

**APPALACHIAN REGIONAL COMMISSION
WASHINGTON, DC**

**REPORT ON APPLYING AGREED-UPON
PROCEDURES TO**

**NORTH CAROLINA DEPARTMENT OF ADMINISTRATION
GRANT No. NC - 7780-94-C15-302-0622
ARC CONTRACT No. 94-122**

GRANT PERIOD: OCTOBER 1, 1994 THROUGH SEPTEMBER 30, 1995

OIG Report 97-16 (H)
February 20, 1997

Caution: Certain information contained herein is subject to disclosure restrictions under the Freedom of Information Act, 5 USC 5222 9(b)(4). Distribution of this report should be limited to Appalachian Regional Commission and other pertinent parties.

Mr. Hubert Sparks
Inspector General
Appalachian Regional Commission
Washington, DC

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures described below, which were agreed-to by the Appalachian Regional Commission's Office of Inspector General, with respect to the Appalachian Regional Commission's (ARC) Grant No. NC-7780-94-C15-302-0622 to the North Carolina Department of Administration for the period October 1, 1994 through September 30, 1995, solely to assist you in determining the allowability of costs incurred, whether grant objectives were met, and the current status of the project. This engagement to apply agreed-upon procedures 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 Appalachian Regional Commission's Office of Inspector General. Consequently, we make no representations 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 procedures were as follows:

- Held an entrance conference with the grantee
- Evaluated the grant agreement and any modifications
- Compared total grant costs by budget category to the general ledger or other records kept by the grantee
- Analyzed cash receipts against current needs and interest earned and remitted
- Evaluated the allowability and supporting documentation of a sample of four payroll costs, four non-personnel costs, and five subgrantee costs
- Determined if specific grant objectives were achieved
- Determined if matching/non-federal contribution requirements were met
- Held an exit conference with the grantee

The results of these procedures are discussed in the **RESULTS OF APPLYING AGREED-UPON PROCEDURES** section of this report.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on payments received and costs incurred under this grant. 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.

This report is intended solely for the use of the Appalachian Regional Commission and the management of the North Carolina Department of Administration and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Upon, acceptance, however, this report is a matter of public record.

M. D. Oppenheim & Company, P.C.

Fairfax, Virginia
February 20, 1997

**REPORT ON APPLYING AGREED-UPON PROCEDURES TO
NORTH CAROLINA DEPARTMENT OF ADMINISTRATION
RALEIGH, NORTH CAROLINA**

**GRANT No. NC-7780-94-C15-302-0622
ARC CONTRACT No. 94-122**

GRANT PERIOD: OCTOBER 1, 1994 THROUGH SEPTEMBER 30, 1995

PURPOSE

The purpose of our application of agreed-upon procedures was to determine (1) the allowability of costs claimed under the Appalachian Regional Commission (ARC) Grant No. NC-7780-94-C15-302-0622 by the North Carolina Department of Administration, (2) if the grant objectives had been met, (3) the grantee's compliance with OMB Circulars, provisions of the grant agreement, and the ARC Code, and (4) the current status of the project.

SCOPE

We evaluated the costs incurred and claimed for reimbursement under ARC Contract No. 94-122. Under the terms of this grant, for the complete and satisfactory performance of this grant agreement, and upon receipt of proper invoices approved by ARC, the Commission shall reimburse the grantee for the actual, reasonable and eligible costs of the project, as determined and approved by ARC, provided total cost reimbursement payments shall not exceed \$397,934.00.

The grantee represented to ARC that \$399,061.00 would be contributed to the project in cash, contributed services or in-kind contributions.

The period of performance for this grant was October 1, 1994 through September 30, 1995. The Appalachian Regional Commission obligated \$397,934.00 for this grant. The grantee received payments totaling \$352,850.31. The remaining \$45,083.69 has been deobligated. (See **EXHIBIT A.**)

We reviewed reports prepared by the grantee, evaluated project records, and held discussions with the ARC State Coordinator during the period February 17-20, 1997. As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreement, Office of Management and Budget (OMB) Circular A-87, and the Appalachian Regional Commission Code.

BACKGROUND

The primary purpose of this grant was to facilitate the capability of the State's Department of Administration to improve intergovernmental cooperation and to undertake management and technical assistance activities essential to developing and implementing programs for North Carolina's Appalachian Region in accord with the policies of the Commission.

The specific objectives of this project were:

- To better integrate federal, state, and local relations in an intergovernmental effort;
- To work with the six Local Development Districts (LDDs) to provide the local governments of Appalachian North Carolina with technical assistance in the areas of housing and water-related issues, and
- To enhance development of North Carolina's Appalachian program by analyzing issues and monitoring program activities to identify needed changes.

