
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**West Virginia Regional Technology Park Corporation
South Charleston, West Virginia**

**Final Report No.: 18-19
Grant Number: PW-18788
April 2018**

Prepared by:

Leon Snead & Company, P.C.



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April 27, 2018

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, N.W.
Washington, DC 20009

Leon Snead & Company, P.C. completed an audit of grant number PW-18788 awarded by the Appalachian Regional Commission (ARC) to the West Virginia Regional Technology Park Corporation (the Tech Park). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of ARC grant funds.

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements and the goals and objectives of the grant were met.

Overall, the Tech Park's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. We found that the Tech Park had an adequate process in place for obtaining and recording data related to the overall goals of the grant. Performance measures to date were either met or on track. However, we identified two areas that require management attention. The grantee did not have an approved indirect cost rate, but was charging indirect costs to the grant. We questioned \$50,000 in indirect costs because they were not adequately supported. Also, we questioned \$13,612.50 in contract costs due to payments in excess of the contractual amount. These issues and the corresponding recommended corrective actions are discussed in the Findings and Recommendations section of this report.

A draft report was provided to the Tech Park on March 29, 2018, for comments. The Tech Park provided a response to the report on April 20, 2018. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the Tech Park and ARC staffs during the audit.

Sincerely,


Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number PW-18788 awarded by the Appalachian Regional Commission (ARC) to the West Virginia Regional Technology Park Corporation (the Tech Park). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of ARC grant funds.

ARC awarded the grant funds to support The Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative, which is a congressionally funded initiative that targets federal resources to help communities and regions that have been affected by job losses in coal mining, coal power plant operations, and coal-related supply chain industries due to the changing economics of America's energy production. It supports efforts to create a more vibrant economic future for coal-impacted communities by cultivating economic diversity, enhancing job training and re-employment opportunities, creating jobs in existing or new industries, and attracting new sources of investment.

The project is designed to use reclaimed soils on abandoned surface mining land to grow value-added crops; extract high-value products from these crops and market/sell them; and leverage land reclamation, crop cultivation, and chemical extraction and processing activities to provide displaced coal and energy industry workers with training, employment, and entrepreneurial opportunities. Specifically, this grant will train displaced workers in lavender farming, cultivation, and oil extraction.

Objectives, Scope, and Methodology

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements and the goals and objectives of the grant were met.

Grant PW-18788 covers the period February 1, 2017 to September 30, 2018, and provides \$1,073,304 in ARC funds and requires \$459,987 in non-ARC recipient matching funds. Overall estimated project costs for this grant are \$1,533,291. The percentage break-out of ARC to non-ARC funding for the overall project is 70% ARC funds and 30% non-ARC matching funds.

A total of \$572,646 in grant funds was expended and reimbursed by ARC, and \$649,600 was provided in non-ARC recipient matching funds as of February 16, 2018. Also, as of February 16, 2018, there was a balance of \$500,658 in ARC funds remaining on the grant. Of the expenditures charged to the grant and claimed for reimbursement, we selected a sample of \$254,408 for testing to determine whether the charges were properly supported and allowable.

We reviewed documentation provided by the Tech Park and interviewed personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating

procedures and controls. We reviewed written policies and administrative procedures to determine if they were compliant with federal requirements and adequate to administer the grant. We reviewed financial and project progress reports to determine if they were submitted in accordance with requirements. We reviewed the most recent audit and financial statements to identify any issues that significantly impacted the ARC grant and the grant audit.

The on-site fieldwork was performed at the Tech Park offices in South Charleston, West Virginia during February 13-16, 2018. The preliminary audit results were discussed with the Tech Park staff at the conclusion of the on-site visit. The Tech Park staff was in general agreement with the preliminary audit results.

The primary criteria used in performing the audit were the grant agreement; applicable sections of 2 CFR 200, and the ARC Code. The audit was performed in accordance with *Government Auditing Standards*.

Summary of Audit Results

Overall, the Tech Park's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. We found that the Tech Park had an adequate process in place for obtaining and recording data related to the overall goals of the grant. Performance measures to date were either met or on track.

However, we identified two areas that require management attention. The grantee did not have an approved indirect cost rate, but was charging indirect costs to the grant. We questioned \$50,000 in indirect costs because they were not adequately supported. Also, we questioned \$13,612.50 in contract costs due to payments in excess of the contractual amount.

These issues and the corresponding recommended corrective actions are discussed in the Findings and Recommendations section of this report.

