
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Georgia Department of Community Affairs
Atlanta, Georgia**

**Final Report No. 18-05
Project Number: GA-7769-C35 and C36
January 2018**

Prepared by:

Leon Sned & Company, P.C.



**LEON SNEAD
& COMPANY, P.C.**

*Certified Public Accountants
& Management Consultants*

416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
fax: 301-738-8210
leonsnead.companypc@erols.com

January 2, 2018

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, N.W.
Washington, DC 20009

Leon Sned & Company, P.C. completed an audit of grant numbers GA-7769-C35 and C36 awarded by the Appalachian Regional Commission (ARC) to the Georgia Department of Community Affairs (DCA). The audit was conducted at the request of the ARC Office of Inspector General to assist the office in its oversight of ARC grant funds.

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate 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, DCA's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant. The ARC costs sampled and tested were supported and considered reasonable. However, we identified several areas that require more management attention. The support was not adequate for some of the costs claimed and reimbursed by ARC. As a result, we questioned \$16,750 of indirect cost and \$3,750 in matching funds claimed and recommended that DCA reimburse the unsupported amounts to ARC. There was also a need for better controls over the preparation of financial and progress reports submitted to ARC. The issues identified, questioned costs, and recommended corrective actions are discussed in the Findings and Recommendations section of this report.

A draft report was provided to DCA on November 22, 2017, for comments. DCA provided a response to the report on December 22, 2017, which is included in its entirety in Appendix I. Leon Sned & Company appreciates the cooperation and assistance received from the DCA and ARC staffs during the audit.

Sincerely,

Leon Sned & Company, P.C.
Leon Sned & Company, P.C.

TABLE OF CONTENTS

	<i>Page</i>
Background	1
Objective, Scope, and Methodology	1
Summary of Audit Results	2
Findings and Recommendations	3
A. Support for Indirect Costs	3
B. Grant Reporting	5
C. Sub-Grant Funding	7
D. Matching Funds	9
Appendix I - Grantee's Response	

Background

Leon Snead & Company, P.C. completed an audit of grants GA-7769-C35 and C36 awarded by the Appalachian Regional Commission (ARC) to the Georgia Department of Community Affairs (DCA). The audit was conducted at the request of the ARC, Office of Inspector General, to assist in its oversight of ARC grant funds.

The ARC awards annual grants to each of the 13 states in the designated Appalachian Region to assist them in promoting and administering the ARC program within the state. ARC grant GA-7769 is a continuing, annual grant awarded to the DCA under Section 302 of the Appalachian Regional Development Act of 1965 (ARDA). The grant's purpose is to provide sustained funding support to help the state administer a consolidated technical assistance (TA) program in 37 counties within the Georgia Appalachian region. The activities carried out under the grant include: developing the State Economic Development Plan and annual ARC Strategy; assisting in developing and processing grant applications from the local counties, cities, and individuals to obtain ARC funding for projects; monitoring ARC-funded non-construction projects within the state; assisting in close-out of completed projects; and supporting the ARC Headquarters staff and Governor as needed. The grant activities are primarily carried out by two Program Managers within DCA, with coordination and assistance from staff in the Georgia Regional Commission offices.

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) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate 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.

We reviewed documentation provided and interviewed grantee personnel to obtain an understanding of the grant activities, accounting system, and general operating procedures. We reviewed financial and progress reports to determine if they were submitted timely and consistent with requirements. We reviewed and discussed applicable grantee administrative procedures and related internal controls to determine if they were reasonably consistent with requirements and adequate to administer the grant. We reviewed the most recent Single Audit report to identify issues significantly impacting the grants and audit which required additional attention.

Grant 7769-C35 covered the period July 1, 2015 to June 30, 2016 and provided \$148,946 in ARC funding and required \$148,946 in non-ARC match funding. The majority of the approved budget was for salaries, benefits, and indirect costs. The budget also included \$15,000 to fund projects through sub-grants that are either too small or not sufficiently developed to include in the normal grant cycle. The grant had been completed and administratively closed out by ARC with reported total expenditures of \$128,832 in ARC funds and \$121,332 in match funds. Of the expenditures charged to the grant and claimed for reimbursement, we selected a sample of

\$54,816 for testing to determine whether the charges were properly supported and allowable. We tested matching costs in the amount of \$54,816 to determine whether the charges were properly supported and allowable.

