

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

**Distance Learning Expansion Project**

**ARC Grant No: MD-11543-94-I-302-0420**

**December 1, 1994 through March 31, 1997**

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**Report Number: 98-12**

**Date: November 20, 1997**

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December 1, 1994 through March 31, 1997

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 the Inspector General  
Office of Audit

# TICHENOR & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

WASHINGTON OFFICE  
12531 CLIPPER DRIVE SUITE 202  
WOODBIDGE VA 22192

PARTNERS

WILLIAM R. TICHENOR  
JONATHAN D. CROWDER  
JAMES M. ANDERSON  
DEIRDRE MCKENNA REED

BUSINESS: (703) 490-1004  
METRO: (703) 352-1417  
FAX: (703) 491-9426  
E-MAIL: TICHASSOC@AOL.COM

March 23, 1998

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. 98-12

SUBJECT: Memorandum Review Report on Frostburg State University, Distance Learning Expansion Project, Frostburg, Maryland. Grant No: MD-11543-94-I-302-0420, ARC Contract No. 94-153.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Frostburg State University, for the Distance Learning Expansion 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 had been met.

BACKGROUND: ARC awarded Grant Number MD-11543-94-I-302-0420 to Frostburg State University for the period December 1, 1994 through March 31, 1997. Total grant funding was for an amount not to exceed \$68,465, or 50 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$68,465, or 50 percent in cash, contributed services, or in-kind contributions, as approved by ARC. ARC made two payments to Frostburg State University totaling \$64,993, and deobligated the balance of \$3,472 on August 14, 1997.

The funds from this grant were to be used for the acquisition of additional telecommunication equipment and operating expenses for a distance learning classroom that will interconnect into the Western Maryland Community College Telecommunication Network that serves Allegany, Washington and Garrett counties in Appalachian Maryland. This classroom is deemed necessary in order to ensure flexibility in scheduling credit and non-credit courses, accessibility to the system for other targeted users across the region.

The program specific goals, identified in the application and incorporated into the grant agreement in Article 2-3 were to:

- Establish a second two-way interactive distance learning classroom at Frostburg State University and tie its services to comparable facilities of Allegany Community College, Garrett Community College and Hagerstown Junior College;
- Provide demonstrations of distance learning, conferencing, data transmission and resource accession across the system;
- Participate as partners with other network sites across the region in providing access to interest groups for other demonstrations of telecommunications applications;
- To assist in the development of the Western Maryland Telecommunications Network as a hub for linkages with Pennsylvania and West Virginia; and,
- Participate in the development of a Tri-State Telecommunications Network.

SCOPE: We performed a program 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 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 \$141,105, of which they claimed direct reimbursable costs from December 1, 1994 through March 31, 1997 of \$64,993 and in-kind costs of \$76,112. 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 \$10,686 of the in-kind costs, and \$9,000 of direct ARC costs could not be supported in accordance with the terms of the grant and applicable OMB Circulars. These costs are discussed below.

1. In-Kind Matching Costs Not Adequately Supported

Frostburg State University was required to match the ARC grant funding with an equal amount of in-kind or matching costs in the form of cash, contributed services, or in-kind contributions. Frostburg State University reported total in-kind or matching costs of \$76,112. However, Frostburg State University was unable to provide supporting accounting documentation for \$10,686 of personnel costs for the Project Director and the On-Site Assistance personnel, and claimed as part of the in-kind expenses. As a result, Frostburg State University had support for only \$65,426 in matching expenses

Frostburg State University claimed the following in-kind personnel costs on the original claim and in their response to the draft report, respectively.

<b>Personnel</b>	<b>Original Amount Claimed</b>	<b>Revised Amount Claimed</b>	<b>Note</b>
Project Director	\$5,000	\$14,045	1
On-Site Assistance	5,686	4,238	2
Electricians	9,096	8,194	3
Carpenters	5,876	6,396	3
Painters	2,899	3,227	3
<b>TOTAL</b>	<b>\$28,557</b>	<b>\$36,100</b>	

Note:

Original Amounts:

1. Represent 15 percent of the Project Director's time, not supported by timesheets.
2. Include Multimedia Technician time and 10 percent of graduate assistant time, not supported by timesheets.
3. Represent approximately 1,000 hours to renovate Pullen Hall Distance Learning Lab, not supported by timesheets or payroll records.

