

APPALACHIAN REGIONAL COMMISSION
WASHINGTON, DC

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

VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

GRANT No. VA-10267-95

GRANT No. VA-10267-96

**GRANT PERIODS: OCTOBER 1, 1995 THROUGH SEPTEMBER 30, 1996 (YEAR I) AND
OCTOBER 1, 1996 THROUGH JANUARY 31, 1998 (YEAR II)**

OIG Report 98-14 (H)
February 26, 1998

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MDC M.D. OPPENHEIM & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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 Nos. VA-10267-95 and VA 10267-96 to the Virginia Department of Housing and Community Development (DHCD) for the periods October 1, 1995 through September 30, 1996 and October 1, 1996 through January 31, 1998, respectively, solely to assist you in determining the allowability of costs incurred, 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 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 following procedures were performed to determine the grantee's compliance with OMB Circulars, provisions of the grant agreement, and the ARC Code:

- Held an entrance conference with the grantee.
- Reviewed the grant agreements and any modifications.
- Compared total grant costs by budget category, as claimed to ARC, to the books of account maintained by the grantee.
- Reviewed the cost reports submitted by the subgrantees and tested the allowability for eight subgrantee cost reports in Year I and nine in Year II.
- Tested the allowability and supporting documentation of a sample of seven expense transactions in Year I. There were no expense transactions (non-subgrantee costs) claimed or incurred in Year II; therefore none were tested.
- Reviewed DHCD's FY1995 and FY1996 Independent Auditor's Reports, as well as the FY1996 Independent Auditor's Reports for three subgrantees and the FY1997 Independent Auditor's Report of one subgrantee.
- Reviewed the OIG Survey Questionnaire completed by the grantee.
- Determined if specific grant objectives were achieved.
- Determined if matching/non-federal contribution requirements were met.
- Held an exit conference with the grantee.

Appalachian Regional Commission
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The results of the 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 would have been reported to you.

This report is intended solely for the use of the Appalachian Regional Commission and the management of the Virginia Department of Housing and Community 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
February 26, 1998

**REPORT ON APPLYING AGREED-UPON PROCEDURES TO
VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
RICHMOND, VIRGINIA**

GRANT Nos. VA-12067-95 and VA-12067-96

GRANT PERIODS: OCTOBER 1, 1995 THROUGH SEPTEMBER 30, 1996 (YEAR I); AND
OCTOBER 1, 1996 THROUGH JANUARY 31, 1998 (YEAR II)

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 Grant Nos. VA-10267-95 and 10267-96, by the Virginia Department of Housing and Community 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 grants was to provide funds for a series of microenterprise projects designed to promote economic independence of lower income individuals, particularly minorities and women, in Appalachian Virginia. We tested a sample of costs incurred and claimed for reimbursement under ARC Grant Nos. VA-10267-95 and 10267-96. Under the terms of these grants, 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 \$221,089 in Year I and \$200,000 in Year II.

The grantee represented to ARC that \$748,561 in Year I and \$670,000 in Year II would be contributed to the project in cash, contributed services or in-kind contributions. Therefore, the ARC portion of the total project costs is approximately 23% for both Year I and Year II.

The period of performance for these grants was October 1, 1995 to September 30, 1996 for Year I and October 1, 1996 to January 31, 1998 for Year II. The Appalachian Regional Commission obligated \$221,089 in Year I and \$200,000 in Year II. The grantee requested and received only one payment of \$156,500 for Year I costs (See **EXHIBIT A**). The unexpended balance is \$64,589 in Year I. The grantee has not requested any advances or reimbursements under the Year II grant, which ended in January 1998. Therefore, the full obligated balance of \$200,000 is available in Year II (See **EXHIBIT B**). See Observation 4 in the **OBSERVATIONS AND RECOMMENDATIONS** section of this report for a discussion of these remaining balances.

We reviewed reports prepared by the grantee, evaluated project records, and held discussions with the Associate Director and Financial Analyst during the period February 23-26, 1998. 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, the *Common Rule* and the Appalachian Regional Commission Code.

BACKGROUND

The primary purpose of these grants was to provide funds for a series of microenterprise projects designed to promote economic independence of lower income individuals, particularly minorities and women, in Appalachia Virginia. The project was to provide access to credit and business skills, and empower citizens to pursue self employment and other small business opportunities. It also was to provide technical assistance to potential entrepreneurs and extend loans to small businesses in the Appalachian Region of Virginia.