Grant 7769-C36 covered the period July 1, 2016 to June 30, 2017 and provided \$232,928 in ARC funding and required \$232,929 in non-ARC match funding. The activities funded were the same

as the previous grant, with salaries, benefits, and indirect costs being the largest categories, and \$15,000 being approved for small sub-grants. The grant was completed but was not administratively closed out by ARC at the time of our audit. The total expenditures reported in the final report were \$224,872 in ARC funds and \$224,872 in match funds. Of the expenditures charged to the grant and claimed for reimbursement, we selected a sample of \$67,148 for testing to determine whether the charges were properly supported and allowable. We tested matching costs in the amount of \$67,148 to determine whether the charges were properly supported and allowable.

On-site fieldwork was performed during October 9-13, 2017 at DCA offices in Atlanta, Georgia. The preliminary results were discussed with the DCA staff at the conclusion of the on-site visit. The DCA staff was in general agreement with the preliminary results.

The primary criteria used in performing the audit were the grant agreements, applicable Office of Management and Budget (OMB) Circulars, and the ARC Code. The audit was performed in accordance with *Government Auditing Standards*.

Summary of Audit Results

We concluded that the grant funds were managed and expended in accordance with the budget and other applicable requirements, and that the amounts sampled and tested were adequately supported except for indirect cost amounts reimbursed by ARC. The \$6,533 of indirect costs charged to ARC funds on grant GA-7769-C35 and \$10,214 charged on grant GA-7769-C36 did not have adequate supporting documentation and were questioned. The policies and procedural controls used to administer the grants and funds were generally adequate and consistent with applicable requirements, except better written policies and procedures are recommended for grant reporting and for administering sub-grant funds. In addition, we questioned \$3,750 in matching funds from GA-7769-C35 due to inadequate supporting documentation.

The questioned costs, issues and problems identified, and recommended corrective actions are discussed in the Findings and Recommendations section of this report.

Findings and Recommendations

A. Support for Indirect Costs

DCA was reimbursed \$6,533 for indirect costs on grant 7769-C35 and \$10,214 for indirect costs on grant 7769-C36 that were not supported in accordance with federal cost principles. The cost principles applicable to the ARC grants and DCA in 2 CFR 200, Appendix VII, state that indirect costs are normally charged to federal awards by the use of an indirect cost rate. All departments or agencies of the governmental unit (the State in this case) desiring to claim indirect costs under federal awards must prepare an indirect cost rate proposal and related documentation to support those costs, within six months after the agency's fiscal year ends. Agencies receiving more than \$35 million in direct federal funding must also submit the indirect cost rate proposal to its cognizant agency for the purpose of obtaining an approved indirect cost rate. Since DCA meets the latter requirement of \$35 million, it is required to submit the proposal to HUD as its cognizant agency. DCA officials responsible for indirect costs told us they have neither developed an indirect cost rate proposal required under the regulations to support the indirect costs charged to the TA grants, nor submitted such a plan to HUD requesting an approved rate.

The approved budget for both grant years contained estimated indirect costs. However, lacking an approved rate from the cognizant agency or a cost allocation plan as required in 2 CFR 200, we do not consider the amounts claimed and reimbursed for indirect costs to be adequately supported and allowable under the cost principles. Therefore, we question the \$6,533 and \$10,214 indirect costs claimed and reimbursed under grants C35 and C36, respectively.

Recommendations

DCA should:

1. Submit revised SF-270 financial reports for grants C35 and C36 refunding the questioned indirect costs.
2. Obtain an approved indirect cost rate from the cognizant agency for the currently active grant C37 and future grants.

