

**MEMORANDUM REPORT ON REVIEW OF
SAWMILL CENTER FOR THE ARTS
COOKSBURG, PENNSYLVANIA**

**Marketing and Business
Expansion Program**

**ARC Grant Nos.: PA-12055-95-I-302-0421
and PA-12055-96-C1-302-0424**

October 1, 1995 through March 31, 1998

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Report Number: 98-36

Date: March 10, 1998

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ARC Grant Nos.: PA-12055-95-I-302-0421
and PA-12055-96-C1-302-0424

October 1, 1995 through March 31, 1998

Prepared By:
Tichenor & Associates
Certified Public Accountants
Woodbridge, Virginia

Under Contract Number J-9-G-5-0010 with the
U.S. Department of Labor
Office of the Inspector General
Office of Audit

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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. 98-36

SUBJECT: Memorandum Review Report on Sawmill Center for the Arts, Marketing
and Business Expansion Program, Cooksburg, Pennsylvania. Grant
Nos.: PA-12055-95-I-302-0421 and PA-12055-96-C1-302-0424, ARC
Contract Nos. 95-166 and PA-12055.96.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Sawmill Center for the Arts, for the Marketing and Business Expansion Program, 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 PA-12055-95-I-302-0421 (Year One) to the Sawmill Center for the Arts (Grantee) for the period October 1, 1995 through September 30, 1996. Total project costs were estimated at \$439,146. ARC funding was to be approximately \$219,573, or 50 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$219,573, or 50 percent in cash, contributed services, or in-kind contributions, as approved by ARC. ARC made payments to the Grantee as follows: two progress payments were made - April 23, 1996 for \$18,719, and August 7, 1996 for \$27,967. The final payment of \$172,887 was made on December 12, 1996.

ARC also awarded Grant Number PA-12055-96-C1-302-0424 (Year Two) to the Grantee for the period October 1, 1996 through September 30, 1997. Total project costs were estimated at \$221,650 of which total ARC funding was to be approximately \$110,825, or 50 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$110,825, or 50 percent in cash, contributed services, or in-kind contributions, as approved by ARC. This grant was amended on September 30, 1997. This amendment extended the period of performance until March 31, 1998 and decreased the total estimated amount of the project to be \$77,736. ARC funding was also reduced to an amount not to exceed \$38,868. ARC made one progress payment of \$21,942 on May 28, 1997.

The funds from these grants were to provide support the establishment and expansion of a successful manufacturing and retail business to include a mail-order component. The specific tasks of the grants were as follows:

Year One:

- (1) Hire staff, including a director, administrative assistant, and a shipping/ packaging supervisor;
- (2) Make the final determination of crafts people and types of crafts to be used;
- (3) Hire a studio photographer to photograph crafters and their products, and historical or craft related places in the region;
- (4) Develop the first four-color catalog for mailing by September, 1996;
- (5) Select crafts for the catalog;
- (6) Set up an 1-800 number for ordering;
- (7) Develop a system for packaging and shipping;
- (8) Purchase mailing lists;
- (9) Establish communication with tourism agencies;
- (10) Book for four major trade shows for fiscal year 1996-1997;
- (11) Begin arrangements for attending these trade shows;
- (12) Expand list of Bed and Breakfast establishments that will market products in their gift shops;

- (13) Develop matchmaker plan to connect the Sawmill Center for the Arts with Bed and Breakfast establishments; and,
- (14) Explore the possibilities for holding a region-wide crafts festival in Year Two.

Year Two (as amended):

- (1) Focus on the expansion of advertising through the Internet in order to increase the number of craftsperson participants and thereby the sales revenues generated; and,
- (2) Re-analyze mailing lists and marketing plans based on first year responses, research wholesale opportunities as well as those for cooperative buying arrangements for craftspersons, and implement skills workshops for crafters.

SCOPE: We performed a program review of the project as described in the Purpose, above. Our review covered the time period October 1, 1995 through December 31, 1997. We based our review 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 specific 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.

We provided the Grantee with a draft report, which included the results of our review as reported below, and requested that the Grantee provide a written response or additional documentation to address the reported results. The Grantee provided a response dated August 23, 1998. Comments are summarized in the applicable report sections, and included in full as an exhibit.

RESULTS: The following results were based on our review performed at the Grantee's office in Cooksburg, Pennsylvania on March 9 and 10, 1998.

A. Program Results

Our review of specific tasks identified in the grant for Sawmill's Marketing and Business Expansion Program, as summarized above, determined the following:

Year One:

The overall results complied with the specific tasks as identified in the grant agreement, except that the Grantee did not book any major trade shows for the following year (fiscal year 1996-1997) as specified as task number 10. The final progress report stated that Sawmill was still "continuing to research trade show location and feasibility for attendance in 1997".

Although the specific tasks of the grant had been achieved, the Grantee was unable to support that the ARC grant had been matched with activities and funding required by the grant. The Grantee states that their entire operations support the marketing expansion project. However, the Grantee was unable to identify and support specific expenses, activities or funding which supported the project either directly or indirectly.

GRANTEE'S RESPONSE

The Grantee stated that they determined it was not feasible as a distributor to go to trade shows. They determined that the profit margin for distributors was not large enough to make attendance feasible, and that most trade shows did not allow distributors to attend.

The Grantee also reaffirmed its position that their entire operations at the Center supported the marketing expansion project. They felt that this was not explored at the time of the audit because they did not have the staff or board members present who were familiar with this situation. The Grantee also stated that the records for the entire operations can be made available. However, they were unable to determine how the specific amounts that were reported as cost share were developed.

