

# **APPALACHIAN REGIONAL COMMISSION WASHINGTON, DC**

**REPORT ON REVIEW OF  
SOUTHERN TECHNOLOGY COUNCIL  
GRANT No. CO-11482  
ARC CONTRACT No. 94-28  
MARCH 1, 1994 THROUGH MAY 31, 1996**

OIG Report 96-55(h)  
August 16, 1996

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

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

**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures described below, which were agreed to by the Appalachian Regional Commission's Office of Inspector General, with respect to the Appalachian Regional Commission's (ARC) Grant No. CO-11482 to the Southern Technology Council (STC) for the period March 1, 1994 through May 31, 1996, solely to assist you in determining the allowability of costs claimed, whether grant objectives were met, and the current status of the project. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Appalachian Regional Commission's Office of Inspector General. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures are as follows:

- Held an entrance conference with the grantee
- Reviewed the grant agreement and any modifications
- Reviewed records relating to eight reimbursements by ARC to the grantee
- Compared total grant costs reported to ARC by budget category to the general ledger line items
- Reviewed the allowability and supporting documentation of five payroll costs, seven non-personnel costs, and three subgrantee costs
- Determined if specific grant objectives were achieved
- Reviewed the STC's FY1995 Independent Auditor's Report and Management Letter
- Reviewed the OIG Survey Questionnaire completed by the grantee
- Held an exit conference with the grantee

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

Appalachian Regional Commission  
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We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the 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.

This report is intended solely for the use of the Appalachian Regional Commission and the management of the Southern Technology Council and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Upon acceptance, however, this report is a matter of public record.

*M. D. Oppenheim, & Company, P.C.*

Fairfax, Virginia  
August 16, 1996

**REVIEW OF SOUTHERN TECHNOLOGY COUNCIL  
RESEARCH TRIANGLE PARK, NORTH CAROLINA**

**GRANT NO. CO-11482  
ARC CONTRACT NO. 94-28**

**MARCH 1, 1994 THROUGH MAY 31, 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. CO-11482, by the Southern Technology Council, (2) if the grant objectives had been or are being met, (3) the Grantee's compliance with OMB Circulars, provisions of the grant agreement, and the ARC Code, and (4) the current status of the project.

**SCOPE**

The primary purpose of the grant to Southern Technology Council was to provide funds to assist Appalachian metal-working firms and the publicly-supported technical assistance providers that serve them in developing a catalog of systematic or packaged approaches to providing technical or business information. We reviewed the costs incurred and claimed for reimbursement under ARC Grant No. CO-11482. Under the terms of this grant, for the complete and satisfactory performance of this agreement, and upon receipt of proper invoices approved by ARC, the Commission shall reimburse the Grantee for actual, reasonable and eligible costs of the project, as determined and approved by ARC, provided total cost reimbursement payments shall not exceed \$200,000, and provided, further, that in Year One, total cost reimbursement payments shall not exceed \$104,141.

The original period of performance for this grant was March 1, 1994 to February 28, 1996, but it was extended to May 31, 1996. On March 28, 1994, \$200,000 was obligated. The Grantee received payments totaling \$152,844. In addition, the Grantee has submitted a final payment request for \$47,156 which has not been paid, which will use the remainder of the funds.

During the period August 12 - 16, 1996, we held discussions with the Office/Finance Manager, and reviewed three subcontract agreements, the Grantee's FY1995 Independent Auditor's Report and Management Letter, the OIG Survey Questionnaire completed by the Grantee, and the accounting and personnel policies and procedures. 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-110 and OMB Circular A-122, and the Appalachian Regional Commission Code.

## BACKGROUND

The primary purpose of this grant to the Southern Technology Council was to provide funds to make available information tools, products, and methods to individual manufacturers in the metal-working industry and the publicly-supported technical assistance providers that serve them. If successful, the project will demonstrate an effective means of information dissemination and provision of technical assistance for Appalachian manufacturers. It will also identify and focus demand for information tools and products, and encourage the continuation of this form of assistance.

