

**MEMORANDUM REPORT ON REVIEW OF  
FROSTBURG STATE UNIVERSITY  
FROSTBURG, MARYLAND**

**Enhancement of Business School Technology**

**ARC Grant No: MD-12163-95-I-302-0608**

**July 1, 1995 through December 31, 1996**

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**Report Number: 98-9**

**Date: November 20, 1997**

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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  
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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. 98-9

**SUBJECT:** Memorandum Review Report on Frostburg State University,  
Enhancement of Business School Technology, Frostburg, Maryland.  
Grant No: MD-12163-95-I-302-0608, ARC Contract No. 95-100.

**PURPOSE:** The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Frostburg State University's Enhancement of Business technology Grant Program 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 MD-12163-95-I-302-0608 to Frostburg State University for the period July 1, 1995 through December 31, 1996 for the project to enhance technology at the business school. The total project was estimated to cost \$128,240 of which ARC funding was not to exceed \$62,500, or 49 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$65,740, or 51 percent in cash, contributed services, or in-kind contributions, as approved by ARC. ARC made two progress payments to Frostburg State University totaling \$62,463, and deobligated the remaining \$37 on November 22, 1997.

The funds from this grant were to provide funding to establish an advanced computer laboratory at Frostburg State University's School of Business. The specific tasks of the grant were to:

- 1) Establish an advanced computer lab at Frostburg State University School of Business and equip it with 25 work stations working off a server unit;
- 2) Offer professional seminars and workshops in advanced computer technology in the following business fields: securities and investments analysis; inventory simulations and EDI in purchasing management; doing business on the Internet; information systems and technology; interactive electronic advertising and marketing; and technology management;
- 3) Offer advanced business courses in developing multimedia courseware for business and economics applications; and,
- 4) Provide critical economic data on an ongoing basis to business and governmental entities.

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

**RESULTS:** The following results were based on our review performed at Frostburg State University's campus in Frostburg, Maryland on November 17 through 20, 1997.

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

Frostburg State University incurred total program costs of \$124,998, of which they claimed direct reimbursable costs from July 1, 1995 through December 31, 1996 of \$62,463 and in-kind costs of \$62,535. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported. However, we determined that \$13,740 of indirect costs and \$12,000 of personnel costs claimed as in-kind could not be supported in accordance with the terms of the grant and applicable OMB Circulars. These costs are discussed below.

1. Insufficient In-Kind Costs Claimed including Costs Not Properly Supported

Frostburg State University was required to match ARC grant expenditures with \$65,740, or 51 percent of the total project cost, with cash, contributed services, or in-kind contributions. Records provided by Frostburg State University indicated that a total of \$62,535, or 50 percent of the total in-kind costs, were incurred. Of the \$62,535 in-kind costs reportedly incurred and claimed, \$13,740 was for indirect costs and \$12,000 was for personnel costs. These costs were not supportable in accordance with the terms of the grant and applicable OMB Circulars.

Frostburg State University proposed, in its Application for Federal Assistance, indirect costs at the rate of 12 percent of total direct costs, or \$13,740 based on the original budget. Frostburg State University does not have an approved indirect cost rate agreement with a Federal agency and has no records to support the rate proposed and used to claim the \$13,740. We were unable to determine if the costs had been incurred or would have been allocable to the grant project.

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. The documentation in support of each action in the accounting records shall be filed in such a manner that it can be readily located."

As part of the Enhancement of Business Technology Project, Frostburg State University proposed to renovate Compton Hall to house the advanced computer laboratory. The renovation of the building was performed by the Physical Plant Department at a total reported cost of \$130,820. Of the total costs, \$20,000 of the material costs and \$12,000 of the in-house labor were claimed as in-kind costs of this grant. Frostburg State University was able to provide purchase orders to support the reported material costs but was unable to provide support for the in-house labor costs reported.

OMB A-21, Section J, General provisions for selected items of cost, 8. Compensation for personal services, b. Payroll distribution, paragraph (b), states:

"The apportionment of employees' salaries and wages which are chargeable to more than one sponsored agreement or other cost objective will be accomplished by methods which will (1) be in accordance with Sections A.2 and C, (2) produce an equitable distribution of charges for employee's activities, and (3) distinguish the employees' direct activities from their G&A activities."

RECOMMENDATION:

We recommend that Frostburg State University provide ARC with the evidence that the indirect costs charged to the grant were incurred and were allocated based on a reasonable method. In addition, we recommend that Frostburg State University provide documentation supporting the in-house labor costs claimed or recalculate the total ARC funding after deducting unsupported or unallowable costs from the total project costs to be participated in.

