

MEMORANDUM REPORT ON REVIEW OF THE  
APPALACHIAN CENTER FOR  
ECONOMIC NETWORKS

Flexible Manufacturing Networks

ARC Grant Nos: OH-10948-91 and -93  
July 1, 1992 through June 30, 1994

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Report Number: 95-46(H)

Date: September 30, 1995

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

**FROM:** Tichenor & Associates, CPAs  
Woodbridge, Virginia

**REPORT FOR:** The Federal Co-Chairman  
ARC Executive Director

**SUBJECT:** Memorandum Review Report -- Appalachian Center for Economic  
Networks, Inc. (ACEnet). Cost Incurred Review - July 1, 1993 through  
June 30, 1994; Accounting System Review - April 1995

PURPOSE: The purposes of our review were to determine that (a) all funds were expended in conformity with the approved budget and did not contravene any restrictions imposed by the terms and conditions of the grant, (b) the accounting, reporting and internal control systems provide for disclosure of pertinent financial and operating information, and (c) the objectives of the grant were being accomplished.

BACKGROUND: ARC awarded Grant No. OH-10948-91-I-302-0819 for the period July 1, 1992 through June 30, 1993 to the Appalachian Center for Economic Networks, Inc. (ACEnet) to provide funding for the establishment of flexible manufacturing networks (FMNs) in Appalachian Ohio. Under the program, ACEnet was to develop a number of support systems that are essential to the development of new networks. The support systems were to include: training programs, designing strategies for obtaining sufficient working capital and facilitating the joint productions of the new networks. The new networks were to be based around modular wood manufacturing products for the home and office.

The ARC Office of Inspector General (OIG) performed a survey of this grant and reported some preliminary findings with respect to the costs incurred for the program and the cost accounting system used to identify, accumulate and report these costs to ARC. Tichenor & Associates (T&A) subsequently performed a review of the grant agreement between ARC and ACEnet, an analysis of the cost accounting system and a review of the costs reported by the ARC OIG as questioned during their survey. Based on the results reported by the ARC OIG, T&A's preliminary analysis of the documentation provided for the questioned costs, T&A's initial site

visit to ACEnet and the subsequent documentation and correspondence provided, our review was then expanded.

The expanded scope included a review of changes reportedly implemented in the cost accounting system and a determination as to the capability of the new accounting system to properly accumulate and report costs during the second year of ARC grant funding. This additional review was performed during a second site visit to ACEnet.

Based on our suggestions and the guidance in the OMB Circulars, ACEnet revised their accounting system. We determined that the revised their system of cost accounting appeared to adequately accumulate and report grant costs. The revised accounting system also properly segregated unallowable costs and allocated indirect costs on the basis of salary dollars.

SCOPE: During April, 1995 we performed a followup review of the accounting system used by ACEnet to accumulate, allocate and report costs under the ARC grant. In addition, we performed a limited review of the costs claimed under ARC Grant number CO-10948-93-C1-302-0412, for the period July 1, 1993 through June 30, 1994, to assure that the costs claimed were adequately supported and allowable under the grant.

ARC awarded grant number CO-10948-93-C1-302-0412 to ACEnet for the purpose of establishing three new flexible manufacturing networks (FMN) and to continue the development of the existing FMNs, created under the first year grant. The grant amount was \$125,000 and was to be matched with funding from the Joyce Foundation.

RESULTS: These results are based on the review of the second year grant and are based on the results of our procedures.

#### A. Internal Controls

We determined that the accounting system was adequate for accumulating and reporting allowable costs for a Federal cost reimbursable grant. However, we noted the following:

- Timesheets should be revised to indicate the project worked on by each employee. Timesheets are not labeled with the project name or number for employees who work solely on one project. This method does not assure that the personnel are asserting that they worked on the project billed nor does it leave a clear audit trail to support costs claimed for reimbursement.
- Salaries are allocated to projects and administration based on direct hours worked during the month only. Leave time taken during the period, including vacation, holiday and sick

leave, are excluded from the calculation of costs allocable to each project. This method of accounting for leave time could result in the inequitable allocation of salary costs since leave is absorbed only by the projects charged during that single period. Leave time should be included in a fringe benefit or overhead pool and allocated to all projects throughout the year.

- Original source documentation (i.e. invoices) were not available to support all costs claimed. Original source documentation should be filed with each voucher to assure that costs are not paid more than once in error. If a single invoice supports more than one voucher, the voucher should be cross referenced to the voucher containing the original source documentation.

#### B. Grant Objectives

We determined the following during our review of compliance with grant terms:

- One of the primary objectives of the grant was to aid four existing FMNs to continue to produce and expand their joint production and to form three new FMNs. We initially questioned whether the grantee accomplished this objective. ACEnet was able to assist the existing FMNs to expand their production, identify new products to expand their market, begin the establishment of a small revolving loan fund targeted to the needs of the FMN firms, and continue training programs during the current year, however we did not identify additional organizations outside the existing FMNs. ACEnet indicated that the infrastructure necessary to develop the FMN's needed strengthening, therefore, efforts were concentrated in this area.

Grantee's Comments on the Findings and Recommendations: The Grantee response to the draft audit report noted concurrence with our internal control recommendations and noted as follows with respect to new FMNs.

"...during this grant period, at least three new FMNs were created. FMNs - temporary production networks of different firms which converge around the production of particular products - were already in operation focused on four products...By the end of the grant period...two additional FMNs were in operation focused on adjustable counters, and sinks and a line of wooden toys. In addition, another firm-initiated FMN, composed of a different set of firms, produced and marketed a new garden tool: the Little Gorilla hand spade....."

Appalachian Regional Commission  
Office of Inspector General  
Page 4

Additional Comments

Based on the grantee response and the Inspector General's discussion with ARC officials we accepted the grantee's position with respect to the development of new FMNs.

RECOMMENDATIONS: We recommend that ACEnet implement the additional changes in their accounting system to assure the proper accumulation, allocation and reporting of salary costs, including leave, and other program costs. Also, we recommend that ARC clarify, as necessary, the definition of new flexible manufacturing networks (FMN).



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