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

- Identify and document the information needs of Appalachian metal-working firms:
  - (a) Convene a project advisory group composed of relevant parties to set broad themes and goals for the project
  - (b) Conduct a phone survey of at least 40 metal-working companies to determine information and tool needs
  - (c) Produce two information needs assessments (one per year) from tasks (a) and (b)
- Acquire and catalog information tools (systematic or packaged approaches to the dissemination of information or technical assistance):
  - (a) Produce a text catalog of tools and products suitable for widespread dissemination
  - (b) Produce a report outlining the methodology for updating the tools catalog
- Acquire and develop marketing and demonstration packages for each tool
- Disseminate and market the catalog:
  - (a) Conduct at least three direct mailings to companies and business assistance providers
  - (b) Conduct 15-25 regional briefings for metal-working firms and other interested parties from the Appalachian Region
- Provide technical and implementation assistance to metal-working firms and service providers:

- (a) Broker requests for assistance to external consultants
  - (b) Provide limited technical assistance reimbursable in part by fees for services
  - (c) Broker requests for assistance to tool providers
- Design and implement two regional academies (one per year) to foster the adoption and use of the catalog by firms and others
  - Analyze the impact and evaluate the progress of the project (these activities will be coordinated with outside evaluators designated by the Commission)
  - Produce a prospectus for a permanent institution that would act as a clearinghouse and disseminator of news or details about information tools

## **RESULTS OF REVIEW**

### **PROGRAMMATIC ACTIVITIES**

With the help of the Appalachian Regional Commission's funding, the Southern Technology Council (STC) has completed all of the tasks in the grant agreement. Some of the major items accomplished include:

- Distribution of approximately 5,000 copies of the second edition of the tools catalog. Of those, 3,404 were sent directly to small manufacturing companies in the ARC region. Copies also were distributed to various manufacturing service organizations that serve such companies. The remaining copies will be disseminated as requests are received.
- A *Summary Evaluation Report: Information Tools for Industry Project* was completed and delivered to ARC.
- Data were collected, analyzed, and a report entitled *An Analysis of Privatizing Options for the Information Tools for Industry Tools Catalog* was completed and delivered to ARC.

### **FINANCIAL REPORTING**

We have reviewed the costs incurred by the Southern Technology Council under ARC Contract No. 94-28 for the period March 1, 1994 through May 31, 1996. The results of our review are discussed in the **OBSERVATIONS AND RECOMMENDATIONS** section of the report. Under ARC Contract 94-28, \$200,000 was obligated by ARC.

The Grantee received payments totaling \$152,844. The Grantee has submitted a final payment request for \$47,156 which has not been paid. When paid by ARC, the remainder of the funds will have been expended.

Based on the procedures we have performed, we have questioned \$849 in costs which should reduce the amount of STC's final payment request.

## **OBSERVATION AND RECOMMENDATIONS**

### **OBSERVATION #1 - LACK OF FORMAL WRITTEN ACCOUNTING POLICIES AND PROCEDURES**

The Southern Technology Council does not maintain formal accounting policies and procedures to document the basic accounting functions. The lack of formal policies and procedures can result in inconsistent or improper accounting treatment, costs being charged which are not appropriate, or cash receipts not being handled properly. In addition, there are no policies or procedures in place to require the Grantee to conform to the administrative requirements of OMB Circular A-110 or the cost principles of OMB Circular A-122, as well as the Standard Government Travel Regulations and various provisions of the ARC Code.

OMB Circular A-110 *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C - *Post Award Requirements*, Section 21 *Standards for financial management systems* states:

*(b) Recipients' financial management systems shall provide for the following:*

*(6) Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.*

### **RECOMMENDATION**

We recommend the Southern Technology Council develop and follow an accounting policies and procedures manual which describes the basic functions and meets the minimum requirements of OMB Circulars A-110 and A-122, as well as the ARC code and the Standard Government Travel Regulations.

### **GRANTEE'S RESPONSE**

The Grantee did not respond to this observation.



## **OBSERVATION #2 - LACK OF SEGREGATION OF DUTIES**

The Southern Technology Council has one person who performs virtually all accounting functions, as well as payroll, procurement, and other functions. This lack of segregation of duties increases the possibility of errors or irregularities or other misappropriations of Federal funds occurring and not being detected.

OMB Circular A-110 *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C - *Post Award Requirements*, Section 21 *Standards for financial management systems* states:

*(b) Recipients' financial management systems shall provide for the following.*

*(3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.*

### **RECOMMENDATION**

While we realize the STC has a limited number of staff members, we believe there are several functions which can and should be segregated. At a minimum, a person other than the one performing the accounting functions should perform or review the monthly bank reconciliations. In addition the functions of recording cash receipts and reviewing and approving all invoices for payment should be separate from the accounting function (See **OBSERVATION #3**). These duties should not require a significant amount of time and can easily be incorporated into the duties of existing personnel.

