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**APPALACHIAN REGIONAL COMMISSION  
WASHINGTON, DC**

**REPORT ON REVIEW OF  
NORTH CAROLINA DEPARTMENT OF HUMAN RESOURCES  
GRANT NO. NC-11446  
ARC CONTRACT NO. 93-126  
SEPTEMBER 1, 1993 THROUGH DECEMBER 31, 1995**

OIG Report 96-44(h)  
June 14, 1996

**Caution:** Certain information contained herein is subject to disclosure restrictions under the Freedom of Information Act, 5 USC 522 9(b)(4). Distribution of this report should be limited to Appalachian Regional Commission and other pertinent parties.

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Mr. Hubert Sparks  
Inspector General  
Appalachian Regional Commission  
Washington, DC

### **REPORT ON APPLICATION OF AGREED-UPON PROCEDURES**

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We have applied the procedures enumerated below to the Appalachian Regional Commission's (ARC) Grant No. NC - 11446 with the North Carolina Department of Human Resources for the period September 1, 1993 through December 31, 1995. These procedures, ~~which~~ were performed solely to assist you in evaluating the allowability of costs claimed, whether grant objectives were met, and the current status of the project.

We performed the following procedures:

- Held an entrance conference with the grantee
- Reviewed the grant agreement and any modifications
- Obtained from ARC and reviewed payment records and other documents
- Compared costs reported to ARC by budget category to the general ledger or other records kept by the grantee
- Reviewed the allowability of payroll costs, non-personnel costs, and subgrantee costs
- Determined if specific grant objectives were achieved
- Determined if matching/non-federal contribution requirements were met
- Met with two subgrantees to determine their accomplishments with the grant funding
- Held an exit conference with the grantee

The results of these procedures are discussed in the **RESULTS OF REVIEW** section of this report.

These agreed-upon procedures are substantially less in scope than an examination, the objective of which is the expression of an opinion on payments received and costs claimed under this grant. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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Appalachian Regional Commission  
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This report is intended solely for the use of the Appalachian Regional Commission and the management of the North Carolina Department of Human Resources and should not be used for any other purpose. Upon acceptance, however, this report is a matter of public record.

Fairfax, Virginia  
June 14, 1996

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**REVIEW OF NORTH CAROLINA  
DEPARTMENT OF HUMAN RESOURCES  
RALEIGH, NORTH CAROLINA**

**GRANT NO. NC - 11446  
ARC CONTRACT NO. 93-126**

**SEPTEMBER 1, 1993 THROUGH DECEMBER 31, 1995**

**JUNE 14, 1996**

**PURPOSE**

The purpose of our review was to determine (1) the allowability of costs claimed, under the Appalachian Regional Commission's (ARC) Grant No. NC-11446, by the North Carolina Department of Human Resources, (2) if the grant objectives had been met, and (3) the current status of the project.

**SCOPE**

The primary purpose of the grant for the North Carolina Department of Human Resources was for the "Smart Start" program. We reviewed costs incurred and claimed for reimbursement under ARC Grant #NC-11446. Under the terms of this grant, for the complete and satisfactory performance of this grant agreement, as determined by ARC, the Grantee shall be paid by ARC a total sum not to exceed \$1,050,000, or 80% of actual, reasonable and eligible project costs, whichever is less. The Grantee shall pay or cause to be paid the non-federal share of \$262,500 (20%) in cash, contributed services, or in-kind contributions, as approved by ARC.

The period of performance for this grant was September 1, 1993 through December 31, 1995. Originally \$525,000 was obligated by ARC and an additional \$525,000 was added to the contract by amendment #2. The Grantee received payments totaling \$816,096.85 (See Exhibit A). The Grantee submitted a payment request dated January 26, 1996 for \$111,867.64. However, the project coordinator has not approved this payment because the information was not complete. During our review, we found an error in the amount requested and suggested that the North Carolina Department of Human Resources submit a final financial status report reflecting the corrected amount. The remaining balance will then be deobligated.

During the period June 10-14, 1996, we reviewed one report prepared by the grantee, examined project records, met with two subgrantees; one is currently receiving state funding

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under the Smart Start program, and the other is in the application process. We also held discussions with the grantee's project director and the accounting staff in the Division of Child Development. As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreement, Office of Management and Budget (OMB) Circular A-87 OMB Circular A-102, and the Appalachian Regional Commission Code.

## BACKGROUND

The primary purpose of the grant for the North Carolina Department of Human Resources was for the “Smart Start” program. Smart Start was introduced at the local levels to address the needs of young children and their families, with innovative and coordinated service delivery systems. The program is based on the premise that having a world-class work force with world-class skills requires that young children enter school ready to learn.

