

**M.D. OPPENHEIM & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

September 20, 1996


Mr. Hubert N. Sparks  
Inspector General  
Appalachian Regional Commission  
1666 Connecticut Avenue, NW  
Washington, DC 20235

Dear Mr. Sparks:

Enclosed is a copy of the draft report for the Maryland Department of Business and Economic Development, ARC Grant No. 91-28. Please note that in Observation #4, we are still waiting for a response from the Grantee, as they were just notified on Thursday, September 19, 1996 by telephone. We look forward to any changes, questions, or comments you have, so we can finalize the report. Thank you.

Sincerely,

**M.D. OPPENHEIM & COMPANY, P.C.**



Linda K. Cheatham, CPA  
Partner

Enclosure: OIG Report 96-64(h)

This report is a **DRAFT** only and is subject to change. It is intended for internal discussions only.

# **APPALACHIAN REGIONAL COMMISSION WASHINGTON, DC**

**REPORT ON REVIEW OF  
MARYLAND DEPARTMENT OF BUSINESS AND ECONOMIC  
DEVELOPMENT  
GRANT No. CO-10720  
ARC CONTRACT No. 91-28  
FEBRUARY 1, 1991 THROUGH JULY 30, 1995**

OIG Report 96-64(h)  
August 28, 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-10720 to the Maryland Department of Business and Economic Development (DBED), formerly the Maryland Department of Economic and Employment Development, for the period February 1, 1991 through July 30, 1995, 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
- Obtained from ARC and reviewed payment records and other documents
- Compared costs reported to ARC to grantee's records
- Reviewed the allowability of non-personnel costs
- Reviewed the supporting documentation for a sample of grant expenses
- Determined if specific grant objectives were achieved
- Reviewed DBED's FY1995 Independent Auditor's Report
- Reviewed the OIG Survey Questionnaire completed by the grantee
- Reviewed DBED's December 1995 Internal Control Review prepared by grantee's internal auditors
- Held an exit conference with the grantee

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

We were not engaged to, and did not, perform an audit, the objective of which would be 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  
Inspector General  
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This report is intended solely for the use of the Appalachian Regional Commission and the management of the Maryland Department of Business and Economic Development 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.

Fairfax, Virginia  
August 28, 1996

**REVIEW OF MARYLAND DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT  
BALTIMORE, MARYLAND**

**GRANT NO. CO-10720  
ARC CONTRACT NO. 91-28**

**FEBRUARY 1, 1991 THROUGH JULY 30, 1995**

**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-10720, by the Maryland Department of Business and Economic Development, (2) if the grant objectives had been 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 the Maryland Department of Business and Economic Development was to provide funding for a joint effort by the States of Maryland and West Virginia to develop tourism as an economic development strategy through design and promotion of new tour packages to the Appalachian regions of those states for marketing to international and domestic tour operators. We reviewed the costs incurred and claimed for reimbursement under ARC Grant No. CO-10720. Under the original terms of this grant, for the complete and satisfactory performance of this agreement, the Commission shall pay a total sum not to exceed \$25,000 of actual, reasonable and eligible project costs. This was later increased to \$45,000.

The original period of performance for this grant was February 1, 1991 to September 30, 1991, but it was extended to July 30, 1995. On June 14, 1991, \$25,000 was obligated, and on January 9, 1992, an additional \$20,000 was obligated. The Grantee received payments totaling \$43,030. The remaining balance of \$1,970 was deobligated on October 10, 1995.

During the period August 26 - 28, 1996, we held discussions with the Assistant Tourism Director for Marketing, the Fiscal Supervisor, and several individuals within the Division of Administration. We reviewed the Grantee's FY1995 Independent Auditor's Report, the OIG Survey Questionnaire completed by the Grantee, and the December 1995 internal control review performed by the Grantee's internal auditors. 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 and OMB Circular A-102, and the Appalachian Regional Commission Code.

## **BACKGROUND**

The primary purpose of this grant to the Maryland Department of Business and Economic Development was to provide funding for a joint effort by the States of Maryland and West Virginia to develop tourism as an economic development strategy through design and promotion of new tour packages to the Appalachian regions of those states for marketing to international and domestic tour operators. This project is one of five Regional Tourism Initiative Proposals submitted under the ARC Research Program, approved at the October 20, 1990 Commission Meeting. It is designed to promote tourism in the Appalachian area by visitors from abroad. The proposal builds upon an existing relationship between Maryland and an international tourism consultant by assigning new activities. The goal of the joint effort will be to develop new tour packages with tour operators in Europe and receptive operators in this country.

