



99-25(H)

July 21, 1999


MEMORANDUM FOR       ARC EXECUTIVE DIRECTOR

SUBJECT:                OIG Reports 99-25(H) and 99-26(H), WV-7762 and WV-12352

Enclosed are reports dealing with West Virginia Consolidated Technical Assistance grants and a grant for a water-line extension at the Southwest Regional Jail, Logan, West Virginia.

The West Virginia Technical Assistance report notes several conditions, including the need to support the match; but the primary issue, in our opinion, relates to the use of funds as noted in the background section on page 1 and item 3 on page 6. The limited use of available funds (24- and 31-percent, respectively, for 1996 and 1997 grants), which was attributable in part to limited matching funds, should be discussed with state officials. One recommendation for consideration would be a reduced technical assistance request, with additional funds allocated to other projects, since the majority of West Virginia underspending appears to involve the technical assistance grants.

The report on the water-line extension project notes that \$67,425 of funds were unused and recommends that ARC ensure these funds are recovered after the final project reports are submitted to HUD.

  
Hubert M. Sparks  
Inspector General

Enclosures

cc:     Mr. Charles Howard  
       Ms. Judy Rae

MEMORANDUM REPORT ON REVIEW OF  
WEST VIRGINIA DEVELOPMENT OFFICE  
CHARLESTON, WEST VIRGINIA

Consolidated Technical Assistance Program

ARC Grant Numbers: WV-7762-96-C14-301 and WV-7762-C15-302

July 1, 1996 Through June 30, 1997 and July 1, 1997 Through June 30, 1998

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Report Number: 99-25 (H)

Date: July 1, 1999

MEMORANDUM REPORT ON REVIEW OF  
WEST VIRGINIA DEVELOPMENT OFFICE  
CHARLESTON, WEST VIRGINIA

Consolidated Technical Assistance Program

ARC Grant Numbers: WV-7762-96-C14-302 and WV-7762-C15-302

July 1, 1996 Through June 30, 1997 and July 1, 1997 Through June 30, 1998

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TO: Appalachian Regional Commission (ARC)  
Office of Inspector General (OIG)

FROM: Tichenor & Associates  
Louisville, Kentucky

REPORT FOR: The Federal Co-Chairman  
ARC Executive Director  
OIG Report No. 99-25 (H)

SUBJECT: Memorandum Review Report on West Virginia Development Office,  
Consolidated Technical Assistance, Charleston, West Virginia. ARC  
Grant Numbers: WV-7762-96C14-302 and WV-7762-C15-302.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by West Virginia Development Office, for the Consolidated Technical Assistance Grant programs were expended in accordance with the ARC approved grant budgets and did not violate any restrictions imposed by the terms and conditions of the grants; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and (c) the objectives of the grants had been met.

BACKGROUND: ARC awarded Grant Numbers WV-7762-96C14-302 and WV-7762-C15-302 for the periods July 1, 1996 through June 30, 1997 and July 1, 1997 through June 30, 1998 respectively. Total grant funding was for amounts not to exceed \$342,500 and \$350,000, respectively or 50 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grants be matched with \$342,500 and \$350,000, respectively, or 50 percent in-cash, contributed services, and in-kind contributions, as approved by ARC. ARC made five advance/progress payments totaling \$81,364 for the 1996 grant and five advance/progress payments totaling \$108,323 for the 1997 grant. The West Virginia Development Office had ARC deobligate \$261,136 and \$241,677 from the 1996 and 1997 grants respectively.

