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**APPALACHIAN REGIONAL COMMISSION  
OFFICE OF INSPECTOR GENERAL**

**AUDIT OF GRANT AWARD**

**SEDA-Council of Governments  
Lewisburg, Pennsylvania**

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**Final Report Number: 13-21  
Project Number: PA-708G-C41  
PA-8290-C30 & C31  
May 2013**

**Prepared by  
Leon Snead & Company, P.C.**



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May 17, 2013

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Office of the Inspector General  
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Leon Snead & Company, P.C. has completed an audit of grant numbers PA-708G-C41 and PA-8290-C30 and C31 awarded by the Appalachian Regional Commission (ARC) to the SEDA-Council of Governments (SEDA-COG). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

The primary objectives of the audit were to determine whether: (1) program funds were managed in accordance with the ARC and federal grant terms and requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines and best practices, including program (internal) controls, were appropriate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements and the goals and objectives of the grant were met.

Overall, SEDA-COG's financial and administrative procedures and related internal controls were adequate to manage the grants and funds reviewed. The expenditures tested were reasonable and adequately documented. However, we identified a control weakness in the employee timekeeping system that requires corrective action. A detailed discussion of the issue is presented in the "Finding and Recommendations" section of the report.

A draft report was provided to SEDA-COG on May 3, 2013, for comments. SEDA-COG provided a response to the report on May 15, 2013, which indicated its concurrence with the recommendations and actions taken to correct the control weakness. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the SEDA-COG and ARC staffs during the audit.

Sincerely,

*Leon Snead & Company, P.C.*  
Leon Snead & Company, P. C.

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## **Background**

Leon Snead & Company, P.C. completed an audit of grant numbers PA-708G-C41 and PA-8290-C30 and C31 awarded by the Appalachian Regional Commission (ARC) to the SEDA-Council of Governments (SEDA-COG). The audit was made at the request of the ARC, Office of the Inspector General, to assist the office in its oversight of ARC grant funds.

The SEDA-COG is a public intergovernmental organization, established under authority of the state of Pennsylvania, to promote and support regional planning and development for 11 counties in central Pennsylvania. SEDA-COG is part of the Pennsylvania Local Development District (LDD) Network that provides funding and a variety of services to businesses, local governments, and other organizations. SEDA-COG services and programs include economic development, housing, transportation, weatherization, and low interest loans to small businesses.

Our audit focused on three ARC grants that provided SEDA-COG funding for annual operations and for continued support of the Enterprise Development Program. Grant PA-708G-C41 covered the period January 1 to December 31, 2012, provided \$100,857 in ARC funds and required \$109,261 in non-ARC match funding to cover the total LDD administrative costs. The ARC funds were primarily for salary costs for the staff to manage the LDD-related activities, but also included some travel, rent, and other costs. The grant had been completed, but had not been closed by ARC at the time of the audit.

Grant PA-8290-C30 covered the period July 1, 2011 to June 30, 2012, provided \$400,000 in ARC funds and required \$470,000 in state and local match funding to cover the costs of continuing the Enterprise Development Program, also referred to as Partnership for Regional Economic Performance (PREP). The program activities included providing technical assistance in business development and financing, export marketing, government procurement, housing and community development, and other areas. The grant had been completed and closed at the time of our audit. The current grant (PA-8290-C31) involved a similar level of funding and covered the period July 1, 2012 to June 30, 2013.

## **Objectives, Scope, and Methodology**

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and federal grant requirements; (2) internal grant guidelines, including program (internal) controls, were adequate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) the goals and objectives of the grant were met.

We reviewed the documentation provided and interviewed grantee personnel to obtain an understanding of the project, the accounting system, and operating procedures. We reviewed financial and other required reports to determine whether they were properly supported and submitted in accordance with the requirements. In addition, we reviewed the SEDA-COG administrative procedures and related internal controls to determine whether they were adequate

to administer the grant and funds. We also reviewed the most recent Single Audit report to determine whether there were any issues that impacted the ARC grants.