GRANTEE'S RESPONSE:

Frostburg State University representatives responded by providing a spreadsheet to document the cost attributed to indirect cost. The spreadsheet included facilities (\$16,297.76), one percent of the total salary costs for a grant accountant (\$363.85), two percent and 0.5 percent of the total salary costs for the Director of Grants and Contracts as well as the Grants Secretary, respectively, and costs associated with purchase orders (30 p.o. @ \$51.05). Total indirect costs attributed to this project were \$20,401.

ADDITIONAL AUDITOR'S RESPONSE:

The spreadsheet provided by Frostburg State University was supported by internal memorandums listing square footage for selected rooms, facilities and maintenance information, payroll summary data for three personnel, and purchase order information. These memorandums were dated subsequent to the audit fieldwork and appear to have been prepared in order to identify some types of indirect costs which should be chargeable to the grant project. The memorandums, however, do not support the amount claimed for reimbursement in the Federal Request for Advance or Reimbursement which is represented to be based on cost data. In addition, the memorandums must be supported by accounting documentation to support the actual cost, the payment of the amount, and the allocation of these same costs to other grants, contracts or projects using the same cost and basis of allocation as required by the ARC Grant Administration Provisions as well as OMB Circulars. Therefore, we continue to classify these costs as unsupported.

The supporting documentation for the in-kind labor costs provided during the audit fieldwork consisted of an internal memorandum dated August 22, 1996 which stated that the new computer labs in Compton Hall were completed with in-house labor at a cost of \$48,820. This cost was allocated 25 percent to the ARC project, resulting in claimed in-kind costs of \$12,000. To support this calculation the Grantee provided a listing of work orders and related costs from the Physical Plant Department for the Compton Lab project. This listing included work order numbers, a brief description of the work requested, the labor hours, the labor cost and the date completed. This listing agreed with the total cost originally documented of \$48,820.

The Grantee provided copies of work orders, employee timesheets and payroll information to support total labor costs of \$54,963. We reviewed the documentation and determined that it included all of the work orders included on the listing discussed above, as well as additional work orders not originally included on that list. Frostburg State University completes a work order to document the personnel assigned to a project. The personnel then complete a timesheet indicating the total hours worked on each day. While the timesheet appears to be completed by the individual, the work order is completed for all personnel by one person. We traced the hours for a sample of the personnel from the work order to the applicable timesheet and noted that some of the work orders included hours for personnel in excess of the total hours worked. For example, 7.5 hours were charged to the work order for a person who was on annual leave according to their timesheet.

We conducted a site tour during our fieldwork and determined that the Compton Lab project had been completed. Therefore, despite the inconsistency in the amounts reported on the Reimbursement Request and in the response to the draft report, we concluded that the amount charged as in-kind labor for the renovation was reasonable. However, we recommend that Frostburg State University assure that all costs claimed, including in-kind, are properly recorded in the accounting system and supported by original documentation.

## **B. Internal Controls**

We determined that Frostburg State University had the following internal control weaknesses which could affect the accountability of costs or compliance with the terms of the grant. These weaknesses could result in unallowable costs being charged to the grant.

1. Source of Funds Used as In-Kind Cannot be Identified

In-kind costs totaling \$65,740, or 51 percent of the total project cost, were to be provided by Frostburg State University in cash, contributed services, or in-kind contributions to complete the Enhancement of Business School Technology project. Cash and in-kind costs were claimed for equipment, software, furniture, indirect costs and labor for room renovation. We found that the in-kind costs claimed were either charged directly to the grant account, charged to other university accounts that could not now be identified, or were not coded to indicate where the expenses were charged. As a result, we were unable to determine if the in-kind contributions charged either to other University accounts or not coded, were paid for from federal funding sources or if the funds were being used as match for other federal grants.

OMB A-110, Subpart C, Post Award Requirements, .23 Cost sharing or matching states:

“(a) All contributions, including cash and third party in-kind, shall be accepted as part of the recipient’s cost sharing or matching when such contributions meet all of the following criteria:

- (1) Are verifiable from the recipient’s records; and
- (2) Are not included as contributions for any other federally-assisted project or program.”

RECOMMENDATION:

We recommend that Frostburg State University design and implement procedures for accurately recording and tracking all matching expenses. In addition, we recommend that they provide ARC with documentation identifying the source and application of the in-kind contributions claimed for the grant or reduce the total project costs for these amounts prior to calculating ARC's share of reimbursable project costs.

