

**MEMORANDUM REPORT ON THE REVIEW OF THE
REGION VI PLANNING AND DEVELOPMENT COUNCIL**

Administrative Grant

**ARC Grant Nos: WV-2342-93-C20-302-0629
and WV-2342-94-C21-302-0630
October 1, 1992 through September 30, 1994**

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Report Number: 96-12(H)

Date: September 23, 1996

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Prepared by:

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

FROM: Tichenor & Associates, CPAs
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman
ARC Executive Director

SUBJECT: Memorandum Review Report Number 96-12(H), Region VI Planning and Development Council. Administrative Grants - October 1, 1992 through September 30, 1994; ARC Grant Numbers WV-2342-93-C20-302-0629 and WV-2342-94-C21-302-0630.

PURPOSE: The purposes of our review were to determine (a) that the accounting, reporting and internal control systems provide for disclosure of pertinent financial and operating information, (b) that the objectives of the grant were being accomplished, and (c) the status of the construction of the West Virginia High Technology Consortium Innovation and Incubator Center.

SCOPE: Our review was based on our understanding of the grant agreements and amendments, and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. In summary, we ensured that the objectives listed above were met, the accountability over ARC funds was sufficient as required by the OMB circulars and Region VI Planning and Development Council ("Grantee") complied with the requirements of the grants. In addition, we discussed the program objectives and performance with Grantee personnel. Our results and recommendations are based on those procedures.

BACKGROUND: The Region VI Planning and Development Council was established in 1972 by the West Virginia State Legislature as a local, multi-jurisdictional agency focused specifically on regional and planning development. Located in Fairmont, West Virginia, the Grantee assists the community in six Appalachian counties in North Central West Virginia in planning and economic development.

The Grantee receives Federal funding for administrative costs from two agencies: the Department of Commerce and ARC. Local funding, from assessed dues, is received from the local governments, municipalities and counties which receive assistance from the Grantee. These local dues and state grants provide the required match for the Federal funding.

ARC awarded administrative Grant numbers WV-2342-93-C20-302-0629 and WV-2342-94-C21-302-0630 to the Grantee on October 1, 1992 and October 1, 1993, respectively. The period of performance under each grant was one year. The purpose of the grants was to assist and enable the Grantee to establish and expand economic development services. ARC Grant number WV-2342-93-C20-302-0629 was for a total of \$49,687 or 50 percent of actual, reasonable and eligible costs. ARC Grant number WV-2342-94-C21-0630 was for a total of \$60,725 or 50 percent of actual, reasonable and eligible costs. Total payments for ARC Grant numbers WV - 2342-93-C20-0629 and WV-2342-94-C21-0630 were \$50,846 and \$62,856 respectively with the fifth and final payment for each grant occurring on August 29, 1994. The fifth payment resulted as a result of an Independent Public Accountant's recomputation of eligible costs as submitted in letters to ARC dated April 13, 1994 and July 29, 1994.

Also, ARC awarded Grant number WV-11493-94-I-214-0127 to the Grantee on September 26, 1994 for \$625,000 to aid in the building of the West Virginia High Technology Consortium Innovation and Incubator Center. The Grantee also received funds from HUD, SBA and a local private source to fund the project. The Consortium Innovation and Incubator Center is being constructed on approximately 26 acres located just west of Interstate 79 in Fairmont, West Virginia. Total square footage, once construction is completed, will be approximately 100,000 square feet. The incubator center, which is projected to create 200 jobs, will be 35,000 square feet. The remaining space is privately funded and will be office space primarily for companies involved in research and design. Construction completion date is projected for Spring 1996. As of the date of our review, the basic frame of the building has been constructed excluding the roof.

Comments to Draft

The Grantee stated that the space outside the incubation center would not be used by West Virginia University for research and design as shown in the draft report. Rather the remaining space is privately funded and will be used as office space by private companies primarily involved in research and design activities.

Additional Statements

The final report has been edited to incorporate the fact that private companies rather than the University will use the remaining space outside the incubation center.

RESULTS: The following results were based on our review performed at the Grantee's office in Fairmont, West Virginia:

We determined that the Grantee incurred and claimed total costs under each administrative grant as follows:

Cost Category	1992	1993
Salaries	\$ 29,810	\$ 42,356
Direct Fringe Benefits	6,785	10,772
Travel	3,682	6,983
Conferences	865	1,415
Supplies	35	0
Postage	41	128
Publications & Subscriptions	19	0
Membership Dues	323	465
Telephone	0	14
Miscellaneous	0	43
Overhead	34,430	54,602
Rounding	(2)	0
Total	\$ 75,988	\$116,778

A. Accounting and Internal Controls

Finding

Calculation of Payroll and Fringe Benefits

Numerous deficiencies were noted in the Grantee's methodology and processes used to compute payroll and fringe benefits chargeable to each project. These deficiencies create the potential for costs to be shifted among grants and for the government to be overcharged. Those areas noted include the following:

- The Grantee did not reconcile the budgeted labor costs, charged to each grant based on a cost allocation plan, to actual labor costs.
- The Grantee used 1,820 hours (260 work days/year x 7 hours/day) as the basis for calculating an hourly rate. The Grantee's employee's actually incurred more

hours in a year because the Grantee's policy is to accrue and expense paid time off (PTO) and holidays at 8 hours per day. Therefore, the hourly rate charged to government grants was overstated.