Of the \$521,681 in expenditures charged to the three grants and claimed for reimbursement (\$100,857 to PA-708G-C41, \$222,802 to PA-8290-C30, and \$198,022 to PA-8290-C31) during the period January 1, 2012 through March 7, 2013, we selected a sample of \$125,214 in expenditures charged to two of the grants for testing to determine whether the charges were properly supported and allowable. In that regard, our sample included \$25,214 charged to PA-708G-C41 and \$100,000 charged to PA-8290-C31.

The primary criteria used in performing the audit were the grant agreement, applicable Office of Management and Budget Circulars, and relevant parts of the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of March 25 to April 2, 2013, including on-site work at the SEDA-COG office in Lewisburg, Pennsylvania. The audit results were discussed with the SEDA-COG representatives at the conclusion of the on-site visit.

## **Results of Audit**

Overall, SEDA-COG's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grants reviewed. The costs tested were supported and considered reasonable. Under the LDD administrative grant (PA-708G-C41), the grantee reported that 42.2 thousand households and 14 businesses were served by its programs during the grant period and it obtained \$17.9 million from non-ARC sources to leverage the ARC funds. The total reported job impact was 50 jobs created and 240 jobs retained.

Under the prior Enterprise Development Program grant (PA-8290-C30), the grantee reported that it served 179 companies in its technical assistance programs and as a result of the grantee's assistance, area companies experienced a \$15.8 million increase in exports and a \$1.2 million increase in government procurement contracts. The total reported job impact was 275 jobs created and 600 jobs retained. Although the current grant (PA-8290-C31) was still in progress at the time of the audit, the project was a continuation of an enterprise development program developed to provide technical assistance.

However, we identified a control weakness in the employee timekeeping system that requires corrective action. This issue and our recommended corrective action are discussed in the Findings and Recommendations section of the report.

## **Finding and Recommendations**

### **Timesheets**

SEDA-COG did not have procedures in place to ensure that the salary and related costs charged to the ARC grants were properly supported by employee timesheets at the times the costs were claimed for reimbursement.

OMB Circular A-87 requires that the expenditure of federal funds be properly documented in order to be considered allowable for reimbursement. Under section 8, Compensation for Personal Services, grantees are required to maintain time records to support salary and related costs charged to ARC and other federal grants. Costs for employees working on more than one activity (as were the individuals working on the ARC grants) must be supported by personnel activity reports, which: (a) reflect an after-the-fact distribution of actual activity (not an estimate); (b) account for the total time spent; (c) are prepared at least monthly and coincide with one or more pay periods; and (d) are signed by the employee. The SEDA-COG policy, as reflected in its employee handbook, requires employees to complete a timesheet at the end of each pay period (15th and end of each month), sign it, and submit it to a supervisor for approval.

Salary and benefits costs were a major portion of the ARC approved budgets for the grants so we selected a sample of the expenditures for detailed review and verification of the supporting documentation. During our review of salary costs, we determined that the timesheets were not prepared, submitted and approved for each pay period consistent with the SEDA-COG policy and OMB Circular A-87. Rather, each employee was allowed to prepare and submit the timesheets all together at the end of each quarter for review and approval. As a result, the accounting staff processing the payroll each two-week pay period did not have an approved timesheet for determining the total salary amount to pay the employee or the portion of the total to allocate to each ARC grant. Lacking an approved timesheet for the pay period, the accounting staff paid each employee the same amount as in the prior period (unless the accounting staff had specific information otherwise) and the same percentage distribution as for the prior period was used to allocate the total salary costs to each grant or project. Using the approved timesheets received after the quarter ended, the accounting staff would subsequently make adjustments as needed for each employee, pay period, and project to reflect differences between the amounts previously recorded and those supported by the timesheets.

