

October 13, 2000

MEMORANDUM FOR     The Federal Co-Chairman  
                          ARC Executive Director  
                          ARC General Counsel

SUBJECT:               OIG Reports

The following reports are forwarded:


00-6(H)	NC-7780-76/77	Technical Assistance
00-9(H)	MD-12355	Export Expansion
00-25(H)	VA-12337	Leadership and Civic Development
00-40(H)	WV-12696	Training, Wood Technology Center
00-41(H)	WV-11311	Mountaineer Food Bank
00-43(H)	TN-12461	Telecommunications Initiative
00-44(H)	KY-12872	Training Welfare Recipients
00-55(H)	NY-12870	Meat Processing Services to Small Producers
00-56(H)	NY-13307	Technical Assistance to Producers
0057(H)	NY-13107	Electronic Communications
00-59(H)	TN-12858	Communication and Technology System
00-60(H)	CO-12988	Assist Displaced Employees

In most cases, the reviews disclosed no matters needing further attention. Reports and issues for which followup action is appropriate included:

- 00-6(H) —NC-7780, Technical Assistance. Open issues pertain to conference travel, documentation of charges, budgeting process, timely reporting, and deobligations.
- 00-9(H) —MD-12355, Expand Exports through Creation of an International Trade Assistance Center. Open issues pertain to costs questioned by the grantee's independent auditor (\$59,295) and a duplicate payment.
- 00-40(H) —WV-12696, Expand Training and Services Offered at the Wood Technology Center. Open issues pertain to expenditures after the end of the grant period (\$24,685), use of unexpended funds (\$3,220), exceeding line item approved budget, and changes in scope.

- 00-41(H) —WV-11311, Mountaineer Food Bank. Open issues pertain to purchase of equipment not in budget (\$10,693) and exceeding line item budget approval.

The absence of progress reports by grantees was noted in several reports; and while this was not considered a significant issue in the cases noted, consideration could be given to the general issue of quarterly progress reports and/or the need for followup to obtain required reports.

  
Hubert N. Sparks  
Inspector General

Enclosures

cc: Ms. Judy Rae



March 7, 2000

MEMORANDUM FOR MS. ALEXIS STOWE, PARTNER  
LEON SNEAD AND COMPANY  
SUBJECT: Audit Reviews

--Report numbers:

Southwest Virginia Higher Education Center, 00-23(H)

North Carolina Technical Assistance, 00-24(H)

Virginia Department of Housing and Community Development, 00-25(H)

--Southwest Virginia Higher Education Center. Unless grantee objects, I would issue in final rather than send a draft out.

--North Carolina Department of Administration Technical Assistance. For this recurring type grant, I would eliminate the background paragraph referring to the January 28, 1995 ARC Resolution 629.

With respect to the finding on travel costs, I noted to Ed that some of these costs—e.g., travel to Washington, are eligible. Basically, the Appalachian Governors must meet as the ARC board twice a year to approve budgets; and these meetings are coordinated with the National Governor’s Conference. The state alternates, or their representatives, attend this meeting since they are responsible for the preparatory work; and other ARC issues are discussed at a regular Commission meeting not generally attended by the Governors. As a practical matter, the travel should have been shown as a Commission meeting.

With respect to the Las Vegas and Honolulu meetings, the grantee will probably claim there were conference items dealing with economic development. However, leave these claims in the report; and we will deal with a response. It also appears ARC paid the entire cost if only one person attended; and even if there is justification for attending, the cost should be split amongst various entities. In this regard, do we know how many persons attended and what their titles were? Would add this if we know.

--Virginia Department of Housing and Community Development. I would issue the draft and expect some reaction as Virginia tends to be defensive.

Hubert N. Sparks  
Inspector General

Attachments

adequate. It is not recommended that ARC treat the LDDs as a separate contractual item when the existing process has been successful in the past.

If you have any additional questions, please contact me.



September 3, 1999

MEMORANDUM FOR MS. ALEXIS STOWE
LEON SNEAD AND CO., C.P.A.
SUBJECT: North Carolina Reviews

With respect to the North Carolina grants, I have talked with Sara Stuckey, who is the ARC Program Manager for North Carolina, (919) 807-2339, and is responsible for Technical Assistance Grants, NC-7780-97/97. She noted the week of September 27, 1999, as available.

Also, I spoke with Sharon Boyd, Office of contracts and Grants, North Carolina State University, (919) 515-8008, in connection with a review of Grant NC-12345-96/97, Leadership Development for Rural Teachers. She indicated the week of September 20, 1999, as acceptable, although other Federal auditors will also be on site.

There are still difficulties with respect to having program and finance staff available for Grant NC-12331, WNC Telecommunications, so we will not schedule that one at this time.

The technical assistance grants involve funds for salaries at the state agency and subcontracts with development regions. Thus, a visit to one of the regions where the backup data is maintained would probably be appropriate. I believe the closest region to Raleigh is in Winston-Salem, about a 2-hour drive.

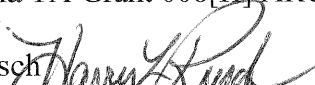
It is possible the Leadership Development for Rural Teachers grant could benefit from a field site visit, but the closed grant file needs to be retrieved and reviewed to determine this.

I will be back in the office on September 14, 1999, and will talk with Ed about these grants.

In the interim, contact should be made with Sara Stuckey and Sharon Boyd to identify specific dates. Sara Stuckey will also indicate that the financial official for the technical assistance grants is Bob Narron, (919) 733-2650.

Handwritten signature of Hubert N. Sparks
Hubert N. Sparks
Inspector General



Date: 5/30/2001  
To: Hubert N. Sparks  
Inspector General  
Subject: North Carolina TA Grant 006[H] ARC Grant NC-7780  
From: Harry L. Roesch 

This is in response to the audit report issued on the 1996/1997 NC Technical Assistance grant. In our discussions it was decided that only the two issues addressed below needed to be responded to, as the other issues had already been resolved.

