

MEMORANDUM REPORT ON REVIEW OF
WOODLANDS MOUNTAIN INSTITUTE

Building the Economic Cornerstone of West Virginia

ARC Grant No: WV-11018-92-I-302-0325
July 1, 1992 through March 31, 1994

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
WOODBRIDGE 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

REPORT FOR: The Federal Co-Chairman
ARC Executive Director

SUBJECT: Memorandum Review Report 95-33-(H) on Grant No: WV-11018-92-I-302-0325: ARC Contract No. 92-197; Woodlands Mountain Institute, Building the Economic Cornerstone of West Virginia.

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

BACKGROUND: ARC awarded Grant Number WV-11018-92-I-302-0325, with total funding of \$320,325, to the Woodlands Mountain Institute (the Institute) for the period July 1, 1992 through March 31, 1994. ARC required that the grant be matched with \$322,771 of local funding. ARC made five payments to the Institute totaling \$320,325, with the final payment being made on November 4, 1994.

The Institute is a nonprofit organization formed to increase the college-going rate of West Virginians. In this effort, the West Virginia Honor Roll was to provide comprehensive services to help the 100 most promising students statewide go to 43 cooperating colleges. Also, approximately 20,000 high school students were to benefit from a Peer Advisory Program which uses West Virginia Honor Roll members to work with their peers in every high school of the state. In addition, a Parent Advisory Network would assist in preparing college admissions and financial aid forms.

The second major component of the project, entitled "Opportunities West Virginia, Bringing Home a Well Trained Work Force" was to offer 250 to 300 Honor Roll students assistance in how to get an attractive, professionally challenging job in West Virginia. This was to be achieved through different types of four-day leadership training seminars and a Honor Roll Career Network.

Based on our review of the grant agreement, we determined that the specific tasks of the grant program were:

- To provide intensive assistance on college application procedures for the 100 most promising students statewide;
- To use West Virginia Honor Roll members to work with their peers in every high school;
- To have parents of Honor Roll students help other parents through the college admissions and financial aid process;
- To offer assistance to 250 to 300 Honor Roll students who have or will be attending college on how to get an attractive, professionally challenging job in West Virginia;
- To solicit corporations in West Virginia to become cooperating corporations in the program;
- To offer day long college counseling seminars to employees and their children of cooperating corporations;
- To have CEO's and corporate leaders who participate act as volunteer Career Mentors for students seeking careers in their field of expertise;
- To establish the West Virginia Honor Roll Career Network through which over two hundred members of the West Virginia Honor Roll who have graduated from college will work with current Honor Roll students and help them learn about career opportunities.

SCOPE: We performed a financial and compliance review of the grant as described in the Purpose, above. Our review was based on the terms of the grant agreement and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. We determined if the tasks listed above had been performed, the accountability over ARC funds was sufficient as required by the Office of Management and Budget (OMB) Circulars and the Institute had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with the Institute's personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at the Institute's offices in Franklin, WV:

A. Incurred Costs

The Institute claimed total reimbursable costs from July 1, 1992 through March 31, 1994 of \$320,325. We reviewed the costs claimed for reimbursement and determined that, in general the funds had been expended as reported by the Institute. However, we noted several conditions which affect the allowability of some of the claimed costs. These conditions and associated costs are as follows.

1. Costs Incurred Before the Grant Period

We noted telephone charges of \$111 which were incurred in June 1992, prior to the award of the grant. These costs are unallowable in accordance with the grant agreement, Section 2-3, which states, in part:

"Prior to the submission of any work plan and detailed budget...no costs shall be eligible for reimbursement...After approval by ARC all cost incurred for work performed after the effective date which are incurred in accord with the approved work plan, and only such costs, shall be eligible for reimbursement."

Grantee's Response:

The Grantee concurred that the \$111 of telephone charges were incorrectly charged to the grant. However, the Grantee stated that they had not claimed \$226 for the April 1994 telephone costs which were allocable to the grant.

We did not review the additional costs which were not claimed. Therefore, we continue to recommend that the \$111 be disallowed by ARC.

2. Costs Not Allocable to the ARC Grant

We questioned \$3,264 associated with two instances where costs were charged directly to the ARC grant which were not directly allocable to the grant. The first instance was one where the Institute sent seven employees to a management training course at a cost of \$500 per person. Four of the employees' course fees, totaling \$2,000, were charged to the ARC grant. However, only one of these employees, the Director of the ARC grant, was directly involved with the ARC project. We determined that the salary's of the other attendee's, the Chief Executive Officer and the Chief Administrative Officer, were administrative in nature and that the salary of the Director of Appalachian programs was funded entirely by another grant. Therefore, the

costs associated with the attendance of these employees should not have been charged to the grant, at least on a direct basis. Costs must be allocated to the grant based on the benefit received in accordance with OMB Circular A-122, Attachment A, Paragraph A.4.

