

MEMORANDUM REPORT ON REVIEW OF THE
SOUTHWEST VIRGINIA EDUCATION AND TRAINING NETWORK

Infrastructure Development for the 21st Century

ARC Grant Nos: VA-11403-93-I-302-0630
January 1, 1994 through December 31, 1994

Prepared by:

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

FROM: Tichenor & Associates
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman
ARC Executive Director

SUBJECT TO: Memorandum Review Report No. 95-25(H) on Southwest Virginia
Education and Training Network, Infrastructure for the 21st Century.
Grant No: VA-11403-93-I-302-0630: ARC Contract No. 94-25

PURPOSE: The purpose of our review 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 Southwest Virginia Education and Training Network (the Grantee) is a nonprofit organization formed to coordinate the installation of telecommunications equipment at nine sites, organized as three clusters, throughout Southwest Virginia. One cluster is based in the City of Bristol in Washington County, the second cluster is based in the Town of Bluefield in Tazewell County, and the third cluster is based at Mountain Empire Community College in Lee County. In addition to the ARC grant, the Grantee received funds for the telecommunications infrastructure from the Tennessee Valley Authority (TVA), local school districts and two telephone companies.

ARC awarded Grant Number VA-11403-93-I-302-0630 to the Grantee for the period January 1, 1994 through December 31, 1994. The initial purpose of the grant was to provide funds for equipment, installation costs and initial operating expenses for a six-site total interactive telecommunications system in Southwestern Virginia. The grant was amended to include only the telecommunication equipment component of the project and eliminate the operations component. This enabled the scope of the grant to be increased from six to nine sites. This was

the second phase in the development of an eventual 54 site system to be set up in the same area. ARC awarded the Grantee total funding of \$370,009. The grant required local match of \$431,682, consisting of cash, contributed services and in-kind contributions as approved by ARC. As of the date of our review, one ARC advance payment of \$333,000 had been received by the Grantee.

Although ARC participation was limited to the purchase of equipment, we determined that the specific tasks of the grant program were:

- To hire an Executive Director;
- To negotiate agreements with telephone companies for construction, operation, and maintenance of the fiber optic network;
- To prepare a final budget prior to actual construction;
- To inspect and verify the location of the interactive classrooms and recommend necessary improvements;
- To draft the request for proposals for the interactive classroom equipment, evaluate the bids, and recommend a contract award;
- To verify the installation of all fiber optic equipment in coordination with the installation of the classroom equipment;
- To provide necessary engineering and oversee network construction;
- To provide participating school districts with a plan for potential network expansion to other buildings within the individual school districts;
- To provide a two-day training session for schools coming on network for up to ten teachers, including materials.

SCOPE: Our review was based on the grant agreement between ARC and the Grantee and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. We ensured that the tasks listed above were performed, the accountability over ARC funds was sufficient as required by the OMB circulars and the Grantee complied with the requirements of the grant agreements. In addition, we discussed the program objectives and performance with Grantee personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at the Grantee's offices in Abingdon, VA:

A. Incurred Costs

Findings:

1. Costs Incurred After the Grant Period

We reviewed the costs claimed for reimbursement by the Grantee for the period January 1, 1994 through December 31, 1994. The Grantee incurred total equipment costs of \$389,975 under the ARC grant. We noted that the equipment purchases included nine fax machines, one echo/noise canceler and one amplifier which were purchased after expiration of the grant. These purchases were as follows:

<u>Vendor</u>	<u>Date of Purchase</u>	<u>Amount</u>
Cherrytree Software	January 23, 1995	\$ 6,561
Seneca Communications	February 6, 1995	<u>2,235</u>
TOTAL		\$ 8,796

Article 4 of the grant agreement defines the period of performance as January 1, 1994 to December 31, 1994. Therefore, these costs are not within the scope of the grant. We recommend that the Grantee exclude these purchases from the ARC grant.

2. Interest Earned on ARC Advance Payment Was Not Refunded

The Grantee received an advance payment of \$333,000 from ARC on September 2, 1994 and deposited the funds into an interest bearing checking account. The account paid interest at the rate of 2.35% annually. The Grantee did not report or refund the interest earned on the advance to ARC. We calculated the amount of interest earned and determined that \$1,221 should have been returned to ARC. We recommend the Grantee return the interest earned of \$1,221 to ARC.

3. Travel Costs Claimed Outside the Scope of the Grant and in excess of the Federal Travel Regulations

The Grantee claimed \$3,028 for travel costs associated with a training session for the teachers of the schools in the clusters. The ARC participation in the project was limited to the purchase and installation of telecommunications equipment. Therefore, we questioned the \$3,028 claimed. In addition, the costs claimed for lodging was \$51 for

each room. We noted that this rate exceeded the ceiling established by the Federal Travel Regulations as follows:

Claimed Costs (\$51 X 2 nights X 7 people)	\$716
Allowable Costs (\$40 X 2 nights X 7 people)	<u>560</u>
Unallowable Costs	<u>\$156</u>

We recommend that the Grantee limit claimed costs to those included in the scope of the grant. In addition, we recommend that the Grantee limit future allowable travel costs to the ceiling established by the Federal Travel Regulations.