Under this grant agreement, the Grantee was to perform the following tasks:

- Create itineraries that cater to both the general sightseeing and adventure sports interests of travelers either individually or as part of a group tour, building on a survey of tourism assets;
- Stimulate interest and participation in the promotion of these itineraries, primarily in the United Kingdom, and secondarily in Germany and the Netherlands, through the travel trade marketplaces, working with potential airline partners and tour operators, conducting familiarization tours, and utilizing the states' extensive representatives abroad;
- Develop new tour packages with tour operators in Europe and receptive operators in the United States as outlined in the Abstract - West Virginia/Maryland ARC Marketing Continuation, and
- Refine and market itinerary packages to Canada featuring the Civil War and other historical attractions in the Appalachian Region of Maryland and West Virginia.

## **RESULTS OF REVIEW**

### **PROGRAMMATIC ACTIVITIES**

With the help of the Appalachian Regional Commission's funding, the Maryland Department of Business and Economic Development (DBED) has accomplished the following, which appear to satisfy the first three tasks in the Grant Agreement:

- Utilized Maryland's representative in the United Kingdom, who performed the following functions:
  - 1) Toured Western Maryland and Virginia to identify product facilities, and services that would be included in potential tour itineraries;
  - 2) Represented Maryland and Virginia at trade shows in the United Kingdom and Scandinavia;
  - 3) Worked directly with tour operators to sell the attractiveness of the destination to their specific clientele;
  - 4) Created product for a local receptive operator to develop into a commercially available itinerary;
  - 5) Developed general itineraries on the region, and
  - 6) Distributed general information on West Virginia and Maryland in response to requests from consumers in the United Kingdom.
- Identified tour operators and identified trade shows which offered the greatest possibility as a tie-in to the international marketing efforts put forth by Maryland on behalf of Capital Region USA, a marketing consortium of Maryland, Virginia, and Washington, DC.
- Worked with tour operators who have aggressively promoted these tours by providing brochure support.

### **FINANCIAL REPORTING**

We have reviewed the costs incurred by the Maryland Department of Business and Economic Development under ARC Contract No. 91-28 for the period February 1, 1991 through July 30,

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1995. The results of our review are discussed in the **OBSERVATIONS AND RECOMMENDATIONS** section of the report. Under ARC Contract 91-28, \$45,000 was obligated by ARC.

The Grantee has received \$43,030 in payments. The remaining balance of \$1,970 has been deobligated.

As a result of our review, we have identified \$24,133 in questioned costs.



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## OBSERVATIONS AND RECOMMENDATIONS

### OBSERVATION #1 - COSTS IN EXCESS OF BUDGET

The Maryland Department of Business and Economic Development reported and was reimbursed for costs which exceeded the budget for the Show Participation Support and the Marketing/Familiarization Tours line items, resulting in total questioned costs of \$11,193 as follows:

CATEGORY	BUDGET	ACTUAL	DIFFERENCE	ALLOWANCE	QUESTIONED
Show Participation Support	\$4,000	\$16,085	\$12,085	\$4,500	\$7,585
Marketing/Familiarization Tours	1,000	4,608	3,608	*	3,608
<b>TOTAL QUESTIONED</b>	<b>\$5,000</b>	<b>\$20,693</b>	<b>\$15,693</b>	<b>\$4,500</b>	<b>\$11,193</b>

\* An allowance of 10% of the total grant award (\$45,000 x 10% = \$4,500) was established for budget modification according to the *Common Rule, Subpart C Changes, Property, and Subawards, Section .30 Changes, (c) Budget changes, (1) Nonconstruction projects, ii.* This allows the grantee to make budget revisions without ARC approval for 10% of the total grant award. We allocated the full allowance to the Show Participation Support category.

Part I *Special Provisions*, Article 2-6 Detailed Budget of the Grant Agreement states:

*... only those costs which are incurred in accord with the approved budget shall be eligible for reimbursement.*

The Grantee has been reimbursed for \$11,193 of costs which are not eligible, as they exceeded the budgeted amounts.

The Grantee does not classify or record its expenses based on budget line items. Therefore, the grantee was unable to determine the budget-to-actual expenses.

### RECOMMENDATION

We recommend <sup>that the grantee work with ARC program staff to resolve this issue, including</sup> ~~the grantee resubmit~~ <sup>submission of</sup> costs which are eligible for reimbursement under the grant agreement or reimburse ARC \$11,193. In addition, the Grantee should implement a system for classifying and recording expenses in accordance with the budget line items for any future awards.