Findings and Recommendations

A. Indirect Costs

The Tech Park charged \$50,000 in indirect costs to the ARC grant, and obtained reimbursement for those costs, without having an approved indirect cost rate during the grant period of February 1, 2017 through February 16, 2018. We have questioned the \$50,000 in indirect costs as not being adequately supported under federal cost principles.

The cost principles applicable to ARC grants and the Tech Park in 2 CFR 200, Appendix IV to Part 200 - Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organization, state that "a nonprofit organization which has not previously established an indirect cost rate with a Federal agency must submit its initial indirect cost proposal immediately after the organization is advised that a Federal award will be made and, in no event, later than three months after the effective date of the Federal award."

The approved budget for the ARC grant contained a line item for indirect costs in the amount of \$275,992 and listed an indirect cost rate of 18.5%. There was no documentation available to support the basis of the 18.5% rate. Lacking an approved rate from a cognizant agency as required in 2 CFR 200, we do not consider the amounts claimed and reimbursed for indirect costs to be adequately supported under the federal cost principles. Therefore, we question the \$50,000 in indirect costs claimed and reimbursed under grant PW-18788.

Recommendations

The Tech Park should:

1. Obtain an approved indirect cost rate from the cognizant agency.
2. Upon the approval of an indirect cost rate, submit a revised SF-270 financial report for grant PW-18788 to ARC to adjust indirect costs to the approved and supported amount.
3. If no indirect rate is obtained from the cognizant agency by the end of the grant on September 30, 2018, refund the \$50,000 in unsupported indirect costs to ARC.

Grantee's Response

The Tech Park provided a copy of the approved indirect cost rate for the West Virginia Higher Education Policy Commission, which is the parent company for the Tech Park. The rate was approved by the Department of Health and Human Services and dated May 18, 2017. The Tech Park stated that ARC approved this indirect rate on April 3, 2018 and, per discussions with ARC, no adjustment to the grant budget is necessary.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendations.

B. Contract Costs

We questioned \$7,500 in travel costs and \$6,112.50 in contract costs, totaling \$13,612.50, paid to a consultant that exceeded the contractual amount.

The consulting services agreement with the consultant established total compensation for services with the Tech Park for the Green Mining Model Business Program in the amount of \$48,900, to be paid in nine fixed monthly payments of \$6,112.50 each. Nine payments in the amount of \$6,112.50 each would total \$55,012.50, not 48,900, as stated in the contract. Eight payments of \$6,112.50 would total the \$48,900 presented in the contract.

The grant budget established an amount of \$48,900 for this position, which was designated as Contract Personnel - Technical Writer, stating the amount was to be paid over an eight month period. Our testing of invoices and the corresponding general ledger indicated that nine payments had been made to the consultant over the period of June 2017 through February 2018, totaling \$55,012.50. It appears there was an error in the contract, and the consultant was paid for one more payment than had been intended by the initial budget.

In addition, during our testing of travel vouchers, we found that the vouchers for the consultant included line items for payment for "travel time" in addition to the normal reimbursements for mileage, hotels, and per diem. These line items were listed as \$50 per hour and added to the travel vouchers to compensate the consultant for time traveling from home to the job site. The payments for "travel time" totaled \$7,500.00 on the travel expense reports submitted by and reimbursed to the consultant for the period covering May 2017 through January 2018.

A review of the contract did not indicate that the consultant was to receive payment or reimbursement for this travel time, there was no contractual wording regarding travel in the contract. It appears that the consultant was reimbursed a total of \$13,612.50 in excess of the contractually obligated amount.

Recommendations

The Tech Park should:

1. Amend their contract with the consultant to correct and adjust the total amount of compensation.
2. Provide justification for the excess contract amounts charged to the ARC grant and amend the ARC grant budget as needed.
3. Reimburse the excess contract amount paid to the consultant in the amount of \$6,112.50 (or the amount ARC determines to be unallowable) to ARC and reflect the reimbursement on the next SF-270 as necessary.
4. Reimburse the travel related amount paid to the consultant in the amount of \$7,500.00 (or the amount ARC determines to be unallowable) to ARC and reflect the reimbursement on the next SF-270 as necessary.

Grantee's Response

The Tech Park stated they have amended the contract of the consultant as of April 1, 2018, and they included a copy of the amended contract with their audit response. The amendment extended the contract to nine months with an additional \$6,112.50 added to cover the time worked on the project. The amendment also included compensation for travel time between the consultant's home and the job site at a rate of \$50 per hour. The Tech Park further stated this information should have been included in the original proposal but was mistakenly omitted, and the budget has been amended to include these costs and was approved by ARC on January 18, 2018.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendations.