**Questioned Travel expenses:** In regards to the travel expenses associated with conferences attended by Ann Lichtner, Deputy Director, Office of the Governor, that were paid for in part by ARC funds. It has been known for years that Ann and Sara Stuckey, North Carolina's Program Manager, have had a very close working relationship as it pertains to the interface of the Governor's Office and the ARC program, and the development of "Emerging Issues" and other policy issues. Sara has frequently discussed with me that she was working on briefings for Ann that would be given to the Governor and that he would take to the National Governor's Association meetings, Southern Governor's Association meetings, the Southern Growth Policies Board meetings, etc. Sara has frequently attended these meetings herself, but generally provides briefing papers to the Governor and his staff on "Emerging" and Policy Issues from the Appalachian point of view. Reimbursing Ms. Lichtner's travel is justified based on their close inter-governmental working relationship, and the need to have someone attend various conferences where agenda items are clearly within the general interests of the ARC program, and for there to be a constant flow of information back to the ARC Program Manager and Alternate on how other states are addressing various issues.

According to the narrative in the report, agenda materials were supplied to the auditors that addressed the concerns of the auditors. Staff believes that the documentation provided by the state was satisfactory and supports the claimed travel costs associated with the conference in question.

**Line Item Contract Budget question.** The State of North Carolina has always subcontracted with the LDDs in the state to deliver various programs dealing with water and sewer issues, housing, telecommunications, regionalism issues, smart growth / growth management / sustainable development, and many other topics. The TA grant budget has been developed this way for a number of years. The subcontracts with the LDDs have been easy to track, the progress reports in the files always indicate successful implementation results, and the final reports from the LDDs have been more than



May 14, 2001


MEMORANDUM FOR MR. HARRY ROESCH, PROJECT COORDINATOR

SUBJECT: Audit Followup—Report 006(H), ARC Grant NC-7780,  
Technical Assistance

Harry:

We noted the wrong grant number and dollar amount under report 006(H), North Carolina Technical Assistance. The grant number is 7780; and the dollar amount of questioned costs was \$27,805. Although we are not pursuing the questioned costs, we would, prior to report closing, appreciate ARC comments with respect to the primary two issues raised by the auditor. These pertained to ARC being the full funding source for the type of meetings/conferences noted and the questions pertaining to budget construction.

The \$112,595 and Grant NC-12321 should have been noted for OIG Report 01-19(H), Western North Carolina Connect.

  
Hubert N. Sparks  
Inspector General

Attachments



APPALACHIAN  
REGIONAL  
COMMISSION

*A Proud Past,  
A New Vision*

Date: June 26, 2001  
Subject: North Carolina TA grant NC 7780 96-97; 006(H)  
To: Hubert N. Sparks  
Inspector General

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Attached is the staff report addressing issues raised in the audit pertaining to questioned travel costs, recovery of unexpended funds, and other unsupported costs identified in the audit of the North Carolina Technical Assistance grant

The report addresses the issues discussed in the audit and authorizes reimbursement of travel expenses questioned in the audit report. Other administrative issues raised in the audit have been discussed with the North Carolina ARC program manager and resolved satisfactorily.

Please contact Judy Rae if additional information is needed or if you have any questions.

A handwritten signature in black ink that reads "Thomas M. Hunter".

Thomas M. Hunter  
Executive Director

Handwritten initials "OK" and "H/S" above the date "9/20/01", which is underlined.



**Final Independent Accountant's Report on  
Applying Agreed Upon Procedures to  
Grant Agreement Expenditures**

**Grant NC 7780-96/97  
North Carolina Department of Administration  
Raleigh, North Carolina**



**LEON SNEAD  
& COMPANY, P.C.**

*Certified Public Accountants  
& Management Consultants*

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**Final Independent Accountant's Report on  
Applying Agreed Upon Procedures to  
Grant Agreement Expenditures**

**Grant NC 7780-96/97  
North Carolina Department of Administration  
Raleigh, North Carolina**

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**Submitted to the  
OFFICE OF INSPECTOR GENERAL  
OF THE  
APPALACHIAN REGIONAL COMMISSION**

**Report No. 00-6 (H)**

**January 14, 2000**

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To the Inspector General of the Appalachian Regional Commission:

### ***BACKGROUND AND OBJECTIVES***

The Appalachian Regional Commission (ARC) is a regional economic development agency representing a unique partnership of Federal, state, and local government. The ARC is composed of the Governors of the 13 Appalachian states and a Federal Co-Chair appointed by the President. The geographical boundaries of the Appalachian Region extend from the southern tier counties in central and western New York to the northern counties in Alabama and Mississippi.

Each year Congress appropriates funds that ARC allocates among its member states in line with an allocation formula which is intended to provide a fair and reasonable distribution of available resources among the 13 Appalachian member states.

The ARC awarded Grant NC-7780-96/97 to the North Carolina Department of Administration to provide funds to strengthen relations between Appalachian North Carolina's local governments and other state and federal agencies; assist the six local development districts (LDDs) in providing technical assistance to local governments in housing and water and sewer programs; and monitor program activities, particularly with regards to policy issues and ARC's strategic plan.

Grant Agreement NC-7780-96 had been amended once, and extended twice, since it was initially signed in September 1996. The combined grant, which ultimately covered a three year period of performance from October 1, 1996 through September 30, 1999, called for the ARC to contribute \$1,220,797 towards estimated total project costs of \$2,432,433. Details concerning each of the three phases (C17, C18 and C19) are covered in the paragraphs below. The agreed upon State and local contributions were to be made in the form of either cash or in-kind contributions. The agreed upon combined contributions, by entity, were to be as follows:

- ARC -- \$1,220,797 or 50.2% of estimated total project costs.
- State -- \$ 591,636 or 24.3% of estimated total project costs.
- Local -- \$ 620,000 or 25.5% of estimated total project costs.