RESULTS OF APPLYING AGREED-UPON PROCEDURES

We have evaluated the costs incurred by the North Carolina Department of Administration under ARC Contract No. 94-122 for the period October 1, 1994 through September 30, 1995. The results of applying agreed-upon procedures are discussed in the **OBSERVATIONS AND RECOMMENDATIONS** section and in **EXHIBIT B** of this report. Contract No. 94-122 established an ARC obligation of \$397,934.00. The grantee requested and received \$352,850.31. The remaining \$45,083.69 was deobligated.

Our procedures disclosed the following observations:

- Observation 1 - Lack of properly documented in-kind costs.
- Observation 2 - Lack of support for allocation of grantee payroll costs.
- Observation 3 - Unapproved costs claimed.

As a result of our observations, \$229,304 of in-kind match and \$3,470 of direct grant costs have been questioned for a total of \$232,774. This means that the grantee has a shortage in required matching funds of \$131,143 as indicated in the following table:

	<u>Total Grant Funding</u>	<u>ARC Funds (49.9%)</u>	<u>In-Kind Match (50.1%)</u>
Budget	\$ 796,995	\$ 397,934	\$ 399,061
Costs Claimed	\$ 801,791	\$ 352,850	\$ 448,941
Questioned Costs	<u>232,774</u>	<u>3,470</u>	<u>229,304</u>
Net Costs Allowed	569,017	349,380	219,637
Final Project Costs	<u>700,160</u>	<u>349,380</u>	<u>350,780</u>
In-kind Shortage	<u>(\$ 131,143)</u>	<u>\$ 0</u>	<u>(\$ 131,143)</u>

If the \$3,470 of direct grant costs are disallowed by ARC, these costs should be reimbursed to the Commission. Should ARC allow any of these questioned costs, the in-kind matching requirement must be recomputed.

OBSERVATION AND RECOMMENDATIONS

OBSERVATION 1 - LACK OF PROPERLY DOCUMENTED IN-KIND COSTS.

ARC funding under this grant was disbursed by the North Carolina Department of Administration to local Appalachian areas through thirteen subcontract agreements. We found that the matching share of costs reported by the subcontractors was not adequately documented under four of the subcontracts:

<u>Contract No.</u>	<u>Subcontractor</u>	<u>In-kind Costs Reported</u>
#CWP-WP-95-A	Southwestern NC Planning and Economic Development Commission	\$ 8,500
#CWP-HO-95-C	Isothermal Planning and Development Commission	84,104
#CWP-HO-95-D	Region D Council of Governments	9,000
#CWP-WP-95-D	Region D Council of Governments	<u>2,125</u> <u>\$ 103,729</u>

The requirements for grant administration, embodied in the Common Rule § 25 (6) state:

Records. Costs and third party in-kind contributions counting towards 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.

The grantee did not require the subcontractors to provide any documentation to support the matching share of costs reported by the grantee to ARC. While the subcontractors may have documentation to support these amounts, the grantee did not require the documentation to be submitted for review. As a result, subcontract invoices were approved for payment without determining if reported matching costs were adequate or proper.

RECOMMENDATION

We recommend that the North Carolina Department of Administration establish procedures to ensure that in-kind costs submitted to ARC, in compliance with grant requirements, are adequately supported and reviewed before payment is made to the subcontractors. We also recommend that the questioned \$103,729 in matching funds be disallowed by ARC, unless the grantee can provide adequate documentation.

GRANTEE'S RESPONSE

None.

AUDITOR'S CONCLUSION

The grantee did not respond, therefore our recommendations remain the same.

OBSERVATION 2 - LACK OF SUPPORT FOR ALLOCATION OF GRANTEE PAYROLL COSTS.

The North Carolina Department of Administration prepared a *Statement of In-kind Match* in support of in-kind costs claimed under the grant. The following state payroll costs were reported:

<i>Salaries:</i>	<u>Position</u>	<u>% Time</u>	<u>#Mos.</u>	<u>Amount</u>
	0000-085	100%	12	\$ 51,690.17
	0000-086	100	12	50,512.50
	0000-079	33	12	15,393.59
	0000-087	33	12	<u>7,978.70</u>
				<u>\$125,574.96</u>

Based on our review of the payroll records, the salary amounts were accurate as reported. However, there was no support for the allocation of the salaries to the grant. No records were maintained to document the percentages reported or to support the work of two full-time employees in satisfaction of grant objectives. If these costs are not acceptable to ARC, the grantee will be short on its matching requirement.

