



April 1, 2002

MEMORANDUM FOR The Federal Co-Chairman
ARC Executive Director

SUBJECT: OIG Reports

Enclosed are copies of the following reports.

- 02-6(H) Grant CO-13398, Nature Conservancy 1/
- 02-17(H) Grant WV-12740, Marshall University 2/
- 02-19(H) Grant OH-10533, Ohio Fund for Appalachian Industrial Retraining 3/
- 02-20(H) Grant OH-7781, Ohio Consolidated Technical Assistance
- 02-26(H) Grant CO-12620, Central Appalachia Empowerment Zone of West Virginia
- 02-27(H) Grants WV-12587 and WV-13309, West Virginia Development Office

Notes:

- 1/ The auditors questioned billings of \$3,205 in excess overhead expense for fringe benefits. This matter should be resolved between ARC and the grantee.
- 2/ The auditor recommended improved supporting documentation for matching contributions of subgrantees.
- 3/ The auditors questioned \$11,535 submitted as matching contributions because the revenues were program fees from students, which should be used to reduce the grant or increase program activity. Also, \$18,000 awarded to a subgrantee was questioned because the subgrantee exceeded program guidelines with respect to the size of the recipient business. OIG will followup with ARC program staff regarding resolution of these issues.

Hubert N. Sparks
Hubert N. Sparks
Inspector General

Enclosures

MEMORANDUM REPORT ON REVIEW OF
GOVERNOR'S OFFICE OF APPALACHIA
COLUMBUS, OHIO

CONSOLIDATED TECHNICAL ASSISTANCE

ARC Grant Numbers: OH-7781-C20 And C21

October 1, 1999 through September 30, 2001

CAUTION: *Certain information contained herein is subject to disclosure restrictions under the Freedom on Information Act, 5 U.S.C. 522 (b)(4). Distribution of this report should be limited to Appalachian Regional Commission and other pertinent parties.*

Report Number: 2-20(H)

Date: March 18, 2002

**MEMORANDUM REPORT ON REVIEW OF
GOVERNOR'S OFFICE OF APPALACHIA
COLUMBUS, OHIO**

CONSOLIDATED TECHNICAL ASSISTANCE

ARC Grant Numbers: OH-7781-C20 And C21

October 1, 1999 through September 30, 2001

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TO: Appalachian Regional Commission (ARC)
Office of Inspector General (OIG)

FROM: Tichenor & Associates, LLP
Louisville, Kentucky

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report No. 2-20(H)

SUBJECT TO: Memorandum Review Report on Governor's Office of Appalachia,
Consolidated Technical Assistance, ARC Grant Numbers: OH-7781-C20
and C21

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Governor's Office of Appalachia for its Consolidated Technical Assistance were expended in accordance with the ARC approved grant budgets and did not violate any restrictions imposed by the terms and conditions of the grants; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and (c) the objectives of the grants had been met.

BACKGROUND: ARC awarded Grant Numbers OH-7781-C20 and C21 to the Governor's Office of Appalachia for the periods from October 1, 1998 through September 30, 2001. The purpose of the grants were to provide funding to help improve the economy and quality of life for the residents of Ohio's Appalachian Region. The major objectives are to promote and assist economic development efforts in the region, to support the development of necessary infrastructure, to assist in the development and continuation of human/and community service activities, and to continue to represent the interests of Ohio Appalachia in State government.

The ARC grant funding for OH-7781-C20 and OH-77781-C21 was for a total not to exceed \$100,000 and \$100,000, respectively of actual, reasonable and eligible project cost. The Grantee shall pay or cause to be paid the non-ARC share of \$100,000 and \$100,000, respectively, in cash, contributed services or in-kind contributions, as approved by ARC.

The money from the grants was used for four distinct development strategies. The first, Economic Development of the region, includes attracting industry, business retention, small

business development and entrepreneurial assistance. It also includes promoting and implementing the First Frontier Marketing Program, a dollar for dollar match for State and local funds raised. The Governor's Office of Appalachia (GOA) will provide up to 33% of the salary for the Development staff member who is assisting in the administration of the First Frontier Fund Program. The GOA will also continue the Fund for Appalachian Industrial Retraining (FAIR). Finally, the GOA recognizes tourism as a way to promote diverse economic development in the region.

Infrastructure is the next strategy. The development of physical infrastructure is important to maintain adequate quality of life for the region. The GOA works with the Office of Community & Housing Partnership to improve water and sewer services. The GOA identifies infrastructure needs for business or industrial sites, then choose those with the highest potential for substantial job creation. This is the primary focus of Ohio's ARC investment program.