The initial grant agreement was signed September 5, 1996. It called for an initial period of performance from October 1, 1996 through September 30, 1997 (phase C17). The North Carolina Department of Administration was to receive not more than \$257,092, or no more than 50% of the estimated total project costs of \$514,184, from the ARC for the complete and satisfactory performance of this grant agreement. The remaining \$257,092 of the total estimated project costs, were to be matching cash or in-kind contributions made by State (\$121,261 or 23.4%) and local (\$136,831 or 26.6%) entities. The grant agreement was amended (Amendment No. 1) on May 20, 1997. This amendment increased the ARC funded amount by \$143,402 to \$400,494. The estimated total project costs were increased by \$288,981 to \$803,165. The ARC's additional contribution of \$143,402 was to be matched by cash or in-kind contributions made by State (\$32,410 or 11.2%) and local (\$113,169 or 39.2%) entities. The maximum ARC contribution was still

capped at 50% of the total estimated project costs even though ARC's participation in the total project cost increase was only 49.6%. This \$803,165 project, with \$400,494 in ARC participation, was referred to by ARC as project number 7780, phase C17 in North Carolina for fiscal year (FY) 1996. The ARC Project Payment Record for phase C17 as of November 24, 1999 indicated \$350,445 in ARC funds were paid to the grantee. The grantee subsequently refunded \$118.48 of this amount to the ARC. This phase still showed an unexpended balance of \$50,237.48 as of the time of our review.

On September 30, 1997 the ARC approved an additional grant of \$378,576 to the North Carolina Department of Administration for what became known as phase C18 of the original grant program. The project description, rationale, and benefits did not change materially between phases C17 and C18. The period of performance for phase C18 was from October 1, 1997 through September 30, 1998. During this phase the North Carolina Department of Administration was to receive up to \$378,576, but no more than 50% of the total estimated phase C18 costs of \$758,121, from the ARC for the complete and satisfactory performance of phase C18. The remaining \$379,545 in total estimated phase C18 costs, were to be matching cash or in-kind contributions made by State (\$224,545) and local (\$155,000) entities. The ARC approval agreement showed participation percentages of up to 50% for ARC, 11% by the State, and 39% by local (LDD) entities. However, the State and local participation percentages do not match the contributions these entities were to make to the project. The true participation percentages appear to be up to 50% for ARC, 29.6% for the State, and 20.4% for local entities. The grant agreement was not amended during phase C18. This project phase was referred to by ARC as project number 7780, phase C18 in North Carolina for FY 1997. The ARC Project Payment Record for phase C18 as of November 24, 1999 indicated ARC paid \$340,719 to the grantee. The grantee subsequently refunded \$20,230.30 to ARC. Phase 18 had an unexpended balance of \$58,087.30 as of the time of our review.

On October 13, 1998 the ARC approved an additional grant of \$441,727 to the North Carolina Department of Administration for what became known as phase C19 of the original grant program. The project description, rationale, and benefits did not change materially between phases C18 and C19. The period of performance for phase C19 was from October 1, 1998 through September 30, 1999. During this phase the North Carolina Department of Administration was to receive up to \$441,727, or approximately 50.7% of the total estimated phase C19 costs of \$871,147, from the ARC for the complete and satisfactory performance of phase C19. The remaining \$429,420 in total estimated Phase C19 costs were to be matching cash or in-kind contributions made by State (\$214,420, or 24.6%) and local (\$215,000, or 24.7%) entities. The grant agreement was not amended during phase C19. The ARC referred to this project phase as project number 7780, phase C19 in North Carolina for FY 1999. The ARC Project Payment Record for phase C19 as of November 24, 1999 indicated \$74,803 had been paid to the grantee. This phase had an unexpended balance of \$366,924 at the time of our review.

Leon Snead & Company, P. C. is under contract to the Office of Inspector General (OIG) of the ARC to provide audit services. We were tasked with applying agreed upon procedures to the grant expenditures reported to the ARC for the period October 1, 1996

through September 30, 1999. The objective of our procedures was to determine whether the reported grant expenditures were allowable, allocable, and reasonable.

### ***SCOPE AND METHODOLOGY***

We have performed the procedures enumerated below, which were agreed to by the Inspector General of the Appalachian Regional Commission, solely to assist you in evaluating the grant agreement expenditures of the North Carolina Department of Administration, Grant NC-7780-96/97. This agreed-upon procedures engagement 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 specified users of the report.

Consequently, we make no representation 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 provisions of Office of Management and Budget (OMB) Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations"; OMB Circular A-110 "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Learning, Hospitals, and Other Non-Profit Organizations"; OMB Circular A-122 "Cost Principles for Non-Profit Organizations"; the Federal Drug-Free Workplace Act of 1988 (Public Law 100-690); the Federal Anti-Lobbying Act (Public Law 101-121); the Federal Acquisition Regulations (FAR); other Federal, state, or local procedures designed to insure fair and non-discriminatory procedures were used to select participants, agreed to procedures that emphasize the expenditure of grant funds in line with the provisions of the grant agreement; and the ARC Code were used as the basis for determining allowable costs and compliance requirements. These agreed upon procedures were performed in accordance with generally accepted auditing standards and *Government Auditing Standards*, 1994 version, as amended, issued by the Comptroller General of the United States.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the financial statements of the grantee, the North Carolina Department of Administration. 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.

Our scope covered all three phases (C17, C18 and C19) of the grant period. These phases covered the period from October 1, 1996 through September 30, 1999. We reviewed the available documentary support for selected reported grant expenditures for all three phases which were made during the period covered by our scope. We also reviewed additional documentary support to determine if the grantee met the agreed upon State and local participation percentages and dollar amounts. Finally, we performed selected tests as necessary to determine if the expenditures charged to ARC Grant NC-7780-96/97 were allowable, allocable, and reasonable.

