

**MEMORANDUM REPORT ON REVIEW OF  
UNIVERSITY OF PITTSBURGH  
PITTSBURGH, PENNSYLVANIA**

**Manufacturing Assistance Center**

**ARC Grant No: PA-12060-95-I-302-0425**

**October 1, 1995 through September 30, 1996**

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**Report Number: 98-37(H)**

**Date: March 12, 1998**

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Under Contract Number J-9-G-5-0010 with the  
U.S. Department of Labor  
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TO: Appalachian Regional Commission (ARC)  
Office of Inspector General (OIG)

FROM: Tichenor & Associates  
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REPORT FOR: The Federal Co-Chairman  
ARC Executive Director  
OIG Report No. 98-37(H)

SUBJECT: Memorandum Review Report on University of Pittsburgh,  
Manufacturing Assistance Center, Pittsburgh, Pennsylvania. Grant No:  
PA-12060-95-I-302-0425, ARC Contract No. 95-71.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the University of Pittsburgh, for the Manufacturing Assistance Center 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 PA-12060-95-I-302 to University of Pittsburgh (University) for the period October 1, 1995 through September 30, 1996. Total project costs were estimated at \$173,830 of which total ARC funding was not to exceed \$139,426, or 80 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$34,404, or 20 percent in cash, contributed services, or in-kind contributions, as approved by ARC. ARC made one payment to the University totaling \$139,421, on March 10, 1997 when the project was complete.

The funds from this grant were to provide support for the University's Manufacturing Assistance Center, a shared manufacturing and training facility. The specific tasks of the grant were to 1) develop training materials and demonstrations for improving the manufacturing process capability, 2) broaden the user base of manufacturers, 3) enhance the current services, 4) improve technology transfer to small and mid-size manufacturers and academia, and 5) evaluate the overall project.

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 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 the University had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with the University's personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at the University's campus in Pittsburgh, Pennsylvania on March 11 through 12, 1998.

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

The University incurred total program costs of \$171,275, of which they claimed direct reimbursable costs from October 1, 1995 through September 30, 1996 of \$139,421 and in-kind costs of \$34,854. We reviewed the direct and in-kind costs claimed and determined that, in general, the funds had been expended as reported. However, we determined that \$1,127 of the claimed costs was either unallowable or unsupported in accordance with the terms of the grant and applicable OMB Circulars. These costs are discussed below.

##### **1. Fringe Benefits and Indirect Costs Claimed Did Not Reflect Actual Rates**

The University claimed, and the ARC paid, for fringe benefits and indirect costs based on a rate agreement in effect through June 30, 1996. This rate agreement was not revised until February 5, 1997, however, the effective date of this new agreement was retroactive to July 1, 1996. The University claimed fringe benefits on staff salaries for the period July 1, 1996 through September 30, 1996 based on the old rate of 36.6 percent, and not on the correct rate of 35.7 percent. This caused a net over-charge to the grant of \$924 (\$624 fringe benefits plus \$300 related indirect costs). Similarly, the University claimed indirect costs for the off-campus portion of the grant for the period July 1, 1996 through September 30, 1996 based on the old rate of 28 percent and not the correct rate of 28.6 percent, which caused a net under-charge to the grant of \$113.

OMB Circular A-110, Section .72, Close Out Procedures, states:

"The close-out of an award does not affect the following:...(2) The obligation of the recipient to return any funds due as a result of later refunds, corrections, or other transactions."

RECOMMENDATION:

We recommend that the University make retroactive adjustments to its grants when new information becomes available.

GRANTEE'S RESPONSE:

The University agreed there was an overcharge of fringe benefit and indirect costs of \$924. The University disagreed, however, that there was an undercharge of indirect costs associated with the off-campus rate. The off campus rate for the period recorded was 26 percent rather than the 28.6 percent reported. Therefore, the University calculated an overcharge of \$376. The University is making changes to correct these overcharges.

2. Expenses Were Unsupported by Original Documentation.

The University claimed costs of \$247 (plus \$69 in related indirect costs) for advertising that was unsupported by original documentation. This charge was originally incurred by the Human Resources Department and then transferred to the grant. The transfer, however, did not include any supporting documentation. While the University supplied a copy of the advertisement, they were unable to supply a copy of the invoice.

ARC Grant Conditions, Article A10, Paragraph (3), Records of Disbursement, states:

"All disbursements for the contract account...shall be supported by contracts, invoices, vouchers, and other data, as appropriate, evidencing the disbursements.

RECOMMENDATION:

We recommend that the University retain supporting documentation for all transactions related to sponsored projects.

GRANTEE'S RESPONSE:

The University disagreed with this finding and stated that all possible documentation was provided. They also stated that the University has an accepted record retention policy in place and should this finding be upheld, it would be an isolated case.

**B. Internal Controls**

We determined that the University had the following internal control weaknesses that affected 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. Effort Certification Did Not Reflect 100 Percent Effort

The official University personnel activity report for the Project Director did not reflect his time spent working on the project. The University supported the Project Director's effort on the project with a memo that did not reflect how 100 percent of his time was spent.

OMB Circular A-21, Section J, Subsection 6d, Paragraph 3, Personnel Activity Reports, states:

“Under this system, the distribution of salaries and wages will be supported by personnel activity reports as prescribed below...Each report will account for 100 percent of the activity for which the employee is compensated.

RECOMMENDATION:

We recommend that the University require that all effort be supported through their established personnel activity reporting system, therefore reporting 100 percent of employee's effort.

2. Effort Was Adjusted to Reflect Amount Reported As Matching

The University reported total matching costs of \$34,854. The support provided for this matching amount was based on 50 percent of the Project Director's effort devoted to the project during the months of January, 1996 through March, 1996. The total amount, which included related fringe benefits and overhead, was \$33,268. When we questioned the University, they then provided support that Dr. Cleland's effort in March, 1996 was 57 percent and not 50 percent as originally reported.

OMB Circular A-21, Section J, states:

“Charges may be made initially on the basis of estimates before the services are performed, provided that such charges are promptly adjusted if significant differences are indicated by activity reports.”

RECOMMENDATION:

Based on the program results (see below) and interviews with the Project Director, we do not find the change in effort unreasonable, however, we recommend that the University maintain current, accurate records of an individual's effort on the project in accordance with their policies.

GRANTEE'S RESPONSE:

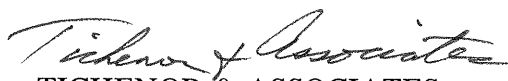
The University stated that they have an accepted payroll monitoring system. The department has reviewed the SPAR process and is in compliance with University regulations in these matters.

**C. Program Results**

Our review determined that the specific tasks identified in the grant for the University's Manufacturing Assistance Center, as summarized above, have been achieved.

DISCUSSION:

We discussed these issues with the University's management during an exit conference held on March 12, 1998. Management generally agreed with our findings, however, they wanted to perform an internal review of the costs incurred on the grant.

  
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Woodbridge, Virginia