



SURVEY REPORT

REVIEW OF MISSISSIPPI RESOURCE CENTER DEVELOPMENT PROJECT

Grant No. MS-11342-93-I-302-0403

Contract No. 93-122

October 1, 1993 - September 30, 1994

OIG Report 95-17(H)

March 31, 1995

I. INTRODUCTION

A. PURPOSE

The purposes of our review were (1) to determine the allowability of the costs claimed under the ARC grant, (2) to determine if grant objectives were met, and (3) to determine the current status of the project.

B. SCOPE

Our survey included procedures to review costs incurred and claimed for reimbursement under the ARC grant. The period of performance for Grant No. MS-11342 was October 1, 1993 through September 30, 1994. We reviewed the grantee's project reports, examined records, and held discussions with grantee officials in Jackson, Mississippi, January 31-February 2, 1995. We also reviewed the independent auditor's reports for the periods ending December 31, 1992 and 1993. As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreement, Office of Management and Budget (OMB) Circulars A-110 and A-122, and the ARC Code.

C. BACKGROUND

ARC Grant No. MS-11342-93-I-302-0403 (Contract 93-122) was awarded to the Mississippi Resource Center, Inc. (MRC) to provide financial assistance for the development of a resource center for economic development for Mississippi, including the 21 counties of Appalachian Mississippi. The grant was for the lesser of \$100,000 or 26 percent of actual, reasonable, and eligible project costs. The grantee was to provide the non-Federal share of \$290,000 (74 percent) in cash, contributed services, or in-kind contributions as approved by ARC. The center was to assist local development organizations through information collection, presentations, and dissemination of materials on the special economic and resource endowments of Mississippi.

At the time of our review, the grantee had claimed and been paid \$75,000 for expenses incurred under the grant and \$25,000 remained in the grant account.

The grantee concurred with the recommendations, and the comments are included as Exhibit A. Therefore, we have not included the comments in each section noted below.

II. SURVEY RESULTS

A. ACCOUNTING SYSTEM IMPROVEMENTS NEEDED

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, requires recipients of Federal grants to maintain adequate financial management systems, including accurate, current, and complete disclosure of the financial results of each Federally sponsored project or program. When we compared the grantee's accounting records with reimbursement requests submitted to ARC, we found some discrepancies. The grantee told us their computerized accounting system crashed in June 1994 and all data on the hard drive and backup disk from January 1994 through June was lost. The office manager used the checkbook register and supporting documentation to reconstruct the accounting records in manual form. However, in reconstructing the records, some costs were inadvertently posted to different expense accounts than they had been posted to originally and possibly to different accounting periods. (The office manager now records detailed information about each payment in the checkbook register.)

Although the accounting records for the first quarter of the grant period (October 1-December 31, 1993) were not affected when the computerized records were destroyed, we found that the amount of operating costs reported to ARC for that period was also different than the amount shown in the accounting records. The MRC reported total operating costs of \$67,627; but the accounting records indicate the total was \$62,098.82. The office manager thinks the amount reported to ARC may have erroneously included some capital costs, but worksheets or other documentation is no longer available to explain which expenses were included in the amount of costs reported to ARC. We reviewed documentation for salary costs and administrative expenses totaling \$41,017.59 for this period and noted that the amount in the grantee's accounting records was consistent with the amount reported to ARC in the financial status report for the period.

Reimbursement requests filed with ARC indicate operating costs for the first three quarters of the grant total \$233,710. However, original and reconstructed accounting records indicate that total operating costs for four quarters were \$236,450.06. The breakdown is as follows:

	<u>Reimbursement Requests</u>	<u>Reconstructed Requests</u>
Oct. - Dec. 1993	\$ 67,627.00	\$ 62,098.82
Jan. - Mar. 1994	112,519.00	59,827.04
Apr. - Jun. 1994	53,564.00	56,175.68
Jul. - Sep. 1994	<u>none filed</u>	<u>58,348.52</u>
Total Operating Costs:	\$233,710.00	\$236,450.06

We also noted that the grantee did not have internal controls in place to provide for the detection of certain erroneous accounting entries. For example, an employee reimbursement to the Catering/ Hospitality account for \$35.31 was posted to the account as a debit instead of a credit, which caused the amount of total expenditures for that account to be overstated.

Subsequent to our review, the grantee furnished us with a list of additional grant costs totaling \$56,390.03 that were incurred during the grant period but were not included in the reconstructed records noted above or claimed to ARC. They include expenses for leased equipment, in-kind rent and the annual audit. With the addition of these costs and the removal of unallowable costs noted elsewhere in this report, the operating costs for the MRC total \$291,961.72 and ARC's portion (26 percent) is \$75,910.05. To date, the grantee has received \$75,000 of the \$100,000 obligated for this grant.

According to grantee personnel, the MRC's independent auditor will perform the Calendar Year 1994 audit in the near future. The audit firm has been advised of the loss of the computerized accounting records.

Recommendation: We recommend the grantee ensure that their accounting system is sufficient to provide an audit trail for financial transactions and that adequate internal controls are in place to provide for the detection of errors. We also recommend that a copy of the grantee's annual audit for Calendar Year 1994 be furnished to ARC and that action be initiated to determine the status of remaining grant funds.