We visited the grantee's office in Raleigh, North Carolina during the period ~~January 10 -~~ January 14, 2000. Specifically we performed the following procedures:

- We discussed the grant expenditure process and internal controls with North Carolina Department of Administration officials.
- We obtained copies of the independent auditor's prior reports the grantee obtained from its' sub-grantees. We reviewed independent auditor findings pertaining to all of these sub-grantees and included these findings in our report.
- We summarized all grantee reported monthly grant expenditures, by expenditure type, for the period October 1996 through September 1999. We sampled claimed grant expenditures and state and local participation as follows:
  - Phase C17 – We reviewed the documentary support for \$307,258 (87.7%) of the reported ARC grant expenditures totaling \$ 350,445 and the documentary support for all of the \$418,669 in reported grantee, state, and local matching support.
  - Phase C18 – We reviewed the documentary support for \$298,188 (93%) of the reported net ARC grant expenditures totaling \$320,489 and the documentary support for all of the \$418,780 in reported grantee, state and local matching support.
  - Phase C19 – We reviewed the documentary support for \$354,601 (89.6%) of the actual charges booked to the ARC grant in the grantee's accounting system and \$376,220 of the \$504,765 in reported grantee, state, and local matching support.

## ***RESULTS***

We noted the following exceptions.

### *(1) Questioned Costs - Travel*

#### Condition

The grantee expended \$3,290 in ARC funds on travel which did not benefit the ARC grant objectives.

### Criteria

Expenditures unrelated to the ARC Grant NC-7780-96/97 objective of underwriting the provision of technical services and coordinating efforts necessary to implement the ARC program in the state of North Carolina are neither reasonable nor allowable.

### Discussion

The grantee expended \$1,273 in phase C17 and \$2,017 in phase C18 funds on travel to Las Vegas, Nevada and Honolulu, Hawaii to attend the National Governors' Association Annual Meeting and the 1997 Annual Council of Governments State Leadership Forum, respectively. Both trips were made by Ann Lichtner, Deputy Director, Office of the Governor. In addition to the purposes of these meetings being unrelated to the objective of ARC Grant NC-7780-96/97, neither meeting was held within 1,800 miles of the Appalachian region. The cost of attending these meetings appears unrelated to the ARC Grant NC-7780-96/97 objective of underwriting the provision of technical services and coordinating efforts necessary to implement the ARC program in the state of North Carolina. Therefore the costs are neither reasonable nor allowable.

### Recommendation

- (1) ARC should request a refund of \$3,290 from the grantee for travel costs the grantee charged to ARC Grant NC-7780-96/97 for the meetings held in Las Vegas, Nevada and Honolulu, Hawaii. These costs do not appear to be either reasonable or allocable to the ARC grant.

### Grantee's Comments

We disagree with the recommendation and the basis cited in the discussion. The value of the content of the meeting is not diminished or enhanced by the site of the meeting. We believe these to be travel expenses incurred to carry out the award. On 1/14/00 we provided justification for these meetings, including language in the approved work program for the grant and information in our approved state plan specifying the manner in which our program operates and by which its priorities are derived. To further tie these two together, we highlighted the agenda sessions for these meetings which were directly related to specific state ARC strategies and objectives in our approved strategy statement.

We would appreciate a citation of the source for the 1,800-mile radius criterion applied in the decision.

### Accountant's Response

As we stated before, the costs associated with attending National Governors' Association Annual Meetings appears totally unrelated to the ARC Grant NC-7780-96/97 objective of



underwriting the provision of technical services and coordinating efforts necessary to implement the ARC program in the state of North Carolina. Whether these Governors' Association Annual Meetings were held in Raleigh, within the boundaries of the Appalachian region, or anywhere else either inside or outside of the continental United States is not the issue. Therefore the travel costs to attend these meetings are still considered to be neither reasonable nor allowable.

*(2) Questioned Costs – Pre-Grant Period Travel Expenditures*

Condition

The grantee charged \$630 in travel expenditures to ARC Grant NC-7780-96/97 (phase C17) which were posted in September 1996. This was prior to the inception of the grant expenditure period which did not start until October 1, 1996.

Criteria

The grant agreement for ARC Grant NC-7780-96/97, as amended, states "the grant period of performance shall be October 1, 1996 through September 30, 1999."

Discussion

The grantee charged \$630 in travel charges to the grant which were incurred on or before September 27, 1996. The expenditures were charged to the following ARC grant travel expenditure accounts:

Account 532714	\$194
Account 532717	2
Account 532721	258
Account 532724	<u>176</u>
Total	<u>\$630</u>

Recommendation

The ARC should question travel costs in the amount of \$630 charged to Grant NC-7780-96/97 (phase C17).

Grantee's Comments

We cannot find the charges referenced, and the October statement of the account (attached) indicates no travel charges made to the C17 grant as of October 31, 1996. Is this citation from a statement of the fund code (2277) for ARC grants or the RCC (restricted cost center) for the C17 grant (2775)? Please indicate the source of the questioned costs.

### Accountant's Response

The charges questioned were listed on Page No. 2 of a Posted Entry Query form we received as support for the questioned travel costs. The query form showed all four of the above travel expenditures were paid in the General Ledger effective September 27, 1996. We questioned these costs because the authorized grant expenditure period did not begin until October 1, 1996

### *(3) Unsupported Costs*

#### Condition

The detail support could not be located for \$351 in reported costs which were included in the grantee's Intergovernmental Relations reimbursement request dated June 6, 1997.

#### Criteria

Expenditures submitted for reimbursement must be adequately documented and supported.

