MEMORANDUM REPORT ON REVIEW OF THE NORTHEAST MISSISSIPPI PLANNING AND DEVELOPMENT DISTRICT

Revolving Loan Fund
and
Administrative Grant

ARC Grant Nos: CO-9490-86-YI-302-0421
and MS-0704A-94-C22-302-0628
October 1, 1993 through September 30, 1994

Prepared by:

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U.S. Department of Labor
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TO:	Appalachian Regional Commission (ARC) Office of Inspector General (OIG)
FROM:	Tichenor & Associates Woodbridge, Virginia
MEMORANDUM FOR:	The Federal Co-Chairman ARC Executive Director
SUBJECT TO:	Memorandum Review Report

Grantee:	Northeast Mississippi Planning and Development District
Grant Nos:	Revolving Loan Fund: CO-9490-86-YI-302-0421: ARC Contract No. 86-63, and Administrative Grant: MS-0704A-94-C22-302-0628

PURPOSE: The purpose of our survey was to determine if (a) the total funds claimed for reimbursement by the grantee were expended in accordance with the ARC approved grant budget and did not violate any restrictions imposed by the terms and conditions of the referenced grant; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; (c) the objectives of the grant were being met.

BACKGROUND: The Northeast Mississippi Planning and Development District, Inc. (Grantee) is a nonprofit, no-share organization formed for the purpose of civic improvement and economic development of six counties (Alcorn, Benton, Marshall, Prentiss, Tippah and Tishomingo) in the state of Mississippi. The Grantee is funded by contributions from counties within its service area and federal and state funded grant awards.

ARC awarded Grant Number CO-9490-86-YI-302-0421 to the Grantee for the period October 1, 1993 through September 30, 1994. The purpose of the Revolving Loan Fund Grant was to capitalize and provide continued funding for the economic development revolving loan fund (RLF). The RLF was originally created on May 15, 1986 and was amended and recapitalized seven times with total funding of $1,524,000. The RLF grant also required a local match of

$1,438,286, consisting of cash, contributed services and in-kind contributions as approved by ARC.

ARC also awarded Grant Number MS-0704A-94-C22-302-0628 to the Grantee for the period October 1, 1993 through September 30, 1994. The purpose of the Administrative Grant was to provide funding for the Grantee's eligible administrative expenses incurred in the performance of the ARC approved work program. The approved administrative budget totalled $147,638 of which ARC provided funding of $73,819, or 50 percent of the total eligible costs. The budget also included $36,909 of EDA administrative funds and an equal amount of cash to be provided by the Grantee.

As of the date of our review, ARC payments to the Grantee totalled $1,524,000 on the RLF grant and $70,823 for the Administrative grant. The most recent advance under the RLF grant was made by ARC on January 4, 1995 and the last progress payment made under the Administrative grant was made by ARC on June 27, 1994.

Based on our review of the grant agreements, we determined that the specific objectives of the grants programs were to:

RLF:

- To create and retain private sector jobs;
- To overcome financial gaps in development projects;
- To leverage other public and private sector funds;
- To assist small business and local entrepreneurs in obtaining credit.
- To provide a source of capital for businesses owned by minorities, women, or other economically disadvantaged persons.

Administrative Grant:

- To provide assistance to establish and expand economic development services which are deemed to be useful and pertinent to the accomplishment of the objectives and purposes of Section 302 of the Appalachian Regional Development Act.

SCOPE: Our review was based on the grant agreements between ARC and the Grantee and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. We also reviewed and relied on the available annual independent financial statement audit and Single Audit to the extent deemed appropriate. In summary, we ensured that the objectives listed above were met, the accountability over ARC funds was sufficient as required by the OMB circulars and the Grantee complied with the requirements of the grant agreements. In addition, we discussed the program objectives and performance with Grantee personnel and the Program Coordinator at ARC. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at the Grantee's offices in Boonesville, MS:

A. Incurred Costs

1. Inaccurate Reporting of Incurred Costs

We reviewed the costs claimed for reimbursement by the Grantee for administrative costs incurred for the period October 1, 1993 through September 30, 1994 and determined claimed costs to be as scheduled below. We also reviewed the general ledger for the ARC grant and the EDA grant to determine total costs recorded in the accounting records, which are used as the basis to test the allowability and allocability of the costs. The total administrative costs per the general ledger are also scheduled below.

Cost Category	Costs Claimed	Costs per the General Ledger
Personnel	$ -	$ 75,736
Fringe Benefits	-	24,776
Travel	-	3,111
Equipment	-	0
Supplies, Printing and Publications	-	24
Contractual	-	0
Other/In-Kind	-	5,160
Indirect Costs	-	55,959
TOTAL	$ 147,638	$ 164,766

The Grantee claimed funding of the administrative costs consisted of $36,909 of grant funds from EDA, $36,910 of matching costs from the Planning & Development District and $73,819, or 50%, of ARC administrative grant funds. As shown above, the Grantee does not prepare the request for reimbursement based on the costs recorded on the general ledger. The Grantee indicated that they report the costs as budgeted in the claim for reimbursement. They further indicated that additional adjustments would be made to the accounting records but that the costs claimed for reimbursement from ARC would not change. Therefore, the reports submitted would not need to be adjusted.

