

**MEMORANDUM REPORT ON REVIEW OF  
FORWARD IN THE FIFTH  
BEREA, KENTUCKY**

**Local Affiliate Matching Grant Program  
and the  
Local Affiliate Expansion Project**

**ARC Grant Nos: CO-11465-94-I-302-1109  
and KY-11347-93-I-302-0430**

**July 1, 1993 through June 30, 1995**

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**Report Number: 97-1 (H)**

**Date: September 11, 1996**

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**Prepared By:**

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

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# TICHENOR & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

## WASHINGTON OFFICE

12531 CLIPPER DRIVE SUITE 202  
WOODBIDGE VA 22192

### PARTNERS

WILLIAM R. TICHENOR  
JONATHAN D. CROWDER  
JAMES M. ANDERSON  
DEIRDRE MCKENNA REED

BUSINESS: (703) 490-1004  
METRO: (703) 352-1417  
FAX: (703) 491-9426  
E-MAIL: TICHASSOC@AOL.COM

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. 97-1 (H)

SUBJECT: Memorandum Review Report on Forward In The Fifth, Local Affiliate Matching Grant Program and Local Affiliate Expansion Project, Berea, Kentucky. Grant Nos: CO-11465-94-I-302-1109, ARC Contract No. 94-26 and KY-11347-93-I-302-0430, ARC Contract No. 93-86.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Forward In The Fifth's Local Affiliate Matching Grant Program and Expansion Project 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 KY-11347-93-I-302-0430 to Forward In The Fifth for the period July 1, 1993 through June 30, 1995. Total grant funding was for an amount not to exceed \$135,000, or 53 percent of actual, reasonable and eligible project costs, whichever is less. ARC required that the grant be matched with \$119,550, or 47 percent in cash, contributed services, and in-kind contributions, as approved by ARC. ARC made five progress payments to Forward In The Fifth totaling \$135,000.

The funds from this grant were to provide funding for the expansion of educational activities to 12 counties that were added to the Fifth Congressional District in a redistricting effort. The

major objective of Forward In The Fifth is to form and support county-wide organizations called Local Affiliates whose general purpose is to improve education in Eastern Kentucky.

ARC awarded Grant Number CO-11465-94-I-302-1109 to Forward In The Fifth for the period December 16, 1993 through March 31, 1995. Total grant funding was for an amount not to exceed \$25,000, or 100 percent of actual, reasonable and eligible project costs, whichever is less. The grant agreement did not require the grant to be matched. ARC made four progress payments to Forward In The Fifth totaling \$25,000.

The funds from this grant were to provide funds for mini-grants up to \$1,500 for its local affiliate organizations to continue educational and cultural enrichment programs for children and teachers in Appalachian Kentucky. Mini-grants have funded field trips for students, academic incentives to recognize students who improve or maintain good grades, and cultural enrichment programs.

SCOPE: We performed a financial and compliance 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 Forward In The Fifth had complied with the requirements of the grant agreements. In addition, we discussed the program objectives and performance with Forward In The Fifth's personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at Forward In The Fifth's offices in Berea, Kentucky on September 9 through 11, 1996.

#### **A. Incurred Costs**

Forward In The Fifth incurred total program costs of \$376,282, and claimed direct reimbursable costs from July 1, 1993 through June 30, 1995 of \$160,000 and in-kind costs of \$119,550. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported. However, we determined that \$119,550 of the in-kind costs could not be supported in accordance with the terms of the grant and applicable OMB Circulars. In addition, Forward In The Fifth reported total ARC expenditures of \$135,000 under the Local Affiliate Expansion Project and the general ledger only supported \$130,510. These costs are discussed below.

1. Matching Costs Not Supportable

Forward In The Fifth was required to match \$119,550, or 47 percent in cash, contributed services, and in-kind contributions, under the Local Affiliate Expansion Project. The accounting system maintained by Forward in The Fifth commingled all federal funding, private and public funds into a single cash disbursement account. All transactions were then posted to separate manual general ledgers by grant. Also, Forward In The Fifth did not maintain a separate matching general ledger for any grant. As a result, we were unable to determine if the in-kind contributions were from other federal funding sources, if the funds were being used as match for other federal grants, or if there was supporting documentation for the in-kind contributions.