#### Discussion

We reviewed the documentary support for the grantee's Intergovernmental Relations billing dated June 6, 1997. The billing contained \$351 in reported costs for which detailed support could not be located (\$325 identified only as "added for 5/11-15" and \$26 identified only as "other?") at the time of our review.

#### Recommendations

The ARC should require the grantee to either provide documentary support for these \$351 in unsupported costs or else delete these costs from the grantee's claimed reimbursable costs.

#### Grantee's Comments

We understand this information was provided by our subgrantee in the follow up contact with your office.

#### Accountant's Response

We have no record of receiving this information from your subgrantee. Please send a copy of the support for these \$351 in unsupported costs to the Appalachian Regional Commission (ARC) so that they may determine if the unsupported costs represent allowable grant charges.

#### (4) *Line Item Budgets*

##### Condition

The grantee exceeded an approved grant budget dollar amount by \$25,855, or 231%.

##### Criteria

To be considered as allowable grant costs, the grantee must generally obtain advance approval from the ARC to exceed an approved grant line item budget dollar amount by more than 10%.

##### Discussion

The ARC approved Intergovernmental Relations budget for ARC Grant NC-7780-96/97 for phase C18 (October 1, 1997 through September 30, 1998) was \$19,700. However, the grantee's monthly Detail Report By Fund reports for this same period showed the grantee charged \$45,555 in Intergovernmental Relations costs. There was no indication the grantee had requested or obtained advance approval from ARC to exceed the budgeted dollar amount.

##### Recommendation

The ARC should disallow the \$23,885 for ARC Grant NC-7780-96/97 for phase C18 Intergovernmental Relations costs which exceeded the approved ARC budget for this line item by more than 10%.

##### Grantee's Comments

The budget revision was provided by letter dated 1/6/98 and was part of the project file. The revision moved \$28,847 among approved line items but did not exceed 10% of the grant (\$378,576), or 10% of the contractual line item (\$509,600), or 10% of the C-18 project (\$758,121).

Note: This question and the one which follows reflect an attempt to separate at least two of the subcontractors from the other six and to treat those contracts as separate line items (rather than part of the contractual category). This treatment does not conform with the budget submitted and approved on the SF 424. Please inform us if ARC fiscal policy has been changed.

##### Accountant's Response

We did not note the referenced budget revision letter dated 1/6/98 in the project file. However, the grantee's response raises an interesting issue. If you consider LDDs, community assistance, and intergovernmental relations as separate budget line items, as

we did since they were provided for separately in the grant budget, then our position on this issue is correct. However, if you consider all \$274,700 in budgeted contractual costs to be one budget line item, then the grantee was actually under budget on contractual costs by approximately \$21,000 and under budget on total ARC grant expenditures by approximately \$41,200. The ARC should take this into consideration when determining which of the above interpretations of a grant budget line item is correct, and whether or not to disallow any or all of the questioned Intergovernmental Relations costs. Finally, none of the three dollar amounts (\$378,576, \$509,600, or \$758,121) suggested by the grantee as being appropriate bases for applying the 10% limitation to appear proper. The appropriate bases would be either Intergovernmental Relations (\$19,700) or the contractual subtotal amount (\$274,700) depending upon which is considered to be the grant budget line item.

#### *(5) Grant Expenditure Reporting*

##### Condition

The grantee was not categorizing and reporting expenditures on its final grant reports by approved ARC budget line item. We found sub-grantee expenditures, community assistance, and intergovernmental relations costs all aggregated together and reported as "contractual" expenditures.

##### Criteria

Final grant expenditures should be categorized and reported by approved budget line item so that the ARC may readily compare the approved budget and actual expenditure amounts.

##### Discussion

We noted the grantee was combining sub-grantee, community assistance, and intergovernmental relations expenditures and reporting them all under the blanket category of "contractual" in the grant year final reports. These expenditures should have been reported separately so that the ARC could readily compare the approved budget and actual expenditure amounts to ensure that approved grant line item budget dollar amounts are not exceeded by more than 10% without advance approval. In one instance a budgeted line item amount was exceeded by more than 10% without advance approval. (See Finding 4 above.)

##### Recommendation

The ARC should require the grantee to report final grant expenditures using the ARC approved expenditure categories shown in the approved grant budget.

### Grantee's Comments

As noted above, we report contractual expenditures together because that is the category of expenditures, just as salaries are reported as a category.

### Accountant's Response

Noted. The ARC should clarify what it considers to be a grant expenditure category when it evaluates the auditee comments, and auditor's response thereto, to Finding 4 above.

### *(6) FY 1998/1999 Expenditures*

#### Conditions

The grantee had not yet requested reimbursement from ARC for approximately 80% of its booked grant expenditures, and the final grant expenditure draft report for phase C19 had not yet been submitted to the ARC.

#### Criteria

The grantee is required to prepare and submit a draft final report of all work accomplished under the grant to the ARC within one month after the end of the grant period of performance.

#### Discussion

We reviewed all of the phase C19 costs which had been entered into the grantee's accounting system for the period October 1, 1998 through November 30, 1999. The costs entered into the accounting system consisted primarily of sub-grantee and intergovernmental relations expenditures which were incurred within the grant expenditure period, but which did not appear in the grantee's accounting records until after the grant expenditure period. Overall, we found the grantee had charged \$395,904 to phase C19 as of the time of our review. We reviewed the documentation supporting \$354,601 (89.7%) of these charges and noted only \$974 which were questioned. (See Finding 1 above.) The actual recorded phase C19 expenditures as of the time of our review were as follows:

Employee Salaries	\$ 24,199
Fringe Benefits	2,084
Travel	11,187
Supplies	1,019
Other	2,387

Sub-grantee expenditures	234,915
Community Assistance	74,802
Intergovernmental Relations	<u>45,311</u>
Total expenditures	<u>\$ 395,904</u>

### Recommendation

The ARC should direct the grantee to submit its phase C19 final report as soon as possible. The ARC should consider the phase C19 expenditures noted above in determining the reasonableness of the final grant expenditures ultimately reported by the grantee for phase C19.

