

MEMORANDUM REPORT ON REVIEW OF
BROOME COMMUNITY COLLEGE

BINGHAMTON, NEW YORK

ALLIANCE FOR MANUFACTURING COMPETITIVENESS
PHASE II

ARC GRANT NUMBER
NY-11592-94-I-302-0429

FOR THE PERIOD
SEPTEMBER 1, 1994 THROUGH MARCH 31, 1996

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Report Number: 97-4 (H)

Date: October 15, 1996

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Prepared by:

**Tichenor & Associates
Certified Public Accountants
Woodbridge, Virginia**

**Under Contract Number J-9-G-5-0010 with the
U.S. Department of Labor
Office of Inspector General
Office of Audit**

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

FROM: Tichenor & Associates
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman
ARC Executive Director

SUBJECT TO: Memorandum Review Report 97-4(H) on Broome Community College,
Alliance for Manufacturing Competitiveness-Phase II, Binghamton, New
York. Grant No: NY-11592-94-I-302-0429: ARC Contract No. 94-105.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Broome Community College's Alliance for Manufacturing Competitiveness 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-11592-94-I-302-0429 to Broome Community College (BCC) for the period September 1, 1994 through March 31, 1996. Total grant funding was for an amount not to exceed \$149,965, or 48.7 percent of actual, reasonable and eligible project cost, whichever is less. ARC required that the grant be matched with \$188,209, or 51.3 percent, in cash, contributed services, or in-kind contributions, as approved by ARC. ARC made six progress payments to BCC totaling \$148,875.

The funds from this grant were to provide financial assistance to support Phase II of the Alliance for Manufacturing Competitiveness project. Under Phase I, twenty (20) small to medium-sized manufacturing firms were targeted. BCC, with area community colleges and Binghamton University, provided seminars focusing on life-long professional development to support competitive manufacturing issues. Also, recruitment and networking of companies were

emphasized. In Phase II, the consortium will be expanded to twenty (20) additional firms and other post-secondary institutions. This phase will focus on: total quality management, agile manufacturing, continuous flow manufacturing and just-in-time techniques, integrated manufacturing, and leadership and team concepts. The specific tasks of the grant program were to:

- Finalize curriculum development of engineering programs developed under Phase I;
- Offer the Best Practice Lecture Series initiated in Phase I in each sub-region to inform additional companies as to how successful companies update in competitive issues and maneuver in the global market place;
- Conduct four strategic development workshops to discuss the design and implementation of long-range strategic training plans;
- Hold quarterly network meetings in order to maximize information, coordinate training and reciprocally benefit from one another's skills;
- Provide consultations and support for individual firms; and,
- Conduct competitive strategy reviews in order to evaluate a company's original development plan for continuous improvement.

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. Specifically, we determined if the tasks listed above had been performed, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if BCC had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with BCC's personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at BCC's offices in Binghamton, New York on May 8, 1996 and May 9, 1996.

A. Incurred Costs

BCC incurred total program costs totaling \$376,282, of which they claimed direct reimbursable costs from September 1, 1994 through March 31, 1996 of \$148,875 and in-kind costs of \$227,407. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported by BCC. However, we determined that \$1,168 of the direct costs and \$18,241 of the in-kind costs were questionable and/or unallowable in accordance with the terms of the grant and applicable OMB Circulars. We also found program income of \$17,748 which was not credited to the grant. These costs are discussed below.

1. Costs Not Incurred

BCC miscalculated the actual cost of retirement expenses for one employee. This error resulted in \$432 claimed, which was not incurred for this fringe benefit. The employee was transferred from the teacher's retirement plan to the TIAA-CREF retirement plan upon her conversion to a full time employee in December 1995. The expenses for each plan were different and the calculation to claim costs for the one employee was not done properly.

Fringe benefit costs must be based on actual costs in accordance with OMB Circular A-122, Attachment A, Paragraph A.1. In addition, OMB A-122, Attachment B, Paragraph 6. f. (2), states, in part :

"Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, pension plan costs...are allowable provided such benefits are granted in accordance with established written organization policies. Such benefits whether treated as indirect costs or as direct costs, shall be distributed to particular awards and other activities in a manner consistent with the pattern of benefits accruing to the individuals..."

OMB A-21, Section J, paragraph 15. d. states, in part:

"Fringe benefits may be assigned to cost objectives by identifying specific benefits to specific individual employees or by allocating on the basis of the salaries and wages of the employees receiving the benefits. When the allocation method is used, separate allocations must be made to selective groupings of employees if the costs in relationship to salaries and wages differ significantly for different groups of employees..."

Grantee's Response:

BCC concurred with the finding and has implemented procedures to ensure proper reporting of costs.

2. Costs Incurred After the Grant Period

BCC claimed \$736 for office equipment purchased after expiration of the grant. BCC ordered a \$180 word processing typewriter which was not to be delivered until April 19, 1996, the month after the end of the grant period. In addition, BCC ordered a \$556 binding machine on April 3, 1996, also after the end of the grant period. These costs are unallowable in accordance with the grant agreement.