The funds from these grants were to provide assistance for the continuation of the Consolidated Technical Assistance Program. The specific tasks of the grants were:

Grantee, as independent contractor and not as agent of the Commission, shall provide all necessary facilities, materials, personnel, and services in order to implement a Consolidated Technical Assistance Program consisting of two major components, namely, ARC Program Management and Local Capacity Development. Grantee's program shall include the following elements:

- (1) Project Development. In the development of projects, Grantee's staff shall assist potential grantees in the preparation of application packages and in securing funding for matches required for ARC projects. Staff shall insure the applicant's compliance with state and federal regulations prior to submission of the application to the ARC.
- (2) Project Monitoring. Grantee shall continue to monitor all projects receiving ARC funds on a semi-annual basis. Monitoring shall be accomplished through on-site visits, telephone conversations, and correspondence. Projects shall be monitored for compliance with state and federal regulations and with the approved scope of the project.
- (3) Research and Technical Assistance. Grantee shall evaluate proposals to provide funds, on a contractual basis, to other state agencies for research and for technical assistance projects in West Virginia, which would provide benefits areawide (within an LDD) or statewide and impact the state's (or area's) community and economic development program.
- (4) Data Gathering System. Grantee shall continue the process of developing an informational database to assist in information gathering.
- (5) Project Information System. A project information system shall be maintained and updated by grantee on a semi-annual basis. This system shall provide the status of all ARC projects in a narrative form, as well as pertinent financial information for each project.
- (6) Planning. Grantee shall be responsible for the coordination of the West Virginia State Development Plan, especially as it relates to the goals and objectives of the ARC.
- (7) Regional Coordination. The Local Capacity Development Unit will coordinate the grant funds of the 11 Regional Planning and Development Councils during the project period.
- (8) Local Capacity Development. Develop and coordinate the delivery of specific programs unique to the rural, distressed counties of the state. In addition to the technical assistance provided by the Small Cities Block Grant program staff on HUD related matters, assistance shall be delivered to local units of government through the Local Capacity Development unit's Certification Development Community Program, Community

Capacity Building, the Main Street Program and ARC technical assistance to Regional Planning Development Councils. The program will emphasize the role the agency plays in local community and economic development activities and leadership development training in rural, distressed counties as follows:

- (a) Civic Infrastructure.
  - 1. provide technical assistance and coordination for the Community First Initiative Program that was established to assist communities with their strategic planning projects;
  - 2. continue the Community Capital Formation Initiative which was created as a mechanism to take people from communities that have already been through a planning process and provide them a higher level of skills training. The program will stress peer mentoring and regional cooperation; and
  - 3. provide training and continue to work with Community Collaborative organizations to help coordinate other training programs throughout the state.
- (b) West Virginia Certified Development Community Program. This program is intended to spur communities across the state to better prepare and equip themselves to respond to the needs of existing and prospective business and industry. A community's preparation will be facilitated by completing the Certified Development Community requirements and becoming "certified".
- (c) Local Economic Development Grant. A project that is tied to the completion of the West Virginia Certified Development Community Program and requires local economic development officials to attend continuing education in the field of economic development.
- (d) Main Street Program. A downtown revitalization program focusing on economic development, historic preservation, and marketing principles. Towns are selected on a competitive basis to receive technical assistance. Towns participating in the program will be eligible to receive services such as training in the principles of economic restructuring, design, promotion and organization. Other services include design services which provide exterior and interior assistance, access to loan programs and consultants for specific issues or projects.
- (e) Rural Health Education. Explore ways to develop the health care industry in rural areas.
- (f) Retiree Retention/Attraction. Provide a conduit for local groups to develop and promote programs in retiree retention/attraction.

- (g) Scenic Byways. Work with an advisory group of other state agencies, local organizations, universities, private sector business and federal agencies I the development of a scenic byways program.

SCOPE: We performed a program review of the grants as described in the Purpose, above. Our review was based on the terms of the grant agreements and on the application of certain agreed-upon procedures in accordance with the ARC, OIG Review Program. 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 West Virginia Development Office had complied with the requirements of the grant agreements. In addition, we discussed the program objectives and performance with West Virginia Development Office personnel. Our results and recommendations are based on those procedures. These review procedures were performed in accordance with applicable Government Auditing Standards.

RESULTS: The following results were based on our review performed at the West Virginia Development Office, in Charleston, West Virginia on April 13 through 16, 1999.

