

**MEMORANDUM REPORT ON REVIEW OF THE  
MOUNTAIN ASSOCIATION FOR COMMUNITY  
ECONOMIC DEVELOPMENT**

**BEREA, KENTUCKY**

**Sustainable Communities Initiative**

**ARC Grant No: CO-12264-95-I-302-0726**

**October 1, 1995 through January 31, 1997**

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**Report Number: 97-20(H)**

**Date: August 4, 1997**

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Prepared By:

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Certified Public Accountants  
Woodbridge, Virginia

Under Contract Number J-9-G-5-0010 with the  
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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  
OIG Report No. 97-20(H)

SUBJECT: Memorandum Review Report on Mountain Association for Community  
Economic Development (MACED), Berea, Kentucky. Grant No: CO-  
12264-95-I-302-0726, ARC Contract No. 95-167.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Mountain Association for Community Economic Development (MACED) for its Sustainable Communities Initiative (SCI) project, 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 were met.

BACKGROUND: ARC awarded Grant Number CO-12264-95-I-302-0726 to MACED for the period October 1, 1995 through January 31, 1997. Total grant funding was for an amount not to exceed \$100,000 of the actual, reasonable and eligible project costs. ARC required that the grant be matched with \$20,213 in cash, contributed services, or in-kind contributions. ARC made one advance and four progress payments to the Commission totaling \$90,000. (See Incurred Cost Finding #3) As of March 7, 1997, MACED had not completed the project's final report. In accordance with the terms of the grant agreement, ARC withheld \$10,000 of grant funding until the final report is submitted.

The funds from this grant were to provide funding for the start-up expenses for the SCI, a five-year demonstration of a grassroots intervention strategy to build citizens' ability to come together and work on common local problems, with the goal of helping a community move toward sustainable development in both Kentucky and Ohio. SCI is a multistate collaboration under which MACED will implement the project in Kentucky and act as the fiscal agent providing administrative support, while Rural Action will implement the project in Ohio and furnish technical expertise to Kentucky counterparts in the areas of environmental remediation and sustainable development. The specific tasks of the grant were to:

- Develop the citizens' guide to sustainable development and enhancing social capacity;
- Begin project activities in each county, including but not limited to: designing initial community workshops, beginning the formation of local sustainable development councils, and developing training materials for the councils; and,
- Develop baseline data and an evaluation format for the project.

SCOPE: We performed a program results review of the grant project 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 MACED had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with MACED's personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at MACED's offices in Berea, Kentucky on March 4 through 7, 1997.

#### **A. Incurred Costs**

As of March 7, 1997, MACED had not completed the final progress and financial reports. Accordingly, we reviewed costs through September 30, 1996. MACED incurred total program costs of \$201,344, and claimed direct reimbursable costs from October 1, 1995 through September 30, 1996, of \$94,338 and non-federal matching costs of \$107,007. ARC reimbursed \$90,000 of the total funds requested. (See Incurred Cost Finding #3) We reviewed the direct costs incurred and determined that, in general, the funds had been expended as reported by MACED. However, we determined that \$4,404 of program and matching costs were not allowable or unsupported in accordance with the terms of the grant and applicable OMB Circulars. In addition, there was a \$1,000 difference between the amount recorded as received from ARC on MACED reports and the ARC financial record. These costs are discussed below.

##### **1. Program Costs Not Allowable**

At the end of MACED's fiscal year, April 30, 1996, an entry was made in the general ledger to record accrued leave and accrued travel costs associated with the Sustainable Communities Initiative grant. We determined that \$525 for accrued leave and \$1,309 for accrued travel costs were for employees that did not work on the grant.

In addition, MACED claimed program and matching costs in two cost categories that were not approved expense categories in accordance with the ARC budget. A category for Registration and Training with expenses of \$1,164 and a category for Printing with expenses of \$1,027 were included as costs claimed for reimbursement.

The grant agreement, Article 3-2, Basis for Determination, states:

"Costs will be determined in general accord with the budget."

2. Duplicate Costs Claimed as Match

MACED claimed \$379 twice as a matching cost during the third quarter. The amount was recorded twice in the general ledger by MACED and thereby claimed twice. This resulted in an overstatement of actual, matching expenses.

