

**APPALACHIAN REGIONAL COMMISSION
WASHINGTON, DC**

**REPORT ON APPLYING AGREED-UPON
PROCEDURES TO**

**NORTH CAROLINA DEPARTMENT OF ADMINISTRATION
GRANT NO. NC - 11717-94-I-302-0628
ARC CONTRACT NO. 94-157
GRANT PERIOD: JANUARY 1, 1995 THROUGH SEPTEMBER 30, 1996**

OIG Report 97-29 (H)
February 20, 1997

Caution: Certain information contained herein is subject to disclosure restrictions under the Freedom of Information Act, 5 U.S.C. 5222 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. NC-11717-94-I-302-0628 to the North Carolina Department of Administration for the period January 1, 1995 through September 30, 1996, solely to assist you in determining the allocability of costs incurred, whether they met grant objectives, 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 representations 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 were as follows:

- Held an entrance conference with the grantee
- Evaluated the grant agreement and any modifications
- Compared total grant costs by budget category to the general ledger or other records kept by the grantee
- Analyzed cash receipts against current needs and interest earned and remitted
- Evaluated the allowability and supporting documentation of a sample of four subgrantee invoices
- Determined if specific grant objectives were achieved
- Determined if matching/non-federal contribution requirements were met
- Held an exit conference with the grantee

The results of these procedures are discussed in the **RESULTS OF APPLYING AGREED-UPON PROCEDURES** 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 incurred 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 we would have reported to you.

This report is intended solely for the Appalachian Regional Commission and the management of the North Carolina Department of Administration 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
February 20, 1997

**REPORT ON APPLYING AGREED-UPON PROCEDURES TO
NORTH CAROLINA DEPARTMENT OF ADMINISTRATION
RALEIGH, NORTH CAROLINA**

**GRANT NO. NC-11717-94-I-302-0628
APPALACHIAN REGIONAL COMMISSION CONTRACT NO. 94-157**

GRANT PERIOD: JANUARY 1, 1995 THROUGH SEPTEMBER 30, 1996

PURPOSE

The purpose of our application of agreed-upon procedures was to determine (1) the allowability of costs claimed under the Appalachian Regional Commission (ARC) Grant No. NC-11717-94-I-302-0628 by the North Carolina Department of Administration, (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

We evaluated the costs incurred and claimed for reimbursement under ARC Contract No. 94-157. Under the terms of this grant, for the complete and satisfactory performance of this grant agreement, and upon receipt of proper invoices approved by ARC, the Commission shall reimburse the grantee for the actual, reasonable and eligible costs of the project, as determined and approved by ARC, provided total cost reimbursement payments shall not exceed \$500,000.

The grantee represented to ARC that \$125,000 would be contributed to the project in cash, contributed services or in-kind contributions.

The period of performance for this grant was January 1, 1995 through September 30, 1996. The Appalachian Regional Commission obligated \$500,000 for this grant. The grantee received payments totaling \$403,357. The remaining \$96,643 has been requested as the final payment. (See **EXHIBIT A.**)

We reviewed reports prepared by the grantee, evaluated project records, and held discussions with the ARC State Coordinator during the period February 17-20, 1997. 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 the Appalachian Regional Commission Code.

BACKGROUND

This grant was approved to provide funds to assist in the Empowerment Zone/Enterprise Communities (EZ/EC) strategic planning program. The project was to target Appalachian Regional Commission funds to the rural Enterprise Communities in the Appalachian region who participated in the federal EZ/EC program. Appalachian Regional Commission funds were to be used to implement eligible programs identified in the Boone-Madison county strategic plan submitted as part of the EZ/EC proposal.

The objectives of this project were to:

- develop the baseline information for a Geographic Information System for the Town of Boone.
- design a wastewater treatment facility capable of removing development constraints imposed on the Town of Boone.
- develop a community-based organization that would give Madison County information, resources, and services needed to establish a program that leads to sustainable economic development.
- improve access to human services and resources by removing the time and distance barriers facing Madison County citizens.
- create a structure which managed this work program and implement and continue the work proposed in this plan and in the EC strategic plan.

