



SURVEY REPORT

REVIEW OF  
KENTUCKY DEPARTMENT OF TRAVEL DEVELOPMENT  
FRANKFORT, KENTUCKY

Regional Tourism Initiative

Grant No. CO-10721-91-I-302-1029  
February 1, 1991 - April 30, 1994

OIG Report No. ~~94-37(H)~~ 95-3(H)  
October 27, 1994

I. INTRODUCTION

A. PURPOSE

The purposes of our review were (1) to determine the allowability of the costs claimed under the ARC grant, (2) to determine if the grant objectives were met, and (3) to determine the current status of the project.

B. SCOPE

Our survey included procedures to review costs incurred and claimed for reimbursement under the grant, as well as costs claimed as matching funds. The initial period of performance for the grant was February 1, 1991, through January 31, 1992; but it was extended four times to July 1, 1992; June 30, 1993; September 30, 1993; and April 30, 1994. We reviewed the grantee's reports, examined records, and held discussions with grantee officials in Frankfort, Kentucky, June 13-15, 1994. As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreement; Office of Management and Budget (OMB) Circulars A-87, A-102, and A-128; and the ARC Code.

C. BACKGROUND

ARC Grant CO-10721-91-I-302-1029, initially funded for \$50,000, was awarded to the Kentucky Department of Travel Development to promote tourism by German nationals in Kentucky, Tennessee, North Carolina, and West Virginia. The grantee was to work with a consultant to develop relationships with such German organizations as Lufthansa and the German Motor Club. The goals of the project were to develop new fly/drive and group tour packages for multi-carrier distribution in Germany, improve public/private cooperation, and improve cooperative relations among the Appalachian states. The project included cooperative efforts with

*A Partnership for the Development of Appalachia*

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

regional convention and visitors bureaus and the development and implementation of an educational program for the staffs of destination and en route attractions included in the itineraries. The project was amended to add another \$50,000 and to provide for a sales mission to Germany, familiarization tours in Appalachia for German travel representatives, and participation in a travel marketplace for the European travel industry. At the time of our review, the grantee had received grant funds totaling \$98,000 and \$2,000 remained undisbursed.

The grantee was also required to provide a minimum of \$125,000 of in-kind contributions.

## II. SURVEY RESULTS

### A. QUESTIONED COSTS

We reviewed the grantee's accounting records and supporting documentation for grant expenditures totaling \$98,034. We found that reimbursement requests to ARC were based on billings received by the grantee's project administrator and not on official accounting records and we initially questioned costs totaling \$6,444 during the period 1992 to 1994. In addition, we noted that \$120 was charged to the grant on inter-account bill 6557 in 1992 but was not included in any of the grantee's reimbursement requests.

The questioned costs were categorized as inadequate documentation, \$990.93; receipts not submitted, \$4,876.92; ARC claim exceeding payment to vendor, \$540; unallowable penalty charge, \$27.33; and unallowable beverages, \$9.08.

The project administrator indicated that she kept a tally of grant expenses but did not reconcile it with official accounting records prior to filing reimbursement requests to ARC. As a result, she was not aware that a vendor was paid \$540 less than the amount claimed to ARC or that an expenditure of \$120 was not claimed.

Some of the other discrepancies were attributed to oversight, and some of the receipts may have been misplaced after they were paid. Subsequent to our visit, the grantee's project administrator advised us that she had attempted to obtain some of the missing documentation; but her efforts were hampered by staff turnovers among grant participants and the lengthy interval since the expenses were incurred.

**Grantee Response:** In response to our draft survey report, the grantee submitted additional documentation and/or justification to support most of the questioned costs.

**Auditor Comment:** Although we maintain that costs such as alcohol and credit card penalty charges are unallowable types of grant expenses, we understand that applicable invoices and other documentation for several grant charges totaling less than \$100 were accepted by ARC at the time they were submitted for reimbursement. Therefore, we will not continue to question these costs but emphasize that similar charges should not be claimed under future ARC grants.