### Grantee's Comments

We have submitted the C19 final report and the grant has been closed out. As we explained during the time of the audit, we are awaiting the final reports from our subgrantees. (We do not understand the reference to the \$974 questioned in Finding #1.)

### Accountant's Response

Noted.

### *(7) De-Obligations*

#### Condition

The final grant expenditure reports for phase C17 (October 1, 1996 – September 30, 1997) and phase C18 (October 1, 1997 – September 30, 1998) showed unused funds of \$50,237 and \$58,087, respectively.

#### Criteria

Grant funds which are no longer needed should be de-obligated as soon as possible so that the funds can be used for other ARC authorized purposes and to ensure that these grant funds are not allowed to lapse.

#### Discussion

We noted the Project Payment Record(s) for ARC Grant NC-7780-96/97, phases C17 and C18, showed unexpended grant balances of \$50,237 and \$58,087, respectively. The grantee has filed its final reports for phases C17 and C18.

### Recommendations

The ARC should, if it has not already done so, de-obligate these funds, which are no longer needed to fund these two grants.

### Grantee's Comments

The grantee has submitted all progress and financial reports for all three grants.

### Accountant's Response

Noted.

### **CONCLUSIONS**

Based on the results of our audit, in our opinion, \$348,191 of the \$350,445 in expenditures reported to the ARC for phase C17 of Grant NC-7780-96/97 and at least \$294,587 of the \$320,489 in expenditures reported to the ARC for phase C18 of Grant NC-7780-96/97 are allowable, allocable and reasonable and should be accepted by the ARC.

The ARC should disallow \$1,903 in phase C17 travel costs and either disallow, or have the grantee provide documentary support for the \$351 in costs for which documentary support was not available. The unallowable phase C17 travel costs consist of the \$1,273 cost of attending a conference in Las Vegas, Nevada and the \$630 in travel costs which were incurred prior to the authorized grant expenditure period.

The ARC should disallow the \$2,017 in phase C18 travel costs and should decide whether or not to disallow the \$23,885 in reported phase C18 Intergovernmental Relations expenditures which exceeded the ARC approved budget for this grant line item by more than 10% without advance approval. If the approved budget grant line item is considered to be the total budgeted ARC contractual expenditures, rather than just Intergovernmental Relations expenditures, then this \$23,885 should also be accepted by the ARC as allowable grant costs. The unallowable phase C18 travel costs consist of the \$2,017 cost of attending a conference in Honolulu, Hawaii.

We also found \$394,931 of the \$395,904 in phase C19 expenditures, which either appeared in grantee monthly Detail Report By Fund reports or were sub-grantee or community assistance expenditures supported by agreements and/or adequately documented reports or billings, to be allowable, allocable, and reasonable. However, this amount should not be considered a final dollar amount of acceptable phase C19 expenditures as the grantee has not yet submitted its final report for phase C19.

*DISTRIBUTION*

This report is intended for the information and use of the OIG and management of the ARC and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

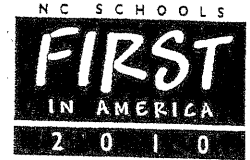
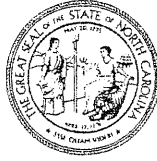
*Leon Snead & Company, P. C.*

LEON SNEAD & COMPANY, P. C.

January 14, 2000



## MANAGEMENT'S COMMENTS



North Carolina  
Department of Administration

James B. Hunt Jr., Governor

Katie G. Dorsett, Secretary

April 13, 2000

Ms. Alexis M. Stowe  
Vice President  
Leon Snead & Company, P. C.  
416 Hungerford Drive, Suite 400  
Rockville, Maryland 20850

Dear Ms. Stowe:

We appreciate the opportunity to comment on the Draft Report on Grant Agreement Expenditures Audit (Grant NC7780). Unfortunately, this response will not reach you by the April 15 date. (Your letter of March 14, 2000 was late in arriving since it was sent to an incorrect address.)

We only are providing comments on the listed exceptions. It was not clear whether we are supposed to comment on numbers 5 and 7. If we are supposed to comment in more detail, please let us know. Where we cite information provided during the audit, we are not reproducing it with this letter but can do so if needed.

✓ 1. Questioned costs – Travel

We disagree with the recommendation and the basis cited in the discussion. The value of the content of the meeting is not diminished or enhanced by the site of the meeting. We believe these to be travel expenses incurred to carry out the award. On 1/14/00 we provided justification for these meetings, including language in the approved work program for the grant and information in our approved state plan specifying the manner in which our program operates and by which its priorities are derived. To further tie these together, we highlighted the agenda sessions for these meetings which were directly related to specific state ARC strategies and objectives in our approved strategy statement.

We would appreciate a citation of the source for the 1,800 mile radius criterion applied in the discussion.

2. Questioned costs – Pre-Grant Period Travel Expenditures

We cannot find the charges referenced, and the October statement of the account (attached) indicates no travel charges made to the C17 grant as of October 31, 1996. Is this citation from a statement of the fund code (2277) for ARC grants or the RCC

Mailing Address:  
1301 Mail Service Center  
Raleigh, NC 27699-1301

Telephone: (919) 807-2425  
Fax (919) 733-9571  
State Courier #51-01-00

Location:  
116 West Jones Street  
Raleigh, North Carolina

(restricted cost center) for the C17 grant (2775)? Please indicate the source of the cited questioned costs.

3. Unsupported costs

We understood this information was provided by our subgrantee in the follow up contact with your office.

4. Line Item Budgets

The budget revision was provided by letter dated 1/6/98 and was part of the project file. The revision moved \$28,847 among approved line items but did not exceed 10% of the grant (\$378,576), or 10% of the contractual line item (\$509,700), or 10% of the C-18 project (\$758,121).

