

PERFORMANCE AUDIT OF THE

**Tuskegee Human and Civil
Rights Multicultural Center
Grant**

GRANT: AL-16572

OIG REPORT NUMBER: 13-28

GRANT PERIOD: OCTOBER 2010 – JANUARY 2013

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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Tuskegee Human and Civil Rights Multicultural Center Grant AL-16572. The report is in response to Contract No. BPA 11-01-B.

Watkins Meegan LLC

Tysons, Virginia
September 30, 2013

Tuskegee Human and Civil Rights Multicultural Center Grant

AL-16572

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state and local governments. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair who is appointed by the President. Local participation is provided through multi-county local development districts (LDDs). Each year, ARC provides funding for several hundred projects in the Appalachian Region, in areas such as business development, education and job training, telecommunications, infrastructure, community development, housing and transportation. These projects help create jobs; improve local water and sewer systems; increase school readiness; expand access to health care; assist local communities with strategic planning; and provide technical and managerial assistance to emerging businesses.

The Tuskegee Human and Civil Rights Multicultural Center (the Center, or the Grantee) is a not-for-profit company that provides educational activities related to human rights, civil rights, historic preservation and cultural preservation for the Tuskegee and Macon County communities. The Center was founded in 1997 and is located in a former bank building in downtown Tuskegee. Over time, the facility's interior has evolved into a museum and it now showcases permanent exhibits and facilitates regular educational programs. Programs include interpretive tours for school groups and adults, a national teacher training program and special programs featuring civil rights activists. The Center also hosts traveling exhibits from major museums and locally produced companion exhibits, targeted activities for high school students and a general public lecture series.

On September 22, 2010, ARC approved the Tuskegee Human and Civil Rights Multicultural Center grant (Grant), project number AL-16572, in the amount of \$200,000 for the period October 1, 2010 to October 1, 2011. The Grant required \$52,100 of state and local (non-federal) matching funds, for total funding of \$252,100. Through a total of three subsequent amendments approved by ARC, the performance period was extended to January 31, 2013. Grant funds were to be used to expand the gift shop inside the museum to provide additional space for local retailers to sell merchandise and to enable acquisition of point-of-sale (POS) software and hardware for the gift store. An enhanced website with e-commerce capabilities was also to be developed as part of this process. Grant funds were also to be used to increase the number of exhibits in the museum, acquire electronic devices for self-guided tours and to increase the number of educational lectures and workshops held in the Center.

Objective

Watkins Meegan LLC was engaged to conduct a performance audit of the Tuskegee Human and Civil Rights Multicultural Center Grant for the period October 1, 2010 to January 31, 2013. The purpose of our performance audit was to determine the following:

- Funds expended and claimed for reimbursement from ARC were valid program expenses and in accordance with the ARC Grant requirements;
- Internal controls were in place to ensure compliance with the Grant requirements; and
- Goals and objectives of the Grant had been achieved.

Executive Summary

Grant funds were used to expand the gift shop inside the museum and purchase POS software and hardware. An enhanced website with e-commerce capabilities was also developed. Grant funds were also used to increase the number of exhibits in the museum and enhance permanent exhibits by incorporating technology with mobile hand-held devices, expanding video, photographs and audio materials. In general, the Center met or exceeded the targeted outcomes and outputs associated with the Grant.

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ARC reimbursed the Grantee \$200,000 of expenses for the period October 1, 2010 to January 31, 2013. Reported matching funds provided from non-federal sources totaled \$97,023 for the same period. The total expenditures reported by the Center for the performance period were \$297,023, 18 percent over the original approved budget of \$252,100, with the variance derived from additional reported matching funds. A revised budget totaling \$297,000, inclusive of the increased matching fund component, was provided to ARC in March 2012.

A number of findings were noted regarding the lack of formal Grant-related records, including accounting records, invoice approvals and payroll approvals. Given the limitations noted in the findings below we were unable to conclude on the overall validity and appropriateness of the non-personnel expenditures recorded against the Grant. Testing of a selection of invoices obtained from the Center indicated that those specific expenditures were valid and appropriate under the terms and conditions of the Grant, with the exception of two transactions totaling \$1,624 that fell outside the performance period of the Grant. Details for each of the findings can be found below.