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

The West Virginia Development Office incurred total program costs of \$139,677 for the 1996 grant, of which they claimed direct reimbursable costs from July 1, 1996 through June 30, 1997 of \$81,364, and in-kind costs of \$81,364. For the 1997 grant, The West Virginia Development Office incurred total program costs of \$198,508 for the 1997 grant, of which they claimed direct reimbursable costs from July 1, 1997 through June 30, 1998 of \$108,323, and in-kind costs of \$108,323. 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 \$41,189 of in-kind 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 Supportable**

In-kind costs totaling \$41,189 claimed by The West Virginia Development Office could not be supported. The West Virginia Development Office matched all costs during the grant periods with 50 percent state funds for all costs except personnel and fringe benefits. At the end of the grant periods, \$23,051 and \$18,138 in matching costs had not been met by The West Virginia Development Office. As a result, The West Virginia Development Office transferred \$23,051 and \$44,258 from the West Virginia Development Office general fund account 0256 to the West Virginia Development Office federal funds account 8705. This transfer of funds was claimed as the unmet portion on the final financial status reports even though the costs were not incurred and paid during the periods of the grants.

ARC Grant Administration Provisions, Article A10, Records Requirements, paragraph (4), Records of Contributed Services, 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.”

OMB Circular A-102, Subpart C – Post Award Requirements, paragraph 23, matching or cost sharing states:

“A matching or cost sharing requirement may be satisfied by either or both of the following:

- (1) Allowable cost incurred by the grantee, subgrantee, or cost-type contractor under the assistance agreement. This includes allowable costs borne by non-federal grants or by other cash donations from non-federal third parties.
- (2) The value of third party in-kind contributions applicable to the period to which the cost sharing or matching requirement applies.”

#### RECOMMENDATION:

We recommend that the ARC require The West Virginia Development Office to provide additional documentation to support that \$41,189 of matching costs were incurred as claimed on the final financial status reports under the 1996 and 1997 Consolidated Technical Assistance Grants.

#### **B. Internal Controls**

We determined that The West Virginia Development Office 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. Quarterly Progress Reports Were Not Submitted

The West Virginia Development Office did not submit two quarterly progress reports to the ARC Project Coordinator during the period July 1, 1997 through June 30, 1998. The West Virginia Development Office submitted semi-annual and annual progress reports during the 1997 grant period in accordance with the 1996 grant agreement.

ARC Grant Agreement WV-7762-C15-302 between ARC and The West Virginia Development Office, 3., Reports, states:



“Quarterly progress reports and a final report are required under this agreement.”

2. Personnel Costs Charged to the Grants Did Not Agree to Timesheets and the Allocation Methodology Was Not Documented

The West Virginia Development Office was unable to support the percentages of time and fringe benefits allocated to the ARC grant for the employees of the Technical Assistance and Local Capacity Development sections. The majority of the employees time was allocated 35 percent to the ARC Grant. We reviewed supporting timesheets and found that the actual time spent on the ARC Projects did not agree to the percentages being allocated for the month of May 1998. The methodology for allocating the time could not be explained and was not consistent with actual time being worked on the ARC projects.

OMB A-87, Attachment A, Part C, Basic Guidelines, 3. Allocable costs. states:

“A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

3. Applications for Federal Assistance for 1996 and 1997 Were Above Anticipated Needs

The West Virginia Development Office submitted applications for federal assistance to ARC totaling \$342,500 and \$350,000 for 1996 and 1997. ARC required both grants be matched 50 percent in cash, contributed services, and in-kind contributions, as approved by ARC. As noted in the Background section, the West Virginia Development Office utilized \$189,687 of ARC funds or 24 and 31 percent, respectively, of the \$692,000 in grant funds approved under WV-7762-96/97. Although we did not pursue this issue in depth, discussions with West Virginia Development Office officials indicated the underspending was due to a lack of availability of matching funds.

RECOMMENDATIONS:

We recommend that the ARC require The West Virginia Development Office to submit all reports required under the grant agreements. In addition, we recommend that ARC require The West Virginia Development Office to perform a time study to determine if the allocation of payroll and fringe benefit costs are being properly allocated to the ARC grants and the allocation methodology be documented in writing. Also, we recommend that consideration be given to tailoring future requests for ARC funds for technical assistance to be more in line with projected needs and capabilities.

