

**MEMORANDUM REPORT ON REVIEW OF
GOVERNOR'S OFFICE OF APPALACHIA
OHIO DEPARTMENT OF DEVELOPMENT
COLUMBUS, OHIO**

**Cooperative Tourism Marketing Program to Attract German Travellers
and the
Ontario Tourism Marketing for Ohio**

**ARC Grant Nos: OH-11566-94-I-302-0429
and OH-12038-95-I-302-0412**

June 1, 1994 through October 31, 1996

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Report Number: 97-3(H)

Date: March 3, 1997

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Prepared By:

**Tichenor & Associates
Certified Public Accountants
Woodbridge, Virginia**

**Under Contract Number J-9-G-5-0010 with the
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TO: Appalachian Regional Commission (ARC)
Office of Inspector General (OIG)

FROM: Tichenor & Associates
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report No. 97-3(H)

SUBJECT: Memorandum Review Report on the Governor's Office of Appalachia,
Ohio Department of Development, Cooperative Tourism Marketing to
Attract German Travellers and Ontario Tourism Marketing for Ohio,
Columbus, Ohio. ARC Grant Nos: OH-11566-94-I-302-0429; ARC
Contract No. 94-121; and OH-12038-95-I-302-0412; ARC Contract No.
95-95.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Governor's Office of Appalachia, Ohio Department of Development for the above referenced grants were expended in accordance with the ARC approved grant budgets and did not violate any restrictions imposed by the terms and conditions of the grants; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and (c) the objectives of the grants had been met.

BACKGROUND: ARC awarded Grant Number OH-11566-94-I-302-0429 to the Governor's Office of Appalachia, Ohio Department of Development (the Grantee) for the period June 1, 1994 through September 30, 1996. Total grant funding was for an amount not to exceed \$24,500, or 49 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$25,000, or 51 percent in cash, contributed services, or in-kind contributions, as approved by ARC. As of the date of our report, ARC made one advance and one progress payment to the Grantee totaling \$17,548. The final request for payment had not been forwarded to ARC at the time of our review. However, \$21,195 of direct

costs and \$31,906 of in-kind contributions had been recorded as incurred by the Grantee for the grant program.

The funds from this grant were to provide funding for a cooperative marketing program to further establish Ohio as a travel destination in the German market. Since 1991, Ohio has taken the initial steps necessary to prepare the state for German visitors, and to inform the German market that Ohio exists as a tourist destination. The program will build on these efforts to increase German travel to Ohio through media relations and representation, hospitality training and development of new tour packages. The specific tasks of the grant program were to 1) offer training to Ohio businesses involved with or impacted by German tourism; 2) bring German tour operators, writers and travel agents to Ohio to familiarize them with the product; and 3) market the Ohio product through media relations developed by hired representatives in Germany and present at trade shows.

ARC awarded Grant Number OH-12038-95-I-302-0412 to The Ohio Department of Development for the period July 1, 1995 through October 31, 1996. Total grant funding was for an amount not to exceed \$220,000, or 50 percent of actual, reasonable and eligible project cost, whichever is less. ARC required that the grant be matched with \$220,000, or 50 percent in cash, contributed services, and in-kind contributions, as approved by ARC. ARC made one advance payment to The Ohio Department of Development totaling \$97,032. No other payments had been requested at the time of our review. However, \$184,544 of direct costs and \$135,182 of in-kind contributions had been recorded as incurred under the grant.

The funds from this grant were to provide funds to market the Ohio Appalachian Region as a travel destination to the Canadian Travel Market. The specific tasks of the grant program were to 1) design and produce a four-color, glossy publication showcasing the Amish country, history, scenery, and crafts of Appalachian Ohio; 2) develop a strong advertising and public relations campaign directed to the Canadian travel market; and 3) use the Department of Development Hotline to fill requests for the publication.

SCOPE: We performed a program review of the grants as described in the Purpose, above. Our review was based on the terms of the grant agreements and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. 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 Grantee had complied with the requirements of the grant agreements. In addition, we discussed the program objectives and performance with the Grantee's personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at the Grantee's offices in Columbus, Ohio on September 16 through 18, 1996.

A. Incurred Costs

We reviewed the total costs incurred from June 1, 1994 through August 26, 1996 by the Grantee on both grants, totaling \$372,827 of reimbursable costs and in-kind costs. We determined that, in general, the funds had been expended as reported. However, we determined that \$131,242 of the in-kind costs could not be supported under the Ontario Tourism Marketing for Ohio grant in accordance with the grant terms and the applicable OMB Circular. These costs are discussed below.

Matching Costs Not Supported - Ontario Tourism Marketing for Ohio

The Grantee was required to match \$220,000, or 50 percent of the total project cost, in cash, contributed services, or in-kind contributions. The grant application indicated that the in-kind costs would include telemarketing, staff time, travel expenses and contractor fees. We requested supporting documentation for the reported matching costs and were able to review documentation to support \$3,940 of staff time contributed to the project. However, the Grantee was not able to provide support for \$124,961 in telemarketing costs and \$6,281 in contractor fees which were also claimed as matching costs. As a result, we were unable to determine the allowability of the matching costs, specifically if the costs were accurately accumulated, were associated with allowable grant activities, were not from other federal funding sources, and were not being used as match for other federal grants.

OMB A-102, Subpart C, Post Award Requirements, .24 (6), **Records** states:

"Costs and third party in-kind contributions counting toward satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived."