- The Grantee calculated a fringe benefit rate based on employees' gross salaries only. This rate was not only applied to gross salaries to determine regular benefits, it was also applied to release time to calculate release benefits. The fringe pool included several items such as state insurance and workers' compensation which are fixed cost items. Therefore, by calculating a fringe rate which does not include release time in the base, the Grantee calculated a higher fringe rate than was actually experienced. This resulted in charging more fringe benefits to the government than was actually incurred.

We recommend the Grantee reconcile budgeted labor costs charged to grants with actual labor costs and develop proper methodology for computing budgeted labor rates in accordance with OMB Circular A-87, Attachment B, Paragraph 10.b.

Comments to Draft Report

The Grantee states that it can adjust the methods used to accrue and expense holidays and vacation time in order to match the method used to calculate hourly rates. The Grantee plans to discuss these issues, including the fringe benefits, with their auditors.

Additional Statements

None.

Finding

Cost Shifting

The Grantee did not incur any labor cost for August 1993. We asked the Grantee why no labor cost was recorded against ARC for that particular month. The Grantee responded that even though employees did work on ARC related projects, funding for Grant Number WV-2342-93-C20-302-0629 was depleted and the employees were instructed to shift hours to an Economic Development Administration grant. In accordance with OMB Circular A-87, Attachment A, Paragraph C.2.b., cost should not be shifted to other Federal grants to circumvent deficiencies. We recommend that the Grantee record and expense labor cost to the proper cost objective regardless of funding.

Comments to Draft Report

The Grantee maintains that the approved work program for EDA and the approved activities under the ARC grant overlap each other. The Grantee cites assistance for land use planning, assistance to prepare water and sewer grants and tourism related activities as examples of work eligible under both ARC and EDA. The Grantee contends that none of the activities which might have been charged to ARC if funds were available and instead were charged to EDA were ineligible under the Grant.

Additional Statements

In both the finding and the Grantee response, it is clear that the charges were made to EDA in total rather than at least partially to ARC because all ARC funds had been expended for the year. Therefore, it appears the Grantee is charging costs according to budgets rather than based on the extent to which actual benefits are received by the objective. Our finding remains unchanged.

Finding

Improper Classification and Treatment of Indirect Costs

On numerous occasions we noted that the Grantee improperly charged indirect costs directly to the ARC grants. Examples of such costs were supplies, telephone and miscellaneous expenses. We determined that the Grantee does not have policies and procedures for tracking these costs by program or funding source and to consistently treat these costs as direct costs. Therefore, the costs should be treated as indirect costs and allocated to all programs in accordance with OMB Circular A-87, Attachment A, Paragraph C.2.a., Paragraph D.2., and Paragraph F.1. We recommend that the Grantee categorize these costs as indirect costs and allocate them to all programs equitably.

We also noted that the Executive Director attended a National Association of Development Organization (NADO) conference in Las Vegas, Nevada in September, 1992. The travel and registration cost, \$1,447, was not recorded until October, 1992 and was claimed under Grant Number WV-2342-93-C20-302-0629, which was effective October 1, 1992. The Executive Director stated that his attendance at the conference was beneficial to all programs administered by the Grantee. However, these costs were incurred prior to the award of the grant and are therefore not reimbursable under the grant.

In addition, three employees and two board members attended The Fourth Annual West Virginia Association of Regional Planning and Development Councils Conference (WVARPDC) in June, 1994 at Snowshoe, West Virginia. The travel and registration cost to attend this conference,

\$716, was charged directly to ARC Grant Number WV-2342-94-C21-0630. We determined that all programs administered by the Grantee also received benefits from this meeting. Therefore, the travel and registration cost for the conference should be classified as indirect and allocated to all programs.

Comments to Draft Report

The Grantee states that it normally charges such items as salary, travel and legal advertisements as direct costs. All remaining costs are charged as indirect unless they know that a given expense was incurred for the benefit of a single grant. The Grantee contends that it was judged that the supplies, telephone and miscellaneous expenses referred to in the finding were for the benefit of ARC only.

With regard to claiming expenses incurred prior to grant award, the Grantee maintains that travel expenses are turned in at the end of the month and are paid out the following month. The Grantee states that it will endeavor to prevent the situation of mismatching expenses and Grants in the future.

Additional Statements

With regard to the supplies, telephone and miscellaneous expenses charged directly to the ARC Grant, we determined that the Grantee did not have a system to track these costs which would allow it to charge them as direct costs. In addition, based on the documentation reviewed and discussions with Grantee representatives, it does not appear that the Grantee attempts to review all invoices in order to determine if costs can or should be charged directly to grants. Therefore, our finding remains unchanged.