Under these grant agreements, the Grantee was to perform the following specific tasks:

- ◆ Provide financial support and technical assistance to Appalachian-based microenterprise programs (including, but not limited to BusinessStart, the New Enterprise Fund, and Total Action Against Poverty);
- ◆ Provide business skills and access to capital (including, but not limited to: business skills training, technical assistance, micro-loans, and follow-up assistance) to low and moderate income individuals throughout all Virginia Appalachian counties, and
- ◆ Evaluate the program according to program performance measures delineated in the incorporated proposal, Year I outcomes, and other appropriate measures.

RESULTS OF APPLYING AGREED-UPON PROCEDURES

PROGRAMMATIC ACTIVITIES

With the help of the Appalachian Regional Commission's funding, as well as the matching support provided by various entities, the Virginia Department of Housing and Community Development (DHCD) has accomplished the following, which appear to satisfy the specific tasks outlined in the grant agreement:

- DHCD provided \$188,529 in funds to three subgrantees in Year I (the subgrantees contributed \$840,298 in matching funds).

DHCD provided \$277,182 in funds to three subgrantees in Year II (the subgrantees contributed \$311,471 in matching funds).

- On an ongoing basis, DHCD provided technical assistance to the subgrantees and performed annual field visits to monitor their operations.
- During Year I, approximately 225 people were trained, 73 jobs were created, 19 jobs were retained, 21 businesses were started, 99 businesses received counseling and follow-up services, and 18 loans were made totaling approximately \$144,000.

The results of Year II have not yet been summarized by the grantee.

FINANCIAL REPORTING

We tested eight subgrantee costs and seven other expenses in Year I, and nine subgrantee costs in Year II, incurred by the Virginia Department of Housing and Community Development under ARC Grant Nos. VA-10267-95 and VA 10267-96 for the periods October 1, 1995 to September 30, 1996 and October 1, 1996 to January 31, 1998, respectively. The results of applying agreed-upon procedures are discussed in the **OBSERVATIONS AND RECOMMENDATIONS** section of this report. Grant No. VA 10267-95 established an ARC obligation of \$221,089. The grantee requested and received \$156,500. Grant No. VA 10267-96 established an ARC obligation of \$200,000. The grantee has not yet requested nor received any funds under this grant.

Our procedures disclosed the following observations:

- ◆ Observation 1 - Lack of recording transactions in a general or subsidiary ledger, on a grant basis. The grantee responded that they were developing a system to record all ARC grant and matching fund revenues and expenses. We believe the grantee has adequately resolved this issue.
- ◆ Observation 2 - Lack of monitoring of subgrantees' budgets. The grantee responded that they will work with the subgrantees to obtain information by line item. We believe the grantee has adequately resolved this issue.
- ◆ Observation 3 - Lack of adequate documentation of required matching contributions. The grantee responded that they will ensure more thorough documentation in the files. We believe the grantee has adequately resolved this issue.
- ◆ Observation 4 - Lack of timely closeout of grant. The grantee responded that they are closing out the first grant and the second grant has already been extended. We believe this adequately addresses the grants in this report. However the grantee should also establish procedures to ensure future grants are closed out timely.
- ◆ Observation 5 - Lack of submission of Quarterly Progress Reports. The grantee responded that they are working on a closeout report for the first grant, and they will work with ARC to establish a format for quarterly reports. We believe the grantee has adequately resolved this issue.
- ◆ Observation 6 - Lack of reference to Federal funds in subgrantee press releases. The grantee responded that they will work with the subgrantees to ensure that future materials are adequately marked. We believe the grantee has adequately resolved this issue.

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION 1 – LACK OF RECORDING TRANSACTIONS IN BOOKS ON A GRANT BASIS

The Virginia Department of Housing and Community Development (DHCD) recorded expenses in the Commonwealth's general ledger accounting system (CARS), but did not track these costs on a grant basis. Instead, these expenses were tracked at the program level, which included both ARC and non-ARC related (or match related) expenses. In addition, DHCD did not account for revenue (ARC and matching funds) and expenses in the general ledger or a subsidiary ledger.