Smart Start targets children from birth to age five to ensure that they come to school healthy and ready to learn. It has three long-range objectives:

- to make early childhood education and child care available for every child who needs them;
- to provide families with needed support and family-centered services, to help ensure the healthy, caring development of their children; and
- to ensure that early childhood programs and family services meet high quality standards and performance measures.

Under this grant agreement, the Grantee shall perform the following specific tasks:

- Establish guidelines for evaluating the technical assistance subgrants to counties, to insure that each Appalachian county that applies is seriously interested in committing to “Smart Start”;
- Solicit and evaluate grant applications;
- Select counties or groups of counties for grant awards according to established selection criteria;
- Make general awards in the following categories: (1) preparing for “Smart Start”, (2) demonstrating the concept, and (3) getting organized.
- Provide technical assistance and training to subgrantees, and monitor the progress of the county consortia in carrying out the subgrant work programs, and
- Evaluate the project.

**RESULTS OF REVIEW**

We have reviewed the costs incurred by the North Carolina Department of Human Resources under ARC Contract No. 93-126 for the period September 1, 1993 through December 31, 1995. The results of our review are discussed in the **OBSERVATIONS AND RECOMMENDATIONS** section. Under ARC Contract No. 93-126 \$525,000 was obligated by ARC and an additional \$525,000 was added to the grant by amendment #2.

The grantee has requested \$927,964.49 in progress payments and have received \$816,096.85. The last request for payment of \$111,867.64 has not been paid. Based on our review, an error was found in this request. The Division of Child Development will submit the final financial status report which will reflect the correction. The remaining balance after this final payment will be deobligated by ARC (See Exhibit A).

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**OBSERVATION**

Our review disclosed that there is a lack of central oversight for this grant.

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## OBSERVATION AND RECOMMENDATIONS

### Lack of Central Oversight of Grant Management

Due to the lack of central grant management oversight, there have been ~~numerous~~ inefficiencies in the administration of this grant. The Department of Human Resources and the Division of Child Development responsible for programmatic and financial oversight, respectively, do not communicate effectively with one another and no one individual has assumed oversight for the entire management of the grant.

Several examples of the inefficiencies noted were:

- The final report that was due February 1, 1996 was not submitted until May 24, 1996. This report was filed by the programmatic staff. However, the financial department did not know it had been filed, and they had not submitted their final request for payment.
- The financial staff submitted a detailed listing of expenditures, and then submitted a revised report. However, when the final report was submitted by the programmatic division to ARC, it included the initial report, not the revised one. The financial division was unaware that the revised report had not been included in the final report.
- A request for payment was made to ARC that included a subcontract that was not part of this grant agreement. This was not detected by the Department of Human Resources or ARC. This payment was subsequently made by ARC.
- A request for payment was submitted in January 1996. ARC had decided to hold this payment until they received further information. However, the financial staff did not know, until our review, that this payment had not been received. This request for payment also included an \$8,000 discrepancy. The financial staff agreed to resubmit this request with corrected information.

The administrative requirements for grants/contracts (OMB Circular A-87 Section A.2.c) state:

*Each grantee or contractor organization, in recognition of its own unique combination of staff facilities and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration.*

Programmatic Activity/Results



**RECOMMENDATIONS:**

Department of Human Resources (Programmatic)

We recommend that one individual assume oversight for the grant, both programmatically and financially. This individual should ensure that all reporting to ARC is timely, complete, and accurate.

Division of Child Development (Financial)

We recommend that the Division of Child Development monitor and review all financial information provided to the Department of Human Resources and vouchers submitted to ARC to ensure that errors do not occur in the financial reporting.

Exit Confer

Reaction at  
Exit conference

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**NORTH CAROLINA  
DEPARTMENT OF HUMAN RESOURCES**

**Grant No. 93-126  
ARC Contract No. NC-11446  
September 1, 1993 to December 31, 1995**

**(UNAUDITED)**

***SCHEDULE OF CASH PAYMENTS***

<u>DATE</u>	<u>PAYMENT TYPE</u>		<u>AMOUNT PAID</u>
04/14/95	Progress	\$	427,559.00
12/07/95	Progress		<u>388,537.85</u>
<b>Total Paid</b>			816,096.85
<b>Total Award</b>			<u>1,050,000.00</u>
<b>Total Undrawn Balance</b>		\$	<u><u>233,903.15</u></u>