**Official Response to the Audit of Grant Number PW-18788 Awarded by the
Appalachian Regional Commission to the West Virginia Regional Technology Park**

The West Virginia Regional Technology Park (Tech Park) has provided a response for each issue identified in the draft report delivered on March 29, 2018.

Issue 1: *Indirect Costs*

Recommendation

1. Obtain an approved indirect cost rate from the cognizant agency.
2. Upon the approval of an indirect cost rate, submit a revised SF-270 financial report for grant PW-18788 to ARC to adjust indirect costs to the approved and supported amount.

If no indirect rate is obtained from the cognizant agency by the end of the grant on September 30, 2018, refund the \$50,000 in unsupported indirect costs to ARC.

Tech Park Response

Attached is the approved indirect rate for the WV Higher Education Policy Commission, the parent company for the Tech Park, and owner of the physical facilities in South Charleston. The ARC approved this indirect rate as their cognizant agency on April 3, 2018. No adjustment to the budget is necessary per discussions with the ARC.

Issue 2: *Contract Costs*

Recommendation

1. Amend their contract with the consultant to correct and adjust the total amount of compensation.
2. Provide justification for the excess contract amounts charged to the ARC grant and amend the ARC grant budget as needed.
3. Reimburse the excess contract amount paid to the consultant in the amount of \$6,112.50 (or the amount ARC determines to be unallowable) to ARC and reflect the reimbursement on the next SF-270 as necessary.
4. Reimburse the travel related amount paid to the consultant in the amount of \$7,500.00 (or the amount ARC determines to be unallowable) to ARC and reflect the reimbursement on the next SF-270 as necessary.

Tech Park Response

The WVTPC has amended the contract of the Technical Writer, Jocelyn Sheppard as of April 1, 2018. The attached amendment extends the contract to nine month, an additional \$6,112.50, to cover the time worked on this project. The amendment also includes compensation for travel time between her home and the job site at a rate of \$50 per hour. This should have been included in the original proposal and was mistakenly omitted. The budget was amended to include these costs and approved by the ARC on January 18, 2018.

COLLEGES AND UNIVERSITIES RATE AGREEMENT

EIN:

DATE:05/18/2017

ORGANIZATION:

FILING REF.: The preceding
agreement was dated
09/25/2014

West Virginia Higher Education Policy
Commission

1018 Kanawha Boulevard, East
Suite 700

Charleston, WV 25301-

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

SECTION I: Facilities And Administrative Cost Rates

RATE TYPES: FIXED FINAL PROV. (PROVISIONAL) PRED. (PREDETERMINED)

EFFECTIVE PERIOD

<u>TYPE</u>	<u>FROM</u>	<u>TO</u>	<u>RATE(%)</u>	<u>LOCATION</u>	<u>APPLICABLE TO</u>
PRED.	07/01/2017	06/30/2021	26.00	All	All Programs
PROV.	07/01/2021	Until Amended			Use same rates and conditions as those cited for fiscal year ending June 30, 2021.

*BASE

Total direct costs excluding capital expenditures (buildings, individual items of equipment; alterations and renovations), that portion of each subaward in excess of \$25,000 and flow-through funds.

ORGANIZATION: West Virginia Higher Education Policy Commission

AGREEMENT DATE: 5/18/2017

SECTION II: SPECIAL REMARKS

TREATMENT OF FRINGE BENEFITS:

The fringe benefits are specifically identified to each employee and are charged individually as direct costs. The directly claimed fringe benefits are listed below.

TREATMENT OF PAID ABSENCES

Vacation, holiday, sick leave pay and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims are not made for the cost of these paid absences.

Fringe Benefits include: FICA, Retirement, Worker's Compensation, and Health Insurance.

Equipment means an article of nonexpendable tangible personal property having a useful life of more than one year, and an acquisition cost of \$5,000 or more per unit.

The four year extension of the indirect cost rate was granted in accordance with 2 CFR §200.414 (g).

****Next proposal based on FYE 06/30/20 is due in our office by 12/31/20.****

ORGANIZATION: West Virginia Higher Education Policy Commission

AGREEMENT DATE: 5/18/2017

SECTION III: GENERAL

A. LIMITATIONS:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its facilities and administrative cost pools as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as facilities and administrative costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government.

B. ACCOUNTING CHANGES:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from facilities and administrative to direct. Failure to obtain approval may result in cost disallowances.

C. FIXED RATES:

If a fixed rate is in this Agreement, it is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined, an adjustment will be made to a rate of a future year(s) to compensate for the difference between the costs used to establish the fixed rate and actual costs.

