

**MEMORANDUM REPORT ON REVIEW OF THE
MOREHEAD STATE UNIVERSITY
MOREHEAD, KENTUCKY**

Historic Resource Development Project

ARC Grant No: KY-11535-94-I-302-0406

September 15, 1994 through December 31, 1996

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Report Number: 98-25-H

Date: February 13, 1998

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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. 98-25-H

SUBJECT TO: Memorandum Review Report on Morehead State University, Historic
Resource Development Project, Morehead, Kentucky. Grant No: KY-
11535-94-I-302-0406, ARC Contract No. 94-148.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Morehead State University (MSU) for its Historic Resource Development Project were expended in accordance with the ARC approved grant budget and did not violate any restrictions imposed by the terms and conditions of the grant; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and (c) the objectives of the grant have been met.

BACKGROUND: ARC awarded Grant Number KY-11535-94-I-302-0406 to MSU for the period September 15, 1994 through December 31, 1996. Total grant funding was for an amount not to exceed \$140,000, or 41 percent of actual, reasonable and eligible project cost, whichever is less. ARC required that the grant be matched with \$206,769 or 59 percent in cash, contributed services, and in-kind contributions, as approved by ARC. ARC made one progress payment to MSU totaling \$45,488. MSU has submitted five additional requests for reimbursement totaling \$92,449. As of our fieldwork end date, February 13, 1998 MSU had not received any additional funds from ARC.

The purpose of this grant is to provide funds to provide support for a regional outreach effort to document and assist in the development of historic sites in 33 counties in Appalachian Kentucky. The focus of the project is to locate, document and register historic resources and create reuse/redevelopment strategies in local communities. Historic resources will be surveyed and nominated to the National Register of Historic Places, making the sites more attractive to developers through investment tax credits. Plans will then be formulated to develop the sites identified for economic redevelopment for such projects as downtown revitalization, new business and cultural tourism.

SCOPE: We performed a program review of the grant as described in the Purpose above. Our review was based on the terms of the grant agreement 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 MSU had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with MSU's personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at MSU's offices in Morehead, Kentucky on February 9 through 13, 1998.

A. Incurred Costs

MSU claimed total program costs of \$387,855, of which they claimed direct reimbursable costs from September 15, 1994 through December 31, 1996 of \$137,937. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported. However, we identified \$2,349 in salaries incurred and expended after the end of the grant period. In addition, we identified unallowable matching costs claimed totaling \$52,922. These issues are discussed below.

Expenditures Claimed After the End of the Grant Period

MSU claimed \$2,349 of salaries and benefits incurred after the end of the grant period, December 31, 1996. The original grant period was from September 15, 1994 through September 14, 1995. Two amendments were issued extending the period of the grant to December 31, 1996. Salary and benefits continued to be charged to the grant for a staff assistant from January 1997 to April 1997. A final Request for Reimbursement was submitted by MSU claiming \$4,434 on September 12, 1997.

OMB Circular A-110, Subpart C, Post Award Requirements, .28 Period of availability of funds states:

"Where a funded period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency."

RECOMMENDATION

We recommend that ARC disallow the \$2,349 in costs incurred outside the grant period.

GRANTEE'S RESPONSE:

MSU stated in their response that a request for extension was submitted to and approved by ARC. This modification extended the grant period through June 30, 1997. Thus the costs incurred were within the grant period.

Internal Controls

We determined that MSU had the following internal control weaknesses, which affected the accountability of costs or compliance with terms of the grant. These weaknesses could result in unallowable costs being charged to the grant.

1. Other Federal Funds Claimed as Match

The ARC Historic Resource Development Project was completed by MSU in conjunction with the Kentucky Heritage Council through a grant of \$26,000 provided to MSU and funded by the National Park Service, U.S. Department of Interior. The Kentucky Heritage Council grant provided funds for the location, documentation and registering of historic resources in eastern Kentucky as well as the hiring of two full-time workers, a project coordinator and a Historian/Architectural Historian. In addition to claiming the \$26,000 of National Park Service funds as match under the ARC grant, MSU claimed an additional \$26,922 as match under both the ARC grant and the Kentucky Heritage Grant.

OMB Circular A-110, Subpart C, Post Award Requirements, .23 Cost sharing or matching states:

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

- (3) Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- (4) Are allowable under the applicable cost principles.
- (5) Are not paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or matching."

MSU officials were unaware of the regulations that do not allow the use of other federal funds as match. However, we calculated that the matching requirements were still met by MSU when the unallowable costs were removed from the match calculations.

