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SURVEY REPORT

REVIEW OF
WEST VIRGINIA DEPARTMENT OF COMMERCE,
LABOR AND ENVIRONMENTAL RESOURCES
DIVISION OF TOURISM AND PARKS

REGIONAL TOURISM INITIATIVE

Grant No. CO-10723-91-I-302-1029
January 18, 1991 - December 31, 1994
and

Grant No. Co-10724-91-I-302-1029
December 1, 1990 - December 31, 1993

OIG Report 95-15(H)
January 4, 1995

I. INTRODUCTION

A. PURPOSE

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

B. SCOPE

Our survey included procedures to review costs incurred and claimed for reimbursement under the two grants. The initial period of performance for Grant No. CO-10723 was January 18, 1991, through April 15, 1991. However, it was extended three times after that to April 1, 1992; December 1, 1993; and December 31, 1994. The initial period of performance for Grant No. CO-10724 was December 1, 1990, through March 30, 1991. However, it was extended four times after that to July 31, 1991; April 1, 1992; December 31, 1992; and December 31, 1993. We reviewed the grantee's reports, examined records, and held discussions with grantee officials in Charleston, West Virginia, May 2-4, 1994. As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreements, Office of Management and Budget (OMB) Circulars A-87 and A-102, and the ARC Code.

C. BACKGROUND

ARC Grant No. CO-10723-91-I-302-1029 (Contract 91-23), totaling \$68,000, was awarded to the West Virginia Department of Commerce, Labor and Environmental Resources Division of

A Partnership for the Development of Appalachia

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

Tourism and Parks on February 25, 1991, to establish a cooperative three-state marketing program among the states of North Carolina, Tennessee, and West Virginia. The focus of the grant was the Canadian tourist market. The project was to include development and production of Canadian cooperative collateral materials (including an image piece, itineraries, and a direct mail poster for media); a Canadian travel writers familiarization tour of the three states; a travel industry trade mission; Canadian consumer travel shows; and a Canadian tour operator familiarization tour of the three states. The grant was amended to delete activities related to the state of Tennessee and to add the production of a series of seminars for Canadian Automobile Association (CAA) personnel; a follow-up trade mission for travel press and trade; regional participation in a trade show, consumer travel show, and trade publication; and media kit mailings.

ARC Grant No. CO-10724-91-I-302-1029 (Contract 91-27), totaling \$43,000, was awarded to the West Virginia Department of Commerce, Labor and Environmental Resources Division of Tourism and Parks on February 15, 1991, to assist the states of West Virginia, Ohio, New York, and Pennsylvania to undertake a program of international tourism product development and market planning aimed at the European market. The project was to include the cost of a contractor to review and refine tour itineraries developed by the state tourism directors and ARC, preparation and approval of escorted motorcoach and preplanned fly/drive tour packages, and a four-state ARC international tourism marketing planning meeting. The grant was subsequently redirected to the Canadian market because of international travel restrictions caused by the Gulf crisis.

At the time of our grant review, the grantee had claimed and been paid \$61,200 under Grant No. CO-10723; and \$6,800 was being held by ARC until grant completion. Under Grant No. CO-10724, the grantee had claimed and been paid all \$43,000. Final payment was made by ARC on January 6, 1994.

II. SURVEY RESULTS

A. GENERAL

The grantee received several time extensions from ARC to complete each of the grants we reviewed. We understand that the time extensions were required, in part, by difficulties encountered in administering multi-state cooperative agreements and by unforeseen problems in scheduling and accomplishing planned grant activities.

B. QUESTIONED COSTS (Grant No. CO-10723)

The Grant Administration Provisions specify that disbursements of grant funds shall be for obligations incurred after the effective date of the grant. Documentation for one of the grantee's expenditures indicates that \$5,000 of the expense was incurred prior to the effective date of the grant. The State of West Virginia issued purchase order 6177 of May 4, 1991, to Dutko and Associates for \$11,091.35; however, we understand that an employee of one of the participating

states actually handled the arrangements. The services to be provided were "(c)oordination of development of new international tour packages, efforts to gain funding and other support from private and public sector organizations to support marketing new international tour packages, assist with strengthening relationships with tourism related federal agencies and monitoring such agencies." The grantee's purchase order, purchase requisition, and attached agreement, indicate that the date of service was November 1, 1990, through December 31, 1990. However, the effective date of the ARC grant was December 1, 1990; and it appears some services were performed prior to the effective date of the grant. The company billed the grantee \$11,192.45, which was reduced by the grantee to \$11,091.35. The cost breakdown was as follows:

Retainer fees for services, December	\$ 5,000.00
Travel/out-of-pocket expenses, December	328.87
Task force meeting expenses, December	762.48
Previous amount due	<u>5,000.00</u>
Total	\$11,091.35

A key employee who was actively involved with managing the project during that time is no longer employed in the department, and a current employee had no knowledge of the discrepancy.

Grantee Response: Former employees of the division worked on this project initially. Although the contract with the State of West Virginia and Dutko & Associates suggests that services began one month prior to the effective date of the grant, I do not believe that this was intentional misrepresentation of the grant. These were relevant expenses associated with the ARC grant, and the vendor was reimbursed for services rendered.

Recommendation: We appreciate the response but recommend that the grantee contact ARC project officials to resolve the issue of allowability of \$5,000 in costs apparently incurred prior to the effective date of the grant.

C. ACCOUNTING SYSTEM IMPROVEMENTS NEEDED

The Grant Administration Provisions require grantees to maintain all records in accordance with generally accepted accounting procedures and to establish a separate account for each grant, into which all receipts and disbursements are recorded. However, our review of the grantee's official accounting records indicated that a number of expenditures were not posted, were not posted to the correct account, or were posted in different amounts than claimed to ARC.