Grantee's Response

DCA does not concur with this finding. Per 2 CFR Pt. 200 App. VII Section F.3, *a component of the government unit (State of Georgia) may be required to develop a cost allocation plan that distributes indirect costs to specific funding sources. In these cases, a narrative plan should be developed, documented and maintained for audit.* As a component of the State of Georgia, DCA has developed a cost allocation plan using the Simplified Method, as described in 2 CFR Pt. 200 App. VII Section C.2. DCA's plan distributes indirect costs to specific funding sources including the ARC funding source.

DCA has previously provided the plan's narrative to Single Audit engagements and HUD auditors. No findings or recommendations were received as a result of DCA's documentation or methodology. In accordance with the applicable CFR sections referenced above, DCA believes

there is no requirement to submit a plan to HUD, and disputes the recommendation to reimburse the indirect costs for grants C35 and C36.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.

B. Grant Reporting

Several financial reports reviewed contained errors and had missing information, and progress reports were not submitted to ARC in the format required. This was primarily due to DCA not having established written policies and procedures for grant reporting to document the requirements and provide staff adequate guidance. As a result, reporting was not fully compliant with ARC requirements and ARC HQ officials were not receiving complete and accurate information needed to effectively monitor and evaluate grant results and process reimbursements.

Financial Reports. To receive reimbursement or funding advances during the grant period, grantees must submit a Request for Reimbursement Form (SF-270) financial report, a separate backup worksheet providing details on the amounts expended and requested, and an interim progress report. There is no periodic interim reporting requirement for the SF-270 reports as there is for progress reports. They are submitted as needed to obtain reimbursement or an advance. Several SF-270 financial reports contained errors. For example, the final report for grant C35 showed total expenditures of \$211,424 on line 11(a), which was incorrect. The detailed worksheet required to accompany the SF-270 report showed that total expenditures were \$250,164 and that \$211,424 was only the salary portion of the total. The other types of errors included entering the incorrect grant number (7769-C35 was shown on reports for the time period of grant C36), and not correctly marking in section 1 that the report covered both an advance funding request and reimbursement (such as on Q1 report for grant C36). Having the Program Manager obtain and review financial reports would improve the reimbursement process and help reduce errors.

Progress Reports. ARC required interim progress reports every 120 days and a final report 30 days after completion for grant C35, and required a progress report for each six month period and a final report for grant C36. According to the ARC Grant Administration Manual and other reporting guidance, interim progress reports must include: a completed ARC Performance Progress Report (PPR) cover sheet; a narrative section (describing accomplishments during the period, performance measure results, problems encountered, and planned activities for the next reporting period); and a financial summary if reimbursement is not being requested.

The progress reports reviewed did not contain a cover sheet or a narrative section with the required information--i.e. accomplishments, performance measures and planned activities. The reports contained a brief bullet-form list of activities performed each month, such as "participated in strategic planning workshop;" "participated in IMCP conference calls;" and "continued work with DCA staff to ensure smooth transition of RSBA functions."

The final reports reviewed were similar to the interim reports and discussed activities during the last reporting period. They did not provide overall project perspective and conclusions on grant activities and results expected under ARC guidance.

Recommendation

DCA should establish procedures and controls to ensure that financial and progress reports prepared and submitted to ARC are complete, accurate, and timely.

Grantee's Response

DCA acknowledges that internal workflow processes, as noted in the audit report, could have been more effective. To that end, staff immediately began reviewing policies following this audit's exit conference. As a result, DCA has established and implemented new workflow procedures and controls for completing, reviewing, and submitting the SF270, ARC reimbursement worksheets, and ARC progress reports.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.

C. Sub-Grant Funding

Funding provided for awarding small sub-grants under the TA grants was not being utilized in a timely manner and not otherwise being re-programmed to other justified TA activities or returned to ARC for other uses.

The approved budgets for the two grants audited included \$15,000 for awarding small sub-grants. Per the grant agreements, these small grants will be used to support special opportunities that arise for grant requests that are too small and/or are without sufficient lead time to pursue during the regular grant cycle. They will generally not exceed \$5,000 each in ARC funds, with most considerably less, and will be used for such activities as supporting travel costs to attend conferences, leadership training, and planning activities. All small grants are required to be submitted to ARC for approval by the Federal Co-Chair. According to ARC program staff, Georgia is one of two ARC states that request and use this type of funding under the TA grants. DCA did not currently have any written procedures governing what kind of projects these funds should be used for and how they should be selected, awarded, and administered.

