



Date: January 22, 2001
To: Hubert N. Sparks
Inspector General
RE: OIG Report 00-40(H), Randolph County Wood Technology Center, ARC
Grant WV-12696

Your letter of October 5, 2000 to Bekki Leigh, Randolph County Development Authority and Project Director, Region VII Planning and Development Council, addressed a number of issues arising from an audit of the above referenced grant. Specifically, funds expended subsequent to the grant period and approval of expenditures in excess of budgeted amounts were of major concern.

After a review of the issues by staff, it has been determined that the grantee was acting in good faith and within the parameters of the grant when reimbursing personnel costs and moving funds among budget categories. One remedy recommended by staff and concurred in by the State of West Virginia was a retroactive budget period extension through March 31, 2000. West Virginia formally requested this remedy in a letter to the Commission dated January 19, 2001.

A letter has been sent to the grantee retroactively extending the grant through March 31, 2000.

This grant has been closed out and a final payment was made on May 6, 1999.

Thomas M. Hunter
Executive Director

**Final Independent Accountant's Report on
Applying Agreed Upon Procedures to
Grant Agreement Expenditures
Grant WV-12696-97
Randolph County Development Authority
Elkins, West Virginia**



**LEON SNEAD
& COMPANY, P.C.**

*Certified Public Accountants
& Management Consultants*

**Final Independent Accountant's Report on
Applying Agreed Upon Procedures to
Grant Agreement Expenditures
Grant WV-12696-97
Randolph County Development Authority
Elkins, West Virginia**

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

Report No. 00-40 (H)

April 11, 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.

The Appalachian Regional Commission (ARC) awarded Grant WV-12696-97 to the Randolph County Development Authority (RCDA) to provide funds to expand training and services offered at the Wood Technology Center in Elkins, West Virginia. Training was to be done in the areas of sawmill, kiln operation, and laser technology. Equipment to be purchased with the grant funds included a dry kiln, CO2 laser/engraver, small portable sawmill and computer upgrades (B-sized plotter, silicon graphics work station, and software upgrades). Funding was also provided to hire an Outreach Technician.

Grant Agreement WV-12696-97 was amended only once after it was signed in July, 1997. The amendment, approved April 20, 1999, extended the grant period of performance from July 1, 1997 through December 31, 1998 to July 1, 1997 through March 31, 1999. The amendment also stated that it involved no additional ARC funds and all other terms and conditions remain in full force and effect. The Grant Agreement called for ARC to contribute up to \$227,500 (76.3%) towards actual, reasonable, and eligible total project costs. The grantee was to pay, or cause to be paid, the non-ARC share of \$70,500 (23.7%) in cash, contributed services, or in-kind contributions, as approved by ARC.

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 July 1, 1997 through March 31, 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 1998 (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 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 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.

We noted that as of April 11, 2000 the grantee had expended \$223,780 in ARC funds on fixed assets (dry kiln and boiler, laser engraver/cutter, computer upgrades and a full sized sawmill), travel, and outreach technician salary and benefits. The grantee still had \$3,720 in unexpended grant funds on hand as of this date. The grantee also reported matching the ARC funds with \$70,473 in state grant matching expenditures.

We reviewed the documentary support for 42 (37.5%) of the 112 ARC grant expenditure transactions shown in the grantee's RCDA Transaction Detail By Account - All Transactions listing which was prepared on April 10, 2000. We selected 36 of the 37 expenditure transactions which were for \$500 or more, and 6 of the 75 transactions under

\$500, for review. Overall, we reviewed the documentary support for \$210,798 (94.2%) of the total \$223,780 in grant fund expenditures made as of the date of our field work. This excluded the grant residual balance of \$3,720 which the grantee planned to apply towards a recently received North Central Regional Education Service Agency (RESA) invoice for the outreach technician's salary and benefits for the period January 1 through March 31, 2000. We also inventoried the fixed assets identified in the paragraph above to verify their existence and to determine if they were being utilized. In addition, we reviewed the documentary support for state grant matching transactions to determine if the required grant match had been provided. We also reviewed the grantee's Drug-Free Workplace procedures and assured they were posted in prominent locations in the grantee's workplace.

We visited the West Virginia Wood Technology Center (WVWTC) offices in Elkins, West Virginia on April 10-11, 2000.