At the time of our review, the grantee had claimed \$61,200 on Grant No. CO-10723; and \$6,800 remained in their account at ARC. An expenditure log maintained by one of the grantee's project officials indicated that expenses totaling \$64,238.81 had been incurred as of May 1, 1994. All \$43,000 had been claimed and paid by ARC on Grant No. CO-10724. The grantee's project official indicated that reimbursement requests were based on her expenditure log and not on the amount of expenditures posted by the Administration Department to official accounting records.

(We understand that posting charge (PC) 302 designates Grant No. CO-10723 and that PC 303 designates Grant No. CO-10724.) We noted the following discrepancies:

Grant No. CO-10723

- o According to the project administrator's log, the following expenditures for Grant No. 10723 were incurred between September 1992 and April 1994; however, they were not posted to grantee's official accounting records under PC 302:

Transportation for Writers' Fam	\$ 2,575.00
Mailing Coupon Books to NC	1,592.00
Correction Insert for Coupon Books	1,531.12
Tax on correction inserts	91.87
Paper clips, hi-liters, etc.	54.83
Hi-liters for coupon books	2.52
Ship coupon books to Canada	722.65
Ship coupon books to WV from NC	<u>969.00</u>
Total	\$ 7,538.99

- o A progress/advance payment from ARC for \$38,700 was posted to PC 303 instead of PC 302.
- o A travel voucher totaling \$264.13 was claimed to ARC but posted to accounting records as \$164.13. A \$100 travel advance may have been posted to a different account.
- o We reviewed copies of three invoices from one vendor for \$1,518; \$65; and \$35 (a total of \$1,618), which were listed in the project administrator's log, but found that only \$1,518 is posted in the accounting records. The project administrator was positive the merchandise on the two invoices totaling \$100 was received.

Grant No. CO-10724

- o An expenditure for \$11,091.35, incurred in December 1990 and claimed for reimbursement under Grant No. CO-10724, was apparently posted incorrectly in the grantee's accounting records. A note dated March 25, 1992, on supporting documentation, indicates that the expenditure was to be changed from PC 301 to PC 302. Since the expenditure was related to Grant No. 10724, we believe it should have been posted to PC 303; but it was not posted to PC 302 or PC 303.

At the time of our review, Administration Division officials indicated that a new financial management system was being implemented and that problems encountered in converting to the new system have caused delays in posting some documents.

Grantee Response: A new financial management system has been implemented in this division and we feel it is very functional and will be used for any additional ARC funding that we might receive.

Grant No. CO-10723 – WV/NC Posting Charge #302

Expenditures totaling \$7,538.99. Although these charges were not posted to the correct PC number, they were legitimate expenses and the vendors were paid.

Progress/advance payment from ARC for \$38,700. This money was deposited in the correct account but to the wrong posting charge. However, this advance payment was used for legitimate purchases relating to the ARC project.

Travel expenses for \$264.13, but posted as \$164.13. A \$100 travel advance was inadvertently posted to a different account number; however, the expenses were for ARC-related business.

The \$100 discrepancy for merchandise purchased from the Shop at the Culture Center. Two purchases were made: one for \$65 and the other for \$35, but they were charged to a different account number. The purchases were appropriate expenses for the ARC project, and the vendor was paid the amount in question.

D. CHANGES TO SCOPE OF WORK

After the two grants were awarded, the grantee found it necessary to adjust the scope of work to be accomplished. However, we found that the grant agreements were often not formally amended to reflect the changes even though there was some written evidence that the grantee notified ARC of changes being made. Article G5 of the General Contract Provisions indicates that any amendment or modification to the grant scope or terms is not effective unless it is in writing and signed by both parties to the grant.

As previously noted, Grant No. CO-10723 was to focus on the Canadian market; and CO-10724, as originally planned, was to focus on Europe. As a result of travel restrictions caused by the Gulf crisis, the grantee redirected Grant No. CO-10724 to tourist initiatives for Canada. Although the grantee advised ARC of that fact in March 1991, the grant agreement was not formally amended to reflect the change.

Because the two grants contained some of the same activities, the grantee had to make other adjustments to avoid duplication. They also made some changes based on a changed perception of which activities would be most beneficial or cost effective at the time. For example, the grantee did not provide the itineraries, direct mail posters, Canadian tour operators tour (due to lack of interest), one of the two Canadian consumer travel shows, or the CAA seminars originally planned under Grant No. CO-10723. Instead, they provided a Canadian coupon brochure costing \$35,000, which was partially funded (\$15,000) by the State of West Virginia. The grantee discussed some of these activities in written communications to the former ARC project

coordinator, and we understand they had frequent verbal contacts with him. However, none of the changes were included in formal grant amendments.

We also noted that the grantee submitted progress reports when requesting payments, but not quarterly as specified in the grant agreement. They told us that ARC did not require the quarterly reports because of their frequent verbal updates to the coordinator.

Recommendation: We recommend that, in the future, grant agreements be amended to reflect changed project scope.

E. MISCELLANEOUS EXPENSES

Grant No. CO-10723 included provisions for familiarization tours in the participating Appalachian states for Canadian travel writers. We noticed isolated instances where visiting writers charged expenses to their hotel rooms that ordinarily would not be allowed under the grant, such as an in-room movie or a fee for the use of a tennis court. We understand that the visitors were probably not advised about such restrictions; and it is unlikely they considered them improper in that they received cost-offsetting complimentary lodging, meals, and event tickets from various establishments during their stay in the U.S. The current grant administrator indicated that these minor expenses should not have been processed against the grant and would not be allowed in the future.


HUBERT N. SPARKS
INSPECTOR GENERAL