RESULTS OF APPLYING AGREED-UPON PROCEDURES

We have reviewed the costs incurred by the North Carolina Department of Administration under Appalachian Regional Commission Contract No. 94-157 for the period January 1, 1995 through September 30, 1996. The results of our applying agreed-upon procedures are discussed in the **OBSERVATIONS AND RECOMMENDATIONS** section and in **EXHIBIT B** of this report. Contract No. 94-157 established an Appalachian Regional Commission obligation of \$500,000. The grantee requested \$500,000 and has received \$403,357. The unpaid balance as of the date of fieldwork, which the grantee has requested from Appalachian Regional Commission, was \$96,643.

Our procedures disclosed the following observations:

- Observation 1 - Lack of properly documented in-kind costs.
- Observation 2 - Lack of adequate documentation of personal service contract costs.
- Observation 3 - Lack of adequate documentation of claimed costs.

Because of our observations, \$65,000 of in-kind match and \$196,912 of subgrantee costs have been questioned for a total of \$261,912, as indicated in the following table:

	<u>Total Grant Funding</u>	<u>ARC Funds (80%)</u>	<u>In-Kind Match (20%)</u>
Budget	\$ 625,000	\$ 500,000	\$ 125,000
Costs Claimed	\$ 528,357	\$ 403,357	\$ 125,000
Questioned Costs	<u>261,912</u>	<u>196,912</u>	<u>65,000</u>
Net Costs Allowed	266,445	206,445	60,000
Final Project Costs	<u>258,056</u>	<u>206,445</u>	<u>51,611</u>
Excess In-Kind	<u>\$ 8,389</u>	<u>\$ 0</u>	<u>\$ 8,389</u>

If the \$196,912 of direct grant costs are disallowed by ARC, these costs should be reimbursed to the Commission. Should the Appalachian Regional Commission allow any of these questioned costs, the in-kind matching requirement must be recomputed. For example, if the entire \$403,357 of direct costs claimed is allowed, the match contribution required would be \$100,839. Because the grantee provided support for only \$60,000 of in-kind match, there would be a shortage of \$40,839.

OBSERVATIONS AND RECOMMENDATIONS

Observation 1 - Lack of properly documented in-kind costs.

The subgrantee, Boone Housing Authority, reported \$125,000 in matching funds during the period January 1995 to September 1995. However, no description or support was provided to document \$65,000 of this amount.

The requirements for grant administration, embodied in the Common Rule § 25 (6), state:

Records. Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived.

While the subgrantee may have documentation to support this amount, the grantee did not require the documentation to be submitted for review. As a result, subgrantee invoices were approved for payment without determining if reported matching costs were adequate or proper.

Recommendation

We recommend that the North Carolina Department of Administration establish procedures to ensure that in-kind costs submitted to the Appalachian Regional Commission, in compliance with grant requirements, are adequately supported and reviewed before payment is made to the subgrantee. We also recommend that the questioned \$65,000 in matching funds be disallowed by ARC, unless the grantee can provide adequate documentation.

Grantee's Response

None.

Auditor's Conclusion

The grantee did not respond, therefore our recommendations remain the same.

OBSERVATIONS AND RECOMMENDATIONS

Observation 2 - Lack of adequate documentation of personal service contract costs.

The subgrantee, Boone Housing Authority, entered into several personal service contracts to assist in the accomplishment of the grant's objectives. The contracts were for fixed fees totaling \$195,919 to be paid in twelve equal monthly amounts. However, the North Carolina Department of Administration did not have any documentation to support the basis for the fees. Also, in most instances there were neither invoices nor time certifications submitted by the contractors in support of the work performed.