The second instance was the cost for an intern of Princeton University who performed work for the Institute during the summer work-study program. The intern was assigned to work for the Institute on a United Nations project entitled the Global Environment Facility. Princeton University funded sixty percent of the intern's wages and the Institute funded the remaining forty percent. Princeton University paid the intern directly and the Institute then reimbursed Princeton. Therefore, the Institute gave \$582 to the intern to forward to Princeton. The intern, however, did not forward the check and the Institute then sent full payment to Princeton University for \$1,182. We questioned the total costs claimed by the Institute under the ARC grant in accordance with the grant agreement, Section 2-3, and OMB Circular A-122, Attachment A, Paragraph A.4. The employment of the intern to work on the United Nations project is neither an objective of the grant or an approved budget expense.

Grantee's Response:

The Grantee disagreed with the first part of the finding. The Grantee indicated the management training course was needed because the Institute lacked a shared institutional vision and purpose which connected the various programs and divisions. They stated all their programs were at risk because of the lack of familiarity of managers with each other's programs.

However, the Grantee concurred with the questioned intern costs. The Grantee also stated that there were additional qualifying expenses incurred which they would like to claim if these costs are disallowed.

We do not question the attendance of management personnel at a management training course. However, we continue to question the costs for the Chief Executive Officer, Chief Administrative Officer and Appalachian Programs which were allocated 100 percent to the ARC. Management training should benefit the entire Institute and should be accordingly allocated to all programs.

3. Travel Costs Exceeded the Ceiling Established by the Federal Travel Regulations

The Institute claimed mileage reimbursement for use of the office van at 40 cents per mile during July, 1992. The allowable rate per the Federal Travel Regulations (FTR) during that period was 25 cents per mile unless the actual costs of operation were tracked and documented to be higher than the established rate. The Institute had not prepared a schedule of actual costs of ownership and operation to support the rate claimed. Therefore, we calculated the \$196 of unallowable costs by multiplying the total miles claimed of 1,309 by the difference in the rates (\$.40 less \$.25) of \$.15.

Grantee's Response:

The Grantee disagreed that costs should be limited to \$.25 per mile. They stated that one of the other Appalachian programs charges \$.40 per mile to all users of the office van. The only other option would have been renting a van which would have been a significantly higher cost.

All costs of company owned vehicles must be adequately documented and supported in order to justify the higher mileage rate. Therefore, we continue to recommend that the reimbursable costs for use of the van be limited to \$.25 per mile.

4. Unsupported Costs

We questioned \$956 for three transactions in our sample which were not adequately supported by original source documentation. The costs were for the West Virginia Scholar tour and included supplies, tolls, gifts, snacks, parking and admission fees as summarized below:

University of Charleston	\$ 345
Leadership Tour	411
Student Per-diem	<u>200</u>
Total	<u>\$ 956</u>

These costs are unallowable in accordance with OMB Circular A-122, Attachment A, Paragraph A.2.g., which states:

"To be allowable under an award, costs must meet the following general criteria:...g. Be adequately documented."

Grantee's Response:

The Grantee concurred that original source documentation was not available. However, the Grantee stated the accounting department's alternative procedures were adequate to ensure the costs were appropriate.

To be reimbursable under the Federal Cost Principles, as well as generally accepted accounting principles and auditing standards, all costs must be supported. Therefore, we continue to recommend that the unsupported costs be disallowed by ARC.

B. Internal Accounting Controls

The Institute does not have written accounting policies. The lack of written procedures could result in the improper or inconsistent treatment of and accounting for costs. Also, if key personnel left the Institute and did not document how costs were accounted for, there would be

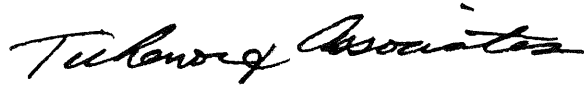
no audit trail to support reimbursable costs. Allowable costs could be questioned and not reimbursed by ARC or other Federal Agencies.

Grantee's Response:

The Grantee is preparing written accounting procedures and anticipates they will be complete and approved this year.

RECOMMENDATIONS:

We recommend that ARC determine the allowability of the costs incurred prior to the grant award, the costs claimed for seminars attended by non-ARC personnel, and the costs for travel which exceeded the FTRs. In addition, we recommend that ARC seek to recover any costs which they determine to be unallowable. We also recommend that ARC confirm that the Institute has drafted and implemented written accounting procedures to ensure the proper and consistent treatment of and accounting for costs.



TICHENOR & ASSOCIATES

Woodbridge, Virginia

April 28, 1995

The Mountain Institute



Advancing Mountain Cultures - Preserving Mountain Environments

June 28, 1995

Ms. Deirdre C. McKenna
Tichenor & Associates
Certified Public Accountants and Management Consultants
12531 Clipper Drive, Suite 202
Woodbridge, VA 22192

Re: Management's Response to ARC Contract No. WV-11018-92-1-302-0325

Dear Ms. McKenna:

Enclosed is our response to the draft memorandum review report dated May 24, 1995, on the above referenced ARC Contact.