D. USE BY OTHER FEDERAL AGENCIES:

The rates in this Agreement were approved in accordance with the authority in Title 2 of the Code of Federal Regulations, Part 200 (2 CFR 200), and should be applied to grants, contracts and other agreements covered by 2 CFR 200, subject to any limitations in A above. The organization may provide copies of the Agreement to other Federal Agencies to give them early notification of the Agreement.

E. OTHER:

If any Federal contract, grant or other agreement is reimbursing facilities and administrative costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of facilities and administrative costs allocable to these programs.

BY THE INSTITUTION:

West Virginia Higher Education Policy Commission

(INSTITUTION)

(SIGNATURE)

(NAME)

(TITLE)

(DATE)

ON BEHALF OF THE FEDERAL GOVERNMENT:

DEPARTMENT OF HEALTH AND HUMAN SERVICES

(AGENCY)

Darryl W. Mayes -A

Digitally signed by Darryl W. Mayes -A
DN: cn=US, ou=U.S. Government, ou=HHS, ou=PSL,
ou=People, o=U.S. 2342.19200300.100.1.1=2000131669,
cn=Darryl W. Mayes -A
Date: 2017.05.18 13:17:56 -04'00'

(SIGNATURE)

Darryl W. Mayes

(NAME)

Deputy Director, Cost Allocation Services

(TITLE)

5/18/2017

(DATE) 1358

HHS REPRESENTATIVE:

Steven Zuraf

Telephone:

(301) 492-4855

**FIRST AMENDMENT
TO CONSULTING SERVICES AGREEMENT**

THIS FIRST AMENDMENT TO CONSULTING SERVICES AGREEMENT (this “First Amendment”), effective as of April 1, 2018 (the “Effective Date”), is entered into by and between **JOCELYN SHEPPARD**, a resident of the State of Pennsylvania (“Consultant”) and **WV REGIONAL TECHNOLOGY PARK CORP.**, a West Virginia nonprofit corporation (“WVRTPC” and together with Consultant, the “Parties”).

WITNESSETH:

WHEREAS, pursuant to that Consulting Services Agreement dated as of May 1, 2017, by and between Consultant and WVRTPC (the “Agreement”), Consultant provided certain services for WVRTPC in connection with the Green Mining Model Business Program; and

WHEREAS, the Parties now mutually desire to amend the Agreement upon the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, the parties hereby amend the Agreement as follows:

1. Conflicts. In the event of a conflict between the provisions of this First Amendment and those of the Agreement, the provisions of this First Amendment shall govern and control.

2. Amendment. Effective as of the Effective Date, Section 3 of the Agreement is hereby deleted in its entirety and replaced with the following:

“3. Compensation. As compensation for services rendered pursuant to this Agreement, WVRTPC agrees to compensate Consultant a total of \$55,012.50 for his or her services related to the GMMBP, payable by WVRTPC to Consultant in nine (9) fixed monthly payments of \$6,112.50 each (“Payment”) during the term of this Agreement; provided, that such payments will be predicated upon Consultant’s successful delivery of all required Work Products. Failure to deliver any of the required Work Products as required may result in WVRTPC asking ARC for permission to replace Consultant. Further, WVRTPC shall compensate Consultant for the time traveling between her home and the job site at a rate of \$50 per hour during the term of this Agreement.”

3. Miscellaneous. The Agreement, as amended by this First Amendment, contains the entire agreement of the Parties with respect to the subject matter hereof, and hereby expressly supersedes and replaces any other agreement, whether written or oral, with respect thereto. The Agreement is hereby ratified and affirmed, and all terms, covenants and conditions of the Agreement, as modified herein, shall remain otherwise unchanged and in full force and effect in all respects whatsoever. This First Amendment shall be governed by and construed and enforced in accordance with the laws of the State of West Virginia. This First Amendment shall be binding upon and shall inure to the benefit of the Parties, and their respective successors and assigns. This First Amendment may be executed in two or more counterparts, each of which


shall be deemed an original, but all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the Parties hereto and delivered to the other Party hereto.

[Signature page follows this page.]

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed on their behalf by their duly authorized representatives as of the date first set forth above.

WVRTPC:

WV REGIONAL TECHNOLOGY PARK CORP.

By: 
Name: Russell P. Kruzelock
Title: Chief Executive Officer and Executive Director

CONSULTANT:

Jocelyn
Sheppard
Jocelyn Sheppard

Digitally signed by: Jocelyn Sheppard
DN: CN = Jocelyn Sheppard email =
jocelyn@redhouseconsulting.com C
= AD O = Red House Consulting
Date: 2018.04.19 09:42:58 -05'00'