B. QUESTIONED COSTS

We reviewed a sample of expenses charged to the MRC project and determined that costs totaling \$878.37 were questionable for the following reasons:

- 1) Some expenses incurred outside the grant period
- 2) Some unallowable items, including local meals
- 3) Mileage charged at 28 and 29 cents/mile instead of 25 cents as prescribed by the grant agreement
- 4) Vendor overpayment of \$27.10

The grantee was not aware they were required to follow Federal Travel Regulations and OMB Circular A-122, Cost Principles for Non-Profit Organizations. We provided the grantee with a copy of the circular during our visit. They agreed to deduct the questioned costs noted above from total allowable project costs prior to determining ARC's share of the project.

Recommendation: We recommend the grantee follow the appropriate cost principles and travel regulations to determine future ARC project costs.

C. BANK ACCOUNTS SHOULD BE RECONCILED

Prior to our review, the grantee stopped using the "main" MRC bank account because it was severely out of balance. A volunteer had been responsible for reconciling all of the MRC bank accounts but had not done so. When the current office manager realized the accounts were not being reconciled he attempted to do it but was unsuccessful. The grantee's independent auditor

was also unable to reconcile the account. They stopped writing checks against the account in February 1995 and intend to close it when they are sure all checks written against the account have cleared. They opened a new account and reconcile it and other accounts on a monthly basis according to the office manager.

Recommendation: We recommend that the grantee continue to ensure bank accounts are reconciled on a timely basis.

D. PROJECT STATUS


According to MRC personnel, since the center's inception in February 1993, they have been involved in statewide projects that resulted in \$314 million of new capital investment and the creation of 2,500 new jobs. The financial impact in Appalachian Mississippi totals \$170 million and 1,200 new jobs. In 1994, the MRC gave more than 200 presentations to developers.

At the time of our review, the grantee was working on the final progress report. Subsequent to our visit, we understand the grantee requested permission from ARC to extend the grant period to allow them to utilize unspent grant funds. We also understand a progress report describing activities from July 1, 1994, through February 28, 1995, has been sent to the Mississippi ARC office in Tupelo.

Recommendation: We recommend that the grantee submit progress and final reports to ARC in accordance with the grant agreement.

E. REQUESTS FOR ADVANCE OR REIMBURSEMENT

During our review, we noted that Request for Advance or Reimbursement forms (SF-270) submitted by the grantee to ARC were completed erroneously in that they did not show cumulative totals. The forms were not questioned by ARC. Subsequent to our review, the grantee's office manager corrected the forms and submitted them to the ARC Office of Inspector General.



HUBERT N. SPARKS
INSPECTOR GENERAL

Attachment
Exhibit A



EXHIBIT A

March 30, 1995

Mr. Hubert N. Sparks
Inspector General
Appalachian Regional Commission
1666 Connecticut Avenue, NW
Washington, D.C. 20235

ref: ARC Contract 93-122
OIG Report 95 - 17(H)

Dear Inspector General:

In reply to the March 20, 1995 Survey Report 95-17(H), I would like to provide an Executive Summary, followed by the details of compliance to the grant.

EXECUTIVE SUMMARY

The Mississippi Resource Center opened its doors on February 26, 1993. The determination of budget line items was rudimentary, since the Center did not have any historicals for expenses. Therefore, the summarized budget presented to ARC was a "best-guess" estimate for line items and operating expenses. Toward the end of 1993, an outside accounting firm was hired to conduct a year-end audit and to make recommendations to enhance our accounting procedures. Due to turnover with the clerical support position, the Center went through different bookkeeping methodologies and suffered delays in regimenting accounting procedures. Still, the 1993 external audit uncovered no significant areas of concern.

Our present Office Manager was hired in December of 1993. He was successful in structuring the books and relied on the external audit to verify past accounting entries, although Joanne Brenner uncovered discrepancies that had not been caught before. The Office Manager was requested to manage the ARC grant reports. To our disadvantage, we had no prior experience with grants and knew not of any OMB guidelines. Any errors in our reports were the result of our inexperience, not intentional misrepresentation.

SPECIFIC RESPONSES TO SURVEY STATEMENTS

Section 2

Article A

Entries in the Check Register will now include a comment section to identify the line item that the amount is posted to.

The MRC Office Manager will keep on file every work sheet used to prepare the financial statements to the ARC.

The MRC will provide the ARC with the results of the 1994 audit.

Section 2

Article B

The MRC will comply with OMB guidelines in subsequent reports.

Section 2

Article C

The MRC stopped writing checks against the "main" bank account in December of 1994 because of problems with reconciliation. All other accounts have been reconciled.

Section 2

Article D

The last filed report with the Tupelo, Mississippi ARC office covers the activity period from July 1, 1994 through February 28, 1995. A final report to the ARC is pending the outcome of this request for an extension of the grant period. The Mississippi Resource Center has been successfully involved with job creation and capital investment in the ARC territory. Since reporting to Joanne Brenner, I have been informed that additionally, Caterpillar and Intex Plastics have chosen to expand in ARC's Alcorn County, Mississippi with a capital investment of \$10,700,000 and the creation of 170 jobs. Bottom line, the MRC is serving its purpose in creating jobs and capital investment for the state of Mississippi and the ARC.

Section 2

Article E

As stated in the report, the corrected Request for Advance or Reimbursement forms (SF-270) were submitted to ARC.

My thanks go to Joanne Brenner and the ARC of Tupelo, Mississippi for working with us on this grant. If you should need any further information, please call me at (601) 360-1120.

Sincerely,

A handwritten signature in dark ink, appearing to read "Don F. Moore". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Don F. Moore
Executive Director