Specifically we performed the following procedures:

- We inventoried all of the fixed assets at the WVWTC, which were purchased with ARC Grant Number WV-12696-97 funds.
- We discussed the grant expenditure process and internal controls with WVWTC officials.
- We reviewed the detail support for \$210,798 (94.2%) of the reported \$223,780 in expenditures charged to ARC Grant WV-12696-97 between July 1, 1997 (the grant period of performance starting date) and April 11, 2000 (the date the audit fieldwork was completed) and tied the grant expenditures in with the supporting vendor invoices, payment checks, and other supporting documents.
- We reviewed the detail support for \$69,712 of the reported \$70,473 (98.9%) in reported grantee and state grant matching expenditures.
- We compared the grant expenditures made with the approved project budget to determine if grant funds were spent only on items which were included in the original project budget, and if ARC approval had been requested and obtained for any items not included in the original project budget or where the expenditure for any major (over \$5,000) budget line item was expected to exceed the ARC approved budgeted amount by more than 10%.
- Finally, we obtained and reviewed the grantee's Drug-Free Workplace Policy and assured that it was posted in prominent locations in the grantee's workplace.

RESULTS

We noted the following exceptions:

1) *Post-Period of Performance Grant Fund Expenditures*

Condition

The grantee expended \$23,985 in grant funds on outreach technician salaries and fringe benefits and \$700 on other items after the grant period of performance ended March 31, 1999. The grantee also had \$3,720 in unexpended grant funds on hand as of the time of our visit, which it planned to apply towards outreach technician salaries and fringe benefits for services rendered between January 1 and March 31, 2000.

Criteria

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

Discussion

We noted that the grantee expended \$23,985 in ARC grant funds on outreach technician salaries and fringe benefits for services rendered between April 1 and December 31, 1999. The grant period of performance ended March 31, 1999. We also noted a \$700 payment made June 3, 1999 for purchases billed to the grantee on May 3, 1999. This payment was supported only by a canceled check and a copy of a monthly statement, dated May 31, 1999, which referenced the vendor invoice number and date. The grantee contacted the vendor to try to obtain further information concerning this transaction. However, the vendor was unable to furnish the grantee with a copy of the referenced vendor invoice. Finally, we noted the grantee still had \$3,720 in unexpended grant funds on hand as of April 11, 2000. Grantee personnel stated they planned to apply this balance towards outreach technician salaries and fringe benefits for services rendered between January 1 and March 31, 2000.

Grantee personnel indicated that the grantee's Executive Director had requested, in the next to last paragraph of the Final Progress Report which was dated March 15, 1999 and sent to the ARC Project Coordinator, that "the remaining funds within this (the outreach technician salaries and benefits) line item be downloaded and placed in a non-interest bearing account so as to cover the remaining portion of his (the outreach technician's) term of employment." The grantee could not provide documentation showing where ARC had approved the grantee's request. Grant Amendment Number 1, which was approved five weeks after the grantee's request,

and which would have been the proper vehicle to use for approving the grantee's request, stated in part that "this amendment involves no additional ARC funds and all other terms and conditions remain in full force and effect."

All grantee requests for changes in either the ARC approved project budget or in the grant period of performance should be made in writing. The requests should be submitted to the ARC as soon as possible so the grantee has time to take alternative actions before the end of the grant expenditure period should ARC not approve the requested changes. The grantee's request narrative should provide sufficient detail concerning the requested change so that the ARC can objectively evaluate the merits of the grantee's request.

Recommendations

- (1) The \$24,685 in grant fund expenditures made between April 1 and December 1, 1999 should be disallowed.
- (2) The \$3,720 in grant funds unexpended as of April 11, 2000 should be returned to the ARC.

Grantee's Comments

We dispute the recommendation that \$24,685 in grant funding should be disallowed due to an outstanding obligation for personnel costs to RESA VII. I felt it would be improper to pay this obligation until we have been officially invoiced for these costs. This was the only way that we could provide a documented paperwork trail that would show that the money was spent appropriately. On March 15, 1999, we requested as a part of our final report to ARC that we be allowed to hold this money in a special account to pay for personnel costs. As we were able to make a final draw down on the unexpended grant funds on May 7, 1999, well after the grant expiration date, we concluded that the request was approved.

Find attached an invoice from the Reckart Equipment Company that shows an expenditure of \$700 for sawmill equipment. This is the invoice that we were unable to produce to the independent accountants during their field work. This invoice is dated after the grant expiration date because the equipment covered by this invoice was contracted for prior to the grant expiration but was not delivered until May 26, 1999. The copy of this invoice will also verify that the money was spent in accordance with grant requirements.

Accountant's Response

The \$23,985 in personnel costs questioned were for services rendered during the period April 1 through December 31, 1999, which was after the expiration of the grant period of performance. The \$700 invoice for sawmill equipment dated May 3, 1999, provided by the grantee does not show that the equipment covered by this

invoice was contracted for prior to the grant expiration. Also the fact that the grantee was able to draw funds after the grant expiration does not mean that ARC had approved the grantee's request. Therefore, our recommendations still stand.