### **GRANTEE'S RESPONSE**

*Although I am the only one who handles the accounting functions, our [Executive] Director does review all payables before signing checks. As mentioned in the Survey Questionnaire, supporting documentation does accompany all checks when submitted for signature.*

### **AUDITOR'S COMMENTS**

We acknowledge that there is an independent review of expenses before payment which does reduce the risk of errors or irregularities; however, we believe that the person reviewing invoices should have knowledge of the goods or services received. In addition, we believe that the additional duties mentioned above should also be segregated.

### **OBSERVATION #3 - LACK OF CONSISTENT APPROVAL OF INVOICES**

We tested a sample of the invoices charged to ARC Contract #94-28. Of the 10 invoices we tested, we noted that eight invoices (80%) did not appear to be properly approved by a program manager for payment. Without the approval of the invoice by the person who received the goods or services, the Grantee has no way of determining that an invoice is an appropriate charge to the grant. If invoices are not consistently approved by a program manager or other official with knowledge of the receipt of the goods or services, it increases the possibility that costs will be charged to the grant for goods or services which were not received, unsatisfactory, not allocable to the grant, or not allowable.

OMB Circular A-110 *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C - *Post Award Requirements*, Section 21 *Standards for financial management systems* states:

(b) *Recipients' financial management systems shall provide for the following:*

*(6) Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.*

*(7) Accounting records including cost accounting records are supported by source documentation.*

### **RECOMMENDATION**

We recommend that STC develop and follow written procedures describing the proper approval of invoices and the payment of invoices only which have been approved by the appropriate individual. The individual designated to approve invoices for payment should be the program manager or someone with sufficient knowledge of the goods or services received, the terms and conditions of the grant, and the appropriate Federal cost principles.

### **GRANTEE'S RESPONSE**

*. . . (O)ur Executive Director is our primary and final authorized signature. He only signs a check after reviewing the invoice and supporting documentation, therefore, allowing his signature to represent approval of a payable. In some situations, expenditures are approved two and three times. All travel is preapproved, then expense reports are submitted listing all trip expenditures, and if a reimbursement is due to the employee the expense report is reviewed by the Executive Director before the reimbursement check is signed. Copies of expense reports are attached to the appropriate airline, hotel, and bank card invoice for supporting documentation. These invoices are given to the Executive Director with*

*the supporting documents to be reviewed. Again, when he is satisfied with the payable he signs the checks and releases it for payment.*

**AUDITOR'S COMMENTS**

While we recognize that the STC's procedure is for the Executive Director to review invoices before signing checks, the person approving invoices for payment should indicate on the invoice that it has been approved in order to prevent any misunderstandings and to reduce the chance for error.

#### **OBSERVATION #4 - LATE FILING OF FINAL REPORT**

STC did not submit its final report to ARC on a timely basis. The report was submitted to ARC August 1, 1996. The final report was due by June 30, 1996, one month after the end of the period of performance (ending May 31, 1996).

The grant agreement states:

*Within one (1) month after the period of performance . . . Grantee shall prepare and submit to the ARC Project Coordinator for approval, three copies of a draft final report of all work accomplished under this agreement . . . .*

#### **RECOMMENDATION**

We recommend that the Grantee more carefully monitor due dates and obtain **written** approval from ARC for time extensions, if necessary.

#### **GRANTEE'S RESPONSE**

*Project Leader was given verbal approval.*

#### **AUDITOR'S COMMENTS**

STC stated that the agency had been given verbal approval for an extension, but we believe the Grantee should obtain extensions in writing, so as to avoid any misunderstandings. In addition, any modifications to the grant agreement (including due dates) must be in writing and signed by both parties (Part II - ARC General Contract Provisions, Article G5 - Amendments).

**OBSERVATION #5 - LACK OF SUPPORTING DOCUMENTATION**

STC reported postage expenses of \$3,500 and \$2,500 (\$6,000 total) incurred in May 1996 on its final payment request to ARC. However, the supporting documentation showed actual expenses to be \$5,152. Therefore, we are questioning the difference of \$848.

OMB Circular A-110 *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C - *Post Award Requirements*, Section 21 *Standards for financial management systems* states:

(b) *Recipients' financial management systems shall provide for the following:*

- (7) *Accounting records including cost accounting records are supported by source documentation.*

**RECOMMENDATION**

We recommend that the final reimbursement by ARC to STC be reduced by \$848.

**GRANTEE'S RESPONSE**

The Grantee did not respond to this observation.