Finally, the Grantee maintains that a portion of the cost share relates to an in-kind match supplied by volunteer professionals and the board members. They understand, though, that this information was not properly documented.

AUDITOR'S ADDITIONAL STATEMENT

ARC should determine which operating costs are allowable matching costs and obtain documentation to support those costs from the Grantee.

Year Two:

The results of this year do not support that the specific tasks of the grant had been achieved. The first goal was to focus on the expansion of advertising through the Internet, in order to increase the number of craftsperson participants. Although the Internet site was established for the Sawmill Center for the Arts, only seven items were listed for sale on the web site. This was a decrease in the number of items available from the catalog previously issued. In

addition, the catalog was not reissued, therefore effectively only seven items were for sale in total. The second part of this goal was to increase sales revenues due to the increase in advertising and additional participants. Revenues, in fact, decreased during the period October 1, 1996 through December 31, 1997. Total revenues through December 31, 1997 were \$42,146, of which \$36,341 or 86 percent was earned from October 1, 1996 through December 31, 1996. The remaining 14 percent was earned over the remaining course of twelve months.

GRANTEE'S RESPONSE

The Grantee maintained that there was no intention of increasing the number of crafters participating. The stated that they wanted to decrease the number of crafters to eliminate those who were determined to be unreliable and to no longer include items that were either too large to ship, were not cost effective, or had little demand. The Grantee stated that it was never their intention to scan the whole catalog onto the Internet, and that this was mentioned in the quarterly progress reports.

AUDITOR'S ADDITIONAL STATEMENT

We were not supplied with the progress reports for year two. In addition, Grant Amendment Number One states the new specific task of the grant was to "focus on the expansion of advertising through the Internet in order to increase the number of craftsperson participants and thereby the sales revenue generated." Based on the sales levels and the number of items featured at the Internet site, the specific task, as stated in the grant amendment, was not achieved.

B. Incurred Costs

The Grantee incurred total program costs for Year One of \$442,465, of which they claimed direct reimbursable costs from October 1, 1995 through September 30, 1996 of \$219,573 and in-kind costs of \$222,892. In Year Two, reported total costs through March 31, 1997 were \$43,885, of which direct reimbursable costs were \$21,942 and in-kind costs were \$21,942. The direct and in-kind costs claimed from project inception through December 31, 1997 could not be traced to the general ledger or other supporting documentation in order to verify the allowability, allocability or reasonableness of the costs. In fact, the entire amount claimed as in-kind was unsupported by any kind of supporting documentation. We determined that \$27,184 of the claimed costs in Year One was either unallowable or unsupported in accordance with the terms of the grant and applicable OMB Circulars. These costs are discussed below.

1. General Ledger Does Not Support Reported Project Costs

The project expenditures reported to ARC were based on a general ledger report listing total expenditures of \$212,622 and rent expense of \$7,000, not included on the general ledger. The general ledger report at the time of our review, however, only included supported total expenditures of \$195,568. Added with the \$7,000 of unrecorded rent, the total expenses are \$202,568. The Grantee was unable to explain:

- a. Why the general ledger reports were inconsistent in both composition of expenses by expense category and in total; and,
- b. What the \$17,005 difference between the general ledger reports represented.

We have included a copy of each of the general ledger reports as Attachments 1 and 2 to this report. The unexplained variances raise significant issues with respect to the reliability of the accounting system and the actual project expenditures.

OMB Circular A-122, Attachment A, Paragraph 1, Composition of Costs, states:

“The total cost of an award is the sum of allowable direct and allocable indirect costs less any applicable credits.”

GRANTEE’S RESPONSE

The Grantee stated that they determined the source of the discrepancy was the result of a bookkeeper error. They stated that on November 11, 1996, when the ledger was printed, it included expenses through November 11, even though the heading indicated that expenses were through September 30. They ascertain that the \$212,622 was incorrect, and should have been reported as \$195,567.

AUDITOR’S ADDITIONAL STATEMENT

Although, after some research, the Grantee was able to identify the source of the discrepancy, they found that the amounts as originally reported were not correct. We maintain that this discrepancy indicates weaknesses with respect to the reliability of the accounting system.

2. Matching Funds Not Supported

In Year One, the Grantee reported to ARC total matching expenditures for the project of \$222,892. The Grantee stated, in a letter dated August 15, 1995 that was incorporated by reference into the grant agreement, that the financial figures used in the grant application for

matching funds represent a portion of the entire budget. However, the Grantee did not provide any records or schedule of transactions to support the composition of these matching costs or relate them to this project.

OMB Circular A-110, Section .23, Cost Sharing or Matching, states:

"All contributions shall be accepted as part of the recipient's cost sharing or matching when such contributions are verifiable from the recipient's records."

GRANTEE'S RESPONSE

As the Grantee previously stated, they maintain that the cost share was to be met by the entire operations; but they are unclear how the specific amount reported to the ARC as cost share was determined.

AUDITOR'S ADDITIONAL STATEMENT

The Grantee should work with ARC to resolve specific details related to the cost share issues.

3. Salary Transfer Unsupported

In Year One, the Grantee made a \$2,000 transfer of salary expenses from another department to the grant project. The Grantee was unable to support the personnel whose salary this was, the benefit to the grant project, the time period it related to, or when it was paid.

OMB Circular A-122, Attachment B, Section 6(l), paragraph 1, Support of Salaries and Wages, states:

"Charges to awards for salaries and wages...will be based on documented payrolls."