Of the \$6,444.26 in questioned costs, grantee submitted acceptable documentation or justification for costs totaling \$5,783.31. We determined that two charges representing the remaining \$660.95 are unallowable. One of them involved transposed figures that resulted in a vendor being underpaid \$540.00 while ARC was charged the full amount of the invoice. In the absence of documentation indicating an additional \$540.00 was paid to the vendor, ARC should only allow the amount that grantee had actually paid at the time of our review. Another expenditure for \$120.95 was charged to the grant but the grantee could not locate a purchase order or other documentation to identify and support it.

Although not specifically addressed in their response to our survey report, the grantee previously indicated that the unclaimed \$120.00 expense would be claimed in their final reimbursement request and that they would follow the principles of applicable OMB Circulars regarding documenting and claiming future grant expenses.

**Recommendation:** We recommend that the grantee resolve the remaining questioned costs with ARC program officials. We also recommend that, in the future, the grantee ensure grant claims represent actual expenses incurred and appropriate documentation is maintained.

#### B. UNSUPPORTED IN-KIND EXPENSES

OMB Circular A-102 requires that in-kind expenses be verifiable from the grantee's records. The grantee was required to provide in-kind contributions of \$125,000. They provided us with a document labeled "Budget of In-Kind Services (Approximate Costs)," which indicated that in-kind contributions in nine cost categories (including personnel costs of \$89,000) totaled \$124,600. However, no other information was available to support the costs. The in-kind expense costs were to be submitted to the grantee by tourism personnel in the other three states participating in this project, and we understand that each state provided a statement of expenditures to the grantee without additional supporting documentation. The grantee's project administrator was not aware that more detailed documentation was required to support the in-kind costs and reconstruction of data is not deemed feasible because of staff turnover and because it has been more than 3 years since some of the expense was incurred.

In addition to the in-kind costs noted above, the grantee indicated that they did not attempt to quantify other promotional efforts in the Appalachian Region made by the state tourism offices or contributions made to the project by the American Automobile Association (AAA) and USAir. AAA provided a staff person and meeting space, and USAir provided complimentary air fare for the states' representatives to go to Germany and the technical assistance of their German-based sales staff who accompanied the states' representatives on sales calls to German travel agents.

**Recommendation:** We recommend that the grantee ensure in-kind contributions for future ARC grants are fully documented and verifiable. Also, the grantee should work with ARC program staff to resolve the issue of inadequately supported in-kind contributions.

### C. ACKNOWLEDGEMENT OF ARC FUNDING


Grant funds totaling \$38,300 were spent to publish a bilingual brochure in cooperation with AAA, USAir, Lufthansa, and the tourism representatives of the four participating states. The brochures contained fly/drive itineraries for German visitors to the Appalachian areas of the four states and were to be distributed in Germany to travel and tourism outlets. We noted that the brochures did not acknowledge they were funded by ARC or with Federal funds. The grantee's project administrator agreed that any published materials funded with ARC grant funds in the future would acknowledge ARC was the source of the funds.

### D. PROJECT STATUS

Most of the grant work was accomplished as planned, but some modifications had to be made because of changing conditions and unforeseen circumstances. For example, the tourism representatives from Tennessee were unable to participate in any of the grant activities after mid-1992 because of budget constraints; and West Virginia elected to do a mailing instead of educational seminars.

We noted that quarterly reports required by the grant agreement were not submitted and that Kentucky's Auditor of Public Accounts questioned the absence of the reports. We understand that ARC's project coordinator was kept informed of project status through frequent verbal contacts and that he requested and received a written report in April 1993. We are not aware of written reports submitted after that time. At the time of our review, the grantee's project administrator indicated the grant work had been completed and they were awaiting documentation of final expenditures incurred by one of the participating states. A final written report of completed grant activities and expenses incurred should be submitted to ARC as soon as possible to close out the grant.

The grantee has submitted a proposal for a third year of ARC funding to include the states of Kentucky, West Virginia, and North Carolina. Necessary reports should be submitted on a timely basis for all future grants.

  
Hubert N. Sparks  
Inspector General