### C. Program Results

Our review of The West Virginia Development Office Consolidated Technical Assistance Program indicated all specific tasks identified in the grant, and summarized above, had been achieved.

#### DISCUSSION:

We discussed these issues with The West Virginia Development Office's management during the exit conference held on April 16, 1999. Management responded by stating that they believed that transferring the state money into the federal account met the matching requirements on behalf of the state. They stated that in the future, the matching costs would be paid on a 50/50 basis. Also, they stated that they had received verbal approval from the ARC Project Coordinator to submit semi-annual and annual reports instead of quarterly reports. In addition, they stated that they felt the payroll charges were conservative and reasonable and were based on the state matching funds that were available. In response to the applications to ARC for funding, they stated that if the development office was fully funded, the ARC funds could be utilized.

#### OTHER

We provided a copy of the draft report to the West Virginia Development Office on June 15, 1999. Management responded to our findings and recommendations as follows:

#### INCURRED COSTS

The supporting documentation for the cited \$41,189 of matching costs can be provided and is presently on file in the West Virginia Development Office (WVDEVO).

It should be noted that the West Virginia State Code allows agencies an additional 30 days in which to pay for obligations incurred during the fiscal year. Therefore, payments made in July need to be considered in order to determine whether a grant year is properly matched; especially, since these grants are on the state's fiscal year.

However, based upon the auditor's concern and recommendation during the exit conference held on April 16, 1999, the matching costs incurred for the current grant year ending June 30, 1999 has been paid to date as of this date, except for some expenses incurred in June. Future matching costs incurred will be paid in this manner.

#### INTERNAL CONTROLS

1. For the past several years, the state has not submitted quarterly reports. This action was not taken unilaterally. The ARC Program Officer gave the state verbal approval to provide ARC with semi-annual and annual reports. Due to the nature of our daily contact with ARC, program progress is readily available. Since the exit conference, this matter has been discussed with the General Counsel for ARC and he has agreed to change the current

contract language to reflect reporting on semi-annual and annual basis.

2. Based upon past history, it is not believed that a one-month review of time distribution records, as performed by the auditor, can adequately determine that the personnel cost allocation is either correct or incorrect. Therefore time distribution records for Fiscal Year ending June 30, 1999 will be reviewed and evaluated to determine the proper time allocation methodology for the next grant year beginning July 1, 1999. The supporting records for future time allocation methodology will be documented and maintained for any future reviews. This procedure will be used for all future ARC personnel cost allocations.
3. The WVDEVO will continue to exercise its discretion to determine its needs for ARC Technical Assistance funds. It is often difficult to forecast the technical assistance needs for the state. But the state must be prepared to take advantage of opportunities as they occur and do community crisis intervention on short notice.

ADDITIONAL COMMENTS:

We agree that \$10,636 and \$2,743 for 1997 and 1998 were payable at the end of the grant period. However, the balances of the total recorded as payables, \$23,051 and \$18,138 were transferred to the WVDEVO federal funds general operating fund. These funds could be used at the discretion of WVDEVO and we could not determine during our review what the funds were used for. No other obligations had been incurred by WVDEVO as of the end of the grant periods. We recommend that ARC request the WVDEVO to provide documentation supporting that the \$41,189 had been expended within 30 days of the end of the grant periods.

Although a sampling of time distribution records is generally accepted for allocation determinations, we concur that records for the entire year, if available, could provide a more exact basis of the allocation. Also, we agree that WVDEVO should review and evaluate the methodology being used to allocate time and that it should be properly documented. We make no further recommendations at this time.

The issue of fund requests is a matter for ARC consideration and our observations were based on recent activities and fund utilization in a climate of scarce resources.

*Tichenor & Associates*

TICHENOR & ASSOCIATES

Louisville, Kentucky

April 16, 1999