GRANTEE'S RESPONSE

The Grantee stated that this \$2,000 transfer was justified because the former Executive Director stated that she had spent over 25 percent of her time for three and one half months on this project. Ms. Campbell's salary for the period was \$8,615, therefore 25 percent would have been \$2,154. Ms. Campbell now feels that 33 percent of her time for this period would be a more accurate reflection. The Grantee agrees that this was not properly supported.

4. Building Space Allocation Not Based on Reasonable Estimate

The Grantee proposed and received approval to establish and maintain the catalog operations in their current building. At the time, they established 25 percent as a reasonable estimate of the space to be occupied by the catalog operations. We verified, through a site tour, that the estimate was reasonable. However, the Grantee did not allocate the space-related costs to the grant project based on the established 25 percent. Charges made to the grant were as follows:

	<u>Total</u>	<u>Claimed</u>	<u>Accepted (25%)</u>	<u>Difference</u>
Mortgage	\$10,000	\$7,000	\$2,500	\$4,500
Utilities	5,432	1,162	1,358	(196)
Total	\$15,432	\$8,162	\$3,858	\$4,304

OMB Circular A-122, Attachment A, Section 4, Allocable Costs, states:

“A cost is allocable to a particular cost objective such as a grant, project, service or other activity in accordance with the relative benefits received.”

GRANTEE’S RESPONSE

The Grantee stated that the original grant budget for space rental was based on an estimated market rate of \$8.00 per square foot. The Grantee decided to use their own space instead of renting an outside space. The Board of Directors established a rate of \$3.50 per square foot to charge the grant. The space allocated to the catalog was 25 percent of the building, or 2,000 square feet.

AUDITOR’S ADDITIONAL STATEMENT

OMB Circular A-122, Attachment A, Section 1, Composition of Total Costs states “The total cost of an award is the sum of the allowable direct and allocable indirect costs...” The \$3.50 per square foot does not appear to be based on the actual costs of ownership.

5. Program Income Was Not Properly Treated

The Grantee received approval, as part of the grant agreement, to utilize program income in Year Two to fund the matching expenses. Total program costs were originally anticipated to be \$510,825, of which ARC was to fund \$110,825 and program income was to fund \$400,000. The total program costs were later modified to \$77,736, which was to be shared equally by ARC and the Grantee. Program income was not addressed in the Year One budget as a source of funding, except in the grant application with respect to the percentage

of sales income retained by the Grantee for each of its current activities.

In Year One, the Grantee received \$3,880 in program income from the sale of items in the catalog. This income was not used to offset ARC program expenses, and the Grantee has not documented matching expenses that may be offset with this income, if approved by ARC. Therefore, the income should be used to offset the direct expenses of the program, funded in total by ARC.

ARC General Contract Provisions, Article G4, Contract Related Income, states:

“Pursuant to Section 18-7.3 of the ARC Code, contract-related income must be used to reduce the ARC grant amount unless the ARC specifically approves the expenditure of such contract-related income to expand project services”.

In Year Two, the Grantee has incurred and documented total program expenses of \$44,212 and has received program income of \$42,146. While the program income may be used to fund the matching costs, as discussed above, the Grantee is required to monitor the ARC grant drawdowns to assure that ARC funds only 50 percent of the total program expenses. We determined total expenses through December 31, 1997 as follows:

	<u>Total</u>	<u>Matching</u>	<u>ARC</u>
Total Expenses	\$44,212	\$22,106	\$22,106
Total Program Income	42,146	22,106	20,040
Total Reimbursable Expenses			\$ 2,066

According to the grant proposal, which was incorporated as part of the grant agreement, the program income was to be used for the grantees matching, as such, the program income was first applied to cover the matching costs.

OMB Circular A-122, Attachment A, Paragraph 1, Composition of Costs, states:

“The total cost of an award is the sum of allowable direct and allocable indirect costs less any applicable credits.”

GRANTEE'S RESPONSE

The Grantee agrees that year one income should have been used to offset expenses. They hope to offset expenses for the period through March 30, 1998 with this income. They

also feel that year two should be resubmitted to include the entire operation "so that 50 percent of the total program expenses are more accurately represented." The Grantee feels that this would result in an increase in grant money due to them for the second grant year.

AUDITOR'S ADDITIONAL RESPONSE

The Grantee's proposal to include the entire operation is related to their assertion that this amount was to be part of the cost share. The Grantee and ARC will need to work out the details related to this proposal.

RECOMMENDATION:

We recommend that ARC require the Grantee to determine actual project expenses and recalculate the total ARC participation based on supportable project expenses. Overpayments, if any, made by ARC based on reported project expenses should be returned to ARC. Our calculation of the total allowable project expenses for Year One is as follows:

	<u>Amount</u>
Total Project Expenses Per General Ledger	\$195,568
Rent Adjustment Per Grantee	7,000
Building Space Adjustment	(4,304)
Payroll Adjustment	(2,000)
Program Income Offset	(3,880)
Total Allowable Expenses	\$192,387
ARC Funding Limitation (50%)	\$ 96,192

C. Internal Controls

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

1. Inadequate Financial Management System

We determined that the Grantee's financial and management systems were not sufficient to properly safeguard federal funds. Examples of these weaknesses were as follows:

- a. The Grantee's general ledger system did not produce reliable information. The expenses on the income statement for the catalog department, which was provided to ARC to support the SF-270, was later changed with no justification for the revisions. The reliability of either the income statement provided to ARC or the income statement provided during the audit could not be verified.
- b. Journal entries are not supported by adequate accounting documentation. One example was the payroll transfer discussed previously in which personnel or time records did not support the transfer of payroll costs to the project.
- c. Personnel and payroll records are not maintained. A volunteer who prepared the payroll maintained supporting information provided. The information was not readily available to support the expenses charged to the grant. In addition, personnel records documenting employment periods and salary history were not available.
- d. The Grantee did not maintain records for cost sharing. As previously stated, the Grantee was unable to produce any support for matching costs.