Grantee's Response:

BCC stated the continuance of the Alliance for Manufacturing Competitiveness would be enhanced by the equipment purchases. The purchase of equipment and the necessity of a grant time extension had been discussed with the ARC contract coordinator. It was decided, however, that the equipment could be acquired within the time remaining and that no end date amendment would be required.

Additional Comments:

The orders for the equipment were not placed until after the end of the grant, as discussed by BCC and the ARC contract coordinator. Therefore, we continue to question the allowability of the costs as grant eligible.

3. Matching Costs

BCC claimed match for contributed services, in-kind expenses and cash contributions as follows:

Source	Amount	Description
In-Kind	\$ 84,565	Workshops - Personnel for Best Practice and Certificate Programs
CERSP	65,438	Travel, Meetings, Marketing, Office Supplies, Company Training

<u>Source</u>	<u>Amount</u>	<u>Description</u>
Cash	78,220	Workshops - Textbooks/Manuals, Office Supplies for Best Practice and Certificate Programs
TOTAL	\$ 228,223	

The \$78,220 BCC claimed was for supplies and other expenses used in conducting the workshops. The costs for each workshop were supported by an attendance listing and a summary of expenditures. The summary of expenditures included both a summary of the fees collected, registration and textbook/manual fees, and a summary of expenditures. Workshops costs, excluding personnel costs which were claimed separately as in-kind costs as shown above, typically included expenditures for duplicating, catalog space, and administrative overhead. We determined the administrative overhead to be unallowable as match. In addition, we determined that BCC did not offset the fees collected against the related expenses of the workshop.

a. Administrative Overhead

BCC's administrative overhead was reportedly calculated based on 60 percent of the registration fees collected, to cover telephone, fax, computer time, office space, parking and security. BCC stated that the 60 percent was an estimate and was not based on actual cost records.

The other community colleges which held workshops also charged an administrative overhead fee as follows:

- SUNY-Cortland, \$210 per class,
- SUNY-Morrisville, \$35 per hour, and
- Tompkins Cortland Community College, \$35 per hour

No basis or explanation for these fees was provided by BCC.

The expenses of conducting the workshops are eligible as match for the grant. However, the administrative overhead charges do not appear to be allowable. Overhead charges, as with any other direct or indirect cost, must represent actual expenses incurred and paid by the grantee. In addition, the costs must be allowable and allocable to the grant program.

OMB A-110, Attachment F, Paragraph 2.f. and 2.g., state:

"Recipient's financial management systems shall provide for:...

f. Procedures for determining the reasonableness, allowability and allocability of costs...

g. Accounting records that are supported by source documentation."

We determined the total administrative overhead claimed as in-kind to be \$18,241. We recommend that the allowable in-kind costs be reduced by \$18,241.

Grantee's Response:

BCC stated the administrative overhead was calculated based on the indirect cost rate used by the College. The indirect cost rate was developed using historical actual costs closely approximating actual costs.

Additional Comments:

The recovery of costs such as the administrative costs identified above would have been through the application of BCC's indirect cost rates. Documentation provided to us during fieldwork did not support calculation of administrative costs for either school. We continue to recommend BCC reduce their in-kind costs by \$18,241.

b. Program Income

We determined that the registration and textbook/manual fees collected are program income which should be offset against program expenses, not claimed as additional matching costs. OMB Circular A-110, Attachment D, Program Income, paragraph 1 states:

"...Program income represents gross income earned by the recipient from the federally supported activities. Such earnings...may include, but will not be limited to, income from service fees, sale of commodities, usage or rental fees, and royalties..."

In addition paragraph 5 of the same attachment 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 costs on which the Federal share of cost will be based."

Finally, ARC General Contract Provisions, Article G4 states, in part:

"...Pursuant to Section 18-7.3 of the ARC Code, contract-related income must be used to reduce the ARC grant amount, unless the ARC...specifically approves the expenditure of such contract-related income to expand project services."

We calculated program income, claimed as in-kind costs, of \$17,748 as shown below.

Workshop Location	Income	Expenses	Ineligible Administrative Overhead	Program Income
Broome Community College	\$ 15,737	\$ 19,118	\$ 6,927	\$ 3,546
SUNY - Cortland	17,455	19,523	10,264	8,196
SUNY - Binghamton	9,129	9,487	-0-	(358)
SUNY - Morrisville	27,215	20,733	840	7,322
Corning Community College	1,765	3,076	-0-	(1,311)
Tompkins Cortland Community College	2,320	2,177	210	353
TOTAL	\$ 73,621	\$ 74,114	\$ 18,241	\$ 17,748

Grantee's Response:

BCC stated the income received from registration fees was used to support grant activities. The Grantee also stated that they would obtain prior approval to use program income and that all program income and all related expenditures will be recorded for future endeavors.

Additional Comments:

The use of program income to further or support grant activity is allowable provided it is approved by ARC and that documentation supporting the use of program income is available to show the allowability of the expenses. Because BCC did not provide documentation supporting the use of program income, we continue to recommend ARC recover \$17,748.