Note: This question and the one which follows reflect an attempt to separate at least two of the subcontractors from the other six and to treat those contracts as separate line items (rather than part of the contractual category). This treatment does not conform with the budget submitted and approved on the SF 424. Please inform us if ARC fiscal policy has been changed.

5. Grant expenditure reporting

As noted above, we report contractual expenditures together because that is the category of expenditures, just as salaries are reported as a category.

6. 1998/1999 Expenditures

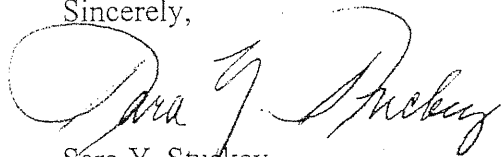
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7. De-Obligations

The grantee has submitted all progress and financial reports for all three grants.

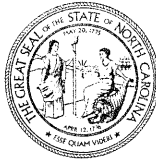
Please contact me if there are questions about these responses.

Sincerely,



Sara Y. Stuckey  
Director, State-Local Relations  
Appalachian Program Manager

cc: Hubert Sparks



100-06)



# North Carolina Department of Administration

James B. Hunt Jr., Governor

Katie G. Dorsett, Secretary

April 13, 2000

Ms. Alexis M. Stowe  
Vice President  
Leon Snead & Company, P. C.  
416 Hungerford Drive, Suite 400  
Rockville, Maryland 20850

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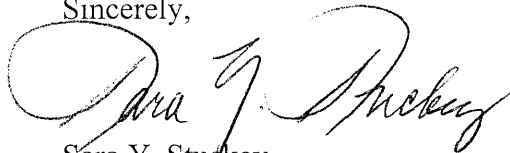
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Please contact me if there are questions about these responses.

Sincerely,



Sara Y. Stuckey  
Director, State-Local Relations  
Appalachian Program Manager

cc: Hubert Sparks

STATE OF NORTH CAROLINA GENERAL LEDGER SYSTEM  
 AUTHORIZED MONTHLY BUDGET REPORT  
 FOR THE PERIOD ENDING OCTOBER 31, 1996

DETAIL REPORT

IDSID13  
 701-04  
 0 DEPARTMENT OF ADMINISTRATION  
 100 DOA-SPECIAL  
 77 ARC-CONSOLIDATED TECHNIC  
 75 \*\*\* DESC NOT FOUND \*\*\*

*C-17 GRANT*

COUNT	DESCRIPTION	** AUTHORIZED **		***** A C T U A L *****		TO DATE	BALANCE	ENCUMBRANCES	UNENCUMBERED	RATE
		BUDGET	CURRENT	QUARTERLY	TO DATE					
EXPENDITURES--BUDGET AND ACTUAL										
1212	SPA-REG SALARIES-RECPT	29,383.00	2,367.75	2,367.75	2,367.75	27,015.25	.00	27,015.25	.24	
1512	SOCIAL SEC CONTRIB-RECPT	2,248.00	174.24	174.24	174.24	2,073.76	.00	2,073.76	.23	
1522	REG RETIRE CONTRIB-RECPT	3,182.00	256.43	256.43	256.43	2,925.57	.00	2,925.57	.24	
1562	MED INS CONTRIB-RECPTS	3,470.00	.00	.00	.00	3,470.00	.00	3,470.00	.00	
1XXX	PERSONAL SERVICES	38,283.00	2,798.42	2,798.42	2,798.42	35,484.58	.00	35,484.58	.22	
2712	TRANS AIR-OUT STATE, IN U	1,000.00	.00	.00	.00	1,000.00	.00	1,000.00	.00	
2714	TRANSP-GRND - IN STATE	3,000.00	.00	.00	.00	3,000.00	.00	3,000.00	.00	
2715	TRANS GRND-OUT STA, IN US	1,000.00	.00	.00	.00	1,000.00	.00	1,000.00	.00	
2721	LODGING - IN STATE	1,000.00	.00	.00	.00	1,000.00	.00	1,000.00	.00	
2722	LODGING-OUT STATE, IN US	250.00	.00	.00	.00	250.00	.00	250.00	.00	
2724	MEALS - IN STATE	250.00	.00	.00	.00	250.00	.00	250.00	.00	
2725	MEALS-OUT OF STATE, IN US	387.00	.00	.00	.00	387.00	.00	387.00	.00	
32XX	PURCHASED SERVICES	6,887.00	.00	.00	.00	6,887.00	.00	6,887.00	.00	
3310	GENERAL OFFICE SUPPLIES	150.00	.00	.00	.00	150.00	.00	150.00	.00	
33XX	SUPPLIES	150.00	.00	.00	.00	150.00	.00	150.00	.00	
35900	OTHER EXPENSES	150.00	.00	.00	.00	150.00	.00	150.00	.00	
35XXX	OTHER EXPENSES & ADJUST	150.00	.00	.00	.00	150.00	.00	150.00	.00	
36980	OTHER GRANTS	211,622.00	.00	.00	.00	211,622.00	.00	211,622.00	.00	
36XXX	AID & PUBLIC ASSISTANCE	211,622.00	.00	.00	.00	211,622.00	.00	211,622.00	.00	
EXPENDITURES										
257,092.00		2,798.42	2,798.42	2,798.42	2,798.42	254,293.58	.00	254,293.58	.03	
REVENUES--ESTIMATED AND ACTUAL										
3884227796	TSFR 2277 ARC CTAG 96	257,092.00	.00	.00	.00	257,092.00	.00	257,092.00	.00	
REVENUES										
257,092.00		.00	.00	.00	.00	257,092.00	.00	257,092.00	.00	
INCREASE/(DECREASE) IN FUND BALANCE										
.00		2,798.42-	2,798.42-	2,798.42-	2,798.42-	2,798.42	.00	2,798.42	***	

