



April 10, 2000

MEMORANDUM FOR The Federal Co-Chairman ARC Executive Director

SUBJECT: OIG Reports

Enclosed are copies of the following reports for which our records do not indicate transmittal to your office. The reports were previously distributed to the grantees. In most instances, the reports were closed on issuance based on the absence of material findings.

- 00-13(H) Benton County, Mississippi, Head Start Facility
00-14(H) Team Pennsylvania Entrepreneurial Education Program
00-15(H) Team Pennsylvania Entrepreneurial Network Initiative
00-16(H) Northern Tier Pennsylvania RPDC Administrative Grant
00-17(H) New York State Technical Assistance
00-20(H) Kentucky Regional Diabetes Healthcare Delivery in Appalachia
00-21(H) Tennessee Technical Assistance
00-22(H) Clay County, Tennessee, Industrial Project
00-23(H) Southwest Virginia Higher Education Center
00-24(H) Appalachian Rural Systemic Initiative, Kentucky
00-25(H) Dental Care, Cumberland Plateau Health District, Virginia
00-29(H) Carraway Life Saver Program, Alabama
00-31(H) Alabama J-1 Followup Visits

These reviews generally disclosed that grant funds were accounted for, controls were in place, and project tasks were completed.

Report 00-15(H), Team Pennsylvania Entrepreneurial Network Initiative, contains several open issues with respect to a small claim for costs incurred prior to grant start; \$3,185 in unsupported matching costs; and subrecipient monitoring.

Report 00-20(H), Regional Diabetes Healthcare Delivery in Appalachia, questions \$12,247 in personnel costs incurred outside the grant period. Report 00-21(H), Tennessee Technical Assistance recommends improved identification of performance measures and results.

Several reports are awaiting auditee comments with a primary issue noted in these reports being limited grantee oversight or monitoring of subrecipients or subcontractors with the result being difficulty to assess whether the activities performed were commensurate with the costs incurred.

Handwritten signature of Hubert N. Sparks, Inspector General

Enclosures

cc: Ms. Judy Rae

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Alabama Georgia Kentucky Maryland Mississippi New York North Carolina Ohio Pennsylvania South Carolina Tennessee Virginia West Virginia

**Final Report
On**

**GRANT AGREEMENT EXPENDITURES AUDIT
Grants NY-7776-C18 and NY-7776-C19
New York State Department of State
Albany, New York**

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

Report Number 00-17(H)

Prepared by

**Leon Snead & Company, P.C.
January 10, 2000**

BACKGROUND AND OBJECTIVES

The Appalachian Regional Commission (ARC) awarded grants NY-7776-C18 and NY-7776-C19 to the New York State Department of State in Albany, New York to conduct two projects, both entitled, "Consolidated Technical Assistance". Grant NY-7776-C18 was for the period from October 1, 1997 through September 30, 1998 in the amount of \$220,000. Grant NY-7776-C19 was for the period from October 1, 1998 through September 30, 1999 in the amount of \$230,000. These grants were awarded to provide funds for technical assistance for project development, monitoring, planning, and program development by the New York State Department of State and the New York State Education Department. These projects were to be carried out in accordance with proposals submitted by the grantee to ARC on July 8, 1997 and July 13, 1998, respectively.

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 conducting an audit of the expenditures reported to the ARC under grants NY-7776-C18 and NY-7776-C19. The objective of our audit was to determine whether the reported expenditures were allowable, allocable, and reasonable.

SCOPE AND METHODOLOGY

The provisions of the grant agreements, Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments", OMB Circular A-102, "Grants and Cooperative Agreements with State and Local Governments", and the ARC Code were used as the basis for determining allowable costs and compliance requirements. We performed our audit in accordance with *Government Auditing Standards*, 1994 version, as amended, issued by the Comptroller General of the United States.

Our audit scope covered the entire grant period for grant NY-7776-C18 and the first six months of the grant period for grant NY-7776-C19. We reviewed documentary support for reported grant NY-7776-C18 and grant NY-7776-C19 expenditures for the periods covered by our audit scope. We performed selected audit tests as necessary to determine whether the expenditures charged to the grants were allowable, allocable, and reasonable.

We visited the grantee's offices in Albany, New York during the period August 16 - 18, 1999. At our request, the grantee later retrieved and forwarded to our office some documentation from archives that was not available during our site visit. We completed our review of this documentation on September 10, 1999. On December 21, 1999, the grantee submitted comments and additional documentation in response to our draft report. We completed our review of this additional documentation on January 10, 2000.

We reviewed various grantee reports, examined records, and held discussions with grantee officials in Albany, New York as necessary to achieve the audit objective. We reviewed and selectively tested the documentary support for personnel, fringe benefits, and indirect charges allocated to the grants. We reviewed personnel costs shown on 23 of 62 (37%) employee time sheets, leave distribution charges, and personnel charges charged to grant NY-7776-C18 for the first payroll period. We

reviewed personnel costs shown on 11 of 26 (42.3%) employee time sheets and leave distribution charges for grant NY-7776-C19. We reviewed the grantee's records and support for grant fringe benefits charges and indirect rates and allocated indirect charges and compared them to amounts reported to ARC as shown on grant NY-7776-C18 Final Report.

