



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



June 29, 2000

MEMORANDUM FOR MS. ALEXIS STOWE, PARTNER  
LEON SNEAD AND COMPANY, P.C.

SUBJECT: Status of ARC Reviews

1. *Report 00-7(H), Audit of Purchasing of Goods and Services.*

Suggested revised language with respect to tonal quality is noted on pages 12 and 14 of the final draft report. The report should be issued when the noted comments are addressed.

It appears the ARC comment that is noted as not being understood on page 14 refers to the sentence on page 13 dealing with procurement personnel, not the customer, contracting vendors. While this is a good overall practice, there could be times when the customer, especially in a small agency, has more expertise about a particular need or product; and occasional direct contact may be useful.

2. *Draft Report on Grant WV-12696-97, Randolph County Development Authority.*

The Report No. is 00-40(H). The draft report can be issued for comment.

3. *Draft Report on Grant WV-11311, Region VII, Planning and Development Commission, (Mountaineer Food Bank).*

The Report No. is 00-41(H). The draft report can be issued for comment.

4. *Report 00-9(H), Export Initiative, Tri-County Council for Greater Maryland.*

Prepare the report for issuance in final based on the information available. For information, the Executive Director of the Tri-County Council resigned recently.

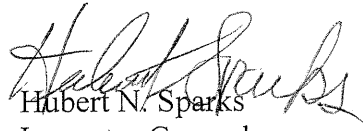
5. *Reports 00-6(H) and 00-25(H), North Carolina Department of Administration and Virginia Department of Housing and Community Development.*

Since the auditees' comments to the draft reports have been received, I would like these reports to be finalized as soon as possible rather than wait until August.

6. *Grant WV-12301, International Development Unit, West Virginia Development Office.*

The Report No. is 00-45(H). The initial draft report should be completed and forwarded to the grantee, if necessary.

7. Work on the remaining grants can be scheduled in August and September based on available funding. We will prioritize the work based on funds available at that time.

  
Hubert N. Sparks  
Inspector General

Enclosure



September 25, 2000

Ms. Leanne Mazer  
Executive Director  
Tri-County Council for Western Maryland  
111 South George Street  
Cumberland, Md. 21502

Re: OIG Report 00-09 (H)  
Grant No. MD-12355

Dear Ms.Mazer:

Congratulations on your new position.


Enclosed is a copy of the Final Report dealing with a grant to expand exports. As noted report issuance was substantially delayed in order to consider any additional information that was made available with respect to the questioned costs. The \$59,295 questioned by the independent auditor remains an unresolved issue and we are recommending that ARC pursue this matter.

A copy of any additional independent auditor reports covering the 1998 and/or 1999 years would be appreciated.

The review was performed by auditors with Leon Snead and Company, P.C. under contract with my office. A copy of this report is being provided to the Federal Co-Chairman, ARC Executive Director and the Maryland State Alternate.

The courtesies and cooperation afforded the auditor were appreciated.

Sincerely,

  
Hubert N. Sparks  
Inspector General

Enclosure

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

**Grant MD 12355-96  
Tri-County Council for Western Maryland  
Cumberland, Maryland**

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**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 MD 12355-96  
Tri-County Council for Western Maryland  
Cumberland, Maryland**

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

**Report No. 00-9 (H)**

**April 25, 2000**

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# FINAL INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES TO GRANT AGREEMENT EXPENDITURES

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.

On January 28, 1995 the ARC approved Resolution 629. This Resolution authorized Regional Initiatives in the areas of Internationalization of the Economy, Telecommunications, and Leadership and Civic Development. In accordance with this resolution, program design and project criteria for each regional initiative was approved by the Federal Co-Chairman and the State Alternates upon the recommendation of the Policy Development Committee.

The ARC awarded Grant MD-12355-96 to the Tri-County Council for Western Maryland to provide funds for the Western Maryland Export Initiative. This project specifically implements the Governor of Maryland's strategy for the Regional Initiatives in Internationalization of the Economy.

Grant MD-12355-96 called for the grantee and the Maryland Office of International Trade to expand exports by creating an International Trade Assistance Center to promote awareness of export opportunities and provide export counseling and technical assistance. The Center was to provide a consolidated focus for various Federal and state export programs in western Maryland. The grant agreement effective date was January 1, 1996. The initial period of performance was from January 1, 1996 through December 31, 1996. The period of performance was subsequently extended through June 30, 1998. The Tri-County Council for Western Maryland was to receive not more than \$253,808, or approximately 74% of the estimated total project costs of \$344,208, from the ARC for the complete and satisfactory performance of this grant agreement. The remaining \$90,400, or approximately 26% of the total estimated project costs, were to be matching funds contributed to the project by the State of Maryland Department of Business and Economic Development (DBED).