OMB A-110, Subpart C, Post Award Requirements,.21 Standards for financial management systems states:

"Recipient's financial management systems shall provide for:...

(2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

.23 Cost sharing or matching states:

"(a) All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria.

(1) Are verifiable from the recipient's records; and

(2) Are not included as contributions for any other federally-assisted project or program."

2. General Ledger Did Not Support \$4,490 of Expended ARC Funds

Forward In The Fifth claimed total reimbursable costs from July 1, 1993 through June 30, 1995 of \$135,000 for the Local Affiliate Expansion Project. Forward In The Fifth's general ledger supported total costs of \$130,510. The difference of \$4,490 resulted from an error in preparing the quarterly status reports.

ARC Grant Administration Provisions, Article A10, Records Requirements, paragraph (1) states:

"Contractor shall establish procedures to ensure that all records pertaining to costs, expenses, and funds related to the contract shall be kept in a manner which is consistent with generally accepted accounting procedures. The documentation in support of each action in the accounting records shall be filed in such a manner that it can be readily located."

RECOMMENDATION:

We recommend that Forward In The Fifth provide ARC with documentation identifying the matching basis of in-kind contributions for the ARC grants and make any adjustments necessary, including addressing the \$4,490 potential overclaim.

GRANTEE'S RESPONSE:

1. Forward In The Fifth stated that all matching funds were cash matching grants from BellSouth Foundation, Ford Foundation, Stelle-Reese Foundation and the DeWitt Wallace-Reader's Digest Fund. They further stated that if they had more time to collect the information, they could have provided the detailed documentation of the matching funds.
2. Forward In The Fifth stated that the potential overclaim was a bookkeeping mistake that occurred when the original grant period overlapped by one month. This error was discovered and corrected when the final report was submitted to ARC.

OUR ANALYSIS OF THE GRANTEE'S RESPONSE:

1. We recognize that Forward In The Fifth contributed matching funds under the Local Affiliate Expansion Project. However, due to the accounting system used, we could not verify if the funds were used to match other federal grants or the matching expenditures were allowable and allocable to the grant. We continue to recommend that Forward In The Fifth provide additional documentation to ARC to support and identify the matching basis of funds contributed to the project.
2. Forward In The Fifth's final narrative and financial report indicated that \$135,000 of ARC funds were expended while its general ledger only supported \$130,510 of expended funds. The general ledger did not support the final financial report as stated by Forward In The Fifth management.

**B. Internal Controls**

Consultant Costs Not Approved By ARC Or Competitively Procured And Budget Deviations Not Approved By ARC

Forward In The Fifth entered into a contract with The Philanthropy Group (consultant), without ARC approval, to organize, manage, and make effective a major gift campaign aimed at achieving a goal of \$2 million. The period of the contract was from March 1, 1995 through November 1, 1995 and required monthly payments to the consultant of \$12,000. In addition, Forward In The Fifth was to provide up to \$42,000 to cover administrative costs such as telephone, office supplies and equipment, postage, local travel, meetings and printed and campaign promotional materials. The total contract award was \$150,000, total observed payments were \$31,242 with \$15,542 charged to the Local Affiliate Expansion Project. Forward In The Fifth did not include the use of the consultant in its grant application, approved budgets or work plans and did not request approval from ARC for a budget modification. In addition, we noted the following budget categories that were exceeded by Forward In The Fifth:

Budget Category	Budget Amount	Cost Incurred	Difference
Travel	\$2,400	\$8,487	\$6,087
Office	\$14,660	\$22,551	\$7,891
Professional	\$3,600	\$5,250	\$1,650
Consultant	-0-	\$15,542	\$15,542
Totals	\$20,660	\$51,830	\$31,170

OMB A-110, Subpart C, Post Award Requirements, .25 Revision to budget and program plans states:

"(a) The budget plan is the financial expression of the project or program as approved during the award process.

(b) Recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with this section.

(c) For non-construction awards, recipients shall request prior approvals from Federal awarding agencies for one or more of the following program or budget related reasons.