We also selectively reviewed and tested contractual, travel and other costs allocated to grant NY-7776-C18. We reviewed support for the total \$20,000 (100%) in contractual costs reported to ARC on the grant NY-7776-C18 Final Report. We reviewed the documentary support for 7 travel charges totaling \$2,631, or 20% of the total \$12,818 travel charges claimed. We also reviewed support for 3 other charges totaling \$5,216, or 65% of the total \$7,988 other charges claimed.

AUDIT RESULTS

We found that the expenditures charged to grant NY-7776-C19 for the first six months of the grant period of October 1, 1998 through September 30, 1999 were allowable, allocable, and reasonable. In addition, we found that the expenditures charged to grant NY-7776-C18 for the entire grant period of October 1, 1997 through September 30, 1998 were allowable, allocable, and reasonable, except for the following questioned cost.

Questioned Cost - Payroll

Condition

The grantee charged \$977 to grant NY-7776-C18 for payroll costs incurred from September 18 - 30, 1997, prior to the inception of the grant period which started on October 1, 1997.

Criteria

The grant agreement for grant NY-7776-C18 states that "the grant period of performance shall be October 1, 1997 through September 30, 1998."

Discussion

The grantee charged \$1,143 in labor charges to the grant for work performed by one employee during the period from September 18, 1997 through October 1, 1997. However, of this amount, only \$166 was for labor performed during the grant performance period, which began on October 1, 1997.

The grantee stated that the total \$1,143 was charged to the grant because the total was paid, although not incurred, during the grant performance period. However, the grant period is for performance, not payment. In addition, we noted that the grantee claimed numerous charges paid after the close of the grant period but incurred during the grant period. So, the grantee is clearly not claiming grant charges on a cash basis. In fact, in one noteworthy example, the grantee's support for computer equipment charged to the grant was a purchase

order dated September 17, 1998 even though the vendor invoice showed a purchase order date of October 15, 1998 and was paid after the grant performance period closed on September 30, 1998.

Recommendation

ARC should question payroll costs in the amount of \$977 charged to grant NY-7776-C18.

Grantee's Comments

The amount of \$977 questioned is for payroll costs incurred during the normal two week New York State payroll period of September 18, 1997 through October 1, 1997. This questioned payroll cost was charged to the 1997 ARC grant (NY-7776-C18) and not to the 1996 ARC grant. For efficiency and consistency, in a recurring grant, generally individual payroll charges during a two week period incurred near the end of a grant award where a new grant award period immediately follows, expenditures are not always prorated proportionally between the two grant awards.

It would appear that these costs would fall into the category of "pre-award cost" as defined on page 29, section 32 of OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. "Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency." The program analyst whose salary was charged for this two week period to the 1997 ARC grant is one of the two New York State Department of State staff members whose time has been charged directly to an ARC grant for some period of time, including the 1996 ARC grant, and whose time continues to be charged to the current ARC grant. We request that ARC take that into consideration and grant written approval of this payroll charge that would have been an allowable charge to either ARC grant period.

Auditor's Response

We do not agree with the grantee's conclusions. We noted the grantee states expenditures were not always prorated proportionately between grant periods "for efficiency and consistency." This indicates the grantee knew that payroll period costs which spanned two different grant years should have been allocated to the proper grant years, but chose not to make these allocations. Also, the questioned payroll costs do not meet the definition of "pre-award costs", nor is it true that the costs "would have been an allowable charge to either ARC grant period." Paragraph 6 on page 2 of the ARC Contract Number: NY-7776-C18 Grant Agreement explicitly states "the grant period of performance shall be October 1, 1997 through September 30, 1998." This clearly shows that expenditures made before October 1, 1997 are not allowable as Contract Number NY-7776-C18 expenditures. We recommend

ARC deny the grantee's request for written approval of the questioned \$977 payroll charge for the reasons stated above.

GRANTEE'S COMMENTS ON THE DRAFT REPORT

On December 21, 1999, the grantee submitted comments and additional documentation in response to our draft report. The additional documentation included copies of four employee time sheets and four packages containing 53 pages of documentation to support \$2,296 travel costs that we had questioned in our draft report. We found the additional information furnished by the grantee adequate to support the \$2,296 travel costs that we had originally questioned, and we have removed the finding from this final report.

The grantee's comments also included a response to our draft finding on questioned payroll costs. We have considered these comments and provided our response in the "Audit Results" section of this final report.

The full text, excluding documentation, of the grantee's comments on our draft report are shown as an attachment to this final report.

CONCLUSION

Based on the results of our audit, in our opinion, \$198,994 of the \$199,971 expenditures reported to the ARC for grant NY-7776-C18 are allowable, allocable and reasonable and should be accepted by the ARC and the \$977 in payroll costs incurred before the start of the grant expenditure period should be disallowed.

Also, based on the results of our audit, in our opinion, the expenditures reported to the ARC for grant NY-7776-C19 for the period from October 1, 1998 through March 31, 1999, the first 6 months of the performance period, are 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 record and its distribution is not limited.