OMB Circular A-110, Section .21, Standards for financial management systems, states, in part:

"Recipients' financial management systems shall provide for the following.

- (1) Accurate, current and complete disclosure of the financial results of each federally sponsored project.
- (2) Effective control over and accountability for all funds, property, and other assets...
- (6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

- (7) Accounting records including cost accounting records that are supported by source documentation.”

RECOMMENDATION:

We recommend that ARC require the Grantee to establish and implement a financial management system as required by the OMB Circulars.

GRANTEE’S RESPONSE

The Grantee generally agrees with these findings and is currently investigating measures to address each issue.

2. Year Two Quarterly Progress Reports Were Not Prepared and Submitted

During the period of September 1, 1996 through December 31, 1997, no quarterly progress reports were prepared and submitted to the ARC.

Grant Agreement number PA-12055.96, Article 2, Section 8.1, Progress Reports, 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.”

RECOMMENDATION:

We recommend that ARC require the Grantee to establish procedures to ensure that progress reports are submitted in a timely manner for all current and future projects.


GRANTEE’S RESPONSE

The Grantee generally agrees with this finding and will submit progress reports in a more timely manner and seek to understand the correct reporting procedures.

Appalachian Regional Commission
Sawmill Center for the Arts
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DISCUSSION:

We discussed these issues with the Grantee's management during an exit conference held on March 10, 1998. Management generally agreed with our findings at that time.


TICHENOR & ASSOCIATES
Woodbridge, Virginia

Cook Forest



Sawmill Center for the Arts
Where Nature Meets the Arts

August 23, 1998

Ms. Deirdre M. Reed, CPA
Tichenor & Associates
12531 Clipper Drive, Suite 202
Woodbridge, Virginia 22192

Dear Ms. Reed,

Enclosed is the Response to the Draft Report on Review of ARC Grant Nos: PA-12055-5/96. We expect our response to be fully incorporated into the final report submitted to Mr. Hubert Sparks of the ARC Inspector General.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lois Trimbur".

Lois Trimbur
Executive Director

The Cook Forest Sawmill Center for the Arts is a 501 © 3 not-for profit organization

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Phone (814) 927-6655

FAX (814) 744-8660

Web Site www.sawmill.org

e-mail sawmill@penn.com

A. Program Results

The Tichenor Report.....The Sawmill did not book any trade shows.

The Sawmill Art Center's response:

-With the decline of catalogue sales in the Fall of 1996, neither adequate funds or staff were available to attend major trade shows. After researching the feasibility of attending trade shows, it was concluded that only a manufacturer or crafter should be attending the trade shows and not distributors. Not only is there not enough profit margin for distributors to survive trade shows, but most major craft shows which the Sawmill investigated permit only the crafter (not the distributor) of hand-crafted goods to sell items.

The Tichenor Report.....The Sawmill is unable to support matched activities and funding.

The Sawmill Art Center's Response:

-Without having the former Executive Director, former Office Manager, and former Board Members present at the time of the Tichenor audit, it was difficult for the present staff to understand the first year ARC agreement and to quickly generate supporting data to prove matching activities and funding. After having a meeting on April 4th, 1998 with the former Staff and Board Members present, the Sawmill is convinced that the ARC grant was matched through the entire operations budget with the agreed upon activities and funding. The entire operations financial data is available in the computer and on written documents. However, the Sawmill is unable to locate an original document which shows the specifics of which department the matching money came from.

-Lisa Campbell's office appointment book shows several meetings with volunteer professionals and board members regarding the catalogue project. The Sawmill agrees that in-kind services, which did in fact take place, were not properly documented.

Tichenor Report....The Sawmill did not increase the number of craftsperson participation through the internet. Only seven items were listed on the internet.

The Sawmill Response:

-When the second year grant was revised and the Sawmill wanted to go internet with sales, there was no intention of increasing the number of craftsperson participation from the original catalogue. The quarterly report submitted indicated to ARC that several crafters could not consistently produce quality goods. The Sawmill also recognized that several pieces were too large and cumbersome for shipping. In fact, it was desired to have fewer and more reliable crafters with high quality hand crafted goods. It was never the intention for the Sawmill to scan the entire catalogue and put it on the Web. It was concluded in the report that several items were not cost-effective, and other items had no demand.

B. Incurred Costs

The Tichenor Report.....The general ledger was changed to reflect \$17,005 increase in expenses from the general ledger represented.

The Sawmill Response:

-The general ledger was never changed as Tichenor claims. Mary Brooks, CPA, assisted the Sawmill in finding the discrepancy between the \$212,621.83 reported at the end of the first year grant period (Sept 30, 1996) and the amount of \$195,567 which was also represented. When the financials were requested on 11/11/96, the bookkeeper treated them as of that date, not as of 9/30/96. Therefore the total of \$212,621.83 included expenses from 10/1/96 -11/11/96. This was an error on the part of the bookkeeper. The correct amount was \$195,567.

The Tichenor Report.....The Grantee did not provide records to support matching costs to the catalogue project

The Sawmill Response:.