ARC FUND CODE

DETAIL REPORT BY FUND

\*\* AUTHORIZED \*\* \*\*\*\*\* A C T U A L \*\*\*\*\* TO DATE

ACCOUNT	DESCRIPTION	BUDGET	CURRENT	QUARTERLY	TO DATE	BALANCE	ENCUMBRANCES	UNENCUMBERED	RATE
EXPENDITURES--BUDGET AND ACTUAL									
212	SPA-REG SALARIES-RECPT	38,420.00	2,367.75	2,367.75	9,909.50	28,510.50	.00	28,510.50	.77
512	SOCIAL SEC CONTRIB-RECPT	2,841.00	174.24	174.24	730.52	2,110.48	.00	2,110.48	.77
522	REG RETIRE CONTRIB-RECPT	4,338.00	256.43	256.43	1,073.20	3,264.80	.00	3,264.80	.74
562	MED INS CONTRIB-RECPTS	4,070.00	144.60	144.60	578.40	3,491.60	.00	3,491.60	.43
572	UNEMP COMP PAYMNTS TO ES	482.00	.00	.00	.00	482.00	.00	482.00	.00
573	WORKER COMP PREMIUMS	595.00	787.96	787.96	787.96	192.96-	.00	192.96-	3.97
XXX	PERSONAL SERVICES	50,746.00	3,730.98	3,730.98	13,079.58	37,666.42	.00	37,666.42	.77
712	TRANS AIR-OUT STATE, IN U	2,852.00	407.00	407.00	1,009.00	1,843.00	.00	1,843.00	1.06
714	TRANSP-GRND - IN STATE	4,518.00	148.60	148.60	546.04	3,971.96	.00	3,971.96	.36
715	TRANS GRND-OUT STA, IN US	1,393.00	31.85	31.85	56.55	1,336.45	.00	1,336.45	.12
721	LODGING - IN STATE	2,225.00	243.48	243.48	811.94	1,413.06	.00	1,413.06	1.09
722	LODGING-OUT STATE, IN US	538.00	.00	.00	124.00	414.00	.00	414.00	.69
724	MEALS - IN STATE	552.00	131.00	131.00	291.00	261.00	.00	261.00	1.58
725	MEALS-OUT OF STATE, IN US	871.00	6.00	6.00	32.00	839.00	.00	839.00	.11
728	MISC - OUT STATE, IN US	666.00	30.00	30.00	30.00	636.00	.00	636.00	.14
799	TRAVEL ADVANCES	.00	1,007.26-	1,007.26-	.00	.00	.00	.00	***
811	TELEPHONE SERVICE	13.00	.00	.00	.50	12.50	.00	12.50	.12
840002	POST, FR&DEL-FREIGHT & DE	100.00	.00	.00	76.41	23.59	.00	23.59	2.29
840003	POST, FR&DEL-POSTAL METER	392.00	.00	.00	19.27	372.73	.00	372.73	.15
850	PRINT, BIND, DUPLICATE	220.00	.00	.00	.00	220.00	.00	220.00	.00
913	LIABILITY INSURANCE	4.00	.00	.00	3.44	.56	.60	.56	2.58
930	REGISTRATION FEES	125.00	.00	.00	120.00	5.00	.00	5.00	2.88
XXX	PURCHASED SERVICES	14,469.00	9.33-	9.33-	3,120.15	11,348.85	.00	11,348.85	.65
110	GENERAL OFFICE SUPPLIES	295.00	.00	.00	.00	295.00	.00	295.00	.00
XXX	SUPPLIES	295.00	.00	.00	.00	295.00	.00	295.00	.00
3900	OTHER EXPENSES	1,265.00	.00	.00	.00	1,265.00	.00	1,265.00	.00
3XXX	OTHER EXPENSES & ADJUST	1,265.00	.00	.00	.00	1,265.00	.00	1,265.00	.00
3980	OTHER GRANTS	429,622.00	.00	.00	109,514.00	320,108.00	108,486.00	211,622.00	1.52
3XXX	AID & PUBLIC ASSISTANCE	429,622.00	.00	.00	109,514.00	320,108.00	108,486.00	211,622.00	1.52
3146001	RES UNEMPLOYMENT CONTRIB	.00	.00	.00	84.06	84.06-	.00	84.06-	***
3153001	TRANS GOV'S OFFICE	19,114.00	.00	.00	19,113.33	.67	.00	.67	3.00
3XXX	INTRAGOVERNMENTAL TRANS	19,114.00	.00	.00	19,197.39	83.39-	.00	83.39-	3.01
	EXPENDITURES	515,511.00	3,721.65	3,721.65	144,911.12	370,599.88	108,486.00	262,113.88	1.47



September 25, 2000

Ms. Sara Stuckey, Director  
State-Local Relations  
Secretary's Office  
Department of Administration  
1301 Mail Service Center  
Raleigh, North Carolina 27600-1301

Re: OIG Report 00-6 (H)  
Grant No. NC-7780 - 96/97

Dear Ms. Stuckey:


Enclosed is a copy of our report on the subject grants. The review was performed by auditors with Leon Snead and Company, P.C., under contract with my office. As noted the auditors continued to raise questions with regard to several issues and we are recommending that ARC review and resolve these issues in coordination with your office.

Although the location of conferences and the resulting costs may not be a primary issue, the extent to which ARC funds are utilized when conferences appear to be multifaceted and provide guidance or benefits to numerous programs and activities throughout a state, is an issue for which additional discussion is appropriate. In the same context the questions raised by the grantee with respect to the interpretations noted in the report should be resolved with ARC program officials.

A copy of the report is being provided to the Federal Co-Chairman and ARC Executive Director

The courtesies and cooperation provided the auditor were appreciated.

Sincerely,

  
Hubert N. Sparks  
Inspector General

Enclosure