Leon Snead & Company, P.C.

LEON SNEAD & COMPANY, P.C.

January 10, 2000



STATE OF NEW YORK
DEPARTMENT OF STATE
ALBANY, NY 12231-0001

ALEXANDER F. TREADWELL
SECRETARY OF STATE

December 21, 1999

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

RE: Draft Report on Grant Agreement Expenditures Audit
Grants NY-7776-C-18 and NY-7776-C19
Appalachian Regional Commission

Dear Ms. Stowe:

Enclosed please find a memorandum detailing this Department's comments on the above-cited draft report, with attached supporting documentation. This response was prepared by the Bureau of Fiscal Management to address the issues raised in the draft report. We trust that this response is satisfactory and will be incorporated appropriately into the final report.

Thank you for the opportunity to comment. If you have any questions, please contact me at (518) 473-3694.

Sincerely,


Karl R. Horstmann
ARC Unit Manager

cc: Keith Stack
John Bartow
Kimberly Landry

DEPARTMENT OF STATE
Bureau of Fiscal Management

M E M O R A N D U M

TO: Karl Horstmann
Division of Local Government

FROM: Kym Landry 
Director, Financial Administration

SUBJECT: Draft Report on Grant Expenditures Audit
Grants NY-7776-C18 and NY-7776-C19
Appalacian Regional Commission

DATE: December 21, 1999

We have reviewed the subject draft report and are providing comments herein.

(1) Questioned Costs - Payroll

The amount of \$977 being questioned is for payroll costs incurred during the normal two week NYS payroll period of 9/18/97 - 10/1/97. This questioned payroll cost was charged to the 1997 ARC grant(NY-7776-C18) and not to the 1996 ARC grant. For efficiency and consistency, in a recurring grant, generally individual payroll charges during a two week period incurred near the end of a grant award where a new grant award period immediately follows, expenditures are not always prorated proportionally between the two grant awards.

It would appear that these costs would fall into the category of "pre-award cost" as defined on page 29, section 32 of OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. "Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency." The program analyst(Regina Daly) whose salary was charged for this two week period to the 1997 ARC grant has been one of the two DOS staff members directly charged to an ARC grant for some period of time including the 1996 ARC grant and continues to be charged to the current ARC grant. We request that ARC take that into consideration and grant written approval of this payroll charge that would have been an allowable charge to either ARC grant period.

Karl Horstman
December 21, 1999
Page 2

(2) Questioned Costs - Travel

The seven travel charges totaling \$2,631 referenced in the draft audit were for the following travel dates: 2/22/98 - 2/23/98, 4/23/98 - 4/24/98, 5/19/98 - 5/20/98, and 11/18/98 - 11/20/98. These expenditures were questioned with regard to a) whether the individual travelers had documented ARC time spent during the travel times referenced and b) whether adequate documentation exists with regard to the allowability of the travel. The following documentation is being submitted:

a) Time sheets inclusive of the above referenced dates of travel are being provided for the following employees for the payroll periods noted: Roger Swanson, 4/16/98 - 4/29/98, 11/12/98 - 11/25/98, 2/19/98 - 3/4/98 and John Bartow, 5/14/98 - 5/27/98. In all instances, these individuals charged time to ARC for the travel dates of the questioned costs as noted on these time sheets. However, if the auditor reviewed our database where time accounting records are compiled, these individuals are charged to a cost category called ARC Match. These individuals work on this grant periodically and are charged to state dollars while working on the grant because their personal service charges are used as match for this ARC grant. This is documented both on the individual time sheets and in our database.

b) Supporting documentation which includes individual travel vouchers, justification for travel, and other supporting documents are provided herein. The original documents requested by the auditor were for payment to vendors for transportation, parking and lodging relative to each individual's travel. The actual individual travel vouchers were not attached to these vendor vouchers. Supporting documents relative to the purpose of the travel and prior approval of the travel are generally attached to the individual's travel voucher. As noted in the attached documentation the purpose of each trip is as follows: 1) 2/22/98 - 2/23/98: ARC's Governors' Quorum meeting, 2) 4/23/98 - 4/24/98: ARC meeting, 3) 5/19/98 - 5/20/98: ARC two day workshop for state program managers, and d) 11/18/98 - 11/20/98: Export Trade Advisory Council meeting (this is an advisory committee to the ARC).

KAL:thl
Attachment
c: T. Luse



June 29, 2000

Mr. Keith Stack
Assistant Secretary of State
New York State Department of State
41 State Street
Albany, NY 12231

re: OIG Report 00-17(H), ARC Grant NY-7776

Dear Mr. Stack:

In reviewing our files, I only noted an unsigned transmittal letter dated March 22, 2000; and, thus, I am not sure if we ever sent you the final report. As noted, one item dealing with the charging of \$977 remains open; and this issue should be resolved with ARC program staff.

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

The courtesies and cooperation afforded the auditor were appreciated.

Sincerely,

A handwritten signature in cursive script that reads "Hubert N. Sparks".

Hubert N. Sparks
Inspector General

Enclosure