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."

ARC Grant Administration Provisions, Article A10, Records Requirements, paragraph (4), states:

"Contractor shall maintain custody of time records, payrolls, and other data, as appropriate, to substantiate all services reported to the Commission as Contributed Services, under this contract."

Frostburg State University had no support for the calculation of the salaries and does not require detailed timesheets to be prepared by employees.

## 2. Direct Charges For On-Site Assistance Not Adequately Supported

Frostburg State University claimed total reimbursable costs from December 1, 1994 through March 31, 1997 of \$64,993 for the Distance Learning Expansion Project. Frostburg State University claimed a total of \$10,000 for services performed by a graduate student, \$9,000 as direct costs and \$1,000 as matching costs. The grant budget indicated that a graduate assistant was assigned at the total stipend cost of \$10,000 for academic years 1996 and 1997 plus \$1,720 of ITS Center funds for two summer sessions. The duties of the graduate assistant were to direct technical support, schedule student facilitators, train students and faculty, work

with Bell Atlantic technicians, prepare instructional materials, and research and recommend software applications for instructional support. The summary of the graduate students time was prepared based on sign in sheets by the ITS center which supported a total of 93.20 hours at a rate of \$26.32, or a total of \$2,453. The actual timesheets or sign in logs were not provided and no support for the remaining \$7,547 claimed was available. Therefore, the charges for on-site assistance were considered unsupported.

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.”

#### RECOMMENDATIONS:

We recommend that Frostburg State University recalculate the total supportable project costs and the portion to be reimbursed by ARC, which should not exceed 50 percent of the total allowable project costs. Unless Frostburg State University can provide ARC with evidence that the on-site assistant labor costs were incurred and were properly allocated, we recommend that the total allowable project costs be reduced by this amount. In the event that ARC funding exceeds 50 percent of the total project cost, we recommend that Frostburg State University refund excess payments to ARC.

#### GRANTEE’S RESPONSE (Findings 1 and 2):

Frostburg State University stated that the Project Directors’ in-kind salary was attributable to two individuals. One of the individuals was not submitted on the original spreadsheet, but two memos from his supervisors and payroll information were provided with the response to the draft report to support \$8,957 attributed to his effort on the project. In addition, the second individual prepared and submitted time logs for 212 hours spent over a three year period. Payroll information for the same period indicates that the total dollar amount for the hours was \$5,088, however, only \$5,000 was claimed as in-kind.

The on-site assistance claimed as in-kind consisted of three salaries. The graduate student’s salary over four semesters was \$10,000, \$9,000 claimed as an ARC expense and \$1,000 submitted as matching costs. A database report to substantiate funds paid and time logs have been prepared to document the costs. Other employees spent hours over two fiscal years for

which time logs, timesheets and payroll information indicate that a total of \$1,420 and \$1,818, respectively, is attributable to the project for this individual. A new spreadsheet has been prepared to reflect this information and results in an overall reduction in the amount claimed for on-site assistance by \$1,477.

Labor costs for the electricians, carpenters and painters have been split individually and work orders for the jobs, timesheets and payroll information to document total attributable in-kind expenditures have been provided with the response. Original reported costs were based on an average salary and the breakdown by individual changes the structure or reported costs as shown above.

Although adjustments have been made to reduce the in-kind match originally reported, Frostburg State University more than met the required 50% match.