Leon Snead & Company, P. C. is under contract to the Office of Inspector General (OIG) of the ARC to provide audit services. We performed agreed upon procedures on the grant expenditures reported to the ARC for the period January 1, 1996 through December 31, 1997. The objective of our agreed upon procedures was to determine whether the reported grant expenditures were allowable, allocable, and reasonable. Rollins Associates, P.A. of Cumberland, Maryland served as the independent auditors for the Tri-County Council during this period. We considered the results of their audit reports dated March 21, 1997 and December 16, 1999, as they pertained to this particular ARC grant, in the performance of our agreed upon procedures.

### ***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 purchasing of goods and services by the ARC. 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 Procurement Regulations (FAR); other Federal, state, or local procedures designed to insure fair and non-discriminatory procedures were used for the selection of 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 Tri-County Council for Western Maryland, Inc. 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 the grant period from January 1, 1996 through December 31, 1997. We reviewed the available documentary support for selected reported grant expenditures made during the grant period. We also met with the Tri-County Council for Western

Maryland, Inc.'s independent auditors and reviewed the Tri-County records which were in their possession. Finally, we performed selected tests as necessary to determine if the expenditures charged to Grant MD-12355-96 were allowable, allocable, and reasonable.

We initially visited the grantee's office in Cumberland, Maryland during the period June 21 – 25, 1999. At the time of our visit the independent auditor's report covering the period October 1, 1996 through December 31, 1997 had not yet been completed. Also the grantee could not locate documentary support for approximately \$82,000 of the grant expenditures include in our original audit sample. We agreed to return to Cumberland after the independent auditor's report had been completed and the grantee had located the missing documentary support. We contacted the grantee's office several times in December 1999. The grantee informed us that the missing documentary support had not been located and that the grantee was engaging a local CPA firm to reconstruct the Tri-County Council's accounting records for the grant period. The IG instructed us to proceed with our agreed upon procedures without waiting any longer for the grantee to provide additional documentation.

We provided the grantee with a copy of our initial draft report on March 23, 2000. The grantee responded, on April 24, 2000 and furnished us a copy of the Independent Auditor's Financial Report covering the period October 1, 1996 through December 31, 1997.

Specifically, our agreed upon procedures included the following:

- We discussed the grant expenditure process and internal controls with Tri-County Council for Western Maryland officials.
- We met with the grantee's independent auditors, Rollins Associates, P.A., to review selectively the grantee expenditure records which were in Rollins' possession.
- We obtained copies of the independent auditors' prior reports, dated March 21, 1997 and December 16, 1999. We considered their findings pertaining to Grant MD-12355-96 in performing our agreed upon procedures.
- The cumulative expenditures shown in the monthly grant expenditure reports for January 1, 1996 through December 31, 1997 totaled \$251,625. We sampled 33 of the 132 grantee reported monthly grant expenditure totals in 8 of 12 different expense categories during this 2-year period. The monthly expenditures initially selected for review totaled \$109,427. However, we also reviewed the support for 5 additional monthly grant expenditure totals in 5 separate expense categories totaling \$2,890. Overall, the sample items and the 5 additional items reviewed totaled \$112,317, or about 45% of the \$251,625 in ARC export grant expenditures reported for this 2-year period.

- We reviewed the grantee's financial statements for the period January 1, 1996 through December 31, 1997 and compared these statements with the general ledger for this same time period.
- During our review of the test sample items we prepared a listing of fixed assets purchased using grant funds. We traced these fixed assets to grantee property records and from the property records to the asset locations to verify the existence of the items and to determine, if applicable, if the items had inventory tags attached to them.

## ***RESULTS***

We noted the following exceptions.

### *(1) Grant Overcharges*

#### Condition

The grantee reported \$59,295 more in Grant MD-12355-96 expenditures for the period January 1996 through December 1997 than were accepted by the grantee's independent auditor.

#### Criteria

Only actual grant expenditures which have been validated by audit are reimbursable by the ARC.

#### Discussion

We compared the total expenditures for the period January 1, 1996 through December 31, 1997 which were determined as chargeable to Grant MD-12355-96 by the grantee's independent auditors with the total grant expenditures reported to the ARC on monthly Financial Status Report(s) for this same period. We found the Financial Status Report(s) contained \$59,295 more in expenditures than were accepted by the independent auditors. We question these expenditures as follows:

Expenditures	Per Independent Auditors' Reports	Per Grantee Status Reports	(Over) Claim Under Claim
Personnel Costs	\$ 89,603	\$ 109,960	\$( 20,357 )
Fringe Benefits	15,452	29,832	( 14,380 )
Contractual	30,675	46,121	( 15,446 )
Travel	21,054	29,955	( 8,901 )
Space/Office Rental	6,308	6,771	( 463 )

Telephone	2,250	2,204	46
Consumables/Supplies	20,189	19,787	402
Postage	658	426	232
Memberships	570	100	470
Publications	5,159	703	4,456
Equipment	0	5,766	( 5,766 )
Miscellaneous	<u>412</u>	<u>0</u>	<u>412</u>
Totals	<u>\$ 192,330</u>	<u>\$ 251,625</u>	<u>\$( 59,295 )</u>

Recommendation

The ARC should disallow the \$ 59,295 in reported grant costs which were not accepted by the independent auditor.