Two concerns were noted in reviewing the use of the funds approved for these sub-grants. First, very few projects were being approved and most of the grant funds were not used. On grant 7769-C35, only one sub-grant was awarded for which ARC funds had been expended and used to reimburse the sub-grantee during the TA grant period. That project involving \$7,500 of ARC funds for a city to extend its broadband network, under which the city also provided \$7,500 match. One other sub-grant involving \$1,519 of ARC funds for a city to install a historical marker was awarded during the C35 grant period. However, that project had been delayed and the ARC funds were not expended by the time the TA grant C35 ended. DCA reported the \$7,500 of unexpended funds in its final report and ARC de-obligated it during closeout. Grant 7769-C36, which has been completed and final financial report sent to ARC for close-out, showed none of the \$15,000 budgeted was expended. This funding will be subject to de-obligation when the grant is closed out.

In discussing the unexpended amounts, staff told us that despite efforts to inform the local planning districts (LDDs) and governments of the funding availability, there were few requests for the funds. We noted that the earlier OIG audit of 7769-C31 also discussed the issue of not using any of the \$30,000 sub-grant funding provided by ARC in that grant. The reason given by DCA at that time was also difficulty in obtaining applications.

Second, the two projects that were awarded did not appear to be consistent with the type of project indicated in the ARC announcements, i.e., travel costs, training, and planning activities. Rather, they were more of the nature of projects funded by ARC through the normal ranking and selection process. Both were described as a construction project--one for a city broadband system and the other for installing a historical marker.

Recommendations

DCA should:

1. Reevaluate budgeting for the TA grant for sub-grants or limit the amount requested to the minimum that can be reasonably justified based on anticipated needs and can be expected to be completed during the grant year.
2. Consult with ARC about the types of projects considered eligible for sub-grant funding.

Grantee's Response

DCA does not concur with this finding. As noted in the draft audit report, DCA has included funding for the small sub-grants in its annual CTA budget request for many years and, without exception, all CTA budgets have been approved as requested.

This small sub-grant program continues to be included in CTA budget requests for the following reasons:

1. The activity is eligible and affords the State the flexibility to respond to small requests in a timelier manner; and
2. Budgets are developed a year in advance with full expectations that any funds being requested will be used.
3. We do agree that the small sub-grant program has not been used extensively. While DCA may decide at some point to discontinue the program, we conclude that this is within our discretion and should not be included as a finding.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.

D. Matching Funds

The grantee underpaid its share of the total project costs for grant GA-7769-C35. The grant agreement provided \$148,946 in ARC funding and required \$148,946 in grantee matching funds, for a total project cost of \$297,893, resulting in a funding ratio of 50% ARC share to 50% non-ARC share. DCA's final Reimbursement Request Worksheet, provided along with their final SF-270 and covering the period of April 1, 2016 through June 30, 2016, reported their total project cost as \$250,164, with \$128,832 charged to ARC and \$121,332 charged to non-ARC match. Based on the 50% to 50% share ratio found in the grant agreement, \$125,082 should have been allocated to both ARC funds and non-ARC match. Because the established matching ratio was not met as required by the grant agreement, the grantee owes the ARC \$3,750.

Recommendation

DCA should refund the underpayment of total project costs in the amount of \$3,750 to ARC.

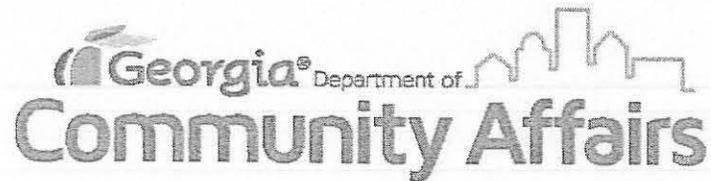
Grantee's Response

DCA does not concur with this finding. In FY'15, DCA and ARC approved a project for the City of Dahlonega to be paid from the Small Grant Fund. The total project cost was \$15,000 to install fiber optic cable between the Lumpkin County Courthouse and the Dahlonega City Hall, with the local portion of the project being \$7,500. Both the DCA Commissioner and the ARC Federal Co-Chair approved this project, although the project was not finalized and completed until FY'16.

