



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.

Hubert N. Sparks
Inspector General

Enclosures

cc: Ms. Judy Rae

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



APPALACHIAN
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*A Proud Past,
A New Vision*

Office of the Inspector General

March 22, 2000

Ms. Rachel Fowlkes
Executive Director
Southwest Virginia Higher
Education Center
P. O. Box 1987
Abingdon, VA 24212-1987

re: OIG Report 00-23(H), Grant VA-12408


Dear Ms. Fowlkes:

Enclosed is a copy of our final report dealing with a grant for a higher education center. The work was performed by an auditor with Leon Snead and Company, P.C., under contract with my office.

We consider the report closed; and a copy of the report is being provided to the Federal Co-Chairman, ARC Executive Director, and Virginia State Alternate.

The courtesies and cooperation afforded the auditor were appreciated.

Sincerely,


Hubert N. Sparks
Inspector General

Enclosure



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Office of the Inspector General

March 22, 2000

Mr. Todd Christensen, Associate Director
Project Management Office
Jackson Center
501 – 2nd Street, North
Richmond, VA 23219-1321

re: OIG Report 00-23(H), Grant VA-12408

Dear Mr. Christensen:

Enclosed is a copy of the report dealing with the Southwest Virginia Higher Education Center.

Sincerely,


Hubert N. Sparks
Inspector General

Enclosure

**Final Report
On**

**GRANT AGREEMENT EXPENDITURES AUDIT
Grant VA-12408-96
Southwest Virginia Higher Education Center (HEC)
Abingdon, Virginia**

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

Report No. 00-23(H)

Prepared by

**Leon Snead & Company, P. C.
January 28, 2000**

BACKGROUND AND OBJECTIVE

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.

On September 30, 1996 the ARC awarded Grant VA-12408-96 to the Southwest Virginia Higher Education Center (HEC). The grant agreement called for the ARC to contribute up to \$500,000 (approximately 25.2%) towards the estimated total project costs of \$1,985,510. The remaining \$1,485,910 was to come from the Commonwealth of Virginia which was to contribute \$1,416,965 (71.3%) and local sources which were to contribute \$68,945 (3.5%).

The purpose of the grant was to provide funds to help HEC construct a Regional Training and Conference Complex. The complex was to be used to reinforce the link between education and economic development by hosting continuing and specialized training for the region's work force and the adult population. The complex was to consist of a 2,088 square-foot tiered interactive classroom equipped with a ceiling projector and work stations which could accommodate up to 110 persons and a 12,744 square-foot multi-purpose conference hall which could accommodate groups of up to 1,500 persons. The ARC funding was necessary because the total cost of the conference complex exceeded the amount of state and local funding available.

Three separate entities were involved with this construction project. The actual construction took place in Abingdon, Virginia and most of the historical records involving the project construction, plus copies of the University of Virginia's financial reports, were maintained at the grantee's offices in the HEC. The U.S. Department of Agriculture (USDA) office in Lebanon, Virginia administered the grant on ARC's behalf. Construction information and records of ARC grant fund payouts were maintained by the USDA office in Lebanon. Project oversight and all of the detailed financial information was maintained at the University of Virginia in Charlottesville, Virginia.

A brief recap of the flow of financial events involving this project, obtained from both grantee records and USDA records in Lebanon is as follows:

- The original University of Virginia construction cost estimate was \$7,971,509.
- The low bid received for construction was \$9,572,205.
- Commonwealth of Virginia funding for this project consisted of \$9,900,000 in Fund 0811 general obligation bonds and \$160,000 in Fund 0100 general funds.
- The revised project budget, which excluded ARC funding, was as follows:

Original construction low bid	\$ 9,572,205
<u>Less:</u> Value of project items deleted	<u>(1,128,201)</u>
Final construction project amount	\$ 8,444,004
<u>Add:</u> Architect/Engineer fees	560,000
Project inspection costs	154,000
Equipment costs	138,631
Other miscellaneous costs	417,000
Construction contingency	<u>346,365</u>
Total project budget	\$10,060,000
<u>Add:</u> Change Orders not included in budget	<u>894,712</u>
Total project funding required, as built	<u>\$10,954,712</u>

The \$500,000 in ARC funding provided was used as follows:

Change Order No. 2 – Interactive classroom footings	\$ 51,741
Change Order No. 9 - Interactive classroom construction	403,495
Applied towards conference hall construction costs	<u>44,764</u>
Total	<u>\$ 500,000</u>

The ARC grant was administered by the USDA office in Lebanon, Virginia. This office disbursed the ARC grant funds as follows:

Payment made November 25, 1997 to project prime contractor	\$ 315,734
Payment made June 12, 1998 to project prime contractor	<u>184,266</u>
Total ARC grant fund disbursements made	<u>\$ 500,000</u>

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 grant expenditures reported to the ARC for the period October 1, 1996 through March 31, 1999. The objective of our audit was to determine whether the reported grant expenditures were allowable, allocable, and reasonable.

SCOPE AND METHODOLOGY

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 that 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. This audit was 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 visited the grantee’s office in Abingdon, Virginia during the period January 25 through January 26, 2000. We also visited the USDA office in Lebanon, Virginia on January 27, 2000. We reviewed all of the available project construction and ARC grants disbursements documentary support for this project maintained at the grantee’s office in Abingdon, Virginia and at the USDA office in Lebanon, Virginia for the period October 1, 1996 through March 31, 1999. We also reviewed the University of Virginia’s prepared financial reports summarizing project expenditures made with Commonwealth of Virginia, ARC, and local matching funds. We also toured the HEC facility to confirm that the portion of the construction project funded by ARC had actually been built. We performed tests as necessary to determine if the expenditures charged to ARC Grant VA-12408-96 were allowable, allocable, and reasonable. Specifically we performed the following procedures.

- We discussed the grant expenditure process and internal controls with Southwest Virginia Higher Education Center officials.
- We obtained and reviewed copies of the University of Virginia’s independent auditor’s reports for fiscal years 1997 through 1999. Copies of audit reports issued by the Commonwealth of Virginia were not available in either Abingdon or Lebanon. The University of Virginia’s independent auditor’s reports did not contain any references to the HEC construction project in Abingdon.
- We summarized all of the grantee’s reported progress payments made to the construction contractor for the period October 1996 through September 1999.

RESULTS

We found that the \$500,000 in ARC funds had been expended for the purposes called for in the grant agreement and that the Commonwealth of Virginia and local grant expenditure match requirements had been met. Letters were on file supporting the local grant match funds pledged. These funds appeared as having been received in the supporting University of Virginia project financial report. The University of Virginia's financial report for this project (Account IM090) showed that as of January 20, 2000 the Commonwealth of Virginia had expended \$9,830,169 in funds raised by issuing general obligation bonds on this project. Part (\$1,416,965) of these bond expenditures was counted towards the required ARC grant funds match.

CONCLUSION

Based on the results of our audit, in our opinion, all of the \$500,000 in expenditures reported to the ARC for Grant VA-12408-96 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 28, 2000