Finding

Matching of Travel Costs with Labor

The Grantee charged employee labor to one program and the related travel costs to a different program. For example two of the three employees that attended the WVARPDC Conference charged their time as indirect and charged the associated travel and registration costs, as discussed above, as direct ARC program costs. We noted this lack of matching of labor and travel costs on three different instances. In accordance with OMB Circular A-87, Attachment A, Paragraph D, 2, cost incurred should be treated consistently either as a direct or an indirect cost. In addition, Paragraph C.1.f. states that to be allowable costs must not be allocable to any other program. We recommend that the Grantee properly expense labor and the related travel cost to the appropriate cost objective.

Comments to Draft Report

The Grantee states that it does match travel cost with labor in general and that this was an oversight.

Additional Statements

None.

Finding

Failure to Record Appropriate Expense for Sick Leave and Paid Time Off

The Grantee accrues sick leave and paid time off (PTO) and allows the employees to carry forward any unused balance from one year to another. The Grantee's Policy and Procedure Manual states that an employee will not be paid for any unused balance upon termination or resignation. This policy, however, is inconsistent with how the Grantee recovers annual leave. We determined that the Grantee expenses the accrued leave, through the fringe benefit pool, to the grants, regardless if the employee uses or loses the leave. Therefore, the Grantee could recover fringe benefit costs which may not be incurred if an employee terminates or resigns. We recommend that the Grantee compensate employees upon resignation or termination for all accrued sick leave and PTO, or expense leave pay only as it is incurred.

Comments to Draft Report

The Grantee states that the Council is examining their options to correct this issue.

Additional Statements

None.

B. Compliance

Finding

Failure to Comply with Policy and Procedure Manual

We noted numerous instances in which the Grantee's did not comply with its Policy and Procedures Manual in relation to reimbursement for travel, approval of out-of-state travel and approval of timesheets. For example, the Executive Director traveled out-of-state to attend the

NADO conference. The Grantee's Policy and Procedure Manual stipulates that the Federal Travel Regulations are to be used for lodging, establishes meal rates of \$25 per day for out-of-state travel and requires pre-approval for out-of-state travel. The Grantee deviated from these policies by reimbursing the Executive Director for actual lodging and meal costs and not obtaining prior approval for his out-of-state travel. Additionally, the Grantee did not obtain approval for the Executive Directors timesheets. We recommend that the Grantee adhere to its policies and procedures.

Comments to Draft Report

The Grantee contends that it has used reimbursement for actual expenses as its method for several years rather than the Federal Travel Regulations. The Grantee states that the procedures manual was never changed to reflect this policy. However, the policy and procedure manual is currently being revised to reflect the actual methodology used to reimburse travel expenses.

In addition, the Grantee states that the Executive Director has been responsible for approving out-of-state travel and his timesheets were reviewed by the accounting staff. Therefore, he did not deem it necessary to approve his own out-of-state travel and his own time sheets. However, the Grantee contends that the Executive Director's timesheets and travel were reviewed and signed by the Council Chairperson for several years.

Additional Statements

The Grantee's comments reflect our finding that the policy and procedure manual was not adhered to by the Grantee. In relation to the Executive Director's timesheets and travel, we did not find the Council Chairperson's approval for several timesheets and out-of-state travel forms. Our finding remains unchanged.

Finding

Failure To Submit Reports Timely

The independent public accountant (IPA) who conducted the Single Audit of Region VI for the fiscal year ended June 30, 1994 reported in the "Single Audit Report on Compliance with Specific Requirements Applicable to Non-Major Federal Financial Assistance Program Transactions" that the Grantee did not adhere to the grant agreement which stipulates that progress reports are to be submitted on or before April 30, 1994. We concur with the IPA's conclusion and recommend the Grantee submit all required reports in accordance with the grant agreement.

Comments to Draft Report

The Grantee states that this was an oversight as a result of the ARC grant occurring in two fiscal years. The Grantee represents that the report was prepared and submitted and that all additional reports are on file and have been submitted in a timely manner. In addition, the Grantee states that all financial reports were submitted on time.

Additional Statements

None.

C. Other Matters

Finding

Employees' Grievance on Salary Increases

The Grantee gave retroactive pay increases at the end of each fiscal year in the form of a lump payment to each employee. The employees have filed a grievance with the Executive Director which cites this as an unfair practice. The grievance includes a request that employee appraisals be completed each year and be used in the pay raise process. The Executive Director stated that the salary issue was on the agenda for the Executive Committee meeting to be held on April 9, 1996. He also stated that the Executive Committee was determining a policy for the methodology to be used for pay increases. We recommend that the Grantee continue its efforts to incorporate a new methodology in the most effective and efficient manner possible.

Comments to Draft Report

The Grantee states that the Executive Committee has met to determine a policy to be used for pay increases. The Grantee represents that this policy is to be put in writing and approved at the next committee meeting.

Additional Statements

None.

RECOMMENDATIONS

We recommend that the Grantee:

1. Assure that costs are properly identified as direct or indirect and allocated to programs based on benefit.
2. Calculate direct labor and fringe benefit costs based on an acceptable method which results in the equitable distribution of costs and recovery of actual costs incurred.
3. Record expenses to the proper programs.
4. Adhere to its policies and procedures.
5. Submit all reports that are required by grant agreements on a timely basis.


TICHENOR & ASSOCIATES
Woodbridge, Virginia
January 3, 1996