(2) *Duplicate Payment*

Condition

We noted a \$958.00 duplicate payment for 2 printers.

Criteria

Duplicate payments are neither reasonable nor allowable.

Discussion

The grantee paid for 2 Hewlett Packard Model H-P 5L Xtra printers from Gateway 2000 in January 1997 on vendor invoice number 16755889 using check number 11646 dated February 11, 1997. The grantee was billed for these same printers, on the same Gateway 2000 invoice number, on March 14, 1997. The grantee paid for these printers again using check number 11773 dated April 14, 1997. Per our discussions with grantee management, only 2 H-P 5L printers were ever received.

Recommendation

The ARC should disallow \$958 for the duplicate payment.

Grantee's Comments

Gateway 2000 issued the grantee a check (#226631) on May 30, 1997 in the amount of \$958. Documentation is attached. Also included is a copy of the deposit record.

## Accountant's Response

Noted. However, our recommendation remains because the grantee included the duplicate payment in its ARC grant agreement expenditures.

### *(3) Supporting Documentation*

#### Condition

Documentation supporting reported grant expenditures was not readily retrievable.

#### Criteria

Documentary support for all grant expenditures should be readily available and easily related to the grant expenditure amounts shown in the grantee's monthly FSRs.

#### Discussion

The grantee filed the documentary support for all payments made during each month in separate folders. The documentary support for Grant MD-12355-96 expenditures was commingled in these monthly folders along with the documentation supporting all other grantee monthly expenditures and the DBED grant matching share of cash, contributed services, or in-kind contributions. Each supporting document was stamped with a rubber stamp which contained blocks for the initials of the person who approved the vendor invoice for payment, the initials of the person who clerically checked it, the payment check number and date paid, the dollar amount paid, and the account number charged. Expenditures chargeable to the grant were generally identified with the words "ARC" or "export" in the account number block. However, in many instances we had to add several different expenditure documents together to arrive at the reported grant expenditure amount. In other instances, such as office rent, the grantee charged portions of this expense to various accounts, but did not show on the supporting vendor invoices how the allocations were made or the dollar amounts allocated to each account. Finally, we could not determine which monthly grant expenditures were made using ARC funds and which were made using matching DBED contributions.

#### Recommendations

The grantee should maintain listings of all paid invoices included in each monthly expenditure total listed in the monthly grant FSR to show how the grantee arrived at the reported monthly expenditure totals. The paid invoices should be filed in such a manner as to be easily retrievable and traceable back to the project or account to which they were charged.

### Grantee's Comments

Please see the attached FY 97 Audit Report (Oct 1, 1996 – Dec. 31, 1997) and the corresponding Corrective Action Plan. In addition, the Program Manager is now keeping a spreadsheet of grant expenditures and State/Local match that is backed up with appropriate documentation.

### Accountant's Response

The grantee's response is considered satisfactory.

### *(4) Chart of Accounts*

#### Condition

The grantee could not provide a current Chart of Accounts during our site visit. We noted instances where grant expenditures were incorrectly classified and reported because proper expenditure classifications were not available for use.

#### Criteria

All grant expenditures should be properly classified and reported.

#### Discussion

We noted the grantee reported help wanted advertising costs as part of supplies expense and reported employee relocation costs as part of travel expenses.

#### Recommendation

The grantee should use a Chart of Accounts to classify and report expenditures properly.

### Grantee's Comments

As per corrective action plan, bookkeeping personnel have been replaced, independent auditors have been changed and improved procedures are in place.

### Accountant's Response

The grantee's response is considered satisfactory.

## *(5) Grantee's Accounting System*

### Condition

The grantee's accounting system, policies, and procedures were not adequate to properly account for ARC grant funds.

### Criteria

The ARC requires each grantee to have, and maintain, an accounting system and internal controls which will ensure that all charges to ARC grants are allowable, allocable and reasonable.

### Discussion

We noted paid invoices which were not coded with expenditure account or grant numbers. This prevented us from being able to determine if grant expenditures were properly classified and reported. Also, the ARC and the DBED expenditures were commingled in the grantee's accounting system. As a result, we could not determine which expenditures were made using ARC funds and which were made using DBED matching funds.