GRANTEE’S RESPONSE:

The Grantee stated that documentation was available to support the accounts charged for in-kind expenses and that the associated departments were not supported by Federal funds. The Grantee also stated that invoices were not split individually as specified in the budget, but that they were split in aggregate. They indicated that they would split the individual invoices in the future.



AUDITOR'S ADDITIONAL STATEMENT:

We reviewed the documentation supporting the questioned in-kind costs. We determined that the costs were traceable to the accounting records to support the department charged and that the departments were not Federally funded according to the accounting system documentation. With respect to the Grantee's statement that invoices will be split individually in the future, we do not recommend that this be implemented. Accumulating all costs for the project and then allocating those costs, in aggregate, between ARC and the other non-Federal funding sources is sufficient as long as ARC does not fund more than the amount agreed to in the grant agreement.

**C. Program Results**

Our review of Frostburg State University's Enhancement of Business School Technology project indicated all of the objectives and specific tasks identified in the grant, and summarized above, had been achieved.

DISCUSSION:

We discussed these issues with Frostburg State University's management during the exit conference held on November 20, 1997. Management responded by stating that the proposed indirect costs was prepared by the former director or grants and contracts. They stated that they did not know the basis for calculating the rate but there were substantial indirect costs incurred as a result of the implementation of this project. Also, they agreed that it was difficult to track the matching costs since they were charged to various other accounts, but the charges were not to other federal programs. In addition, they stated that no prior reviews had been performed other than the annual A-133 audit and this had not been an issue.

*Tichenor & Associates*

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February 20, 1998

Ms. Deirdre M. Reed, CPA  
Tichenor & Associates  
12531 Clipper Drive, Suite 202  
Woodbridge, Virginia 22192

Dear Ms. Reed:

I am replying to your letter of January 28, 1998, addressed to Ms. Michelle Kreidler, Director of Contracts and Grants at Frostburg State University. Your concerns are addressed in the attached pages.

If you need additional information, please contact me.

Sincerely,

A handwritten signature in black ink that reads "Roger V. Bruszewski".

Roger V. Bruszewski  
Vice President for Administration  
and Finance

RVB:rem  
Attachment

## **ENHANCEMENT OF BUSINESS SCHOOL TECHNOLOGY**

### **A. Incurred Costs**

#### **1. Insufficient In-Kind Costs Claimed, Including Costs Not Properly Supported**

A spreadsheet has been prepared to document the cost attributed to indirect cost. The total for the overhead charges calculated on the spreadsheet exceeds the 12% claimed (exhibit A-1).

Projects are recorded in the Physical Plant by work order (exhibit A-2), and the total labor costs for a four room project were not individually detailed. The Enhancement of Business School Technology is eligible for 25% of total cost; labor costs reported to ARC were \$12,000, which were 25 % of total cost, equaling \$13,741. In addition, the labor costs were broken down by individual, date and amount of time. Time sheets for the time periods indicated have been included with this report (exhibit A-2).

The hourly rates for the individual employee were determined by the payroll office using the attached database reports (exhibit A-2.2).

Future projects will be tracked on an individual basis as required by the grant.

### **B. Internal Controls**

#### **1. Source of Funds Used as In-Kind Cannot be Identified**

The auditor was provided with documentation of the FSU account structure to identify the source of funds. Invoices illustrate that the charges were paid from more than one account and account numbers are clearly identified on the invoices and in the general ledger (exhibit B-1). The auditor was provided with, but did not review, the general ledger.

Also, the auditor was provided with documentation from the Financial Reporting System (FRS) dictionary (exhibit B-1.1) of the FSU account structure. The account structure guidelines indicate federally funded accounts begin with the number five; state supported accounts begin with the number one.

The University agrees that invoices weren't split individually as specified in the budget; they were split in aggregate. If the general ledger had been reviewed by the auditor, it would have been evident that only the total reimbursable costs were submitted to the grant (exhibits A-1 and B-1). This procedure has been revised to split individual costs for future grants. Additionally, the University will establish a separate account for cash match on individual grants, where necessary.

Exhibit B-1.3 is a list of Federal grants during fiscal years 1995-1997. In order to establish that matching funds were not used more than once, the auditor will need to examine each account. Of the listed accounts, ARC grants were the only accounts to require a cash match; the matching equipment account was solely used for ARC grants.

Frostburg State University uses the Financial Reporting System (FRS) as its on-line accounting system. In addition, FRS is one of the most widely used higher education systems in the United States. Also, FSU's accounting system is audited yearly by University System of Maryland's independent audit firm, Arthur Anderson. The most recent audit report is included (exhibit B-1.2).

**C. Program Results**

Discussion note - no recommendation made