2) *Line Item Budget*

Condition

The Grantee exceeded the approved grant budget dollar amount for one line item by \$8,102 or 17.2%.

Criteria

To be considered as allowable grant costs, the grantee must generally obtain advance approval from the ARC to exceed an approved grant line item budget dollar amount by more than 10%.

Discussion

The ARC approved budget for the portable sawmill line item was originally \$35,000. However, in March 1998 the ARC Project Coordinator approved a \$12,000 increase in the approved budget for this line item, increasing the approved budget amount to \$47,000. The grantee's RCDA Transaction Detail By Account - All Transactions report, dated April 10, 2000 showed the grantee had expended \$55,102 in ARC grant funds on this budget line item. There was no indication the grantee had requested or obtained advance approval from ARC to exceed the revised budgeted amount. The \$55,102 expended exceeds \$51,700, the revised budget line item of \$47,000 plus 10%, by \$3,402.

Recommendation

The ARC should disallow the \$3,402 for ARC Grant WV-12696-97 which exceeds the approved ARC revised budget dollar amount for this budget line item by more than 10%.

Grantee's Comments

Ms. Bekki Leigh, Project Director, Region 7 Planning & Development Council advised us that 10% of budget line items could be moved to other line items. In no case did we transfer more than 10% of any line item without prior written approval. This is supported by documentation provided independent accountants.

Accountant's Response

It remains our opinion that the ARC should disallow the \$3,402 which exceeds the approved ARC revised budget dollar amount for this budget line item by more than 10%.

3) *Changes in Line Item Scope*

Condition

The grantee's request to move grant funds from one budget line item to another and to make major changes in the scope of the sawmill line item did not clearly show what specific changes the grantee wished to make. The ARC Project Coordinator approved the grantee's request to move ARC money between the budget line items, but did not mention the word "sawmill" or indicate the types of items the moved ARC grant funds could be used for.

Criteria

A change-in-scope may not be implemented without prior written approval from the ARC and the Basic Federal Agency. A change-in-scope is any change to the project design, capacity of the system, size of project, the number and/or type of customers served or equipment purchased.

Discussion

The grantee wished to make a major change in the type of sawmill it wished to acquire with the ARC grant funds. The authorized sawmill was a new Woodland Model PRO4000 18' or comparable. The specifications of this mill were that it have: 1) a 24.5 HP gasoline motor; 2) trailer package, extra head block, extra taper cylinder, set tools, band saw grinder, computerized set works, and extra band saw blades.

What the grantee actually purchased with the ARC grant funds, were the used major components of a full-sized sawmill (e.g. the carriage, tracks, and sawyer's cab). The grantee later had these components refurbished and installed on a permanent foundation with a covered shed type roof. Per grantee personnel, they expect to have the sawmill operational 2001. The sawmill, in its present form, still needs: 1) a log loading system to allow logs to be offloaded from trucks or rail cars and "fed" to the sawmill carriage; 2) a motor (the grantee plans to obtain and install a large electric motor to power the mill); 3) a cut-off saw for cutting up slab wood and trimming the rough cut lumber; 4) slab wood and sawdust disposal systems; and 5) dock facilities for loading the rough cut lumber onto trucks or rail cars, to get it out of the way to make room for more rough cut lumber.

There are significant differences between a portable sawmill and a full-sized sawmill. First, a portable mill is generally mounted either on a truck chassis or on a trailer and is driven or towed from place to place. Portable mills are used to process small stands of timber which cannot be economically cut and transported to a full-sized sawmill for processing. Instead, a portable mill is moved to the timber's location and the logs from the nearby forest are cut and brought to the portable sawmill. The portable mill then cuts these logs into rough cut lumber. When the supply of logs is exhausted the portable mill is moved to another location where the cycle is repeated. Also any sawdust, slabwood or other waste products generated during the cutting cycle are generally left at the abandoned mill site. By comparison, a full-sized sawmill is considerably larger than a portable mill, and is permanently mounted at one site. The logs to be processed are generally delivered to it by truck, rail, or river. The rough cut lumber is generally shipped from the mill by truck or rail for further processing (e.g. drying and planing) before it can be sold. A full-sized sawmill can also process larger sized logs than a portable sawmill, and can process them faster. Finally, a full-sized sawmill requires sawdust and slabwood disposal facilities since these byproducts cannot be abandoned on site.