GRANTEE'S RESPONSE:

MSU stated that the grant application, approved at both state and federal levels, indicated that \$26,000 in match would be provided by the Kentucky Heritage Council. The source of those funds as federal was not within the University's knowledge until after the application was approved and work was underway. The other ARC funds were claimed as match as part of the general accounting process for the resources allocated to the University division responsible for the grant. The claiming of match is an error in that process for which corrective measures have been taken. Match on the project was far in excess of the grant requirements, and with the aforementioned extension, additional match would be identifiable.

ADDITIONAL COMMENTS:

MSU is responsible as the grantee for all work performed under the grant. MSU is also responsible for the allowability of costs claimed for reimbursement and as match. MSU's lack of knowledge regarding the source of funds does not relieve them of these responsibilities. Therefore, MSU should design procedures to determine the source of all matching funds. In addition, MSU should design procedures to assure that the same costs are not claimed as match on two or more federal grants.

2. Internal Budget Transfers Made Without ARC Approval

Internal budget transfers totaling \$16,312 were made by MSU to cover additional salary, wages, fringe benefits, supplies and equipment costs incurred under the grant without ARC approval. The following transfers were made:

Category	Original Budget	Increase/ (Decrease)	Adjusted Budget
Salaries & Wages	\$ 79,049	\$12,832	\$ 91,881
Fringe Benefits	23,600	1,528	25,128
Travel	19,680	(5,919)	13,761
Supplies	4,800	1,200	6,000
Postage	2,733	(2,202)	531
Telephone	2,860	(2,459)	401
Rent	7,278	(5,732)	1,546
Equipment	-0-	752	752
Totals	\$140,000	-0-	\$140,000

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

"(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."

(f) The Federal awarding agency may, at its option, restrict the transfer of funds among direct cost categories or programs, functions and activities for awards in which the Federal share of the project exceeds \$100,000 and the cumulative amount of such transfers exceeds or is expected to exceed 10 percent of the total budget as last approved by the Federal awarding agency. No Federal awarding agency shall permit a transfer that would cause any Federal appropriation or part thereof to be used for purposes other than those consistent with the original intent of the appropriation."

GRANTEE'S RESPONSE:

MSU stated that no single transfer exceeded the 10 percent rule and the budget modifications had been discussed with ARC personnel.

3. Quarterly Progress Reports Not Prepared and Final Report Not Submitted Timely

MSU did not prepare and submit quarterly progress reports to the ARC Project Coordinator as required by the grant agreement. In addition, the Final Report was submitted nine months after the due date, January 31, 1997.

ARC Grant Number KY-11535-94-I-302-0406 between Morehead State University and the Appalachian Regional Commission, Article 2-7.1 states:

"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."

Article 2-7.2 states:

"Within one (1) month after the period of performance, Grantee shall prepare and submit to the ARC Project Coordinator for approval, three copies of a draft final report of all work accomplished under this agreement including recommendations and conclusions based on the experience and results obtained."

GRANTEE'S RESPONSE:

MSU stated that a change in personnel caused this action. Steps have been taken to assure compliance in future projects.

4. System Used for Tracking Matching Costs Needs Improvement

During our review of the MSU system of tracking matching costs, we found that improvements were needed to ensure that matching costs were accumulated as they were being incurred. The accounting division at MSU was responsible for quantifying the matching costs through interaction with the grant Project Director. MSU accounting was not always able to obtain accurate or timely information from the Project Directors and as a result was not properly capturing all matching costs.

ARC Grant Number KY-11535-94-I-302-0406 between Morehead State University and Appalachian Regional Commission, Article A10, Records Requirements states:

"Contractor shall maintain custody of time records, payrolls, and other data, as appropriate, to substantiate all services reported to the Commission as Contributed Services under this contract."

RECOMMENDATIONS


We recommend the MSU ensure that future matching costs do not include other federal funds, that internal budget transfers are properly reported to ARC and that approval is obtained, and that quarterly and final reports are submitted to ARC as required by the grant agreement. We make no recommendation at this time on tracking the matching costs since MSU is already addressing the problem

C. Program Results

Our review of MSU's, Historic Resource Development Project indicated all specific tasks identified in the grant, and summarized above, had been achieved.

DISCUSSION:

We discussed these issues with MSU's management during the exit conference held on February 13, 1998 and again on March 30, 1998. Management responded by stating it generally agreed with the findings and recommendations and was implementing a new policy on tracking the matching costs.


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