When the audit was conducted, neither the Tichenor auditors nor the Sawmill Staff understood the agreement between Lisa Campbell (former Executive Director of the Sawmill) and Julie Franklin (formerly with ARC). The agreement was that matching funds were to be represented by a portion of our entire budget (over \$600,000). As a result, the auditors did not look into the Sawmill's entire operational income and expenses for verification of matching funds, and the current Sawmill Staff was not able to provide information regarding prior matching funds.

Enclosed are the financials for the 1996 calendar year. With the changeover in Executive Directors, the Sawmill is still not sure how the matching costs were calculated. By talking with a local attorney, business consultants, and other local business people, we are able to gather some data on accumulated hours of in-kind professional services. Because these services were not correctly documented according to the auditors, the Sawmill realizes that these services may not be able to be used as part of the match.

The Tichenor Report....Salary transfer was unsupported.

The Sawmill's Response:

Lisa Campbell, our former Executive Director, has stated that this \$2,000 payroll transfer from administration to catalogue was more than justified. In the Sawmill's recent discussion with Lisa, she claimed that 25% of her salary for 3 ½ months from the beginning of the grant period (Oct 1, 1995) until the new Catalogue Manager was hired in mid-January, 1996, was more than the \$2,000 reported. Hence, \$8,615 x 25% = \$2,153.85. This should have been documented more clearly at the time.

In retrospect, because Lisa feels that over 1/3 of her time was dedicated to getting the catalogue up and running, she now says that a larger amount should have been transferred during the 1995/1996 year. If you care to call Lisa, she is more than willing to talk with you. She may be reached at Gannon University at 814-871-7657.

The Tichenor Report.....Building space allocation not based on reasonable estimate.

The Sawmill Response:

-In talking with Board Members, it appears that outside space was originally planned for the Catalogue. In Clarion, rental space was \$8.00 per square foot. In an attempt to reduce costs, the Board decided to utilize the classroom area at Site two on Breezemont Drive instead of renting outside space. The building at Site two is 8,000 square feet. Twenty-five percent of that space is 2,000 square feet. There was miscommunication from the Board to Lisa Campbell on how building space was to be charged. Lisa Campbell was directed by the Board to have the Sawmill rent space to the catalogue operation for \$3.50 per square foot. This total amount was to be billed for a total of \$7,000. Lisa corresponded with ARC indicating that the Sawmill would charge 25% of the \$10,000 mortgage to the catalogue operation. When Lisa left the Sawmill, no one was aware of her agreement with ARC, and the original directions from the Board of Directors were followed. This explains the \$4,500 discrepancy.

The Tichenor Report.....Program income was not properly treated.

The Sawmill Response:

-The Sawmill realized at the time of this audit that first year program income in the amount of \$3,880 should have been used to offset program expenses. The Sawmill hopes that when the final report for March 30, 1998 is submitted to ARC that the above amount will offset those expenses.


-The Sawmill feels that year two should be resubmitted to include the entire operation so that 50% of the total program expenses are more accurately represented. This would result in an increase in the grant money due to the Sawmill from ARC. The Sawmill estimates underpayment in year two to be approximately \$19,000. This adjustment in year two should be taken into consideration with regard to any other overpayment from ARC to the Sawmill Art Center in year one.


The Tichenor Report...Inadequate financial management system

The Sawmill Response:

- a. The Sawmill is looking into establishing a more reliable accounting system which will provide adequate back-up and documentation for all entries, both income and expenses.
- b. At the present time, the Sawmill's personnel and payroll information is handled by a volunteer. All records are available to the Sawmill Art Center when needed. The Sawmill has become aware through this audit of the need to have payroll and personnel information in-house.
- c. The Sawmill Art Center recognizes the need to maintain accurate records pertaining to cost-sharing. The Sawmill recognizes the need to implement a financial management system as required by the OMB circulars.
- d. The Sawmill will submit progress reports in a more timely manner and to seek to understand the correct reporting procedures.

Respectfully Submitted,


 Lois Trimbur Date 8/23/98
 Executive Director


 Mary E. Brooks, CPA Date 8/23/98



Cook Forest Sawmill Center for the Arts

Where Nature Meets the Arts

MAY 03 1999

April 28, 1999

Appalachian Regional Commission
Attn: Sue Moreland
1666 Connecticut Avenue, NW
Washington, DC 20235

ARC Grant PA-12055-95/96

Dear Ms. Moreland:

Enclosed please find a breakdown of our match for the above stated grant. Also enclosed is a copy of a letter from Lisa Campbell who worked on the project to Lois Trimbur, the previous Executive Director. As of January 1, 1999, the Sawmill has upgraded our accounting system to be able to track our expenditures.

If you have any questions, please feel free to contact me.

Sincerely,



Cindy L. Ban
Executive Director

CLB/hls

enc.

The Cook Forest Sawmill Center for the Arts is a 501(c)(3) not-for-profit organization.

Cook Forest Sawmill Center for the Arts



Where Nature Meets the Arts

ITEM	MATCH	AMOUNT
(1/3) Administration Cost	1/3 of \$83,000	27,666
Catalog Committee	100 hours 3 member 3 (100)(100) Larry, Don, Joe	30,000
Staff Costs	Cindy Salary - \$5,000	5,000
1/3 Sawmill Board	12 Meetings; 16 members; 2 hours meeting; 1 hour travel <u>(12)(16)(3)(75)</u> 3	14,400
Sales	\$40,000	40,000
Personnel Committee	6 members 20 hours (6)(20)(75)	9,000
Volunteers	200 hours @25.00 an hour	5,000
Craft Market Expenses	October 1, 1995 to Sept. 29, 1996	<u>151,169</u>
	TOTAL MATCH	\$282,235

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Cook Forest Sawmill Center for the Arts, PO Box 180, Cooksburg, PA 16217 Phone: (814) 927-6655 / (814) 744-9670
sawmill@penn.com www.sawmill.org Fax: (814) 744-8660

April 7, 1998

Lois,

In response to the preliminary findings of the ARC Grant audit, I wanted to document a comment regarding point 1 - Cost Share/Matching.