ARC Grant Administration Provisions, Article A10, Records of Disbursements, paragraph (3), states:

"All disbursements from the contract account shall be for obligations incurred, after the effective date, in the performance of this contract, and shall be supported by contracts, invoices, vouchers, and other data, as appropriate, evidencing the disbursements."

3. Difference Between Drawdown Recorded by MACED and Issued by ARC

The third progress payment from ARC was recorded differently by MACED and ARC. MACED records, including a copy of the check received from the U.S. Treasury, supported that \$8,465 was received from ARC. However, the ARC financial record indicated that \$9,465 had been paid to MACED. MACED could not explain the \$1,000 difference. The error appears to be on ARC's financial record.

ARC Grant Administration Provisions, Article A10, Records Requirements, paragraph (1), states:

"Contractor shall establish procedures to ensure that all records pertaining to costs, expenses, and funds related to the contract shall be kept in a manner which is consistent with generally accepted accounting procedures..."

RECOMMENDATIONS:

We recommend that MACED make adjustments to their final financial report to correct the amounts that were mistakenly charged to the SCI grant and the duplicated matching cost. We also recommend that MACED request approval for and provide ARC with documentation to support the registration and training and printing costs which were not in the approved grant

budget. Finally, we recommend that MACED request ARC to perform a reconciliation of the payments to MACED and correct the amount of the final payment as necessary.

**B. Internal Controls**

We determined that the Grantee had the following internal control weaknesses which affected the accountability of costs under the grant. We did not determine the associated costs to be unallowable, but have identified the weaknesses which could result in unallowable costs.

1. Budget Categories Exceeded by MACED

We noted the following budget categories that were exceeded by MACED without approval by ARC.

<b>Budget Category</b>	<b>Budget Amount</b>	<b>Cost Incurred</b>	<b>Difference</b>
Travel	\$2,000	\$2,376	\$376
Office and Professional	\$9,000	\$10,799	\$1,799
<b>Totals</b>	<b>\$11,000</b>	<b>\$13,175</b>	<b>\$2,175</b>

OMB A-110, Subpart C, Post Award Requirements, paragraph .25, Revision to budget and program plans, states:

"(a) The budget plan is the financial expression of the project or program as approved during the award process.

(b) Recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with this section."

2. Final Report Not Submitted in a Timely Manner to ARC

MACED was required to have the final financial report completed and submitted to ARC within one month after the completion of the grant period. As of March 7, 1997, the final financial and progress reports had not been not completed in accordance with the terms of the grant.

The grant agreement, Article 2-10, Reports, states:

"Within one month after the period of performance, Grantee shall prepare and submit to the ARC Project Coordinator for approval, three copies of a final report of all work accomplished under this grant, including recommendations and conclusions based on the experience and results obtained."

3. Need for Update or Current Rental Agreements

MACED did not obtain updated or current lease/rental agreements for the office and the equipment. Both agreements had expired and new written agreements were not obtained to support payments made.

ARC Grant Administration Provisions, Article A10, Records of Disbursements, paragraph (3), states:

"All disbursements from the contract account shall be for obligations incurred, after the effective date, in the performance of this contract, and shall be supported by contracts, invoices, vouchers, and other data, as appropriate, evidencing the disbursements."

RECOMMENDATIONS:

We recommend that MACED request approval for all budget deviations prior to incurring costs on all future grants. We recommend that MACED develop procedures to monitor the progress of subcontractors and to ensure that all required reports are submitted in a timely manner. We also recommend that MACED update the lease agreement and equipment rental agreement.

**C. Other Related Matters**

1. Travel and Meal Costs Not Adequately Supported

MACED personnel incurred numerous travel expenses, including lodging, meals and conference center costs, which were supported only by credit card statements and receipts. No documentation to support the nature of the expense and its relationship to the objectives or specific tasks of the grant was maintained. We were unable to determine how the expenses contributed toward meeting the objectives or tasks. For example, trips to Jackson Hole, Wyoming and Albany, New York were made for training seminars and conferences on community development and implementation of the project. However, according to the grant, MACED was to act as the fiscal agent providing administrative support and Rural Action was to furnish the technical expertise. Since

Rural Action was paid \$25,000 to provide technical expertise and travel for conferences and training were not approved in either the scope of the grant or the grant budget, it was unclear whether these costs were necessary for the project. In addition, numerous meal costs were claimed for local area restaurants and costs for items from local stores were also only supported by credit card statements and receipts. The nature of these costs should be documented and a clear business relationship should be made.