Summary:

BCC did not provide evidence that ARC had approved the use of program income to finance the non-federal share of the project. Therefore, we recommend that the allowable in-kind costs be reduced by \$17,748 for program income. However, we recommend that in the future BCC obtain approval to use program income to further the program and record all program income and all related expenditures in order to assure that program income is offset by total allowable costs. We also recommend that the allowable in-kind costs be reduced by \$18,241 for unallowable administrative overhead.

B. Internal Controls

BCC calculated and charged worker's compensation to all projects using an outdated rate. BCC calculated worker's compensation during 1994 using a rate of 0.75 percent. The actual rate for 1994 was 1.8 percent. Likewise during the first three quarters in 1995, BCC used an estimated rate of 1.22 percent which was not adjusted to the actual 1995 rate of 1.4 percent. BCC should design and implement procedures to verify the actual worker's compensation rate and adjust expenses to reflect actual costs. Failure to implement procedures could result in the possible misstatement of future contract costs.

C. Program Results

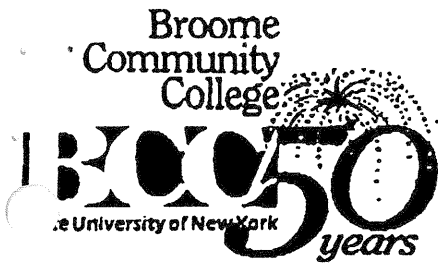
Our review of BCC's Alliance for Manufacturing Competitiveness program indicated all of the objectives and specific tasks identified in the grant, and summarized above, had been achieved. More specifically, quantifiable goals were exceeded in every task. The program received state and national awards of excellence.

RECOMMENDATIONS: We recommend that ARC, in the absence of additional information, disallow \$37,157 in questioned costs as shown below.

Cost Category	Amount
Unsupported Fringe Benefits	\$ 432
Costs Incurred After the Grant Period	736
Administrative Overhead	18,241
Program Income	17,748
TOTAL	\$ 37,157

However, since BCC incurred allowable project costs in excess of the grant requirements, no recovery of funds by ARC is necessary.

Tichenor Associates
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Sponsored Programs

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September 9, 1996

HUBERT N. SPARKS
INSPECTOR GENERAL
APPALACHIAN REGIONAL COMMISSION
1666 CONNECTICUT AVENUE, NW
WASHINGTON, DC 20235

Broome Community College appreciated receiving your letter of August 20, 1996 regarding OIG Report 96-38(H), Contract 94-105, Grant NY-11592. We have reviewed the comments of Tichenor & Associates and offer the following information as clarification.

1. Costs Not Incurred

Broome Community College has taken steps to ensure that future fringe benefits are calculated and distributed to the proper activity or award based on actual costs.

2. Costs Incurred After the Grant Period

It was recognized that continuation of the Alliance for Manufacturing Competitiveness (AMC) would be enhanced by the purchase of equipment to rapidly prepare and disseminate materials to members. The AMC Advisory Board and AMC Education Committee continue to meet and share offerings of each postsecondary institution to business and industry through their Centers for Community Education. Copies of minutes and curricula are circulated among the institutions. Flyers on the programs are mailed to members of the Alliance.

Ms. Lynda Spickard, director of sponsored programs, contacted Ms. Cari Morningstar, ARC contract coordinator, to determine if such a purchase would be allowable. She was told that it would be and was asked if an extension of the contract end date would be necessary to accommodate purchasing time.

It was decided that the purchase of a word processing typewriter (\$180) and a binding machine (\$556) could be effected within the time remaining and that no end date amendment would be required.

3. Matching Costs

a. Administrative Overhead

Broome Community College, SUNY Cortland, SUNY Morrisville, and Tompkins Cortland Community College claimed an administrative overhead in conjunction with the provision of workshops. This is standard procedure when offering such programs. The amount is based on the indirect cost rate used by the College to include general institutional expenses not directly charged to the grant such as maintenance and operation of physical plant, security, registration services, computer time, library and salaries/fringe benefits. Historical actual costs were used to develop the indirect cost rate, which closely approximates actual costs.

b. Program Income

Registration in workshops was higher than anticipated because of excellent marketing and timeliness of training topics. All program income was used for grant activities. The fees collected allowed each institution to support grant activities associated with the workshops such as: (a) providing refreshments, (b) sending follow-up materials, (c) providing individualized consulting services, and (d) conducting a follow-on company survey after grant completion.

In the future, the College will obtain approval from the granting agency to use program income to further the program. All program income and all related expenditures will be recorded with total grant activity.

The Alliance for Manufacturing Competitiveness continues to seek every opportunity to disseminate the project. Its representatives meet with individuals or groups to share AMC implementation strategies, documentation and reporting methods, successes and problems, and technical support.

Hubert N. Sparks

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September 9, 1996

As further information is needed, contact me at 607-778-5222.

Lynda E. Spickard

LYNDA E. SPICKARD
DIRECTOR OF SPONSORED PROGRAMS

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Enclosure

C: K. Habel
P. Ranieri