The initial grant was written by a professional grantwriter and under the guidance of the Northwest Regional Planning and Economic Development Commission. The Sawmill supplied basic information on its existing operations and research done, with NWRPEC, to the grantwriter. The "match" for the grant was the existing operations of the Sawmill (with particular focus on the craft market operations) because it was viewed as an extension of the efforts of the craft market. When the contract was received, I questioned Ned at NWRPEC about this and was assured this was legitimate. He indicated that they write several grants each year to the ARC and this is a legitimate match. If this information is incorrect, I believe the Sawmill needs to hold NWRPEC accountable. If this information is correct, you need to open the entire Sawmill books for auditing.

I hope this helps to clarify this situation. Please feel free to contact me regarding additional questions or concerns, beyond the responses I gave you in person a couple of weeks ago.

Sincerely,


Lisa A. Campbell



Sawmill Center for the Arts

P.O. BOX 180
COOKSBURG, PENNSYLVANIA 16217
814/927-6655
(MAY-SEPTEMBER)

814/744-9670
(OCTOBER-APRIL)

RECEIVED AUG 16 1995

August 15, 1995

Julie Franklin
Appalachian Regional Commission
1666 Connecticut NW
Washington, DC 20235

Dear Ms. Franklin:

Per your request, I am enclosing additional information to supplement the grant request for a cataloging initiative through the Sawmill Center for the Arts.

A delineated budget, which I believe will answer many of your questions, is enclosed. There are several points of economic impact here. First, an obvious increase in income for the artists selected for this project. Estimated projections are that most craftsmen will increase their income to three or four times their current earnings with us (from \$ 11,300 to \$ 28,000). When orders supersede this need, new job creation will occur. Next, the influx in business to service industries such as printing, insurance, utilities, supplies and shipping. Third, we need a warehouse/shipping facility and anticipate securing space in one of three newly developed industrial parks, converted from vacant buildings. Finally, the telecommunications needed for this work can be secured through a company in our region, insuring additional employment for order processing.

I have also included a two page overview of the Center and its operations. As you can see, it is a significant and multi-faceted arts center. The cataloging project represents a "rounding out" of our operation and the opportunity to make a significant contribution regionally, and in time nationally, to western Pennsylvania. The financial figures used in our grant application for matching funds represent a portion of our entire budget (over \$ 600,000), predominantly drawn from the craft market area. This project would be an extension of the craft markets and their mission in several ways. 1) It gives the opportunity of earned income back to the craftsmen; 2) It allows us to showcase the art and traditional crafts on a national level; 3) It helps to preserve the traditional crafts of this area through appreciation and learning; 4) It exposes the region to additional tourism and 5) It stimulates the development of cherry wood, through their products.

Here at the Sawmill, classes are taught in the arts, with heavy emphasis on the folk arts. Additional courses are offered in history, of the early oil industry, nature and the environment. The SCA Elderhostel Program runs 23 weeks out of the year with registration on Sundays and dismissal on Fridays. Housing and food service is coordinated through local hotels and activities are planned each evening for the 1,000 guests attending each year. A trip into Cook Forest occurs each week, giving participants a chance to visit the SCA facilities, enjoy the beauty of Cook Forest and showcase the entire area. Fees for the Elderhostel Program are set through the national office and information regarding our schedule, as well as the entire program, can be secured through our center.

Theatre - The Verna Leith Sawmill Theater was constructed in 1984 to showcase the talents of local non-professional thespians. Our season now runs 19 consecutive weeks with participation from numerous community theatre groups and Clarion University. The stage has been used to bring family-oriented musicals, drama and comedy to local patrons, in an effort to broaden their understanding of live performance art. The companies performing utilize Sawmill Center for the Arts facilities from May through September and receive 60% of the ticket price. This unique arrangement allows the companies to enhance their efforts in the communities they represent, while the SCA develops theatre in the Cook Forest region.

Nuthole Program - The Nuthole represents our major emphasis on children's programming at the SCA. This series of folk art classes runs from mid-June to mid-August in our shelter at the entrance to Ridge Camp. 1,000 children take advantage of this program each year, which is available Monday through Friday from 10:00AM-Noon. This program requires no advance registration, is geared for ages 6-14 and costs \$ 2 per child each day.

Miscellaneous Services - The SCA is consistently looking at new learning opportunities in the arts and has particular vision on reaching children and youth. Currently, we rent our facilities or teach programs in: dance, theatre for children, theatre for youth, and graphic & visual art. We hope to expand these areas in the future to insure a new generation of artists.

In addition, an internal publication, The Cook Forest Chronicle, is produced three times per year. The Chronicle serves as a tourism tool informing the public about events throughout the forest and offers advertising to area merchants.

The Cook Forest Sawmill Center for the Arts is a private, not-for-profit organization, founded as an art and craft center. Since its inception in 1974, the Sawmill Center for the Arts (SCA) has grown to encompass three facilities and several programs and services in the greater Cooksburg area. The Center employs a staff of 10, four full-time and six part-time. Over 100 volunteers a year help in the operational support of the Center as well.