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.*

Recommendation

We recommend the North Carolina Department of Administration establish procedures to ensure subgrantee costs claimed are adequately documented and reviewed before payment is made to the subgrantee. We also recommend that the questioned costs of \$195,919 be disallowed by ARC, unless the grantee can provide adequate documentation.

Grantee's Response

None.

Auditor's Conclusion

The grantee did not respond, therefore our recommendations remain the same.

OBSERVATIONS AND RECOMMENDATIONS

Observation 3 - Lack of adequate documentation of claimed costs.

Under this grant, all Appalachian Regional Commission funding received by the grantee, the North Carolina Department of Administration, was disbursed to the subgrantee, Boone Housing Authority, to fund eligible programs under the Empowerment Zone/Enterprise Communities (EZ/EC) strategic planning program. We noted \$993 in subgrantee costs which were not adequately documented:

<u>Cost Category</u>	<u>Invoice Period</u>	<u>Amount</u>
Advertising	1/96 - 3/96	\$ 111
Gasoline	4/96 - 6/96	351
Gasoline	7/96 - 10/96	445
Supplies	4/96 - 6/96	52
Telephone	4/96 - 6/96	<u>34</u>
	Total	<u>\$ 993</u>

The requirements for grant administration, embodied in the Common Rule §20 (2), state:

Accounting Records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligation, unobligated balances, assets, liabilities, outlays or expenditures, and income.

While we believe that the subgrantee may have documentation to support the \$993, the grantee did not require the documentation to be submitted for review before approving these amounts for payment.

Recommendation

We recommend that the North Carolina Department of Administration establish procedures to ensure that all claimed subgrantee costs are adequately supported and reviewed, before making payment to the subgrantee. We also recommend that the questioned costs of \$993 be disallowed by ARC, unless the grantee can provide adequate documentation.

Grantee's Response

None.

Auditor's Conclusion

The grantee did not respond, therefore our recommendations remain the same.

**NORTH CAROLINA
DEPARTMENT OF ADMINISTRATION**

Grant No. NC-11717-94-I-302-0628
ARC Contract No. 94-157
January 1, 1995 through September 30, 1996

(Unaudited)

SCHEDULE OF CASH PAYMENTS

DATE	PAYMENT TYPE	AMOUNT PAID
09/18/95	Progress	\$ 185,000
12/13/95	Progress	33,215
02/28/96	Advance	75,896
05/28/96	Progress	<u>109,246</u>
Total Paid		403,357
Total Award		<u>500,000</u>
Final Payment Requested		<u>\$ 96,643</u>

See independent accountant's report on applying agreed-upon procedures.

**NORTH CAROLINA
DEPARTMENT OF ADMINISTRATION**

Grant No. NC-11717-94-I-302-0628
ARC Contract No. 94-157
January 1, 1995 through September 30, 1996

SCHEDULE OF QUESTIONED COSTS

	<u>In-kind Costs</u>	<u>Direct Costs</u>	<u>Total</u>
<i>Observation #1 -</i>			
A. In-kind match	\$ <u>65,000</u>	\$ _____	\$ <u>65,000</u>
Total Observation #1	<u>65,000</u>	_____	<u>65,000</u>
<i>Observation #2 -</i>			
A. Advertising		111	111
B. Gasoline		796	796
C. Supplies		52	52
D. Telephone	_____	34	34
Total Observation #2	_____	<u>993</u>	<u>993</u>
<i>Observation #3 -</i>			
A. Housing consultant		50,000	50,000
B. Project manager		49,920	49,920
C. Housing specialist		19,999	19,999
D. Program coordinator		29,500	29,500
E. Information & resource developer		28,000	28,000
F. UNC-CH intern		4,500	4,500
G. Transportation consultant	_____	14,000	14,000
Total Observation #3	_____	<u>195,919</u>	<u>195,919</u>
QUESTIONED COSTS	<u>\$ 65,000</u>	<u>\$ 196,912</u>	<u>\$ 261,912</u>

See independent accountant's report on applying agreed-upon procedures.