Independent Accountants' Report on Applying Agreed Upon Procedures to Grant NC 12321-96/97

North Carolina Office of the Governor
Raleigh, North Carolina

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

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INDEPENDENT ACCOUNTANTS' 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.

The Appalachian Regional Commission (ARC) awarded Grant NC-12321-96-97 to the North Carolina Office of the Governor in March, 1996 to provide funds to assist the State of North Carolina with the first phase of its planning effort to establish telecommunications inter-operability within the Appalachian region of the state.

Grant Agreement NC-12321 was amended four times, and extended twice, since it was initially signed in March 1996. The combined grant ultimately covered the 44-1/2 month period of performance from January 15, 1996 through September 30, 1999. The combined grant called for the ARC to contribute $761,927 towards estimated total project costs of $1,088,683. Details concerning each of the four phases (Phase I, Phase II, Phase III and Phase IV) are covered in the paragraphs below. The agreed upon State and local contributions were to be made as combinations of cash and in-kind contributions. The agreed upon combined contributions, by entity, were to be as follows:

- ARC -- $ 761,927 or 70.0% of estimated total project costs.
- State -- $ 70,309 or 6.5% of estimated total project costs.
- Local -- $ 256,447 or 23.5% of estimated total project costs.

The initial grant agreement called for a period of performance from January 15, 1996 through December 31, 1996 (Phase I). The North Carolina Office of the Governor was to receive not more than $286,150, or no more than 80% of the estimated total project costs of $357,688, from the ARC for the complete and satisfactory performance of this grant agreement. The remaining $71,538 of the total estimated project costs, were to be matching cash, contributed services, or in-kind contributions made by State ($22,078 or 6.2%) and local ($49,460 or 13.8%) entities. The grant agreement was amended (Amendment No. 1) on September 30, 1996. This amendment established Phase II and extended the Phases I and II period of performance to September 30, 1997.

Grant Amendment No. 1, signed September 30, 1996 approved an additional $237,216 in ARC funds for the above referenced grant agreement and established what would also be known as Phase II of the ARC grant. The additional funds were to be used to expand Phase I to include additional technical support services and add a mini-grant program that would provide direct planning assistance to five communities in the Appalachian Region of North Carolina. Under Phase II The North Carolina Office of the Governor was to receive not more than an additional $237,216, or no more than 54.8% of the increased estimated total project costs of $432,780 from the ARC for the complete and satisfactory performance of this grant agreement amendment. The remaining $195,564 of the total additional project costs of $432,780, were to be matching cash or in-kind contributions made by State ($8,064 or 1.9%) and local ($187,500 or 43.3%) entities. The total funding committed to this project at this time, including Amendment No. 1 funding, was $790,468 of which up to $523,366 was to be ARC funding.

The grant agreement was amended a second time (Amendment No. 2) on November 6, 1997. This amendment incorporated the Grantee's supplemental proposal submitted to the ARC on September 5, 1997 and provided $137,942 in additional ARC grant funds for the above referenced agreement, established Phase III, and extended the project period of performance to September 30, 1998. The additional funding was provided to continue the Grantee's strategic telecommunications program and to assist seven communities in implementing their strategic planning project. Under Phase III The North Carolina Office of the Governor was to receive up to an additional $137,942, but no more than 80.0% of the increased estimated total project costs of $172,429 from the ARC for the complete and satisfactory performance of grant Amendment 2. The remaining $34,487 of the total additional project costs of $172,429, were to be matching cash or in-kind contributions made by State ($15,000 or 8.7%) and local ($19,487 or 11.3%) entities. The total funding committed to this project, including Amendment No. 2 funding, was $962,897 of which up to $661,308 could be ARC funding.

The grant agreement was amended a third time (Amendment No. 3) on January 14, 1999. This amendment incorporated the Grantee's supplemental proposal submitted to the ARC on October 8, 1998 and provided $100,619 in additional ARC grant funds for the above referenced agreement, established Phase IV, and extended the project period of performance to June 30, 1999. The additional funding was provided to continue the Grantee's strategic telecommunications program and to provide continued technical services in planning to all communities. Under Phase IV The North Carolina Office of the Governor was to receive up to an additional $100,619, but not more than 80.0% of the increased estimated total project costs of $125,786 from the ARC for the complete and satisfactory performance of grant Amendment No. 2. The remaining $25,167, or 20.0%, of the total additional project costs of $125,786, were to be matching cash or in-kind contributions made by State entities. The total, and final, funding committed to this project, including Amendment No. 3 funding, was $1,088,683 of which up to $761,927 could be ARC funding.

The grant agreement was amended a fourth time (Amendment No. 4) on March 5, 1999. This amendment extended the grant period of performance to September 30, 1999. It did not involve any additional ARC funds, and all other terms and conditions of the grant remained in full force and effect.

The ARC Project Payment Record for Grant NC-12321-96/97 as of April 12, 1999 showed $544,349.17 had been paid to the grantee. The ARC Project Payment Record showed the grant had an unexpended balance of $217,577.83 at the time of our review. Grantee Detail Transaction Ledger records showed $584,053.43 in ARC grant funds had been expended through May 14, 2000. There were also three outstanding invoices totaling $62,407.36 for expenditures incurred within the grant expenditure period which had not yet been paid. Overall, grantee records showed total ARC grant fund expenditures of $646,460.79, a balance due the grantee of $102,111,62 and $115,466.21 in ARC grant funds which should be deobligated.