We recommend that the Grantee report, on the federal outlay report, only costs actually incurred and recorded in the general ledger. In addition, we recommend that procedures be designed and implemented to assure more timely posting of the general ledger to assure that costs reported for reimbursement are accurate and complete.

The Grantee responded that they will report all costs actually incurred and recorded in the general ledgers. They will also design and implement procedures to assure more timely posting of the general ledger to assure that costs reported for reimbursement are accurate and complete. We concur with the Grantee's response and have made no changes to the report.

2. <u>Allocation Basis for Indirect Costs</u>

We determined that the monthly calculation and allocation of indirect costs was made based on total salary and fringe benefit costs. However, we determined that certain programs were excluded from the base in calculating the rate and were also not allocated indirect costs. The Grantee stated that these programs were not included in the base or allocated indirect costs because they were either physically located in another building, thus incurring and absorbing their own indirect costs or indirect costs were not allocable to the program in accordance with the agreement. We did not obtain copies of the agreements to verify which programs would not reimburse indirect costs, however, indirect costs must be allocated to all cost objectives. The identification of costs as non reimbursable for a certain program does not exclude costs from being allocated to that program, it simply precludes the Grantee from billing those costs to the funding agency.

The programs whose salary and fringe benefits were excluded from the indirect cost rate calculation and their effect on the rate calculated were as follow:

Total Salaries	$	461,622
Total Benefits		142,894
Total Base before Exclusions	$	604,516
Exclusions (Salaries & Fringe Benefits)		
Program 399 - Indirect Pool	$	117,606
Program 318 - Title III B Aging (Ripley)		2,832
Program 319 - Info/Referral		1,989
Program 319 - Outreach		1,418
Program 319 - Homemaker		14,834
Program 323 - Title III C II (1993)		322
Program 323 - Title III C II (1994)		2,516
Program 329 - Title XX		20,175
Program 335 - Title V (1994)		9,002
Program 335 - Title V (1995)		3,034
Program 350 - JTPA OW		18,708
Base for Indirect Cost Rate Calculation	$	412,475
Indirect Cost Pool	$	227,133
Indirect Cost Rate *		55.12%
Indirect Cost Rate Without Exclusions **		46.65%

* $227,133 divided by $412,081

** $227,133 divided by $486,907 ($604,513 less indirect salaries and fringe benefits)

Based on the above analysis, the indirect costs which would have been allocated to the ARC grants would have been significantly less. We recommend that the Grantee justify the exclusion, from the base and indirect cost rate calculation, of the programs indicated above. We further recommend that this justification be provided to ARC for their review. In the absence of ARC approval, the indirect cost allocation to ARC grants should be recalculated and reduced based on the inclusion of all benefitting programs.

The Grantee responded that the distribution of indirect costs was reasonably equitable and is indicative of the amount of benefit provided to each program. However, the Grantee acknowledged the means to the allocation needs to improved to more clearly reflect that each program bore its fair share of the indirect cost in a reasonable relation to the benefits received. (See Exhibit A for the full response.) We concur with the Grantee's statement that the indirect salaries and fringe benefits should be included in the base. We modified our calculation to reflect this change. However, we continue to recommend that the Grantee justify the exclusions and obtain approval from ARC of the actual methodology used in calculating the indirect cost rate.

B. Internal Accounting Controls

The Grantee maintains its monthly general ledger on the cash basis. However, at year end the Grantee accrues both accounts payable and accounts receivable. We noted that the amount of time required by the Grantee to complete its year-end journal entries to post accruals to the general ledger, and thus determine the costs incurred for each program for the fiscal year, is excessive. For example, we noted administrative expenses allocable to fiscal year 1993 were not posted to the general ledger until July 1994. This is at least ten months after the end of fiscal year 1993.

The length of time required to post all journal entries, accrue all accounts payable and accounts receivable and accumulate costs allocable to a single fiscal year could result in the misstatement of reimbursable costs under any grant or program. Therefore, we recommend that the Grantee prepare journal entries to accrue expenses on a more timely basis and to prepare its federal outlay reports based on the adjusted general ledger.

C. General

Responsibilities of the Executive Director

During our review of the administrative costs charged to both the administrative grant and the RLF, we obtained a list of all personnel and discussed their responsibilities with the Executive Director. Based on our review we determined that the responsibilities of the Executive Director have been decreasing based on recent actions by the Board of Directors. For example, we noted the following:

1. The Executive Director does not have the authority to hire and/or dismiss personnel. All personnel actions, including salary adjustments and job descriptions, must be approved by the Board of Directors. In addition, vacant positions are filled by Staff identifying qualified candidates and submitting the top candidates to the Board of Directors for review and approval.

