



July 18, 2001

OIG REPORT 01-10 (H)

MEMORANDUM FOR: LEFF MOORE, EXECUTIVE DIRECTOR
Hatfield-McCoy Recreation Development Coalition

SUBJECT: Memorandum Survey Report
Review of Hatfield-McCoy Tourism Project
Grant No. WV-12968

PURPOSE

The purposes of our review were (1) to determine the allowability of the costs claimed under the ARC grant, (2) to determine if the grant objectives were met and (3) to determine the current status of the project.

SCOPE

Our survey included procedures to review costs incurred and claimed for reimbursement under the grant, as well as costs claimed as matching funds. The period of performance for the grant was July 1, 1998 through August 31, 1999. We reviewed the grantee's reports, examined records, and held discussions with grantee officials in Williamson, Nitro and Charleston, West Virginia, on November 6, 7 and 8, 2000, respectively. As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreement, Office of Management and Budget (OMB) Circulars A-110 and A-122, and the ARC Code. Audit work was performed in accordance with Government Auditing Standards.

BACKGROUND

ARC Grant WV-12968 was awarded to provide funds to Hatfield-McCoy Recreation Development Corporation (HMRDC) to conduct planning-related activities for the implementation of a 2,000 mile trail system throughout a seven-county area for off-road vehicles, equestrians, mountain bicyclists and other recreational users.

ARC funding was to be used to develop a comprehensive master plan, secure landowner consent for trail right-of-ways, organize a public corporation and prepare policy manuals to guide the system's long-term management.

RESULTS

Financial Review

The grant agreement was signed September 2, 1998 and ARC funds of \$100,000 were obligated on September 25, 1998. Financial records indicate grant closing on August 24, 2000, with a one time final payment to grantee of \$99,774.45 and a deobligation of \$255.35. The grantee's only request for reimbursement dated July 14, 2000 notes claimed project costs of \$199,488.90, which included grant costs of \$99,744.45 (50%) and matching funds of a similar amount. An actual line item of the cost for each task and manual was not provided in order to compare with the budgeted line items that were included in the proposal.

During our visit, we reviewed the grantee's accounting records, including invoices and supporting documentation for a sample of grant and matching costs charged to the project. Total claimed costs were supported by entries in the grantee's accounting records and summary documentation indicated expenses approximating \$213,000 including matching contributions. However, deficiencies were noted as to the adequacy of the documentation for the expenditures we reviewed for the following reasons:

Billing invoices for the consultants charged to the ARC project did not contain descriptions of the work performed, dates of services, hours billed or persons contacted. The invoices related to the ARC project stated "per contract," and the contracts scope of work provided generalized descriptions of the work to be performed. Contracts were fix-priced contracts with fixed monthly payments and no detailed monthly invoices were required. Progress reports required in the contracts were not submitted. None of the contracts referred to the ARC grant. We were able to receive only three of the approximate seven consultants' contracts; these included:

- a contract providing for the Chairman of HMRC to be used simultaneously as a consultant was outside of the grant period;
- a contract for a lawyer for two and half years, included time frames beginning before and ending after the ARC grant period and the contract included lobbying for HMRC;
- a contract submitted for the Executive Director was for 20 months (ten months past the ARC period) and invoices related to a Government Relations Contract. Also, the contract was signed by the Chairman who was also a consultant at the same time.

For non ARC projects it appeared that additional information had been requested of contractors. For example, the October 1999 minutes for HMRDC noted that one attorney had submitted hourly invoices in connection with various legal work (not known) and in another instance a lawyer/consultant had been notified that payment would be made upon submission of proper invoices; but the invoices submitted to ARC contained no such hourly descriptions of work as required for the lawyers. In view of the non-competitive approval of contracts for services we believe prudent oversight and control would include obtaining documentation with respect to the extent of services performed and the specific tasks involved. It was noted that persons performing consulting services on this project had apparently also performed the same or similar type consulting services for the Corps of Engineers 1996 study.