AUDITOR'S ADDITIONAL STATEMENT:

We reviewed the documentation provided with the Grantee's response and determined the following:

Project Director: The certifications provided by University personnel, which were dated February 13, 1998, indicate that the Interim Provost/Associate Provost spent an average of 5 percent of his time during the period July 1, 1995 to April 30, 1996, and May 1, 1996 to June 30, 1996. The Grantee used a salary cost, including fringe benefits, of \$89,572 and calculated that 10 percent, or \$8,957 was attributable to the grant. The Grantee is incorrect in their calculation. This individual only spent 5 percent of his time during the year, not 10 percent as calculated. In addition, OMB Circular A-21, Section J, Paragraph 6, *Compensation for Personal Services*, has specific requirements for documenting salary and related costs allocable to Federal projects. The certifications prepared almost two years after the fact and provided as evidence do not meet these requirements and are therefore not acceptable support for the costs.

A time log was also prepared and submitted for the second Project Director claimed. Similarly, the time log and timesheets do not meet the requirements stipulated in OMB Circular A-21 as cited above.

On-Site Assistance: The time logs and timesheets prepared and submitted do not meet the requirements stipulated in OMB Circular A-21 as cited above.



Electricians, Carpenters and Painters: The supporting documentation for the in-kind labor costs provided during the audit fieldwork consisted of an internal memorandum dated November 5, 1996 which stated that the labor costs for the Distance Learning Lab in Pullen 122 was \$8,960 for electricians, \$5,731 for carpenters, and \$2,899 for painters. These amounts do not agree with either the amounts claimed or the revised amounts now reported by the Grantee.

The Grantee provided copies of work orders, employee timesheets and payroll information to support total revised labor costs. We reviewed the documentation and determined that it included the same work orders listed on the original source documentation, but the amounts attributed to the work orders was not the same. 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 hours reported on the revised summary to the work orders and timesheets and were able to verify that personnel claimed were available on the days indicated. Although we were not able to verify the assignment of the personnel, or that all time incurred by the assigned personnel had been properly allocated, we conducted a site tour during our fieldwork and determined that the Pullen renovation 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 affected the accountability of costs or compliance with terms of the grant. These weaknesses could result in unallowable costs being charged to the grant.

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

In-kind costs totaling \$76,112 were claimed for salaries, equipment and renovation, and facilities preparation. We found that the in-kind costs claimed were either charged directly to the grant account, were charged to other university accounts that could not be identified, or were not coded to indicate to which account the expenses were charged. As a result, we were unable to determine if the in-kind contributions which were charged either to other University

accounts or not coded were paid for from other Federal funding sources not eligible as in-kind or were used as match for other Federal grants.

OMB Circular 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 Frostburg State University provide ARC with documentation identifying the source of the in-kind contributions 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 project costs 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.

2. Quarterly Progress Reports Were Not Prepared and Submitted to ARC

Frostburg State University did not prepare and submit the required progress reports during the grant period. Also, we were unable to determine if the final progress report was prepared and submitted to ARC within the timeframe established under the grant.

The Grant Agreement, Section 2-8.1 Progress Reports, states:

"Grantee shall prepare and submit to the ARC Project Coordinator, in three copies, quarterly progress reports indicating the work accomplished under the agreement to date, any problems encountered and ameliorative actions taken, and a forecast of work for the next report period."

RECOMMENDATION:

We recommend that Frostburg State University prepare and submit all required quarterly progress reports for all future grants.

GRANTEE'S RESPONSE:

Frostburg State University included copies of the quarterly progress reports with their response to the draft report. They stated that in the future, progress reports will be prepared and submitted as stipulated in the grant. To monitor compliance by the project directors, a Post Award Administrator was hired.

ADDITIONAL AUDITOR'S RESPONSE:

We concur with Frostburg State University's plan to submit future progress reports as required by the grant agreement.

**C. Program Results**

Our review of Frostburg State University's Distance Learning Expansion project indicated all of the objectives 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 concurred that it was difficult to track the source of matching costs since they were charged to various other accounts, but the charges were not to other federal programs. They also stated that quarterly reports are now being prepared in accordance with the grant agreements. In addition, no prior reviews had been performed other than the annual A-133 audit and these issues had never been reported in those audits.

*Tichenor & Associates*  
TICHENOR & ASSOCIATES  
Woodbridge, Virginia



Office of the Vice President for  
Administration and Finance  
Frostburg, Maryland 21532-1099  
(301) 687-4335  
FAX Number: (301) 687-4737

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". The signature is written in a cursive style with a large initial "R".