Overall, the Grantee made total expenditures of \$389,975, which exceeded the total grant amount of \$370,009. Our questioned costs reduce the total expenditures to \$378,151 of allowable expenditures as follows:

ARC Expenditures	\$389,975
Less:	
Equipment Purchased after 12/31/94	8,796
Travel Costs Outside Scope of Grant	<u>3,028</u>
Total Allowable Costs	<u>\$378,151</u>

Since the Grantee incurred allowable costs in the excess of the grant ceiling, the total allowable costs under the grant remain \$370,009. We recommend that ARC make final payment on the grant to equal \$370,009.

Grantee's Response:

The Grantee concurred that the above information is factual. However, the Grantee stated that the costs discussed in Findings 1 and 3 were applicable to equipment items and the training process required to fulfill the overall objectives of the project supported in part by ARC. The Grantee also concurred that final payment should be made by ARC based on the final project costs.

B. Internal Accounting Controls

Findings:

The Grantee did not maintain a formal accounting system, general ledger and did not track costs by account. The Grantee simply prepared vouchers which indicated the source of funding and prepared checks for payment based on those vouchers. However, the Grantee maintained a single checking account containing the money from all funding

sources including ARC, TVA and the local school districts. Therefore, costs reimbursable by each funding source were not separately identified and accumulated. We recommend that the Grantee design and implement accounting procedures which more accurately identify and accumulate the types of purchases, the source of funding and the allocation of any indirect costs especially as it relates to the purchase of equipment and use of ARC funds. These procedures should be implemented prior to the award of any future grants.


Grantee's Response:

The Grantee disagreed that the approach to financial accounting was not adequate for the grant reviewed. However, the Grantee concurred that a more sophisticated accounting system could help them better track costs associated with future projects, particularly those with multiple funding sources such as they are anticipating. To this end the Grantee's Board of Directors has endorsed the purchase of a financial accounting computer software package and a bookkeeper to be shared with the Higher Education Center.

RECOMMENDATIONS:

As discussed above, we recommend the following:

1. We recommend that the Grantee reduce the amount claimed by \$8,796 for the equipment purchased after the expiration of the grant.
2. We recommend that the Grantee refund to ARC the \$1,221 of interest earned on the \$333,000 advance payment.
3. We recommend that the Grantee reduce the amount claimed by \$3,028 for travel costs which were outside the scope of the grant. In addition, we recommend that the Grantee limit future travel costs and reimbursement requests for travel to the ceilings established by the Federal Travel Regulations.
4. We recommend that the Grantee design and implement accounting procedures which would track expenditures by account and by funding source, especially for purchases of equipment and use of ARC funds.
5. We recommend that ARC pay the Grantee the \$37,009 balance of the grant and close the grant.


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Southwest Virginia Education and Training Network

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June 5, 1995

received
10/7/95

Mr. Jonathan D. Crowder
Tichenor and Associates
12531 Clipper Drive
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Dear Mr. Crowder:

Recently the ARC Draft Report for Grant No. VA-11403-93-I-302-6030 was forwarded to me. I am Executive Director of the Grantee organization and served as the contact during the audit process.

Thank you for the opportunity to respond. The draft report is organized into an examination of the background and scope of the project, two audit sections, and concluding recommendations to the ARC. The background and scope essentially are correct.

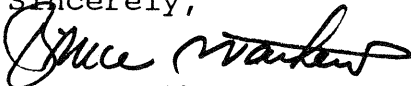
With regard to the audit sections, we concur that the observations recounted in Section A. Incurring Costs also are factual. We note only for the record that the costs detailed in Parts 1 and 3, although disqualified, were in fact applied to equipment items and the training process required to fulfil the overall objectives of the project supported in part by ARC funds.

Section B. Internal Accounting Controls criticizes our straight forward approach to financial accounting. While it may seem arcane to run a \$750,000 enterprise out of a checkbook, in point of fact, the audit proceeded quickly because we had no payroll, documented no indirect costs, made fewer than 100 expense transactions during the past year, and substantiated those transactions thoroughly.

We concur, however, that more sophisticated accounting procedures can help us better track future projects, particularly those with multiple funding sources such as we are anticipating soon. To this end the Board of Directors has endorsed the purchase of financial accounting computer software for SVETN and authorized the funding of one third of an individual who will be employed by the Higher Education Center and shared with SVETN as a bookkeeper. The change over to computerized record keeping will begin with the new fiscal year, July 1, 1995.

The draft audit report concludes with five summary Recommendations to ARC. Each seems concise and fair. Parts 1 and 2 restate previously agree on facts. Parts 3 and 4 recommend procedural changes now begun by SVETN. Part 5 recommends payment and, of course, we heartily concur.

Sincerely,



Bruce Mathews

cc: Jean Luker, Chair, SVETN Board
Rachel Fowlkes, Treasurer, SVETN Board
Sue Moreland, Division of Community Development
Harry Roesch, ARC