We did not question the salary costs reviewed (\$111,193 charged to PA-8290-C31 and \$27,693 charged to PA-708G-C41) because there were supporting timesheets in the files by the time we performed the audit (our samples did not include any current amounts). However, we believe there should be supporting documentation for the salary costs at the time they are paid and charged to the grants. Accordingly, the existing written policy requiring timesheets to be prepared, approved, and used for supporting payrolls each pay period should be enforced and followed.

In reviewing the salary costs charged to PA-8290-C31, we identified \$10,513 for one employee that did not have adequate supporting documentation in the form of approved timesheets. The part-time employee did not prepare and submit timesheets as other full and part-time employees were required to do. Instead, the individual submitted an invoice-type document, showing the

activities worked on during the pay period (and related hours), which was used to reimburse the costs and charge them to the ARC grant. The document was not approved by the executive director or another ARC official as normally done under SEDA-COG procedures. This practice was neither consistent with SEDA-COG's time-record keeping policy nor the A-87 documentation requirement. We therefore considered the amount charged to the grant to be inadequately supported. However, during our on-site visit, the SEDA-COG staff reviewed and approved the invoices related to the amount charged to the grant and verified to our satisfaction that the amount was allowable. As a result, we are not questioning the amount. However, action is needed to ensure that all salary costs charged to ARC grants are properly supported by approved timesheets.

At the exit conference, the SEDA-COG representatives agreed with the recommended corrective actions to address the timesheet issues noted during the audit.

### **Recommendations**

SEDA-COG should:

1. Ensure that all employees prepare and timely submit timesheets for each pay period as required by SEDA-COG policy or at least monthly as required under OMB Circular A-87.
2. Ensure that timesheets are approved by appropriate officials prior to recording the salary cost in the accounting records and making payment.

### **Grantee Response**

SEDA-COG stated in its response that they agree with the finding and recommendations. Since the audit, SEDA-COG stated that the agency has implemented procedures to ensure that timesheets are turned in on a monthly basis. Documentation has been sent to the monitor to support the communication of this procedure to the staff. In addition, the agency now requires all timesheets to be approved by appropriate supervisors.

### **Reviewer's Comments**

*The response provided by the grantee is sufficient to close out the two recommendations.*

## **Appendix I**

### **Grantee's Response**



**From:** Enders, Benjamin [benders@seda-cog.org]  
**Sent:** Wednesday, May 15, 2013 10:18 PM  
**To:** leonsnead.companypc@erols.com  
**Cc:** Orner, Rosemary  
**Subject:** ARC Draft Report PA-708G and PA-8290

Mr. Snead,

Below is a description of the actions in which SEDA-COG has taken since the monitoring. Per our phone conversation, please include this in your final report. I appreciate the time and cooperation you and Mr. Dix provided the organization throughout this process. Please let me know if you need any additional information.

SEDA-COG agrees with the finding and recommendation. Since the monitoring, the agency has implemented procedures to ensure that timesheets are turned in on a monthly basis. Documentation has been sent to the monitor to support the communication of this procedure to the staff. In addition, the agency now requires all timesheets to be approved by appropriate supervisors.

Again, thank you.

Ben Enders

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**From:** Orner, Rosemary  
**Sent:** Friday, May 03, 2013 2:52 PM  
**To:** Enders, Benjamin  
**Subject:** FW: ARC Draft Report PA-708G and PA-8290

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**From:** Leon Snead & Company [<mailto:leonsnead.companypc@erols.com>]  
**Sent:** Friday, May 03, 2013 2:15 PM  
**To:** Robinson, Dennis  
**Subject:** ARC Draft Report PA-708G and PA-8290

Attached is a copy of our final report on grant numbers PA- 708G a d PA-8290 for your review and comments. Please provide your comments to the finding and recommendations by May 24, 2013. If you have any questions please contact me by email or phone listed below. Thanks very much for your cooperation and of your staff during the audit.

Leon Snead  
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301-738-8190