Scope

We performed a performance audit of the Tuskegee Human and Civil Rights Multicultural Center Grant AL-16572 at the Center's office in Tuskegee, Alabama from August 10 through August 12, 2013, as described under this section and under the audit methodology section. Our audit was based on the terms of the Grant agreement and on the application of procedures in the modified ARC Audit Program.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Methodology

Our procedures were based on the Audit Program guidelines provided by the ARC Office of the Inspector General and included suggested procedures over the Center's accounting and internal control systems affecting the Grant. We met with the Executive Director and Program Director of the Center to discuss the structure, controls and processes around Grant administration and monitoring. We also discussed and reviewed other financial and operational elements related to the conduct of the program.

Our review of background material included ARC's Grant Agreement and related documentation, ARC Grant approvals and the Grant applications, and the Center's annual tax return for FY2012 that was obtained in lieu of audited financial statements for the Center.

We made inquiries regarding whether the goals and objectives of the project funded with ARC monies had been met and reviewed supporting evidence to assess the accomplishment of the outputs and outcomes identified in the Grant application, including touring the museum and gift shop and accessing the enhances web-site.

We reviewed controls in place for recording, accumulating, and reporting costs under the Grant. This included meeting with the Executive Director and Program Director to understand how their daily activities and responsibilities supported the administration of the Center's ARC program. We reviewed representative supporting documentation related to Grant activities for consistency with applicable performance measures.

Finally, we examined a sample of payroll detail and related records for the staff whose employment was supported by matching funds. We also inquired of key staff and reviewed supporting documentation (invoices, vouchers, cost allocation reports, etc.) regarding the supplies, contractual, and other direct costs that were paid for by ARC funds to determine whether they were allowable costs and that the expenses supported the Grant activities.

Results

Compliance with Grant Provisions

Grant funds were used to expand the gift shop inside the museum and purchase POS software and hardware. An enhanced website with e-commerce capabilities was also developed. Grant funds were also used to increase the number of exhibits in the museum and enhance permanent exhibits by incorporating technology with mobile hand-held devices, expanding video, photographs and audio materials. During the audit, we toured the facility to observe the changes implemented through the support of Grant funds, and reviewed event calendars and vendor records to validate reported outcomes and outputs. Through these steps we confirmed that the Center met or exceeded the targeted outcomes and outputs associated with the Grant.

ARC reimbursed the Grantee \$200,000 of expenses for the period October 1, 2010 to January 31, 2013. Reported matching funds provided from non-federal sources totaled \$97,023 for the same period. The total expenditures for the performance period were \$297,023, 18 per cent over the original approved budget of \$252,100, with the excess being additional reported matching funds.

A number of findings were noted regarding the lack of formal Grant-related records, including accounting records, invoice approvals and support for payroll expense allocations. The Center was unable to provide a schedule of expense transactions that reconciled to the ARC and matching expenses itemized in the reimbursement requests submitted to ARC. Absent a complete list from which to select a testing sample, we were unable to conclude on the overall validity and appropriateness of the non-personnel expenditures recorded against the Grant. However, testing of a selection of invoices obtained from the Center indicated that expenditures recorded against the Grant were valid and appropriate under the terms and conditions of the Grant, with the exception of two transactions totaling \$1,624 that fell outside the performance period of the Grant. Through our review of the invoices available for testing we noted a separation of duties issue due to a family relationship between the parties currently responsible for approving invoices and payments.

