

MEMORANDUM REPORT ON REVIEW OF THE  
NORTH CAROLINA  
DEPARTMENT OF ADMINISTRATION

Consolidated Technical Assistance Program

ARC Grant Nos: NC-7780-92-C13-302-0623  
and NC-7780-93-C14-302-0715  
October 1, 1992 through September 30, 1994

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

Report Number: 95-13(H)

Date: May 2, 1995

MEMORANDUM REPORT ON REVIEW OF THE  
NORTH CAROLINA  
DEPARTMENT OF ADMINISTRATION

Consolidated Technical Assistance Program

ARC Grant Nos: NC-7780-92-C13-302-0623  
and NC-7780-93-C14-302-0715  
October 1, 1992 through September 30, 1994

Report Number: 95-13(H)

Date: May 2, 1995

Prepared by:

Tichenor & Associates  
Certified Public Accountants  
Woodbridge, Virginia

Under Contract Number J-9-G-9-0020 with the  
U.S. Department of Labor  
Office of the Inspector General  
Office of Audit

**TICHENOR & ASSOCIATES**  
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

WASHINGTON OFFICE  
12531 CLIPPER DRIVE SUITE 202  
WOODBIDGE VA 22192

PARTNERS  
WILLIAM R. TICHENOR  
JONATHAN D. CROWDER

BUSINESS (703) 490-1004  
METRO (703) 352-1417  
FAX (703) 491-9426

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

FROM: Tichenor & Associates  
Woodbridge, Virginia

MEMORANDUM FOR: The Federal Co-Chairman  
ARC Executive Director

SUBJECT: Memorandum Survey Report  
Grantee: North Carolina Department of Administration  
Grant Nos: NC-7780-92-C13-302-0623; Contract No. 92-147  
NC-7780-93-C14-302-0715; Contract No. 93-137

**PURPOSE:** The purpose of our survey was to determine if (a) the total funds claimed for reimbursement by the grantee were expended in accordance with the ARC approved grant budget and did not violate any restrictions imposed by the terms and conditions of the referenced grant; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; (c) the objectives of the grant were being met.

**BACKGROUND:** The North Carolina Department of Administration (the Department) is a department of the State of North Carolina, Office of the Governor which serves as the central point of contact for all ARC grants. ARC awarded Grant Number NC-7780-92-C13-302-0623; ARC Contract No. 92-147 and Grant Number NC-7780-93-C14-302-0715; ARC Contract No. 93-137 to the Department for the periods October 1, 1992 through September 30, 1993 (fiscal year 1993) and October 1, 1993 through September 30, 1994 (fiscal year 1994), respectively. The purpose of the grants were to provide financial assistance for the continuation of the State's Consolidated Technical Assistance Program in the western region of North Carolina. The grant for fiscal year 1993 was for the lessor of \$350,000 or 49.7 percent of actual, reasonable and eligible project costs. The fiscal year 1994 grant was for the lessor of 308,024 or 50 percent of actual, reasonable and eligible project costs. The remaining project costs were to be paid by the Council in cash, contributed services and in-kind contributions as approved by ARC. ARC made total payments of \$331,193.25 on the fiscal year 1993 grant and \$148,500 on the fiscal year 1994 grant. The most recent payment made by ARC was on July 8, 1994.

Based on our review of the grant agreements, we determined that the objective of the grant was to enhance the effectiveness of the Appalachian program within the state by improving

intergovernmental cooperation and continuing to develop specialized expertise in technical assistance, monitoring, evaluation, and program planning activities, economic development, and to continue to carry out ARC programs already initiated. The specific tasks were:

- (a) To improve intergovernmental cooperation by improving communication and coordination;
- (b) To undertake the examination of selected issues affecting state and ARC policy and program directives including infrastructure needs, changing structure of industry, health access in rural areas, telecommunications, workforce preparedness, solid waste and recycling and education reform;
- (c) To improve the effectiveness of the state's ARC program through program analysis, development and technical assistance;
- (d) To assist the ARC Alternate and the Governor in support of their ARC program activities; and
- (e) To continue technical assistance to the local development district's under the Western North Carolina Housing Partnership program, and provide technical assistance and research work related to water issues, including supply, quality and classification, associated with the effort on economic development.

SCOPE: Our survey was based on a review of the grant agreements between ARC and the Department and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. In summary, we determined if the grant objectives, listed above, were being accomplished, if the accountability over ARC funds was sufficient as required by the OMB circulars and if the Department had complied with the general and specific requirements of the grant agreements. In addition, we discussed program objectives and performance with Department personnel and the Program Coordinator at ARC. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our survey at the Department:

A. Incurred Costs

We determined that the costs claimed by the Department were properly supported, allowable and were used for the continuation of the Consolidated Technical Assistance Program. However, we noted a condition which could result in unallowable or unallocable costs being included in the Department's request for reimbursement. This condition is summarized below.

Subcontract Costs:

The Department subcontracted with the Office of State Planning for the period October 1, 1992 to September 30, 1993 for a portion of the approved grant work program. Activities identified under the subcontract included infrastructure finance, industry structure, strategic planning-budgeting work and solid waste management and recycling. The subcontract provided for

payment of \$140,121 for the performance of these functions and required the Office of State Planning to document \$67,000 in match for these grant funds. The subcontract required the Office of State Planning to report the match and progress in a manner suitable for use in the ARC semiannual report. The Department also subcontracted with the Office of Intergovernmental Relations for the period October 1, 1993 to September 30, 1994. This subcontract provided for \$81,300 for the performance of the specified functions. We did not test any costs claimed for the period October 1, 1993 through September 30, 1994.