The Craft Markets - The SCA operates two craft market venues housing regional artisans' work, covering a variety of disciplines. The Sawmill Site operates seven days a week, seasonally from May to October, and is located on State grounds in the old Sawmill Building. The Museum Site, located on Breezemont Drive, operates year-round, seven days a week. All artists work is sold on consignment with 65-75% of the revenue being returned to the crafters. The Museum Site also houses the Sawmill Gallery exhibiting artists in a variety of mediums.

Craft Classes - Over 1,125 students per year enter the 160 classes, from April thru November, covering a wide range of the traditional folk arts. Classes are taught at both the Sawmill Site and Museum Site, depending on the number of participants. Levels ranging from beginners to advanced, and lasting from one day to week long, promise opportunities for artists in all stages of learning and development. Fees for class attendance vary greatly, depending upon length of instruction. The highest quality instructors are sought to give our students exposure to professional workmanship. Notable instructors have included: Desiree Hajny, Rosalyn Leach Daisy, and Joe Dampf, just to name a few.

Festivals/Special Events - The SCA hosts eight festivals per year and two major exhibitions, with a season from June thru October including: Herb Festival, Forest Spin-In, Woodcarving Competition and All Wood Crafts Festival, Teddy Bear Weekend, The All-American Doll Show, Sawmill Summerfest and Quilt Show, Great Dulcimer Round-Up and Harvest Fest. In addition to many great vendors selling artwork and by-products at each festival, free lectures and entertainment are often included. The Woodcarving and Quilt Show include large exhibitions where participants can enter their work. Artisans work is often for sale at the exhibitions as well. A \$ 2 donation at the Woodcarving Festival and Summerfest help to offset the costs associated with all eight festivals.

Elderhostel - The SCA is proud to serve as host for the national Elderhostel Program. The Elderhostel is a unique program for citizens over the age of 60, to encourage life long learning. Sites are established all over the country with learning opportunities in many fields.

THE SAWMILL CENTER FOR THE ART
INCOME STATEMENT SAWMILL INCOM
OCTOBER 31, 1996

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Num.	Description	YTD ACTUAL	YTD BUDGET	VARIANCE	LAST YEAR ACTUAL
5155	PRINTING	89306.16	57650.00	31656.16	14345.05
5160	PRODUCTS FOR RESALE	2789.09	2945.00	-155.91	1784.73
5165	REFUSE	440.00	870.00	-430.00	180.00
5166	RENT	0.00	12000.00	-12000.00	0.00
5170	REPAIRS & MAINTENANCE	4363.22	5225.00	-861.78	3385.56
5175	SECURITY	596.00	1500.00	-904.00	1495.26
5176	SHIPPING	1566.89	0.00	1566.89	0.00
5180	SUPPLIES	19745.94	21255.34	-1509.40	19843.42
5185	PROPERTY TAXES	37.17	35.00	2.17	37.89
5190	TRAVEL	2158.15	19042.00	-16883.85	2779.43
5200	TELEPHONE	5407.23	5526.00	-118.77	3670.57
5210	UTILITIES	8132.44	14495.00	-6362.56	8269.93
5220	WORKSHOPS	352.00	500.00	-148.00	459.25
5230	EXHIBITS-TOURING	0.00	0.00	0.00	900.00
5240	MAINTENANCE RESERVE	0.00	2950.00	-2950.00	0.00
TOTAL EXPENSES		663840.22	731893.20	-68052.98	497232.85
NET PROFIT (LOSS)		-124936.67	32569.48	-157506.15	19141.10

THE SAWMILL CENTER FOR THE ART
 -INCOME STATEMENT SAWMILL INCOM
 OCTOBER 31, 1996

Page 1

Num.	Description	YTD ACTUAL	YTD BUDGET	VARIANCE	LAST YEAR ACTUAL
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TOTAL INCOME					

41001	INCOME - CLASSES	58364.55	45400.00	12964.55	51433.96
41002	INCOME - THEATRE	56304.34	62300.00	-5995.66	55629.52
41003	INCOME - NUTHOLE	1944.00	2600.00	-656.00	2673.00
41004	INCOME - ADMINISTRATION	18303.23	39659.68	-21356.45	21183.29
41005	INCOME - CRAFT MARKET	84324.40	92250.00	-7925.60	83120.36
41006	INCOME - SPECIAL EVENTS	35054.88	37350.00	-2295.12	37378.08
41007	INCOME - ELDERHOSTEL	135210.42	176260.00	-41049.58	189773.66
41008	INCOME - MUSEUM	78302.89	87295.00	-8992.11	73258.81
41009	INCOME - GALLERY	1356.74	1775.00	-418.26	1923.27
41010	INCOME - CATALOG	69738.10	219573.00	-149834.90	0.00