Providing Adequate Human Services, particularly those relating to education and healthcare is the third strategy. The GOA works with the local districts to identify projects that provide significant education and/or improve training facilities that will enhance the employment prospects for students. Ohio Works and School-to-Work, as well as other state and Federal initiatives are used to meet these goals. The GOA works with the Ohio Department of Health, the Ohio Health Care Board, and the Appalachian Task Force to improve healthcare in the region.

The final strategy is Advocacy. The GOA represents the interests of Ohio Appalachia in State government. They promote the needs of the region to the General Assembly by assisting delegation members in identifying areas of concern, by providing technical assistance in regard to potential and pending legislation, by facilitating communication between members, and by assisting members in achieving consensus of issues of regional concern.

SCOPE: We performed a program review of the grants as described in the Purpose, above. Our review was based on the terms of the grant agreements and on the application of certain review procedures in accordance with the ARC, OIG Review Program. Specifically, we determined if the tasks listed above had been performed, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if the Governor's Office of Appalachia had complied with the requirements of the grant agreements. In addition, we discussed the program objectives and performance with the Governor's Office of Appalachia personnel. Our results and recommendations are based on those procedures and were conducted in accordance with applicable Government Auditing Standards.

RESULTS: The following results were based on our review performed at the Governor's Office of Appalachia in Columbus, Ohio on March 4 through March 8, 2002.

A. Incurred Costs:

The Governor's Office of Appalachia claimed total program costs of \$167,928 for grant OH-7781-C20, of which they claimed direct reimbursable costs from October 1, 1999 through September 30, 2000 of \$83,832 from ARC and in-kind costs of \$84,096. For grant OH-7781-C21, The Governor's Office of Appalachia claimed total program costs of \$171,947 from October 1, 2000 through September 30, 2001, of which they claimed direct reimbursable costs of \$85,729 from ARC and in-kind costs of \$86,218. As of our fieldwork end date, March 8, 2002 the final payment request for \$6,054 had not been received by the Governor's Office of Appalachia. We reviewed the direct and in-kind costs claimed and determined that, in general, the funds had been expended as reported for the two grants.

B. Internal Controls:

1. The Governor's Office of Appalachia Did Not Prepare 120 Day Progress Reports

The Governor's Office of Appalachia did not prepare 120 day Progress Reports for its Consolidated Technical Assistance Grants. Officials responsible for administration of the grants stated that they were not aware of the requirement to prepare 120 day progress reports and that no one from the ARC ever pointed out the need to prepare the progress reports.

Grant Agreement Number OH-7781-C20 and C21 between Appalachian Regional Commission and Governor's Office of Appalachia, Part 1 Special Provisions paragraph 3 states:

"Reports. A progress report for each 120-day period and a final report are required under this agreement"

2. Salaries Were Not Properly Allocated to the Grant Awards

The Governor's Office of Appalachia did not properly allocate the salary of the Deputy Director to the grant award. Only 33% of the Deputy Director's salary was allocated to the ARC Technical Assistance grant award when she spends at least 75% of her time on the award. Program officials were not aware of the amount of payroll costs that were being charged to the grant. The Ohio Department of Development accounting personnel are responsible for charging such costs and 33% of the Deputy Director's salary was budgeted and therefore it was the amount that was being charged.

OMB Circular A-87, Attachment A, General Principles for Determining Allowable Costs, E Direct Costs, states:

"2. Application. Typical direct costs chargeable to Federal awards are:

a. Compensation of employees for the time devoted and identified specifically to the performance of those awards."

RECOMMENDATIONS:

We recommend that the Governor's Office of Appalachia prepare 120 day progress reports in accordance with the grant awards. We also recommend that an overall evaluation of the salaries being allocated to the grant award be performed and any adjustment necessary be made by the Governor's Office of Appalachia and the Ohio Department of Development.

C. Program Results:

Our review of the Governor's Office of Appalachia, Consolidated Technical Assistance Grants indicated that the objectives of the grants had been and currently were being met.

GRANTEES RESPONSE

The Governor's Office of Appalachia responded to our draft report by stating they will provide a progress report every 120 days as required by the grant agreements with the Appalachian Regional Commission. In addition, they agreed that the Assistant Director's salary was not being properly allocated to the ARC Technical Assistance Grant and procedures are now in place to properly allocate salaries to the award.

Tichenor & Associates, LLP

TICHENOR & ASSOCIATES, LLP
Louisville, Kentucky
March 8, 2002