



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

*Certified Public Accountants
& Management Consultants*

416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
fax: 301-738-8210
leonsnead.companypc@erols.com

March 27, 2002

Mr. Hubert N. Sparks
Inspector General
Appalachian Regional Commission
1666 Connecticut Avenue, NW Suite 215
Washington, DC 20009-1068

Subject: Final Report
Grant WV-12740
Marshall University Research Corporation
Huntington, West Virginia

Dear Mr. Sparks:

Enclosed is the subject final report, one unbound original and two bound copies. If you have any questions, please call me at (301) 738-8190.

Sincerely,

Alexis M. Stowe
Vice President

Enclosures

**Final Independent Accountants' Report on
Applying Agreed Upon Procedures to
Grant Agreement Expenditures**

Grant WV-12740

**Marshall University Research Corporation (MURC)
Huntington, West Virginia**

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

Report No. 02-17 (H)

**Prepared by
Leon Snead & Company, P.C.
March 8, 2002**

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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 WV-12740 to Marshall University Research Corporation (MURC) to provide funds to develop programs using state of the art technology to strengthen the workforce throughout West Virginia, particularly in rural areas. Grant WV-12740 provided up to \$350,000 for the funding for these costs, with a period of performance from February 1, 1998 through January 31, 2000. The grant also stipulated that \$185,000 of non-ARC matching funds in the form of cash, contributed services or in-kind contributions be made.

Grant WV-12740 was amended once. Amendment 1, approved December 22, 1999, extended the period performance to January 31, 2001. This amendment involved no additional funds.

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 February 1, 1998 through January 31, 2001. 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 Education, Hospitals, and Other Non-Profit Organizations"; OMB Circular A-21, "Cost Principles for Educational Institutions"; 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 visited Marshall University Research Corporation (MURC) in Huntington, West Virginia during the period January 28, 2002 through January 31, 2002. We received additional supporting documentation from the grantee from February 12, 2002 through March 8, 2002.

Specifically we performed the following procedures:

- We discussed the grant expenditure process and internal controls with the MURC Headquarters officials in Huntington, West Virginia.
- We reviewed the available detail support for \$320,577, or 90 percent, of the reported expenditures charged to ARC Grant WV-12740 between February 1, 1998 (the grant period of performance starting date) and January 31, 2001 (the grant period of performance ending date) and tied the grant expenditures to the supporting MURC general ledger accounts, payroll allocation reports, subcontract agreements, voucher transmittal documents, Travel Expense Reports, incurred expense documents, vendor invoices, and other supporting documents.

- We reviewed the detail support for all of the \$264,879 in reported governmental, grantee and private sector grant matching expenditures.
- We compared the grant expenditures made with the project budget for the grants 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.
- We reviewed the grant activity for achievement of programmatic results.

RESULTS

We noted one exception:

1) Documentation of Matching Funds

Condition

The grantee does not maintain source documents to support matching funds.

Criteria

OMB Circular A-110, Section 23(a)(1) "All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions are verifiable from the recipient's records."

Discussion

It is not the grantee's policy to obtain written documentation from the donors as support for matching funds. As a result, the Cost Sharing Report prepared by the grantee is not supported by source documentation obtained, verified, and maintained by the grantee as required. During our field work, the grantee could not provide documentation to support matching funds. Subsequently, the grantee provided detail support for all of the reported grant matching expenditures. Thus, there are no questioned costs.

Recommendation

The grantee should obtain and maintain source documents from the donor for all contributed goods and services used to satisfy the matching requirements prior to recording the transaction.

Grantee's Comments

The grantee will review its policies in this area and take appropriate action.

Accountants' Response

None.

CONCLUSION

Based on the results of our agreed upon procedures, in our opinion all of the \$350,000 in grant fund expenditures incurred between February 1, 1998 and January 31, 2001 which were charged to the ARC for Grant WV-12740 were 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.

March 8, 2002

GRANTEE'S COMMENTS



Marshall University Research Corporation

CONFIDENTIAL

March 26, 2002

Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, Maryland 20850

Attn: Alexis Stowe

Dear Ms. Stowe:

Subject: ARC Grant WV-12740

In response to your draft agreed upon procedures report dated March 8, 2002, the Marshall University Research Corporation offers the following response.

Previously, the Marshall University Research Corporation (MURC) has taken the position that source documents for subcontractor costs, both federally reimbursed and subcontractor matching, are to be maintained at the premises of the subcontractor and that the subcontractor is to maintain these records in accordance with the ARC General Provisions outlined in Article 14 and with OMB Circular A-110. However, as a result of this recommendation MURC will review its policies in this area and take appropriate action.

We are available to discuss this response at any time. If you feel further discussion is needed, feel free to contact either MURC Executive Director Ron Schelling or myself at (604) 696-6598. We appreciate the professionalism displayed by your firm members and welcome any opportunity to work with you in the future.

Sincerely,

Perry N. Chaffin, CPA
Interim Controller - MURC

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APPALACHIAN
REGIONAL
COMMISSION

*A Proud Past,
A New Vision*

Office of the Inspector General

April 1, 2002

Mr. Ralph H. Goolsby
ARC Program Manager
Local Capacity Development
West Virginia Development Office
State Capitol Complex—Building 6, Room 553
Charleston, WV 25305

re: OIG Reports 02-17(H), 02-26(H), and 02-27(H); ARC
Grants WV-12740, CO-12620, and WV-12587/13309

Dear Mr. Goolsby:

Enclosed are our reports on the subject grants. One issue, with respect to the support for matching contributions, relative to Grant WV-12740 was noted.

As I leave Government service, I want to wish you the best in all your future endeavors and thank you for the cooperation and excellent working relationship during my years at ARC.

Sincerely,


Hubert N. Sparks
Inspector General

Enclosures