At the conclusion of the audit, we noted and discussed the following items with Management, who generally agreed with the findings and recommendations as described below:

Finding – Inadequate Accounting Records

ARC Grant terms and conditions and the associated OMB circulars governing the Grant award require that adequate accounting records be maintained for grant funds. During the audit, the Center was unable to provide detail of expense transactions that reconciled to the total ARC and matching funds of \$297,023 as reported by the Center during the period of October 1, 2010 through January, 31, 2013. This limited our ability to select an independent sample of expenses for testing purposes; however, the Center did provide support for 18 transactions totaling \$156,623 which were reported to ARC. This represents approximately 55 percent of the total non-payroll expenses reported to ARC of \$282,143, inclusive of \$82,143 matching costs.

Recommendation:

Management must maintain appropriate accounting records in support of the use of Grant funds. The charges accumulated against the Grant should be easily identifiable within the general ledger and separable between ARC and matching expenses. Management should implement policies and procedures to ensure that costs reimbursed with ARC funds can be identified and reconciled to the reimbursement requests and periodic reporting provided to ARC. Management should provide ARC with a detailed reconciliation of expenses allocated to the Grant to ensure that the amounts claimed for reimbursement from ARC can be appropriately supported. Any expenses that cannot be supported may need to be refunded to ARC.

Finding – Lack of Required Clauses in ARC-Funded Contractual Agreements

ARC terms and conditions require that any agreements between grantees and vendors supported by ARC funds include provisions, terms and conditions to ensure vendor compliance with federal standards and ensure that the protections afforded ARC through the terms and conditions of the Grant agreement are held intact through any Grant-funded sub-contract or vendor agreement entered into by grantees. The Center entered into an ARC-funded agreement for \$123,500 with a company to design and build exhibits that did not include the required clauses.

Recommendation:

Management should ensure that contracts and agreements supported by ARC funds include all required clauses and implement a process to monitor vendor compliance with the requirements.

Finding – Expenses Incurred Outside the Grant Period of Performance

ARC Grant terms and conditions require that costs allocated to any Grant are only valid when incurred during the period of performance for the Grant. Through testing of expenses, it was noted that two invoices in the testing sample were invoiced after the period of performance ended. The two transactions totaled \$1,624 and were invoiced in February and March 2013, after the January 31, 2013 period of performance end date.

Recommendation:

All expenses related to the program should have been incurred within the period of performance. The Center should follow up with their ARC point of contact to provide any additional support to validate the expenses referenced and determine the appropriate treatment. If no additional support is available the costs may need to be refunded to ARC.

Finding – Lack of Support for Payroll Costs

Matching costs allocated to the Grant included \$14,880 in personnel costs, comprised of \$12,000 in direct and contract-labor costs and \$2,880 in allocated benefit costs. Based on supporting documentation, these charges represented 10 percent of the annual costs for the Executive Director (a contractor) and 20 percent of the annual costs for the Program Director. No timesheets or equivalent schedules were available to support the proportion of the total salary and benefit costs allocated to the Grant for the individuals concerned.

Recommendation:

Management should ensure that labor costs allocated to the Grant are appropriately supported by timesheets or equivalent analysis of the proportionate level of effort expended on Grant activities by the individuals concerned.

Finding – Separation of Duties

Through review of the invoice approval process, we noted that the Program Director performs the initial review of vendor invoices and payroll for approval. Once approved, the Program Director forwards the invoices to the Center's President for secondary approval. The President is also the signatory on check payments for the Center. The President and Program Director have a father-daughter relationship.

Recommendation:

Management should appropriately segregate the roles and responsibilities of related parties to ensure that roles are appropriately separated and no real or apparent conflict exists. Responsibilities for final approval of vendor invoices and payroll and subsequent signing of checks should be assigned to an alternate board member (e.g., the Treasurer) who is not a related party to the Program Director.

Observation – Lack of Evidence of Invoice Approvals

Original invoices provided by the Center in support of expenses charged to the Grant did not include any evidence to indicate that they were appropriately reviewed and approved prior to payment being processed. Under the current process, invoices should be approved by the Program Director and President of the Board. The President then writes and signs checks to pay the invoices before submitting the invoice and payment details to the Center's accountant for recording in the accounting records.

Recommendation:

Management should implement a policy that requires evidence of approval of vendor invoices to be properly documented by the appropriate personnel.

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