The grantee's request to the ARC Project Coordinator stated that *"Due to competitive bidding and a decrease in the cost of the technology, we have an unencumbered amount of \$12,000 left over in our laser engraver line item. This would provide the opportunity to purchase a better mill that would enhance the training at the facility. We would also use some of this money to provide concrete pad, electrical service and other infrastructure for the mill."*

The ARC Project Coordinator's response to the grantee's request was *"Please be advised that your request to move ARC money between line items in the above referenced project as described in your letter of March 18, 1998 is hereby approved."*

The changes-in-scope requested by the grantee were major changes in the project design, the capacity of the system, the size of the project, and the type of equipment to be purchased. The grantee should have specified in its request the specific changes it wished to make in the sawmill line item, the estimated cost of these changes, and the impact these changes would have on both the line item's cost and its availability for use. The Project Coordinator needed this information in order to make an informed decision as to whether or not to approve the grantee's request. Had the Project Coordinator been informed that the requested changes would most likely double the cost of the sawmill, and could delay its being put into operation until 2001 or later, it may have impacted his decision to approve the grantee's request.

Recommendations

The ARC should advise the grantee that any requested change to the grant agreement which involves a change-in-scope must clearly describe in detail the specific changes

requested, the estimated cost of the changes, and any time delays the changes may cause.

Grantee's Comments

The Grantee understands that in the future a more detailed description of equipment to be purchased needs to be submitted. We regret that we did not provide this information and certify that these procedures and the other recommendations provided by the independent accountants will be followed with any ARC funding in the future.

Accountant's Response

Noted.

CONCLUSION

Based on the results of our agreed upon procedures, in our opinion \$195,693 of the \$227,500 in grant fund expenditures incurred between July 1, 1997 and March 31, 1999 which were charged to the ARC for Grant WV-12696-97 were allowable, allocable and reasonable and should be accepted by the ARC. The exceptions consisted of \$3,402 in unapproved costs which exceeded the grant budget, \$23,985 for services rendered after the expiration of the grant expenditure period, \$700 for equipment purchased after the expiration of the grant expenditure period, and \$3,720 in unexpended ARC grant funds on hand after the grant expenditure period ended.

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.

April 11, 2000

GRANTEE'S COMMENTS



Randolph County Development Authority
West Virginia Wood Technology Center
10 Eleventh Street
Elkins, West Virginia 26241
(304) 637-0803 • Fax (304) 637-4902
<http://www.wvcb.com/www/RCDA>
E-mail: redawtc@access.mountain.net

September 15, 2000

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

Ref: Grant WV-12696-97

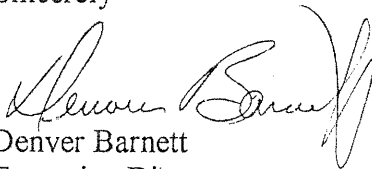
Dear Ms. Stowe

Enclosed please find as an attachment our comments for the above referenced grant. Also find enclosed a copy of an invoice from Reckart Equipment Company, Inc.

I hope that the information contained herein resolves any outstanding issues regarding ARC grant expenditures by our organization.

If you require additional details, please let me know.

Sincerely


Denver Barnett
Executive Director

DB:nlb

C: Ed Schantin

**GRANT AGREEMENT EXPENDITURES AUDIT
GRANT WV-12696-97
RANDOLPH COUNTY DEVELOPMENT AUTHORITY
ELKINS, WV**

Page 5, (1) Grantee/ARC Comments:

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Page 9, Grantee/ARC Comments:

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Reckart Equipment Company Inc.
Rt. 219 South
P.O. Box 216
Beverly, WV 26253

WV INVOICE WVF019273

Date 5/3/99
Page: 1
Master No. 52,948

Bill To: 4664
WV WOOD TECHNOLOGY CENTER
10 ELEVENTH STREET

Ship To:
WV WOOD TECHNOLOGY CENTER
10 ELEVENTH STREET

ELKINS WV 26241
(304) 637-0803 Ext. 0000

ELKINS WV 26241

Salesperson ID: 17
Purchase Order No.

Shipping Method
VIA - WILLIS V.

Payment Terms
10TH OF FOLLOWING MO

Class Ordered	Shipped	Item Number	Description	Unit Price	Ext. Price
1	1	USED HEAD RIG SAW F56X52 (USED)		700.00000	\$700.00

Post-It[™] brand fax transmittal memo 7671 # of pages >

To: **JIM**

Co.:

Dept.:

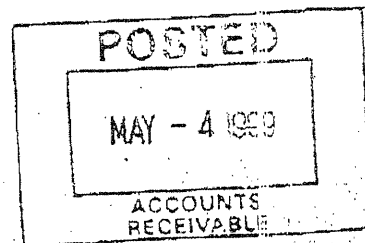
Fax #:

From:

Co.:

Phone #:

Fax #:



THANK YOU FOR YOUR ORDER

Subtotal	400.112	\$700.00
Misc		\$0.00
Tax		\$0.00
Freight		\$0.00
Trade Discount		\$0.00
Total		\$700.00