

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
JAMES M. ANDERSON
ROBERT W. BEULEY
DEIRDRE MCKENNA REED

BUSINESS: (703) 490-1004
METRO: (703) 352-1417
FAX: (703) 491-9426
E-MAIL: TICHASSOC@AOL.COM

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

FROM: Tichenor & Associates
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report No. 96-32(H)

SUBJECT TO: Memorandum Review Report on Research Foundation of SUNY, Regional
Development Initiative to Enhance Manufacturing Competitiveness in
Appalachia, Binghamton, New York. ARC Grant No: NY-11483-94-I-
302-0204: ARC Contract No. 94-63.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Research Foundation of SUNY (RFS) 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 NY-11483-94-I-302-0204, with total ARC funding of \$200,000, to RFS for the period May 1, 1994 through April 30, 1996. The project was estimated to cost, in total, \$252,470. The indirect costs and direct costs in excess of the ARC grant were funded by the New York State (NYS) Regional Economic Development Partnership Program; NYS Department of Economic Development, Strategic Industries Group; and NYS Department of Education.

ARC made six progress payments to RFS totalling \$172,629, the last payment was made on March 15, 1996. RFS had not prepared or submitted the final Financial Status Report, therefore

we reviewed total costs incurred through January 31, 1996, as reported on the most recent Financial Status Report.

This grant was one of several demonstration projects designed to enhance manufacturing competitiveness in Appalachia. The individual demonstrations are (1) to enhance the flow and use of industry information to firms and service providers, and/or (2) to improve the design and delivery of worker training programs. As one of the demonstration projects, this grant supports the Center for Commercial Competitiveness' efforts to address the competitiveness challenges of the suppliers to the specialized industry machinery manufacturers (Standard Industrial Classification 355) in the Southern Tier of New York and the Northern Tier of Pennsylvania. Specifically, this grant was to provide to small and medium-sized enterprises relevant information regarding trends in industry sectors they serve and also training in the development of strategic planning for their entry into new market areas.

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

- Provide information about opportunities in existing or new markets for either existing or new products to at least 50 firms each year;
- Provide core competency assessments and formulate business development plans for at least five firms;
- Monitor the progress of all clients who have used services.

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 applicable Office of Management and Budget (OMB) Circulars and whether RFS had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with RFS' personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at the RFS offices in Binghamton, New York on March 25 through March 28, 1996.

A. Incurred Costs

RFS claimed total project costs of \$252,470 for the period May 1, 1994 through January 31, 1996. Of this amount \$172,629 was claimed for ARC reimbursement and \$79,841 was claimed as match. Claimed costs were as follows:

Budget Category	In-kind	ARC	Total
Salaries	\$ 51,841	\$ 108,545	\$ 160,386
Employee Benefits	16,505	34,734	51,239
Travel	0	2,406	2,406
Services	0	4,427	4,427
Total Direct Costs	\$ 68,346	\$ 150,112	\$ 218,458
Indirect Costs	11,495	22,517	34,012
TOTALS	\$ 79,841	\$ 172,629	\$ 252,470

We were able to verify all costs claimed in RFS' accounting records. RFS adequately tracked and reported employee salaries. We traced campus services to supporting documentation. In addition, RFS correctly applied the negotiated indirect cost rates, as approved by the Department of Health and Human Services. Also, travel reimbursement rates were in accordance with the Federal Travel Regulations.

We noted that RFS did not properly account for program income. RFS held a seminar on November 7, 1995 at which there were nine attendees. The attendees each paid \$10, generating total program income of \$90. RFS stated that the attendance fees were used to pay for coffee and donuts furnished at the seminar, and the remainder of the income was placed in petty cash.

OMB Circular A-110, Attachment D, Program Income, paragraph 5. states, in part:

"All other program income earned during the project period shall be retained by the recipient and, in accordance with the grant or other agreement, shall be:

- a. Added to funds committed to the project by the Federal sponsoring agency and recipient organization and be used to further eligible program objectives.

- b. Used to finance the non-Federal share of the project when approved by the Federal sponsoring agency; or
- c. Deducted from the total project costs in determining the net cost on which the Federal share of cost will be based."

We recommend that RFS record all program income and all expenditures in order to assure that allowable costs are offset with total program income.

B. Internal Controls

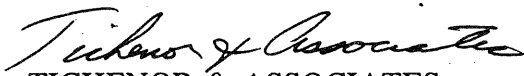
We did not note any internal control weaknesses, except for the controls over the proper recording and reporting of program income. We did, however, note that ARC reimbursements do not appear to have been made on a timely basis. We determined that the time elapsing between RFS' submission of its Financial Status Report and payment by ARC averaged approximately 60 days, and once took as long as 113 days.

C. Program Results

The project had limited success. RFS was unable to obtain any clients to participate in the strategic business plan. The goal of providing information to 100 clients resulted in reaching 66 clients. We noticed limited ARC coordination with respect to grants awarded to RFS and the Northern Tier Regional Planning & Development Commission (NTRPD&C) in Towanda, Pennsylvania. RFS had 11 clients in the Northern Tier counties, of which two were also serviced by the NTRPD&C. Such overlap could limit each grantee's ability to meet expected goals.

RECOMMENDATIONS: We recommend that RFS implement improved procedures to accumulate, record and report program income. Also, we recommend that ARC emphasize timely reimbursements and increase coordination with respect to similar purpose grants approved for different grantees serving similar geographic areas.

DISCUSSION: We discussed our conclusions with RFS on March 28, 1996.


TICHENOR & ASSOCIATES
Woodbridge, Virginia

MEMORANDUM REPORT ON REVIEW OF THE
RESEARCH FOUNDATION OF SUNY
BINGHAMTON, NEW YORK

Regional Development Initiative to
Enhance Manufacturing Competitiveness
in Appalachia

ARC Grant No: NY-11483-94-I-302-0204
ARC Contract No. 94-63
May 1, 1994 through April 30, 1996

Prepared by:

Tichenor & Associates
Certified Public Accountants
Woodbridge, Virginia

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