

APPALACHIAN REGIONAL COMMISSION WASHINGTON, DC

REPORT ON APPLYING AGREED-UPON PROCEDURES TO 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 97-34(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
- Evaluated the grant agreement and any modifications
- Evaluated documents relating to three reimbursements from ARC to the grantee
- Compared total grant costs reported to ARC by budget category to grantee's records
- Evaluated the allowability and supporting documentation of 10 non-personnel costs
- Determined if specific grant objectives were achieved
- Evaluated DBED's FY1995 Independent Auditor's Report
- Evaluated the OIG Survey Questionnaire completed by the grantee
- Evaluated 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 APPLYING AGREED-UPON PROCEDURES** 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 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.

M. D. Oppenheim & Company, P.C.

Fairfax, Virginia
August 28, 1996

**REPORT ON APPLYING AGREED-UPON PROCEDURES TO
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 application of agreed-upon procedures 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 evaluated 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 evaluated 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 the OMB Common Rule, 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 was one of five Regional Tourism Initiative Proposals submitted under the ARC Research Program, approved at the October 20, 1990 Commission Meeting. It was 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 was 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 APPLYING AGREED-UPON PROCEDURES

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 in 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 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.

The DBED did not perform any work on the fourth specific task, to refine and market itinerary packages to Canada featuring the Civil War and other historical attractions in the Appalachian Region of Maryland and West Virginia (see Observation #2 including Grantee's response).

FINANCIAL REPORTING

We have evaluated 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,

1995. The results of applying agreed-upon procedures 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 application of agreed-upon procedures, we have identified \$20,133 in questioned costs. These costs are related to:

• Costs in excess of budget line items (Observation #1)	\$11,193
• Lack of supporting documentation of costs (Observation #3)	9,192
• Less costs questioned for more than one reason	<u>(252)</u>
	<u>\$20,133</u>

The grantee's response to the questioned costs did not address either budget modification or repayment of the costs. Therefore, these costs remained questioned.

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
TOTAL QUESTIONED	\$5,000	\$20,693	\$15,693	\$4,500	\$11,193

* An allowance of 10% of the total grant award ($\$45,000 \times 10\% = \$4,500$) was established for budget modification (according to the OMB 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 these costs exceeded the budgeted amounts. The Grantee does not classify or record its expenses based on budget line items. Therefore, the grantee was unable to monitor its budget-to-actual expenses.

RECOMMENDATION

We recommend that the grantee work with ARC program staff to resolve this issue, including, submission of other 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. In addition, the Grantee provided a written response:

I am in concurrence with your observation, as we did not follow the detailed letter of the regulations and we should have amended our proposed budget with the ARC in writing.

The grantees . . . felt . . . that show representation offering direct contact with tour operators and agents would be the most effective method of generating the desired itineraries which would bring visitors into the Appalachian Region.

INDEPENDENT ACCOUNTANT'S COMMENTS

While we realize it is too late for DBED to effect changes for this grant, our recommendation is directed to any future awards they might receive. In addition, the Grantee either needs ARC's permission for a budget revision to accommodate the costs as actually incurred, or the grantee should repay \$11,193 to ARC.

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 its 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 Specific Task #4.

GRANTEE'S RESPONSE

Again, I concur with your observation and regret that there was no documentation submitted to the ARC requesting permission to delete this item.

In conversation with West Virginia, it was determined that our international activities were the most effective use of the remaining budget, and to enter the Canadian Market with very limited resources would jeopardize any success in either market.

As funds have been exhausted from the grant, it is not prudent or cost efficient to promote Civil War and other historical attractions of the Region to this market.

INDEPENDENT ACCOUNTANT'S COMMENTS

The Grantee concurs with our observation, but did not specifically address how this will be resolved. Therefore, the observation remains as previously stated.

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 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 in lieu of the questioned costs, or 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.*

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)

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

In addition, the Grantee responded in writing to Observation #3:

I believed that the documentation that was satisfactory to the State of Maryland would be adequate for the Appalachian Regional Commission, which it obviously was not.

[W]hile the requirements of the regulations were not met to the letter, all funds and efforts were properly expended to achieve the goals as stated in the scope of performance.

INDEPENDENT ACCOUNTANT'S COMMENTS

We recognize the above comments but reiterate that the Grantee should have and/or obtain documentation (i.e. invoices or time certifications) from consultants indicating that services were performed. The Agreements should state the amount that will be paid to consultants and the basis for payment. Also, action should be initiated to resolve the travel costs noted above. Therefore, this observation remains as previously stated.

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

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

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

**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

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	<u>251.69</u>

Questioned costs \$ 20,385.15

Less: Costs questioned more than once

Observation #3 D. (251.69)

Net Questioned Costs \$ 20,133.46

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]