

# **APPALACHIAN REGIONAL COMMISSION WASHINGTON, DC**

## **REPORT ON REVIEW OF SOUTHERN TECHNOLOGY COUNCIL**

GRANT No. CO-11802

ARC CONTRACT No. 94-137

GRANT PERIOD: SEPTEMBER 1, 1994 THROUGH FEBRUARY 1, 1997

PERIOD OF REVIEW: SEPTEMBER 1, 1994 THROUGH JULY 31, 1996

OIG Report 96-68(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**

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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-11802 to the Southern Technology Council (STC) for the period September 1, 1994 through July 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 two reimbursements from 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 a sample of one payroll cost, seven non-personnel costs, and two 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  
Inspector General  
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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 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-11802  
ARC CONTRACT NO. 94-137**

**GRANT PERIOD: SEPTEMBER 1, 1994 THROUGH FEBRUARY 1, 1997  
PERIOD OF REVIEW: SEPTEMBER 1, 1994 THROUGH JULY 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-11802, by the Southern Technology Council (STC), (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 for the Southern Technology Council was to provide funds to help underwrite the initial organizational phase of the newly-created Southeastern Regional Alliance (SRA). We reviewed costs incurred and claimed for reimbursement under ARC Grant No. CO - 11802. 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 the total cost reimbursement payments shall not exceed \$50,000.

The original period of performance for this grant was September 1, 1994 to August 31, 1995, but it was extended to February 1, 1997. On October 18, 1994, \$50,000 was obligated. The Grantee received payments totaling \$26,699. This leaves a balance of \$23,301 remaining.

During the period August 12 - 16, 1996, we held discussions with the Office/Finance Manager, and reviewed a subcontract agreement, the Grantee's FY1995 Independent Auditor's Report and Management Letter, the OIG Survey Questionnaire completed by the Grantee, and STC's 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 for the Southern Technology Council was to provide funds to help underwrite the initial organization phase of the newly created Southeastern Regional Alliance (SRA). SRA is a fledgling regional initiative of the states of North Carolina, South Carolina, Georgia, and Tennessee along with the ARC, Tennessee Valley Authority, Martin Marietta Energy Systems, Inc., and several other educational and economic development institutions of the four-state area. SRA's mission is to coordinate the delivery of business assistance services and share complementary technological resources, which can effectively serve the leading edge companies of southern Appalachia.

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

- 1) Develop a structure for the organization to facilitate collaboration between the partnering organizations
- 2) Form an industry council for financial and other participation
- 3) Conduct assessments of industry needs and analysis of existing data sources
- 4) Develop an organizational strategic plan
- 5) Plan and implement a series of pilot projects in telecommunications and manufacturing

## **RESULTS OF REVIEW**

### **PROGRAMMATIC ACTIVITIES**

With the help of the Appalachian Regional Commission's funding, the Southern Technology Council (STC) has accomplished the following tasks:

- Developed the organizational structure of the SRA which consists of an Executive Steering Board and a series of subcommittees that target specific areas such as telecommunications, and several industry groupings: automotive, plastics, textiles
- Conducted a series of meetings with the plastics industry to establish interest and commitment in developing several pilot projects relating to materials selection, workforce training, and business interaction. In addition STC has conducted an extensive survey of plastics manufacturers to define distribution channels, categorization of product and process requirements, and identification of technology and other business assistance needs
- Established an agreement with the major telecommunications service providers to support pilot project efforts in the four-state area
- Developed plans for ten potential pilot projects
- Completed and reviewed the strategic plan
- Set up an executive steering committee meeting at ARC

### **FINANCIAL REPORTING**

We have reviewed the costs incurred by the Southern Technology Council under ARC Contract No. 94-137 for the period September 1, 1994 through July 31, 1996. The results of our review are discussed in the **OBSERVATIONS AND RECOMMENDATIONS** section. Under ARC Contract 94-137, \$50,000 was obligated by ARC.

The Grantee has received \$26,699 in payments. Therefore, \$23,301 remains available in the grant. We have questioned \$248 of excess travel costs.

## **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 nine invoices we tested, three invoices (33%) 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 - LACK OF COMPLIANCE WITH FEDERAL TRAVEL REGULATIONS**

We noted two trips in which travel costs in excess of those allowed under Federal Travel Regulations (FTR) were charged to this grant, without ARC approval:

- In February 1995, a trip was made to Rockford, Tennessee. The lodging expenses charged for one night for each of five people were as follows: \$75.00, \$85.00, \$85.00, \$85.00, and \$105.00 for a total of \$435.00. The maximum allowable rate for Rockford, Tennessee during February 1995 was \$40.00 per person for a total of \$200.00. Therefore, the Grantee charged \$235.00 in excess of that allowed under the FTR.
- In February 1995, a trip was made to Knoxville, Tennessee. The lodging expenses charged to the grant were \$66.82. The allowable expenses under the FTR for February 1995 was \$54.00. Therefore, the Grantee charged \$12.82 in excess of that allowed under the FTR.

Article A6 of the ARC Grant Administration Provisions state:

*If travel costs are to be claimed under this contract, Contractor shall be reimbursed for actual and reasonable costs of travel in the performance of this contract; Provided, that payments shall not exceed an amount ordinarily payable per usual ARC travel regulations unless otherwise specifically provided or approved by ARC.*

#### **RECOMMENDATION**

We recommend that the Grantee monitor the travel costs charged to make sure they do not exceed Federal Travel Regulations, unless they obtain **written** approval from ARC to do so.

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

*This is more of a question than a comment. Is ARC planning to revise these Travel Regulations? The amounts appear to be very out of date.*

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

The Grantee should not charge travel costs which exceed those allowed under the Federal Travel Regulations (FTR). ARC uses the FTR to determine limitations on reasonable travel costs. The FTR are issued by the Administrator of General Services in the General Services Administration. Although the FTR have since been revised, the travel costs in questions were incurred in February 1995. The FTR rates cited above reflect the rates effective January 1, 1995.

# Southern Technology Council

## RESEARCH TRIANGLE PARK, NC

Grant No. CO - 11802

ARC Contract No. 94-137

Grant Period: September 1, 1994 through February 1, 1997

Period of Review: September 1, 1994 through July 31, 1996

(UNAUDITED)

### *SCHEDULE OF CASH PAYMENTS*

| <u>DATE</u>  | <u>PAYMENT TYPE</u> | <u>AMOUNT PAID</u>         |
|--|---------------------|----------------------------|
| December 5, 1995                                       | Progress            | \$ 14,799.63               |
| February 9, 1996                                       | Progress            | 11,899.12                  |
| <b>Total Paid</b>                                      |                     | 26,698.75                  |
| <b>Total Award</b>                                     |                     | 50,000.00                  |
| <b>Total Undrawn Balance</b>                           |                     | 23,301.25                  |
| <b>Less: Questioned Costs<br/>(See Observation #4)</b> |                     | (247.82)                   |
| <b>Balance Available</b>                               |                     | <u><u>\$ 23,053.43</u></u> |