2. Automated General Ledger Accounts Not Accurate

At the beginning of the grant period, MACED operated a manual general ledger system. In January 1996, MACED implemented a new computerized general ledger accounting system to better account for and accumulate federal funds. However, during the conversion process, transactions from the manual ledgers either were not recorded in the new system or were recorded at the incorrect amount. Therefore, the new system did not accurately accumulate the correct account balances for several accounts. Accordingly, MACED must rely on the manual records which it has continued to prepare and maintain to support claimed costs.

RECOMMENDATIONS:

We recommend that MACED design and implement an expense voucher to explain the business reason and program activity for travel and meal expenses claimed. In addition, we recommend that MACED ensure that all general ledger balances are correct in the new computerized general ledger by making any appropriate adjustments prior to using it as the basis for preparing any financial reports.

**D. Program Results**


Our review of MACED's SCI program indicated all of the objectives and specific tasks identified in the grant, and summarized above, had been achieved or were currently in the process of being completed. At the end of the ARC involvement, which was January 31, 1997, the project was only 1.5 years through a 5 year initiative.

DISCUSSION:

We discussed these issues with MACED's management during the exit conference held on March 7, 1997, and follow-up telephone conversations. MACED responded by stating their final report could not be completed in a timely manner because the sub-contractor had not turned in their product to MACED. They also concurred that their current accounting system could not produce reliable account balances due to errors made during the conversion process.



MACED also agreed that updated rental agreements were necessary and they would obtain them in the near future. They also concurred that the costs for accrued leave, accrued travel, and duplicated matching cost claimed were accidental mistakes and that corrections will be made for the balances on the final report. MACED stated that the registration and training and printing costs were unanticipated and they realized that a modification should have been prepared. Finally, MACED stated that they realized travel and office and professional expenses had exceeded the approved budget. They had incurred the costs and did not have all of their funding sources in place, therefore the ARC funds were applied.

  
TICHENOR & ASSOCIATES  
Woodbridge, Virginia



July 25, 1997

Deirdre M. Reed, CPA  
Tichenor & Associates  
12531 Clipper Drive, Suite 202  
Woodbridge, VA 23192

RE: ARC No. 96-167; CO-12264-95-I-302-0726 Program Audit

Dear Ms. Reed:

The final progress and financial report has been submitted to the Appalachian Regional Commission. A copy of the report and all attachments is included. As per your recommendations and the discussions held during the audit, adjustments have been made in the final financial report to correct the errors noted. Jeanne Gage, project director, has been in conversation with Jeff Thompson, ARC. She has indicated MACED's willingness to provide any documentation the Appalachian Regional Commission requests regarding registration, training and printing costs charged against grant funds. MACED has also been assured that progress payments will be evaluated in order to determine the correct final payment.

Procedures are now in place in order to request budget amendments when budget line items need to exceed approved budgets. As recommended, MACED is in the process of developing better procedures to ensure that subgrantees submit required reports in a timely manner. Also as recommended, lease agreements and equipment rental agreements are being updated.

MACED's travel expense vouchers will be evaluated to determine how to make them more descriptive and detailed regarding specific travel. We want to reference the specific travel to all appropriate expenses based on each trip. We are in the process of determining the most efficient way to accomplish this. All general ledger balances are being scrutinized for accuracy as they are being entered in the new computerized fund accounting system. So far, the new system has exceeded expectations as to the improvement it brings over the old system!

Thank you for the considerate and professional manner in which this audit took place. If you need any further information or have questions regarding this response, please do not hesitate to contact me.

Sincerely,

Cindy Farmer, Chief Financial Officer  
enclosures

*Providing opportunities  
and resources to help  
citizens build healthy  
sustainable, equitable,  
democratic and prosperous  
communities in Kentucky  
and Central Appalachia.*

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