**GRANTEE'S RESPONSE**

At the exit conference on August 28, 1996, the Grantee commented that it was too late for the recommendation that they record their expenses by budget line item. The Grantee did not specifically address the \$11,193 in questioned costs.

**AUDITOR'S COMMENTS**

While we realize it is too late for DBED to affect the grant under review, our recommendation is directed to any future awards they might receive. Also, there is a need to resolve the ~~issue of~~ budget revision issue.

"future" in regular type



**OBSERVATION #2 - LACK OF COMPLIANCE WITH GRANT AGREEMENT**

The Maryland Department of Business and Economic Development did not perform Specific Task #4 in the Grant Agreement, which states:

*Refine and market itinerary packages to Canada featuring the Civil War and other historical attractions in the Appalachian Region of Maryland and West Virginia.*

It appears the Grantee spent their resources on the other three specific tasks. Therefore, the Grantee is not in compliance with the terms of the Grant Agreement.

**RECOMMENDATION**

We recommend the Grantee perform Specific Task #4 in accordance with the Grant Agreement, or request that ARC amend the Grant Agreement and remove the provision for Specific Task #4.

**GRANTEE'S RESPONSE**

The Grantee did not respond to this observation.

**AUDITOR'S COMMENTS**

Our recommendation remains unchanged. *at this time.*



**OBSERVATION #3 - LACK OF ADEQUATE SUPPORTING DOCUMENTATION**

There were disbursements for which the grantee did not provide adequate supporting documentation for the costs submitted to and reimbursed by ARC:

- A) A consulting fee paid to a consultant for \$2,833 had no supporting documentation.
- B) A consulting fee paid for the utilization of a Maryland representative in the U.K. for \$6,000 had no supporting documentation.
- C) Travel expenses for November 23, 1991 to December 2, 1991 for \$1,979 were submitted to ARC and paid. However, the Grantee's documentation supported only \$1,872 in expenses. Therefore, we are questioning \$107.
- D) A purchase order to a Maryland county for a German writers tour for \$1,044 was submitted and paid by ARC. However, the Grantee's documentation supported only \$792 in expenses. Therefore, we are questioning \$252.

OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A - *General Principles for Determining Allowable Costs*, Part C. *Basic Guidelines* states:

- 1. *Factors affecting allowability of costs.*
  - To be allowable under Federal awards, costs must meet the following general criteria . . .*
  - j. Be adequately documented.*

A total of \$9,192 in costs which are not adequately documented have been questioned.

**RECOMMENDATION**

We recommend that the Grantee submit to ARC other eligible expenses, provide adequate documentation to ARC for the expenses which have been reimbursed, or reimburse ARC \$9,192 in questioned costs.

## GRANTEE'S RESPONSE

The Grantee responded to the first two questioned costs:

A) Consultant Fee (\$2,833)

*[The consultant] is a contractual employee for the Maryland Office of Tourism Development. His primary responsibilities for Maryland Tourism include the development of package tours of the state and the education of the Maryland private sector on how to do business with international tour operators and receptives. As a tour operator himself, and having worked in the British travel trade, he was eminently qualified to perform this type of work.*

*The above referenced time period was the amount of time [the consultant] spent performing a product assessment of Western Maryland and West Virginia which led ultimately to the Mountain Adventures information piece. During this time [the consultant] researched all available information. [sic] and traveled the region extensively, in order to better know the product that we (Maryland and West Virginia) would sell to tour operators with a special interest in camping, outdoor activities and mild adventure sports.*

*In the contract that Maryland had with [the consultant], there was no requirement made to keep track of hours spent on various projects. In reference to this particular item, it represents a conservative estimate of the actual time [the consultant] spent on this particular portion of the project.*

B. Utilization of Maryland representative in the U.K. (\$6,000)

*In June 1994, [the representative] returned to England to become Maryland's representative for the UK and Scandinavia. His specific duties included working with trade press, and tour operators to promote the use of Maryland (and where applicable, our ARC product) in tour itineraries through direct contact as well as participation in European travel trade shows . . . . Additionally, he would travel to the United States to participate with the Maryland team . . . promoting the ARC product.*

*Also, as part of his direct trade contact, he attempted to sell the ARC package to . . . UK based tour operators. [Tour Operator #1] finally came through with a familiarization tour and confirmation that the tour would be arranged using a*

receptive operator based in Cumberland Maryland, [Tour Operator #2], and the potential for booking business had been achieved.