The requirements for grant administration, embodied in the Common Rule § 25 (6) state:

Records. Costs and third party in-kind contributions counting towards 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 maintain time records or a written methodology to support the in-kind payroll allocations reported. For salaries reported at full time, deliverables or other documentation should be available to support the work accomplished toward the grant objectives. We recommend that the questioned costs of \$125,574.96 in matching funds be disallowed by ARC, unless the grantee can provide adequate documentation.

GRANTEE'S RESPONSE

None.

AUDITOR'S CONCLUSION

The grantee did not respond, therefore our recommendations remain the same.

OBSERVATION 3 - UNAPPROVED COSTS CLAIMED.

The approved subcontract budget with the Northwest Piedmont Council of Governments (#CWP-WP-95-I) specifically excludes funding for Travel and Contractual items. However, the subcontractor submitted an invoice claiming travel costs of \$407.87 and contractual costs of \$3,062.50 (totaling \$3,470.37). The Grantee approved the invoice for payment. We were unable to find documentation to support an amended subcontract budget to reflect approval of these items.

Agreement #CWP-HO-95-I Section 11 states:

11. Changes. The Agency may, from time to time, require changes in the scope of services of the Contractor to be performed hereafter. Such changes, including any increase or decrease in the amount of the Contractor's compensation, which are mutually agreed upon by and between the Agency and the Contractor, shall be incorporated in written amendments to this Contract.

RECOMMENDATION

We recommend that the North Carolina Department of Administration maintain adequate documentation of all subcontract budget changes and approvals, and invoices should be adequately reviewed for budget compliance before approved for payment. We recommend that the questioned costs of \$3,470.37 be disallowed and these costs reimbursed to ARC, unless the grantee can provide adequate documentation.

GRANTEE'S RESPONSE

None.

AUDITOR'S CONCLUSION

The grantee did not respond, therefore our recommendations remain the same.

**NORTH CAROLINA
DEPARTMENT OF ADMINISTRATION**

Grant No. NC-7780-94-C15-302-0622
ARC Contract No. 94-122
October 1, 1994 through September 30, 1995

(Unaudited)

SCHEDULE OF CASH PAYMENTS

<u>DATE</u>	<u>PAYMENT TYPE</u>	<u>AMOUNT PAID</u>
12/12/94	Advance	\$ 127,571.00
10/20/95	Progress	89,209.00
7/18/96	Final	<u>136,070.31</u>
Total Paid		352,850.31
Total Award		<u>397,934.00</u>
Balance		45,083.69
Amount Deobligated		<u>45,083.69</u>
Total Balance Available		<u><u>\$.00</u></u>

See independent accountant's report on applying agreed-upon procedures.

**NORTH CAROLINA
DEPARTMENT OF ADMINISTRATION**

Grant No. NC-7780-94-C15-302-0622
ARC Contract No. 94-122
October 1, 1994 through September 30, 1995

(Unaudited)

SCHEDULE OF CASH PAYMENTS

	<u>In-kind Costs</u>	<u>Direct Costs</u>	<u>Total</u>
<i>Observation #1 -</i>			
A. #CWP-WP-95-A	\$ 8,500.00		\$ 8,500.00
B. #CWP-HO-95-C	84,104.00		84,104.00
C. #CWP-HO-95-D	9,000.00		9,000.00
D. #CWP-WP-95-D	<u>2,125.00</u>	<u> </u>	<u>2,125.00</u>
Total Observation #1	<u>103,729.00</u>	<u> </u>	<u>103,729.00</u>
<i>Observation #2 -</i>			
A. Position 0000-085	51,690.17		51,690.17
B. Position 0000-086	50,512.50		50,512.50
C. Position 0000-079	15,393.59		15,393.59
D. Position 0000-087	<u>7,978.70</u>	<u> </u>	<u>7,978.70</u>
Total Observation #2	<u>125,574.96</u>	<u> </u>	<u>125,574.96</u>
<i>Observation #3 -</i>			
A. Total costs		407.87	407.87
B. Contractual costs	<u> </u>	<u>3,062.50</u>	<u>3,062.50</u>
Total Observation #3	<u>\$ </u>	<u>3,470.37</u>	<u>125,574.96</u>
QUESTIONED COSTS	<u>\$ 229,303.96</u>	<u>\$ 3,470.37</u>	<u>\$ 232,774.33</u>

See independent accountant's report on applying agreed-upon procedures.