The Department reimbursed the Office of State Planning \$133,093.66 for the period October 1, 1992 through September 30, 1993 and claimed \$69,403 in matching costs. We tested supporting documentation for June 1993 and determined that costs claimed were for the following:

Salaries and Benefits: The Office of State Planning requested reimbursement of the following salary costs. The amounts claimed represented 100 percent of the salaries earned during June 1993 as documented by the payroll records.

Employee A	- Policy Analyst, part-time
Employee B	- Receptionist and Clerical Support
Employee C	- Liaison for Office of State Planning

Other: The Office of State Planning requested reimbursement for the following other direct costs. The amounts claimed represented 100 percent of the invoiced amounts.

Printing - The charges were billed to the Governor's Policy Planning Department for the State Data Center (SDC) Newsletter, Volume 15, No. 1; 2 reams each of 20 lb and 65 lb. 8 1/2 x 11 inch blue paper with no printing; and, 500 copies of the LINC User's Guide.

Data Processing - The charges were for computer processor minutes, tape read/writes, tape mounts, disk read/writes, printer lines, RJE printer and memory usage. The charges were identified to Employee D, Computer Operator. However, no associated salary costs were charged for this employee.

Postage - The charges were for monthly usage of postage, presort services, courier, UPS and supplies. The charges were approved by Employee C and coded to the Office of State Planning.

Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State and Local Governments", Attachment B, Section B.10.b. states, in part:

"Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls... Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records...."

OMB Circular A-87, Section G.1. states, in part:

"The cost of service provided by other agencies may only include allowable direct costs of the service plus a pro rata share of allowable supporting costs and supervision directly required in performing the service, but not supervision of a general nature such as that provided by the head of a department and his staff assistants not directly involved in operations...."

The Department and the Office of State Planning did not provide supporting documentation which showed the relationship of the costs claimed to specific ARC responsibilities or functions performed. In addition, timesheets or other labor distribution records were not available to support the proper allocation of salary costs to the ARC grant. The salaries for the positions claimed and other costs do not appear to be fully allocable to the grant and should therefore be allocated based on actual time and expenses associated with the performance of the grant requirements.

We did not attempt to quantify the costs claimed for the subcontract, because supporting documentation was not available to determine the amounts which should not have been allocated.

B. Accounting and Internal Controls

We determined that, except for the items discussed above, the Department has an adequate cost accounting system for purposes of accumulating and reporting costs under Federal grants and contracts.

C. Grant Objectives and Compliance

We determined that the Department has performed work geared toward the accomplishment of the grant objectives and has complied with the general requirements of the grant agreements. We noted, however, one situation which we determined should be brought to the attention of the ARC Program Coordinator and monitored to determine the impact on the ARC Technical Assistance program in North Carolina. The situation was described in the final progress report for fiscal year 1992 as follows:

"Two major private sector coalitions have emerged in metro areas affecting the Appalachian counties and a third such group is increasing its influence in an area outside the region (Raleigh area). Originally established to recruit industry and market their regions for economic development, these organizations now are seeking and claiming local government membership and changing their focus in a manner which tends to duplicate the services provided by the LDDs (specific examples include data services and regional planning.) At least three of the six LDDs are now affected by competing organizations, two of those three may lose members. In addition to the membership and corresponding resource issue is an initiative to have the state recognize these private multicounty organizations and duplicate them in other areas of the state, potentially jeopardizing EDA funding for existing districts and local elected officials' control of economic development assistance...."

Based on our discussion with the Department, the private organizations are currently working in conjunction with the local development districts (LDD) and performing distinct functions related to marketing, advertising and promotion. However, there is no means to prohibit these organizations from becoming State Data Center affiliates, establishing geographic information system centers or performing other functions which would duplicate the LDD functions. In addition, the state's General Assembly has provided \$1.8 million of funding to these organizations. The grant agreement, paragraph 5 prohibits the use of grant funds for "...duplicate programs for which monies have been received, are being received, are committed or are applied for from other sources, public and private. Grantee shall inform ARC of any programs similar in objective or in services to the objective of or services provided under this grant."

RECOMMENDATIONS: We recommend that ARC, in conjunction with the Grantee Official, determine the adequacy of the Department's accounting for subcontract costs incurred by the other agencies: Office of State Planning and Office of Intergovernmental Relations. We recommend that, for all future grant awards, ARC obtain a detailed list of all budgeted subcontract costs including the personnel and other costs which will be funded by ARC or claimed as matching funds. Also the Department and its subcontractors should be required to document and properly justify the allocation of all costs to the grant.

We recommend that the ARC Program Coordinator, in conjunction with Grantee officials, assure that functions performed by the private economic development organizations to assure that the ARC grant does not duplicate functions available from these organizations.

Based on discussions between the ARC Inspector General and the Grantee, it was agreed that the Grantee would respond to the recommendations after issuance of the final review report.



TICHENOR & ASSOCIATES  
September 22, 1994

**EMPLOYEES NOTED  
ALPHABETICALLY  
IN REPORT 95-13(H)**

Employee A -- G. Bento

Employee B -- M. Tubbs

Employee C -- J. Daman

Employee D -- E. Anderson