### Recommendation

The grantee should establish and maintain an accounting system, policies, and procedures that are adequate to separately identify ARC grant expenditures and DBED matching funds.

### Grantee's Comments

As per corrective action plan, an improved system, policies and procedures are in place. Also, the Program Manager is keeping independent files on grant expenditures and State and local matching funds.

### Accountant's Response

The grantee's response is considered satisfactory.

## **CONCLUSIONS**

The total reported grantee expenditures claimed as attributable to Grant MD-12355-96 for the period January 1, 1996 through December 31, 1997 were \$251,625. This amount consisted of ARC grant funds and an undeterminable amount of State of Maryland DBED matching funds. The results shown below were based on our agreed upon procedures performed on the \$251,625 in combined ARC and DBED expenditures the



grantee attributed to the grant. Based on the results of our agreed upon procedures, in our opinion:

- (1) \$ 59,295 in reported grant costs which were not accepted by the independent auditor should be disallowed.
- (2) \$958 in duplicate payment costs should be disallowed.
- (3) The \$192,330 in grantee expenditures, less \$958 for the duplicate payment, accepted by the grantee's independent auditors' is allowable, allocable and reasonable and should be accepted by the ARC.

### ***DISTRIBUTION***

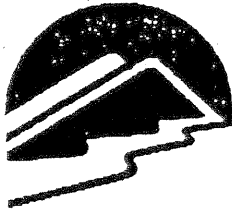
This report is intended for the information and use of the OIG and management of the ARC and should not be used for any other purpose. However, this report is a matter of public records and its distribution is not limited.

*Leon Snead & Company, P. C.*

LEON SNEAD & COMPANY, P. C.

April 25, 2000

## MANAGEMENT'S COMMENTS



## Tri-County Council for Western Maryland, Inc.

April 21, 2000

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

Re: Draft Report on Grant Agreement  
Expenditures Audit Grant MD-12355-96

Dear Ms. Stowe:

In response to the draft report on the above referenced grant, and as per a conversation of earlier today with Mr. Schantin. I am enclosing grantee comments where available, a copy of the TCCWMD 1997 Audit Report, and the corresponding Corrective Action Plan which was adopted by formal action of TCCWMD on February 7, 2000.

As you are aware, the TCCWMD executive secretary / bookkeeper terminated her employment in Mid June 1999. Soon after her departure numerous problems within the financial operations and internal control of the agency were discovered. The agency immediately began to address them, however this audit, which commenced in June 1999, was hampered by the timing of discovery and reconstruction of records. The audit period in question represents a time in which there was an inadequate level of performance and control within the bookkeeping function which is atypical for the agency as evidenced by previous audits. The financial records for the entire agency had to be completely reconstructed, which was accomplished as expeditiously as possible.

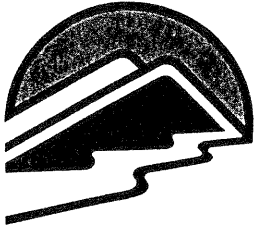
The 1996 - 1997 records have been reconstructed and are on file and available for review. A new CPA firm is under contract and scheduled to complete the 1998 audit report within the next 4-6 weeks.

If possible we would like to request a site visit by Mr. Schantin to finalize the audit. Thank you for consideration of this request

Sincerely,

*Michael J. Wagoner*  
Michael J. Wagoner *edw*  
Executive Director

CC: Mr. Ed Schantin  
CC: Mr. Hubert N. Sparks, Inspector General ARC



Tri-County Council for Western Maryland, Inc.

April 21, 2000

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

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Sincerely,

*Michael J. Wagoner*  
Michael J. Wagoner *edw*

Executive Director

CC: Mr. Ed Schantin

CC: Mr. Hubert N. Sparks, Inspector General ARC



Tri-County Council for Western Maryland, Inc.

March 27, 2000

TO: Alexis Stowe  
for information  
Hubert Sparks

Mr. Hubert N. Sparks, Inspector General  
Appalachian Regional Commission  
1666 Connecticut Ave. NW  
Washington, DC 20009-1068

Dear Mr. Sparks:

Enclosed please find a copy of the TCCWMD FY 99 annual audit report for the period 1 October 1996-31 December 1997. A corrective action plan is also included. These actions / procedures were initiated in the fall of 1999.

We have recently selected a different auditor via a RFP process. We expect therefore to have the 98 audit completed by late May, 2000 and the 99 audit by September 2000 (or before).

In addition we are in receipt of the Leon Snead & Company audit for the export program and will be responding to those findings.

00-9-11

Please contact me should you have any questions or comments.

Sincerely,

  
Michael J. Wagoner  
Executive Director

We may be returning to  
grantee to review the  
resolving loan fund that is  
cited as having deficiencies.  
HJ.