Part III of the *Grant Administration Provisions*, Article A10 *Records Requirement* states:

. . . (2) Contract Accounts. Contractor shall establish, for this contract, and require its employees to maintain, a separate "contract account" in which all funds provided for, accruing to, or otherwise received on account of this contract, and all disbursements by the Contractor for the purpose of this contract shall be recorded.

RECOMMENDATION

We recommend that the DHCD develop and maintain a subsidiary ledger to record all ARC grant and matching fund revenues and expenses, at a detail transaction level, by grant.

GRANTEE'S RESPONSE

We are developing a Lotus spreadsheet in which to record all ARC grant and matching fund revenues and expenses by grant. This spreadsheet will be reconciled monthly to the agency's automated general ledger using the grant specific project code.

ACCOUNTANT'S CONCLUSION

We believe the grantee's response adequately addresses this observation and have no further comments.

OBSERVATION 2 – LACK OF MONITORING OF SUBGRANTEES' BUDGETS

The subgrantees submitted invoices to DHCD and reported their costs by activity (e.g. administration, training, technical assistance, loans, follow-up). However, the subgrantees did not report costs by budget line item (e.g. salaries, travel), as outlined in the agreement between the subgrantees and DHCD. As a result, DHCD's ability to monitor the expenses, in accordance with the agreement and in accordance with Federal and ARC regulations was diminished.

According to DHCD, they visited the subgrantees at least once a year and performed a review of their financial information to ensure compliance with the budget and Federal regulations.

RECOMMENDATION

We recommend that the subgrantees submit to DHCD, along with their invoices, costs by budget line item. DHCD should monitor costs, in accordance with the budget, to ensure compliance.

GRANTEE'S RESPONSE

We will work with the subgrantees to collect more information on a line item basis. This will feed into the subsidiary ledger system.

ACCOUNTANT'S CONCLUSION

We believe the grantee's response adequately addresses this observation and have no further comments.

OBSERVATION 3 – LACK OF ADEQUATE DOCUMENTATION OF REQUIRED MATCHING CONTRIBUTIONS

DHCD did not have documentation supporting all of its matching costs that it represented to us that it had incurred. For the Year I grant, DHCD represented \$991,434 in total matching funds (although they only claimed \$778,297 to ARC). However, we are questioning \$152,052 of this amount, (See **EXHIBIT A-2**). Because the total match required was \$680,435 (\$156,500 ARC portion at 23%), and the allowed match (after reduction for questioned costs) is still \$839,382, the matching share has been met.

For Year II, the total required match was \$670,000. DHCD did not have proper support for \$358,529 of this match. However, DHCD has not been reimbursed by ARC for any Year II expenses; therefore, we are not questioning any costs.

RECOMMENDATION

We recommend before any Year II costs are reimbursed by ARC, DHCD ensure that it has adequate documentation to support the matching requirements.

GRANTEE'S RESPONSE

We will take steps to ensure that more thorough documentation is in our files.

ACCOUNTANT'S CONCLUSION

We believe the grantee's response adequately addresses this observation and have no further comments.

OBSERVATION 4 – LACK OF TIMELY CLOSEOUT OF GRANT

Year I

A total of \$221,089 was obligated by ARC for the period October 1, 1995 to September 30, 1996. Of this amount, DHCD has requested, and ARC has reimbursed, \$156,500 through February 27, 1998. Therefore, \$64,589 remains obligated by ARC. ARC and DHCD have indicated they are in the process of deobligating these funds and making them available for Year II expenses. It is our understanding that one project got off to a slow start in Year I, and that because of the changeover in personnel at DHCD, the Year I grant was not closed out timely.

Year II

A total of \$200,000 was obligated by ARC for the period October 1, 1996 to January 31, 1998. Because of an internal accounting error, DHCD has been recording their Year II expenses against the Year I funds that they have already received. Therefore, they have yet to request a reimbursement for Year II expenses. It is ARC's intention to extend Year II into 1999.

RECOMMENDATION

We recommend that the Year I grant be closed and the remaining funds be deobligated. In addition, DHCD should establish procedures to ensure that expired grants are closed out timely.

We also recommend that ARC determine whether a modification should be issued, to increase the grant funding to reflect the rollover of Year I funding to the Year II grant. If an extension of the Year II grant is to be done, it should be done by formal (written) request of DHCD to ARC.