RECOMMENDATION:

We recommend that the Grantee provide ARC with documentation supporting the amount and allowability of the matching costs claimed and make any adjustments necessary to the claimed costs based on the support available.

GRANTEE'S RESPONSE:

The Grantee stated that our review was performed prior to the completion of the project and much of the documentation was not available at the time of our review. As a result, all

documentation to support the matching costs for the Ontario project would be forwarded to ARC as a part of the final report.

ADDITIONAL COMMENTS

The Grantee is required to keep adequate records to support costs at all times and to make these records available for audit. We recommend that the Grantee modify its policies to require that documentation be available to support all costs at the time they are recorded and recognized.

B. Internal Controls

We determined that the Grantee had the following internal control weaknesses which affected the accountability of costs under the grants. We did not determine the associated costs to be unallowable, but have identified the weakness which could result in unallowable costs.

1. Subcontractor Costs Not Approved By ARC Or Competitively Bid

The Grantee allowed its prime subcontractor, Soltis, Tangeman & Partners, Inc., to enter into a subcontract, without ARC approval. Intercontinental Destination Marketing (ID Marketing) was contracted with to establish an agreement with at least one national Receptive Operator who, in turn, will develop and market at least one tour package covering the three-state Appalachian Region. The Receptive Operator will market the tour package to the German travel industry, which includes German tour operators and travel agents. No competitive bid procedures were available to document the procurement of the subcontractor. Total costs of \$21,195 were incurred under the grant, and 80 percent of the costs, or \$16,910, were paid to ID Marketing. The remaining costs were for travel and hotel expenses related to the familiarization tour.

OMB A-102, Subpart C, Post Award Requirements, .30 (d), **Programmatic Changes** states:

"Grantees or subgrantees must obtain the prior approval of the awarding agency when any of the following actions is anticipated:...

- (4) Under nonconstruction projects, contracting out, subgranting, or otherwise obtaining the service of a third party to perform activities which are central to the purposes of the award."

RECOMMENDATIONS:

We recommend that ARC review the subcontract agreement and ensure the costs are allowable in accordance with the scope of the grant. In addition, we recommend that the Grantee obtain prior approval for the use of all subcontractors in the future.

2. Quarterly Progress Reports Not Prepared and Submitted to ARC

The Grantee was required to submit quarterly progress reports. However, they prepared only one progress report for each grant program and provided no evidence to support that other progress reports had been prepared or submitted to ARC in accordance with this requirement.

Grant agreement OH-11566-94-I-302-0429 and OH-12038-95-I-302-0412, Sections 2-7.2 and 2-7.1, respectively, **Progress Reports** state:

"Grantee shall prepare and submit to the ARC Project Coordinator, in three copies, quarterly progress reports indicating the work accomplished under the agreement to date, any problems encountered and ameliorative actions taken, and a forecast of work for the next report period."

RECOMMENDATION:

We recommend that the Grantee prepare and submit all progress reports as required by the grant agreements in the future.

GRANTEE'S RESPONSE:

The Grantee stated that they will consult with ARC to determine the most appropriate way to address this issue.

C. Program Results

Our review of the Cooperative Tourism Marketing Program to Attract German Travellers and the Ontario Tourism Marketing Program indicated all of the objectives and specific tasks identified in the grants, and summarized above, would be achieved.

DISCUSSION:

We discussed these issues with the Grantee's management during the exit conference held on September 18, 1996. The Grantee commented that no prior reviews had been performed and they had not been advised on the information necessary to support matching costs. Also, Soltis, Tangeman & Partners had been a contractor for the Grantee for many years. The firm performs a majority of the state's work in the area of promoting and advertising state tourism, therefore, the Grantee relied on their expertise in contracting with ID Marketing. They also commented that it was not easy to locate a company familiar with German tourism. In addition, the Grantee stated that the quarterly progress reports were not prepared and forwarded to ARC because

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verbal discussions held with the ARC Project Coordinator were considered by the Grantee to be sufficient to communicate progress.

Tichenor & Associates
TICHENOR & ASSOCIATES
Woodbridge, Virginia



OHIO DEPARTMENT OF DEVELOPMENT

George V. Voinovich
Governor

Donald E. Jakeway
Director

November 8, 1996

Mr. Wynn Beard
Tichenor & Associates
9112 Leesgate Road, Suite 3
Louisville, KY 40222

Dear Mr. Beard:

Thank you for your letter of October 30, 1996, regarding our two ARC grants: OH-11566-94-1-302-0429 and OH-12038-95-1-302-0412. We appreciate your feedback.

Regarding your specific recommendations, after consulting with the Ohio Governor's Office of Appalachia, here's how we will address each:

1. Regarding the need for documentation for our match on the Ontario project, we will provide the ARC with complete documentation of our match for this project as part of our final report on the project. Since your review was done before the completion of this project, much of the documentation was not available at the time of your visit.
2. Regarding approval of our subcontractor for the German project, we will consult with our contact at the ARC to determine the most appropriate way to address this issue.
3. Regarding reporting for both projects, we will consult with our contact at the ARC to determine the most appropriate way to address this issue.

Again, thank you for your feedback. It was a pleasure meeting you.

Sincerely,

George Zimmermann
State Tourism Director
Ohio Division of Travel and Tourism

GZ:slk

cc: Hubert N. Sparks, ARC-OIG
Dan Neff, Governor's Office of Appalachia

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