In regards to questioned incurred costs, we have provided written explanations in our response which documents why these costs should be allowable. Additionally, we incurred other allowable costs under the Contract which were not submitted for reimbursement since the grant budget had already been expended. Supporting documents for these other costs are available upon request.

The second category in the draft memorandum review report pertains to internal accounting controls. The Mountain Institute is in the process of finalizing a written fiscal policies and procedures manual. You recommend the ARC work with the Institute to draft and implement written accounting procedures. Assistance in finalizing our fiscal policies and procedures manual is acceptable and welcome. However, we are not currently receiving any funding from the ARC and the USAID is our current cognizant federal agency.

Please contact me directly at (304) 358-2401 or (800) 296-1301 if you have any questions regarding our response.

Very truly yours,

David A. Browning, CPA
Chief Financial Officer

Enclosures



Management's Response:

Grant No. WV-11018-92-I-302-0325

A. Incurred Costs

1. Cost Incurred Before the Grant Period - We concur with Tichenor & Associates' finding that June 1992 phone charges were incorrectly applied to the grant; however, only 21 phone bills were applied to the grant (which was the number of months the grant covered). The April 1994 phone bill included \$226 of charges which were incurred during the grant period but not applied. Thus, if the \$111 is disallowed the Institute feels the \$226 should be applied to the grant.
2. Costs Not Allocable to the ARC Grant - See the attached memo from the files which explains why the Institute applied the \$1,500 of management training fees to the ARC Grant.

The second instance was an oversight on our part. The expense was originally applied to the grant by the former director. It occurred when the Institute was experiencing significant changes and was not identified in our review process.

The Institute did incur additional expense during the grant period that would qualify under the grant. If any of these costs are disallowed the Institute would like to apply all other qualifying expenses.

3. Travel Costs Exceeded the Ceiling Established by the Federal Travel Regulations - The vehicle in question is the Institute's van which is maintained by one of the other Appalachian programs. The fee of \$.40 per mile is charged to all users of the van. Had the Leadership program rented a van from an outside source, (which was the only other option), the cost to the program would have been significantly higher.
4. Unsupported Costs - The Institute was unable to produce written documentation for these costs; however, the accounting department had done alternative procedures to ensure the costs were appropriate. The payment to the University of Charleston covered housing for the scholars during their tour. The employee produced the canceled check; however, a copy was not made for the file. The Institute was unable to produce documentation for the Student Per-diem as the sign-in sheet signed by the students, who receive the money, was lost by the employee in charge.

B. Internal Accounting Controls

Management is working on written accounting procedures and hopes to have them completed and approved by the Board this year.

Memo To: Files
From: Jane Pratt
Re: PVO/CEO Training

In the first six months after joining The Mountain Institute, I considered various management training proposals put forward by staff and Trustees to deal with the serious problems that had been identified by the MAG (Management Assistance Group) study commissioned by the Board. After considering options, the PVO/CEO training program sponsored by USAID was selected as best responding to the most serious issue then facing the Institute, namely, the lack of an shared institutional vision and purpose strongly connecting the various programs and divisions. In particular the centrifugal tendencies of the Leadership Division at that time, and the urgent need for Leadership to forge linkages with other programs, and to adopt institutional norms for work program planning and budgetting were a major factor in structuring the training. In addition, all of our programs were at risk because of the lack of familiarity of managers with each other's programs.

Michael Curry, as Director of Leadership was a principal focus of the training exercise. My own presence, as well as that of Jim Underwood, John Eckman and Melanie Andreen were essential to ensure that Leadership's management was integrated with institutional administrative and financial policies and practices, as well as with other Appalachian programs. Jim Underwood, as our most senior Director of Appalachian programs became directly responsible, along with John Eckman, for implementing Leadership programs following Michael Curry's departure several months after the PVO/CEO training. Without their participation in the PVO/CEO training, and the training focus on Leadership, we would have had no capacity to manage these programs in the absence of the Director. Gabriel Campbell and Bob Davis also participated in the training to contribute their broader institutional perspective and experience in program management. A new cross-cutting initiative emerged as a pilot project connecting our Himalayan programs with West Virginia Leadership -- the West Virginia young leadership visits of two of our West Virginia Scholars to Nepal, carried out in Summer, 1994.

Following the formal training from September 26-October 1, the follow-up training (which was included in the cost of the PVO/CEO training) was dedicated entirely to the Leadership Division, with a follow-up debriefing in Franklin, and a separate "mini-retreat" for the entire Leadership staff.

This training has now led to stronger linkages of Leadership to overall mission and goals of The Mountain Institute, and integration of conservation and community service as core elements of the program.