The grantee's fiscal year ends on June 30. Separate detail transaction ledgers are produced for each fiscal year. The next level of detail available is the Agency Management Budget Report, Detail Report By Fund. Each Detail Report By Fund covers one calendar month.

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 15, 1996 through September 30, 1999. The objectives of our agreed upon procedures were to determine whether the reported grant expenditures were allowable, allocable, and reasonable and whether the grantee was in compliance with applicable laws and regulations.

SCOPE AND METHODOLOGY

We performed the procedures enumerated below, which were agreed to by the Inspector General of the Appalachian Regional Commission solely to assist you in evaluating grant expenditures by the grantee. 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 Regulation (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 audit, the objective of which would be the expression of an opinion on the financial statements of the grantee. 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 four phases (Phase I, Phase II, Phase III and Phase IV) of the grant period. These phases covered the period from January 15, 1996 through September 30, 1999. We reviewed the available documentary support for selected reported grant expenditures, for all four phases, which were made during the period covered by our scope. We also determined 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-12321-96/97 were allowable, allocable, and reasonable.

We visited the grantee's office in Raleigh, North Carolina during the period November 13 – 17, 2000.

Specifically we performed the following procedures:

- We discussed the grant expenditure process and internal controls with the North Carolina Office of the Governor Budget Officer and the Director, Connect North Carolina.

- We summarized all grantee reported monthly grant expenditures shown in either the supporting Detail Transaction Ledgers or monthly Agency Management Budget Reports for the period July 1, 1995 through June 30, 2000 and tied in the grant expenditure totals with the total expenditures charged to the grant.

- We scanned all Detail Transaction Ledgers or the monthly Agency Management Budget Reports and selected 80 grant expenditure transactions totaling $429,081 for review. The $429,081 in transactions reviewed accounted for approximately 66.4% of the total billed, and yet to be billed, grant expenditure charges.

- We compared the grant expenditures made with the approved project budget to determine if the grant funds were spent only on items which were included in the approved project budget.

- State and local participation expenditures were scanned to determine if the required grant cash and in-kind match amounts had been met.

RESULTS

We noted the following exception.

Post-Period of Performance Grant Fund Expenditures

Condition

The grantee expended $6,531 in grant funds on Director, Connect North Carolina salaries and fringe benefits and $153 on travel expenditures and telephone services after the grant period of performance ended September 30, 1999. These expenditures were included in the $39,704 of paid grant expenditures for which the grantee has not yet been reimbursed by the ARC.

Criteria

Grant funds must be expended for goods purchased or services rendered within the period of performance shown in the Grant Agreement, or Amendments thereto, to be considered allowable grant costs.

Discussion

We noted that the grantee expended $6,531 in ARC grant funds on the Director, Connect North Carolina's salary and fringe benefits for services rendered between October 1 and November 30, 1999. The grant period of performance ended September 30, 1999. We also noted $81 in Director, Connect North Carolina meals and lodging costs charged to the ARC grant during the month of January 2000 and $72 in telephone service costs charged to the ARC grant during May, 2000. The grantee's Budget Officer concurred in the questioned costs, and stated that she would reverse these $6,684 in erroneous ARC grant charges.

Recommendations

(1) The ARC should disallow the $6,684 in grant fund expenditures made between October 1, 1999 and May 13, 2000.

(2) The ARC should reimburse the grantee an additional $95,428 for the remaining $33,021 in expenditures paid by the grantee which have not yet been reimbursed by ARC and for the three unpaid vendor invoices totaling $62,407 which are valid ARC grant charges which will be paid by the grantee out of the final grant settlement.

(3) The ARC should deobligate the remaining unobligated grant balance of $122,150 in excess grant funds which will not be needed once recommendations (1) and (2) above have been implemented.

Grantee's Comments

The grantee has made the correction for the $6,684.

Accountant's Evaluation of Grantee's Comments

The grantee has taken corrective action.

CONCLUSIONS

Based on the results of our agreed upon procedures, in our opinion, $639,777 of the $646,461 in grant fund expenditures incurred between January 15, 1996 and September 30, 1999 which were charged to the ARC for Grant NC-12321-96/97 Phases I through IV were allowable, allocable, and reasonable and should be excepted by the ARC. The exception amount consisted of $6,684 in charges for services rendered after the expiration of the grant expenditure period.

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.
November 17, 2000

GRANTEE'S COMMENTS

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January 8, 2001

Mr. Hubert N. Sparks
Inspector General
Appalachian Regional Commission
1666 Connecticut Avenue, N.W., Suite 215
Washington, D.C. 20235

Subject: Final Report

Dear Mr. Sparks:

Enclosed is our Final Report, 3 bound copies and 1 unbound original, for Report No. 01-19 (H). If you have any questions, please call me or Ed Schantin at (301) 738-8190.

Sincerely,

Alexis M. Stowe

Alexis M. Stowe
Vice President

Enclosures