Roger V. Bruszewski  
Vice President for Administration  
and Finance

RVB:rem  
Attachment

# DISTANCE LEARNING EXPANSION PROJECT

## A. Incurred Costs

### 1. In-Kind Matching Costs Not Adequately Supported

The project directors' in-kind salaries are attributable to two individuals. Dr. A. Franklin Parks spent five percent of his time on this project in FY96. Exhibit A-1.1 consists of two memos from his supervisors to verify the amount of time he spent on the project. Also, payroll information for his salary was submitted by the Payroll Manager. In addition, the \$8,957 was not submitted on the original spreadsheet and, if deleted, FSU will still exceed the required match.

Karen Bambacus was designated as project director later in the grant performance period. She has submitted time logs and timesheets (exhibit A-1.2) for 212 hours spent on the project over three fiscal years. Payroll information for the three years indicates that the total dollar figure for these hours is \$5,087.95. FSU submitted \$5,000 for the in-kind project director's salary.

The on-site assistance claimed as in-kind for the project consisted of three salaries. Brian Wilson was the graduate assistant working on the project. His salary over four semesters totaled \$10,000. This included \$9,000 submitted as an ARC expense and \$1,000 submitted as matching funds for FSU. Exhibit A-1.3 is a database report to substantiate funds paid to Mr. Wilson. Additionally, time logs have been prepared to document time spent on the project.

Joe Taylor also provided on-site assistance totaling 81 hours over two fiscal years. Time logs, timesheets and payroll information indicate that a total of \$1,419.51 of Mr. Taylor's salary is attributable to the project (exhibit A-1.4).

Ruth Richardson is the final member of the on-site assistance staff, with her in-kind contribution totaling \$1,817.61. Also, exhibit A-1.5 consists of time logs, timesheets and salary information that verifies the in-kind cost.

A new spreadsheet has been submitted (exhibit A-1.6) to indicate a reduction of \$1,477 in the on-site assistance claimed.

Labor costs for the electricians, carpenters and painters have been split individually and exhibit A-2 consists of work orders for the jobs performed on the project. Also included are timesheets and payroll information to document total attributable in-kind expenditures. Original reported costs were based on an average salary and the breakdown by individual changes the structure of reported costs as follows:

	Reported	Actual	Difference
Electricians	9,906	8,194	(1,712)
Carpenters	5,876	6,396	520
Painters	2,899	3,227	328
Total	18,681	17,817	(864)

The new spreadsheet illustrates the reduction of in-kind costs.

Time records are completed, but logs specific to the grant were not maintained. All payroll records are available for audit review and future procedures will follow record-keeping as required by the grant.

The necessary adjustments to reduce the in-kind match have been made on the revised spreadsheet (exhibit A-1.6). FSU more than met the required 50% match with the necessary reductions.

**2. Direct Charges For On-Site Assistance Not Adequately Supported**

Brian Wilson was the graduate assistant working on the project and his salary over four semesters totaled \$10,000. This included \$9,000 submitted as an ARC expense and \$1,000 submitted as matching funds for FSU. Exhibit A-1.3 is a database report to substantiate funds paid to Mr. Wilson. Additionally, time logs have been prepared to document time spent on the project.

**B. Internal Controls**

**1. Source of Funds For Matching Expenses Not Identified**

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

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 that 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 the 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).

**2. Quarterly Progress Reports Were Not Prepared and Submitted to ARC**

Copies of quarterly reports are enclosed (exhibit B-3). In the future, progress reports will be prepared and submitted, as stipulated in the Memorandum of Understanding. To monitor compliance by the project directors

a Post Award Administrator was hired by FSU in FY97.

The final draft report was prepared and submitted in a timely manner. According to the Memorandum of Understanding, ARC was to respond and a final report would then be prepared. We are awaiting ARC's acceptance of the final draft report.

**C. Program Results**

Discussion note - no recommendation made