GRANTEE'S RESPONSE

We are currently working with ARC to transfer the outstanding balance from the period October 1, 1995 to September 30, 1996 to the second grant period. Once that balance has been transferred, the first grant will be closed out. The second grant period has been extended through December 31, 1998. This extension was requested and approved through a formal, written process with ARC.

ACCOUNTANT'S CONCLUSION

We believe the grantee's response adequately addresses this observation and reiterate that the grantee should establish procedures to ensure that future grants are closed out timely.

OBSERVATION 5 – LACK OF SUBMISSION OF QUARTERLY PROGRESS REPORTS

The ARC grant required the grantee to submit quarterly progress reports to ARC. The grantee has submitted just one quarterly progress report (with the submission of their reimbursement request). DHCD did submit an annual report for Year I. During Year II, no progress reports had been submitted. This may be attributable to the change in personnel at DHCD; however, the terms of the grant still require that reports be submitted.

RECOMMENDATION

We recommend that DHCD submit quarterly progress reports to ARC for all quarters of the Year II grant.

GRANTEE'S RESPONSE

We are working on a closeout report for the first grant period. We will work with ARC regarding the appropriate format for future quarterly reports.

ACCOUNTANT'S CONCLUSION

We believe the grantee's response adequately addresses this observation and have no further comments.

OBSERVATION 6 – LACK OF REFERENCE TO FEDERAL FUNDS IN SUBGRANTEE PRESS RELEASES

One of the press releases prepared by a subgrantee mentioned the receipt of State funds but did not mention the use of Federal funds in support of the program. The ARC grant agreement requires that the use of Federal funds be mentioned in all documents.

Part II - *General Contract Provisions*, Article G17 *Statement of Federal Funding* states:

When issuing statements, press releases . . . and any and all other public documents or announcements describing the project or program funded by this contract, contractor agrees and warrants that it shall clearly state: (1) the percentage of the total cost of the program or project which will be financed with federal money, and (2) the dollar amount of federal funds

It appears DHCD did not adequately communicate this grant requirement to its subgrantees.

RECOMMENDATION

We recommend that DHCD incorporate, into its subgrants, the clause at Article G17 of Part II of the ARC grant. In addition, DHCD should follow up to ensure that the subgrantees comply with this clause.

GRANTEE'S RESPONSE

We will work with subgrantees to ensure that appropriate references are included in press releases, brochures, and other printed materials.

ACCOUNTANT'S CONCLUSION

We believe the grantee's response adequately addresses this observation and have no further comments.

**VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
RICHMOND, VIRGINIA**

GRANT No. VA-10267-95

YEAR I

GRANT PERIOD: OCTOBER 1, 1995 TO SEPTEMBER 30, 1996

SCHEDULE OF CASH PAYMENTS

(UNAUDITED)

DATE	PAYMENT	AMOUNT
October 7, 1996	Progress	\$ 156,500
Total Paid		156,500
Total Award		221,089
Balance		\$ 64,589

**VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
RICHMOND, VIRGINIA**

GRANT No. VA-10267-95

YEAR I

GRANT PERIOD: OCTOBER 1, 1995 TO SEPTEMBER 30, 1996

SCHEDULE OF CLAIMED EXPENSES

(UNAUDITED)

Total Project Costs	\$	934,797
Less: Non - Federal Share		<u>(778,297)</u>
ARC Share	\$	<u>156,500</u>
ARC Percentage of Total Costs		<u>17% *</u>

* The ARC portion may not exceed 23% according to the grant agreement; therefore, the grantee's claimed expenses comply with the matching requirements.

**VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
RICHMOND, VIRGINIA**

GRANT No. VA-10267-95

YEAR I

GRANT PERIOD: OCTOBER 1, 1995 TO SEPTEMBER 30, 1996

SCHEDULE OF QUESTIONED COSTS (MATCHING SHARE)

(UNAUDITED)

Ref. No.	DESCRIPTION	AMOUNT
1	Duplicate counting of grant funds and loan repayments	\$ 125,992
2	Costs incurred prior to grant	2,650
3	Documentation of in-kind is for a promise to give, not for goods actually provided	520
4	Costs incurred prior to grant	3,891
5	No supporting documentation	1,429
6	No supporting documentation	4,571
7	No supporting documentation	11,428
8	No supporting documentation	857
9	No supporting documentation	714
	TOTAL	\$152,052

**VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
RICHMOND, VIRGINIA**

GRANT No. VA- 10267-96

YEAR II

GRANT PERIOD: OCTOBER 1, 1996 TO JANUARY 31, 1998

SCHEDULE OF CASH PAYMENTS

(UNAUDITED)

DATE	PAYMENT	AMOUNT
Total Paid		\$ -0-
Total Award		200,000
Balance Available		<u>\$ 200,000</u>

**VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
RICHMOND, VIRGINIA**

GRANT No. VA-10267-95

SCHEDULE OF ADDITIONAL DETAIL TO EXHIBIT A-2

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Ref. No.	Additional Detail	Amount
1	BusinessStart - Washington County CDBG repayments per general ledger 10/1/95 to 6/30/96	\$34,711
	BusinessStart - SBA -1 repayments per general ledger 10/1/95 to 6/30/96	77,885
	BusinessStart - SBA -2 repayments per general ledger 10/1/95 to 6/30/96	13,396
	SUBTOTAL	125,992
2	BusinessStart - CSBG grant expenses (detail on page 2)	2,650
3	BusinessStart - June 20, 1995 letter form Mark Eason, CPA	520
4	TAP CSBG general ledger 7/95 to 6/96	
	Total claimed	30,920
	Total accepted	23,190
	Difference	6,810
	ARC Share @ 57.14%	3,891
5	Per NEF Proposal: Summary of In-Kind Documentation VMH letter - \$2,500 @ 57.14% (ARC share)	1,429
6	Per NEF Proposal: Summary of In-Kind Documentation SBDC Letter - \$8,000 @ 57.14%	4,571
7	Per NEF Proposal: Summary of In-Kind Documentation Committee - \$20,000 @ 57.14%	11,428
8	Per NEF Proposal: Summary of In-Kind Documentation New River CC - \$1,500 @ 57.14%	857
9	Per NEF Proposal: Summary of In-Kind Documentation Individual Contribution - \$1,250 @ 57.14%	714
	TOTAL	\$152,052

**VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
RICHMOND, VIRGINIA**

GRANT No. VA-10267-95

**Schedule of Additional Detail to Exhibit A-2
DETAIL FOR REFERENCE 2**

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	<u>DESCRIPTION</u>	<u>DATE</u>	<u>GJ #</u>	<u>REF #</u>		<u>AMOUNT</u>
A	Transfer to payroll	7/26/95	GJ 3	12251	\$	224
B	Transfer to payroll	8/10/95	GJ 10	12207		224
C	Transfer to payroll	8/24/95	GJ 19	12255		224
D	Transfer to payroll	9/7/95	GJ 28	12333		224
E	Transfer to payroll	9/20/95	GJ 39	12351		224
F	July Blue Cross	7/5/95	GJ 1	12190		10
G	Transfer to payroll	7/26/95	GJ 3	12251		13
H	Leave to escrow	7/30/95	GJ 5	12276		18
I	Blue Cross - Aug.	8/1/95	GJ 7	12228		10
J	Transfer to payroll	8/10/95	GJ 10	12207		13
K	Leave to escrow	8/15/95	GJ 14	12290		18
L	Sept. Ins	8/18/95	GJ 16	12303		10
M	Transfer to payroll	8/24/95	GJ 19	12255		13
N	Leave to escrow	8/28/95	GJ 25	12252		18
O	Transfer to payroll	9/7/95	GJ 28	12333		13
P	Leave to escrow	9/11/95	GJ 37	12336		18
Q	Transfer to payroll	9/20/95	GJ 39	12351		13
R	Leave to escrow	9/23/95	GJ 41	12364		18
S	Blue Cross Oct.	9/26/95	GJ 45	12381		10
T	Welthy Soni	7/20/95	AP 3	APM220		246
U	Welthy Soni	8/3/95	AP 7	APM220		233
V	Welthy Soni	8/29/95	AP 12	APM220		18
W	Welthy Soni	9/13/95	AP 17	APM220		322
X	Welthy Soni	9/20/95	AP 19	APM220		65
Y	Welthy Soni	9/20/95	AP 21	APM220		271
Z	Welthy Soni	8/17/95	AP 10	APM220		180
	SUBTOTAL				\$	<u>2,650</u>