One of the consultants, listed in their contract that they would be developing fund raising proposals and grant agreements, representing the Coalition to appropriate agencies and entities of the federal government to obtain federal resources, and developing legal agreements for corporate land. It appeared part of the activity, such as legal agreements would qualify for the ARC grant, but ARC was billed the full \$2,083 per month the entire grant period. It also appeared that several other consultants and the University of West Virginia worked on land/lease agreements.

An expense allocation method was not in place and ARC expenses were not assigned an allocation code within the general ledger, in order to ensure that costs were expensed to the proper fund source and only one fund source. HMRDC received funds from other sources, including at least \$750,000 from the State of West Virginia, \$150,000 from the Department of Transportation and other grants. The commingling of funds and expenses restricted determinations of charges and eligibility of ARC claims, especially since consultants/contractors appeared to have similar type agreements for services funded by other sources. For example, invoices submitted were not sufficiently identified to permit a full reconciliation with expenses and for some services noted in the final report narrative corresponding invoices were not traceable. The three packets of invoice copies sent to ARC were not identified by specific task or manual. A breakout or identification of expenses by line items along with persons involved in each task would have been appropriate. Also, the repetitive transferring of funds between accounts added to confusion about the flow of funds.

There appeared to be a less than arms length relationships and/or sufficient separation of duties resulting from consultants/contractors essentially also serving as HMRDC officials and approving expenses and making disbursements during the project period. There appeared to be an absence of independent oversight of consultants/contractors other than by other consultant/contractors. It was noted that the Chairman of HMRDC signed a consulting agreement for the Executive Director and the Executive Director signed a consulting agreement for the Chairman. The Secretary/Treasurer for the Matewan Development Corporation

signed the grant agreement for HMRC but left shortly after the grant started. This situation also contributed to confusion wherein the ARC payment on August 24, 2000 was deposited in a Matewan Development account and the Coalition was not aware of the deposit until the ARC audit in November 2000. A CPA firm had been hired to handle the Coalition's accounting records.

It was unclear whether consultants were paid out of the Hatfield-McCoy Regional Development Coalition account to produce the same manuals that were also charged under the Hatfield-McCoy Recreational Development Coalition account, using different consultants.

Due to the complexities of grant administration, including the various organizations involved, the absence of a clear financial trail and non-response to our request for additional information, we were unable to determine the propriety of claimed expenses.

Program Review

ARC files did not contain any progress reports although the grant agreement noted a progress report was required for each 120 day period. Also, consultants' monthly progress reports were not noted as required by their agreements.

A final report was submitted on July 14, 2000, signed by the Chairman of HMRC, who apparently was/is also the Executive Director of the Matewan Development Coalition and did not appear to be actively involved with this grant. The report reiterated much of the background material noted in the project application and identified to various degrees, the status of the three primary tasks identified in the grant agreements, including status to date, some identifications of assigned consultants and work to be completed. In five instances the report noted that draft manuals were attached to the Final Report, and for two areas, enforcement policy and user fees, the report noted that draft manuals would be available around August 1, 2000. The remaining draft manuals were not available at ARC nor were final copies of manuals. The manuals were generic in design and based on the Final Report were apparently derived from the previous manuals, with some additional tailoring by HMRC, although the extent of new material or level of grantee effort was not identified.

Recommendations

ARC should request grantee to submit requested information and breakout of expenses by task performed, including period of performance and persons performing task. Any federal funds used for lobbying should be disallowed.

ARC should obtain information with respect to clarification of the various organizations noted in grant files, including related grant involvement and responsible officials during the grant period.

ARC should obtain copies of all of the final manuals, including the two areas where draft manuals were not received.

For future grants, the grantee should allocate and record expenses by source of revenue in order to permit clear accountability and should utilize competitive bidding especially in situations where there are substantial interrelationships between the grantee and organization and contractors/consultants.

In the future, the grantee should submit progress reports in accordance with grant agreements.

GRANTEE'S RESPONSE

No response was received from the grantee with respect to our December 12, 2000, request for additional information or our draft report of May 7, 2001 that was accompanied by a request for comments.


Hubert N. Sparks
Inspector General