both the grantee's and subgrantee workplaces.

RESULTS

We noted the following exceptions:

1) Purchased Items Not Included in the Approved Project Budget

Condition

The grantee expended \$12,229.50 in ARC grant funds on computers and computer related equipment and supplies, at least \$10,693 of which had not been provided for in the original project budget. Neither the grantee nor the subgrantee could provide documentation showing where ARC was advised of, and concurred in, this purchase.

Criteria

To be considered as allowable grant costs, the grantee must obtain advance approval from the ARC to purchase items which are not included in the grant line item budget.

Discussion

The approved grant line item budget for computer and copying equipment included two computer terminals at \$1,550 each and one copier for \$2,600 for a total of \$5,700. We found the grantee expended \$24,519 to purchase three laptop computers with accessories, two printers, six computers for \$1,537 each, and one computer for \$3,064. ARC grant funds were used to pay for \$12,229.50 of the cost of these items, which was 50% of the cost of these items after deducting \$60 for three leather laptop case upgrades. However, only two of the six computers purchased for \$1,537 each appear to be proper grant expenditures. We asked Region VII operating personnel if the ARC had approved this purchase of additional computers and other electronic equipment. Operating personnel could not find documentation showing where ARC approval to purchase these items was requested or granted. The expenditure of \$21,385 (\$24,519 minus \$1,537, \$1,537, and \$60) was for items not included in the grant line item budget and not approved by ARC.

Recommendation

The ARC should either retroactively approve the purchase of the \$21,385 in computer and copying equipment which was not provided for in the approved grant budget or else disallow \$10,693 (50% of \$21,385) of these costs as unallowable grant charges.

Grantee's Comments

All grant funds have been expended. In a phone conversation between Dr. Henry King, ARC and Connie Duke, Asst. Dir./Finance Director, Region VII PDC, Dr. King stated that ARC considers this project to be closed.

Accountant's Response

Noted.

2) *Budget Overrun*

Condition

The grantee exceeded an approved grant line item budget dollar amount by more than 10% without ARC approval.

Criteria

The grantee must generally obtain advance approval from the ARC to exceed an approved grant line item budget dollar amount by more than 10%.

Discussion

The ARC approved grant budget included \$22,500 for the purchase of a forklift. The actual cost of the forklift was \$28,984. There was no indication that either the grantee or the subgrantee had requested, or obtained, advance approval from ARC to exceed the budgeted dollar amount. Neither grantee nor subgrantee personnel could provide documentation of a request for ARC approval to exceed the approved budget amount. The ARC approved grant budget amount of \$22,500 plus 10% is \$24,750. The expenditure of \$28,984 exceeds this amount by \$4,234. The ARC share of \$4,234 is \$2,117.

Recommendation

The ARC should either retroactively approve the \$6,484 in fork lift costs which exceeded the approved ARC grant budget for this line item by more than 10% or else disallow \$2,117 of these costs as unallowable grant charges that exceed an approved grant line item budget dollar amount by more than 10%.

Grantee's Comments

I support your recommendation that ARC retroactively approve the purchases of computers, copying equipment, and forklift costs, if that is a necessary process after project closeout.

Accountant's Response

Noted.

CONCLUSION

Based on the results of our agreed upon procedures, in our opinion \$169,901 of the \$182,711 in grant fund expenditures incurred between June 7, 1995 and April 14, 2000 charged to the ARC for Grant WV-11311-93-I were allowable, allocable and reasonable and should be accepted by the ARC. The \$12,810 in questioned costs consisted of \$2,117 in unapproved fork lift costs which exceeded the grant budget by more than 10% and \$10,693 expended for computer and copying equipment which was not included in the approved grant budget. The grantee also had \$3,297 in unexpended ARC grant funds still on hand which need to be matched by the grantee or local sources and expended on approved grant budget line items before the grant expenditure period ends on June 30, 2000.

DISTRIBUTION

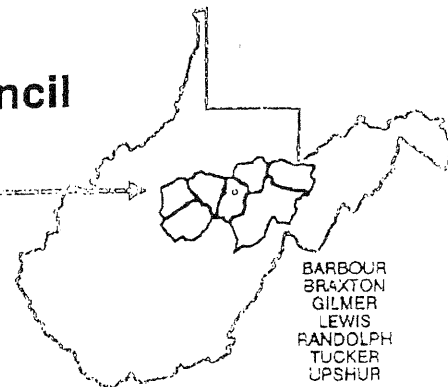
This report is intended for the information and use of the OIG and management of the ARC and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Leon Snead & Company, P.C.
LEON SNEAD & COMPANY, P. C.
April 14, 2000

MANAGEMENT'S COMMENTS

Region VII Planning and Development Council

4 WEST MAIN STREET, BUCKHANNON, WV 26201-2297
PHONE: (304) 472-6564 • TDD (304) 472-6570 • FAX (304) 472-6590



September 11, 2000

Ed Schantin
Leon Snead & Co., P.C.
416 Hungerford Drive, Suite 400
Rockville, MD 20850

**RE: Draft Report on Grant Agreement Expenditures Audit
Grant WV-11311-93-I
Appalachian Regional Commission**

Dear Mr. Schantin:

Following our phone conversation today, please consider my responses to your audit for your final report.

1. All grant funds have been expended. In a phone conversation between Dr. Henry King, ARC and Connie Duke, Asst. Dir./Finance Director, Region VII PDC, Dr. King stated that ARC considers this project to be closed.
2. I concur with your review of the grant expenditure process and internal controls, however, I offer this response to your noted exceptions:
 1. Verbal communication did occur with ARC as to budget changes.
 2. I support your recommendation that ARC retroactively approve the purchases of computers, copying equipment, and forklift costs, if that is a necessary process after project closeout.

If you have any questions, do not hesitate to contact me or Connie Duke.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Rosemary Wagner", written over a horizontal line.

Rosemary Wagner
Executive Director