TOTAL INCOME		538903.55	764462.68	-225559.13	516373.95
TOTAL EXPENSES					

5000	ADMINISTRATIVE PAYROLL	21333.28	26666.66	-5333.38	28779.70
5010	ADVERTISING	2385.75	3630.00	-1244.25	1945.85
5012	ARTIST IN ACTION	4555.00	6800.00	-2245.00	5448.00
5014	AWARDS & JUDGES	3401.44	3000.00	401.44	4126.54
5016	BANK CHARGES	2617.52	7485.00	-4867.48	2316.62
5020	ACCOUNTING FEES	0.00	2400.00	-2400.00	0.00
5023	BUSING	3090.00	3750.00	-660.00	4100.00
5025	CAPITAL OUTLAY	38854.87	32200.00	6654.87	105.00
5038	COORDINATOR	12000.00	10800.00	1200.00	6161.05
5039	DEPRECIATION	0.00	0.00	0.00	0.00
5048	DUES & MEMBERSHIPS	517.50	1000.00	-482.50	588.45
5049	ENTERTAINMENT	1109.23	385.00	724.23	282.00
5050	FUND RAISING EXPENSE	3800.51	2100.00	1700.51	2071.12
5055	GROUNDS	1917.56	1200.00	717.56	981.60
5060	INSTRUCTORS	40704.43	31231.00	9473.43	40017.18
5070	INSURANCE	12504.81	15495.00	-2990.19	10153.80
5080	INTEREST	3188.81	3000.00	188.81	2728.30
5087	FOOD & LODGING	60842.86	97074.00	-36231.14	103034.80
5090	LEGAL & PROFESSIONAL	14837.48	18710.00	-3872.52	175.00
5100	MISCELLANEOUS	1339.47	2570.00	-1230.53	1605.59
5101	CRAFTMEN'S PAYTS - CATALOGUE	10192.35	0.00	10192.35	0.00
5105C	TOTAL CRAFTSMEN'S PAYMENTS	47242.34	57200.00	-9957.66	50229.77
5108C	CRAFTSMEN'S PAYMENTS - MUSEUM	55205.42	51200.00	4005.42	47493.50
5109C	CRAFTSMEN'S PAYMENTS - GALLERY	296.34	850.00	-553.66	813.35
5110	OFFICE SUPPLIES	6078.08	3855.00	2223.08	4236.39
5115	PENSION	12500.00	12500.00	0.00	12500.00
5120	PAYROLL	92752.64	127037.70	-34285.06	56424.25
5130	PAYROLL TAXES & BENEFITS	19045.08	25842.50	-6797.42	14100.28
514	POP MACHINE PURCHASES	831.00	1000.00	-169.00	1015.30
514	PERFORMERS	33701.07	31400.00	2301.07	32162.67
5150	POSTAGE	22101.09	7518.00	14583.09	6485.65

THE SAWMILL CENTER FOR THE ART
 —INCOME STATEMENT SAWMILL INCOM
 OCTOBER 31, 1996

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	Num. Description	YTD ACTUAL	YTD BUDGET	VARIENCE	LAST YEAR ACTUAL
41009	INCOME - GALLERY	1356.74	1775.00	-418.26	1923.27
	EXPENSES - GALLERY	923.32	2040.00	-1116.68	2709.16
	NET GALLERY	433.42	-265.00	698.42	-785.89
41010	INCOME-CATALOG	69738.10	219573.00	-149834.90	0.00
	EXPENSES - CATALOG	200632.07	219073.00	-18440.93	0.00
	NET CATALOG	-130893.97	500.00	-131393.97	0.00
4	TOTAL INCOME	538903.55	764462.68	-225559.13	516373.95
5	TOTAL EXPENSES	663840.22	731893.20	-68052.98	497232.85
	NET PROFIT (LOSS)	-124936.67	32569.48	-157506.15	19141.10

THE SAWMILL CENTER FOR THE ART
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 OCTOBER 31, 1996

Page 3

Num.	Description	YTD ACTUAL	YTD BUDGET	VARIANCE	LAST YEAR ACTUAL
NET PROFIT BY DEPARTMENT					
41004	INCOME - ADMINISTRATION	18303.23	39659.68	-21356.45	21183.29
	EXPENSES - ADMINISTRATION	68325.57	78312.50	-9986.93	74121.80
	NET ADMINISTRATION	-50022.34	-38652.82	-11369.52	-52938.51
41001	INCOME - CLASSES	58364.55	45400.00	12964.55	51433.96
	EXPENSES - CLASSES	49207.50	38959.20	10248.30	46640.71
	NET CLASSES	9157.05	6440.80	2716.25	4793.25
41002	INCOME - THEATRE	56304.34	62300.00	-5995.66	55629.52
	EXPENSES - THEATRE	50981.75	53411.00	-2429.25	49160.64
	NET THEATRE	5322.59	8889.00	-3566.41	6468.88
41003	INCOME - NUTHOLE	1944.00	2600.00	-656.00	2673.00
	EXPENSES - NUTHOLE	2145.50	2640.00	-494.50	3707.01
	NET NUTHOLE	-201.50	-40.00	-161.50	-1034.01
41005	INCOME - CRAFT MARKET	84324.40	92250.00	-7925.60	83120.36
	EXPENSES - CRAFT MARKET	68603.13	80139.00	-11535.87	72573.02
	NET CRAFT MARKET	15721.27	12111.00	3610.27	10547.34
41006	INCOME - SPECIAL EVENTS	35054.88	37350.00	-2295.12	37378.08
	EXPENSES - SPECIAL EVENTS	24348.25	28122.50	-3774.25	21443.28
	NET SPECIAL EVENTS	10706.63	9227.50	1479.13	15934.80
41007	INCOME - ELDERHOSTEL	135210.42	176260.00	-41049.58	189773.66
	EXPENSES - ELDERHOSTEL	104610.46	147372.00	-42761.54	155243.75
	NET ELDERHOSTEL	30599.96	28888.00	1711.96	34529.91
41008	INCOME - MUSEUM	78302.89	87295.00	-8992.11	73258.81
	EXPENSES - MUSEUM	76535.32	73824.00	2711.32	64293.48
	NET MUSEUM	1767.57	13471.00	-11703.43	8965.33