2. All out-of-state travel must be approved by the Board of Directors.

3. All loans must be brought before the Board of Director for review and approval.

Restricted Personnel

The grant agreements contain a restriction with regard to personnel who may perform any functions, direct or indirect, under the programs. Specifically, two employees were restricted from any participation in the grants. We confirmed that neither of these employees was involved in or charged to the grants. One employee is involved in the Aging program, while the other works on the EDA RLF program. We also confirmed that these personnel costs were not used as matching funds.

We noted that the Grantee has recently requested that the personnel restrictions be removed. We did not review the basis for the request. However, we recommend that the Grantee prepare an outline of the proposed staffing changes and responsibilities which would be made if such a request was approved.

The Grantee responded that the Board of Directors will be informed on the stated recommendation and that the Board will prepare proposed staffing changes and responsibilities to be implemented if personnel restrictions are removed.

RECOMMENDATIONS:

As discussed above, we recommend the following:

1. We recommend that the Grantee report, on the federal outlay report, only costs actually incurred and recorded in the general ledger. In addition, we recommend that procedures be designed and implemented to assure more timely posting of the general ledger to assure that costs reported for reimbursement are accurate and complete.

2. We recommend that the Grantee justify the exclusion, from the base and indirect cost rate calculation, of the programs indicated above. We further recommend that this justification be provided to ARC for their review. In the absence of ARC approval, the indirect cost allocation to ARC grants should be recalculated and reduced based on the inclusion of all benefitting programs.

3. We recommend that the Grantee prepare journal entries to accrue expenses on a more timely basis and to prepare its federal outlay reports based on the adjusted general ledger.

4. We recommend that the Grantee prepare an outline of the proposed staffing changes and responsibilities which would be made if such a request for the removal of the personnel restrictions was approved.

Tichenor & Associates

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March 22, 1995

Mr. Hubert N. Sparks, Inspector General
Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, NW
Washington, DC 20235

Dear Mr. Sparks:

Please find enclosed NEMPDD's response to recommendations included in the Tichenor and Associates report relative to their survey of ARC grant numbers CO-9490-86-Y1-302-0421 and MS-0704A-94-302-0628.

Thank you for your consideration of these comments.

Sincerely,

J. Eugene Taylor

J. Eugene Taylor

JET/jr

Enclosure

cc Mr. Robert Sokolowski

1. NEMPDD will report all costs actually incurred and recorded in the general ledgers. NEMPDD will design and implement procedures to assure more timely posting of the general ledger to assure that costs reported for reimbursement are accurate and complete.

2. NEMPDD contends that the distribution of indirect cost was reasonably equitable and is indicative of the amount of benefit provided to each program. However, NEMPDD acknowledges the means to that end needs improvement to more clearly reflect that each program bore its fair share of the indirect cost in a reasonable relation to the benefits received from the cost.

   a. NEMPDD disagrees that Indirect salaries and fringe benefits (Program 399- Indirect Pool of $117,606.00) should be included in the base. The Executive Director and Business Manager costs are general expenses that benefit all programs and would require unreasonable effort to assign directly to the specific grant programs. Therefore, the costs are appropriate to be included in the indirect expense and to be excluded from the base. Federal Register 1 Vol. 58, No. 159 page 44231 B. Definitions 4. "Base" means the accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual federal assistance programs.

   b. NEMPDD recognized that Federal statutes restricted the reimbursement of indirect costs on Program 350-JTPA Older Workers' salaries and fringe at $18,708. However, NEMPDD contends that factors including physical location of work, level of administrative support required, other resources supplied and the organizational arrangement used did substantially affect the indirect cost applicable to Program 350-JTPA Older Workers'. The NEMPDD acknowledges that even though the appropriate end result was accomplished, the means to that end was not achieved utilizing a separate indirect cost pool. Additionally, NEMPDD will develop procedures to more formally and appropriately account for the different factors that substantially affect the indirect cost applicable to Program 350-JTPA Older Workers' for FY' 1995.

   c. NEMPDD contends that factors including physical location of work, level of administrative support required, other resources supplied and the organizational arrangement used did substantially affect the indirect cost applicable to Aging Programs 318, 319, 323, 329, and 335 salaries and fringe benefits totaling $56,122. The NEMPDD acknowledges that even though all programs shared common costs in an equitable and reasonable amount relative to the benefit received from the costs, a separate indirect cost pool was not utilized. The NEMPDD will develop procedures to more formally and appropriately account for the different factors that substantially affect the indirect cost applicable to the Aging programs referenced above for FY' 1995.

   In summary NEMPDD contends that each program bore its fair share of the indirect cost in a reasonable relation to the benefits received from the cost.

3. NEMPDD will prepare journal entries to accrue expenses on a more timely basis and prepare its federal outlay reports based on the adjusted general ledger.

4. The NEMPDD Executive Director will advise NEMPDD Board of Directors on April 3, 1995 of Tichenor and Associates' recommendation that the Board prepare proposed staffing changes and responsibilities to be implemented if personnel restriction is approved.