MEMORANDUM

Date: February 26, 1999

To: File #I98040010

From: [redacted] Audit Advisor/Investigative Attorney

Via: [redacted] Special Agent-in-Charge, Investigations Section

Re: Case Closeout [redacted]

Background:

In January 1998, we received a report from Cotton & Company, one of our contract CPAs, which included a finding in the other matters section indicating that the [redacted] may have charged the same piece of equipment, a lathe costing approximately $137,000, to both an NSF award and the match portion of an Appalachian Regional Commission (ARC) award ([redacted]).

Upon receipt of this report, our office contacted a representative from Cotton & Company to obtain further information about this matter. We were informed that Cotton & Company believed that the equipment, a [redacted] was charged to both the NSF award and the ARC grant match. While Cotton & Company was able to verify that the lathe was charged to the NSF award, they were not able to determine conclusively that it was charged to the ARC match. It appeared from the accounting records that [redacted] initially posted the lathe charges to the ARC match account, later transferred them into the NSF award account and then transferred them back to the ARC match account. However, althoug[redacted] representatives did state that the equipment was reported as an expenditure on the ARC match, [redacted] never provided Cotton & Company with a list of equipment charged to the ARC grant or the ARC match and Cotton & Company was not able to verify that the cost of the lathe was included in the [redacted] grant/match total.

On March 30, 1998 the audit report was referred to the NSF Office of Contracts, Policy & Oversight (CPO) for audit resolution. We requested that CPO refrain from resolving the lathe machine issue and inform[redacted] of this request. In the meantime, we obtained expenditure information for the ARC award from the U.S. Department of Education (the funds for the award were provided by the Appalachian Regional Commission but the award was administered by the U.S. Department of Education through th[redacted] A letter from th[redacted] states that "the local $300,000 is spent first and if the entire $600,000 that is budgeted is not expended, the savings is realized on the federal share." The final expenditure report indicated that ARC spent a total of $606,808 -- $300,000 ARC funds and $306,808 match funds, but the only document provided in support of the final claimed expenditures was an itemized equipment list. This same list had previously been provided to Cotton & Company and was only a revised budget, not a schedule of actual

equipment purchases. There were two pieces of equipment described as [redacted]

Both the Department of Education OIG and the Appalachian Regional Commission OIG declined to join us in pursuing this matter but requested that we update them on our findings. The Appalachian Regional Commission OIG further stated that were this matter referred to ARC management, they would not attempt to recover the funds.

Investigation

We visited the [redacted] learn if and why the lathe had been charged to both the NSF grant and the ARC match. We were informed by [redacted] management that the lathe had been charged to both accounts and that [redacted] was permitted to do so by the ARC itself, as indicated by the Catalogue of Federal Domestic Assistance description of the ARC program under which the award was made. During our site visit we observed the [redacted] premises and examined the lathe. We found no indication that grant funds were being misused.

Findings:
We evaluated [redacted] claim that it was permitted to use federal funds to meet their ARC match and concluded that ARC does have the authority to permit organizations to use other federal funding to meet ARC match requirements. No significant findings or fraud, waste or abuse are found. The case is closed.