The amount charged to the ARC grant is based on what we believe to be a fair, and conservative estimate of [the representative's] time spent on promoting the ARC project at the shows and activities listed.

**AUDITOR'S COMMENTS**

*we recognize the above comments but reiterate that (and/or obtain invoices or time certifications)*  
The Grantee should have documentation (i.e. an invoice) from the consultant indicating that he ~~had~~ <sup>services</sup> performed the services. The Agreement should state the amount that will be paid to the consultant and the basis for payment. At a minimum, the consultant should be required to submit an invoice to the Grantee. ~~No such documentation was provided to us.~~

Also, action should be initiated to resolve the ~~costs questioned as due to~~ travel costs noted above. ✓

**OBSERVATION #4 - COSTS INCURRED SUBSEQUENT TO PERIOD OF PERFORMANCE**

The Grantee submitted to ARC and was reimbursed for expenses that were incurred after the grant had expired. The Grantee submitted a \$4,000 expense for a vendor related to advertising in a brochure. The invoice was dated October 13, 1995, and it appears the publication was to occur in 1996. The invoice was not paid until April, 1996. The period of performance for this grant ended July 30, 1995.

OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A- *General Principles for Determining Allowable Costs*, Part C. *Basic Guidelines* states:

2. **Reasonable costs.**  
*In determining reasonableness of a given cost, consideration shall be given to . . .*
  - b. *The restraints or requirements imposed by such factors as . . . terms and conditions of the Federal award.*

Part I - *Special Provisions*, Article 4 *Effective Date* of the Grant Agreement states:

*The period of performance is from February 1, 1991 through July 30, 1995.*

Therefore, we have questioned \$4,000 as the costs were incurred outside the grant period.

**RECOMMENDATION**

We recommend that the Grantee request that ARC extend the period of performance of the grant, submit other eligible costs to ARC in the amount of \$4,000, or reimburse ARC the \$4,000 in costs which were not eligible under this grant.

**GRANTEE'S RESPONSE**

The Grantee was notified by telephone on September 19, 1996 and has not provided a response.

**AUDITOR'S COMMENTS**

Our recommendation remains unchanged.

I understand this condition has been resolved and will not be in report #1

# Maryland Department of Business and Economic Development Baltimore, MD

Grant No. CO - 10720  
ARC Contract No. 91-28  
February 1, 1991 to July 30, 1995

(UNAUDITED)

## *SCHEDULE OF CASH PAYMENTS*

<u>DATE</u>	<u>PAYMENT TYPE</u>	<u>AMOUNT PAID</u>
October 10, 1991	Progress	\$ 8,499.00
August 25, 1992	Progress	18,508.03
October 10, 1995	Final	16,023.14
<b>Total Paid</b>		43,030.17
<b>Total Award</b>		45,000.00
<b>Balance</b>		1,969.83
<b>Amount Deobligated</b>		1,969.83
<b>Total Balance Available</b>		<u><u>\$ 0.00</u></u>



# Maryland Department of Business and Economic Development Baltimore, MD

Grant No. CO - 10720  
ARC Contract No. 91-28  
February 1, 1991 to July 30, 1995

(UNAUDITED)

## ***SCHEDULE OF QUESTIONED COSTS***

*Observation #1 - Costs in excess of budget*

A.	Show Participation Support	\$ 7,585.00
B.	Marketing/Familiarization Tours	3,608.00

*Observation #3 - Lack of adequate documentation*

A.	Consultant's fee	2,833.00
B.	Maryland representative	6,000.00
C.	Travel expenses (November 23 - December 2, 1991)	107.46
D.	German writers tour	251.69

*Observation #4 - Costs outside grant period* 4,000.00

Questioned costs \$ 24,385.15

Less: Costs questioned more than once

*Observation #3 D.* (251.69)

**Net Questioned Costs** **\$ 24,133.46**

## Identification of Selected Names and Expenses

### Observation #3

- A. Graham Thornton (Expense reported on September 25, 1991 Payment Request)
- B. Graham Thornton (August 29, 1995 Payment Request)
- C. August 18, 1992 Payment Request
- D. Garrett County (August 29, 1995 Payment Request)

### *Grantee's response*

- A. Graham Thornton [the consultant]
- B. Mr. Thornton [the representative]  
Ramblers [Tour Operator #1]  
Westmar Tours [Tour Operator #2]