(8) Unless described in the application and funded in the approved awards, the subaward, transfer or contracting out of any work under an award."

Grant Agreement No. KY-11347-93-I-302-0430 between Forward In The Fifth and The Appalachian Regional Commission dated July 1, 1993, 2-5 Contracting Procedures state:

"In contracting for services and/or purchasing equipment under this agreement, Grantee shall assure that (1) all contracting shall be at prices and on terms most advantageous to the Grantee and to the project; and (2) all interested parties shall have a full and fair chance at doing business with the Grantee. Grantee shall arrange for all contracting through competitive bidding, or, if permitted by state law, other negotiating and contracting procedures that will assure compliance with (1) and (2) above."

RECOMMENDATION:

We recommend that ARC review the consulting agreement and ensure the costs are allowable in accordance with the scope of the grant. In addition, we recommend that all budget deviations be approved prior to incurring costs on all future grants.

GRANTEE'S RESPONSE:

Forward In The Fifth stated that the consulting contract was to help their staff provide assistance to increase the human and organizational capacity of the Local Affiliates to support their fundraising efforts. Forward In The Fifth stated that the activity was certainly within the scope of the grant and that procedures are now in place to ensure that all future contracts are pre-approved by ARC. In addition, Forward In The Fifth stated that prior approval of budget deviations was not necessary for agreements less than \$100,000.

OUR ANALYSIS OF THE GRANTEE'S RESPONSE:

Based on the information obtained during our review and the response provided by Forward In The Fifth, we are still unable to determine the nature of work performed by the consultant. Therefore we continue to recommend that ARC determine the allowability of these costs. In addition, we noted that the ARC Contract Coordinator noted, in an internal ARC memo dated October 15, 1993, that since the grant was less than \$100,000 the grantee does not need approval for budget changes. However, the grant agreement does not stipulate that budget modifications require no approval. We therefore continue to recommend that all budget modifications are approved by ARC.



**C. Program Results**

Our review of Forward In The Fifth's Local Affiliate Matching Grant Program indicated all of the objectives and specific tasks identified in the grant, and summarized above, had been achieved.

Our review of Forward In The Fifth's Local Affiliate Expansion Project indicated that the objectives and specific tasks identified in the grant, and summarized above, may not have been achieved. Forward In The Fifth, Local Affiliate Expansion Project Work Plan detailed specific requirements that must be met by the local affiliates before acceptance by its Executive Committee. Forward In The Fifth, in its final report, stated that affiliates in 10 of the 12 counties had been organized. In reviewing the affiliate's files, we found that applications, action and fund raising plans, and staffing plans were never prepared by the affiliates. In addition, we found no approval of the affiliates by the Executive Committee

**RECOMMENDATION:**

We recommend that ARC require Forward In The Fifth to provide additional documentation to support that the local affiliates were organized as reported in the final report.

**GRANTEE'S RESPONSE:**

Forward In The Fifth management responded to the above recommendation stating that the affiliates are organized and active. They also stated that excessive paperwork requirements would be burdensome to the affiliates and are therefore not required. However, Forward In The Fifth stated that they could provide proof of the existence of the affiliates with items like internal memos, newspaper clippings and stories from the newsletter.

**OUR ANALYSIS OF THE GRANTEE'S RESPONSE:**

Based on the information obtained during our review and the response of Forward In The Fifth, we are still unable to determine if all affiliates were organized as planned. Therefore, we continue to recommend that additional documentation be provided.

**DISCUSSION:**

We discussed these issues with Forward In The Fifth's management during the exit conference held on September 11, 1996. Management responded by stating that they were trying to implement a new accounting system that would better track federal funds but had been unable to do so. They also stated that no prior reviews had been performed other than their annual A-133 audit and had not been advised on the information necessary to support matching costs.

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Forward In The Fifth agreed that a mistake had been made in preparing the quarterly status reports and this was due primarily to the lack of an adequate accounting system. Management also stated that the reported affiliates had been organized as reported in the final status report even though the required information included in the work plan had not been received.

TICHENOR & ASSOCIATES  
Woodbridge, Virginia