Upon project completion, the city asked for reimbursement and submitted the necessary invoices. Because the city had provided the match, DCA paid the reimbursement request from our ARC federal organizational code, which is 100% federal payment. Adding the City of Dahlonega's \$7,500 match to the \$121,332, the required match of \$128,832 has been achieved. As the City of contributed the required match for this project, DCA asserts that the State and the Department of Community Affairs appropriately matched FY16 ARC funds.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.



December 22, 2017

Mr. Leon Snead
Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, MD 20850

RE: Draft Report
Project Number: GA 7769-C35 and C36
November 2017

Dear Mr. Snead:

Please find attached the Georgia Department of Community Affairs responses to the above referenced draft audit report. An audit allows an organization the opportunity to examine its practices and protocols through which it operates. As an agency, DCA consistently strives for constant improvement; the completion of this audit provided the opportunity for us, as an agency, to look at our daily operations through the lens of an outside party. For that we are appreciative.

Attached, you will find our response to the recommendations identified within the draft audit report.

Should you have any further questions, please don't hesitate to reach out to me or to our staff.

Sincerely,

A handwritten signature in black ink that reads "Rusty Haygood". The signature is written in a cursive, flowing style.

Rusty Haygood
Deputy Commissioner
Community Development and Finance

Jp/RH
Attachment

Findings and Recommendations

A. Support for Indirect Costs

DCA was reimbursed \$6,533 for indirect costs on grant 7769-C35 and \$10,214 for indirect costs on grant 7769-C36 that were not supported in accordance with federal cost principles. The cost principles applicable to the ARC grants and DCA in 2 CFR 200, Appendix VII, state that indirect costs are normally charged to federal awards by the use of an indirect cost rate. All departments or agencies of the governmental unit (the State in this case) desiring to claim indirect costs under federal awards must prepare an indirect cost rate proposal and related documentation to support those costs, within six months after the agency's fiscal year ends. Agencies receiving more than \$35 million in direct federal funding must also submit the indirect cost rate proposal to its cognizant agency for the purpose of obtaining an approved indirect cost rate. Since DCA meets the latter requirement of \$35 million, it is required to submit the proposal to HUD as its cognizant agency. DCA officials responsible for indirect costs told us they have neither developed an indirect cost rate proposal required under the regulations to support the indirect costs charged to the TA grants, nor submitted such a plan to HUD requesting an approved rate.

The approved budget for both grant years contained estimated indirect costs. However, lacking an approved rate from the cognizant agency or a cost allocation plan as required in 2 CFR 200, we do not consider the amounts claimed and reimbursed for indirect costs to be adequately supported and allowable under the cost principles. Therefore, we question the \$6,533 and \$10,214 indirect costs claimed and reimbursed under grants C35 and C36, respectively.

Recommendations

DCA should:

1. Submit revised SF-270 financial reports for grants C35 and C36 refunding the questioned indirect costs.
2. Obtain an approved indirect cost rate from the cognizant agency for the currently active grant C37 and future grants.

DCA response

DCA does not concur with this finding. Per 2 CFR Pt. 200 App. VII Section F.3, *a component of the government unit (State of Georgia) may be required to develop a cost allocation plan that distributes indirect costs to specific funding sources. In these cases, a narrative plan should be developed, documented and maintained for audit.* As a component of the State of Georgia, DCA has developed a cost allocation plan using the Simplified Method, as described in 2 CFR Pt. 200 App. VII Section C.2. DCA's plan distributes indirect costs to specific funding sources including the ARC funding source.

DCA has previously provided the plan's narrative to Single Audit engagements and HUD auditors. No findings or recommendations were received as a result of DCA's

documentation or methodology. In accordance with the applicable CFR sections referenced above, DCA believes there is no requirement to submit a plan to HUD and disputes the recommendation to reimburse the indirect costs for grants C35 and C36.

B. Grant Reporting

Several financial reports reviewed contained errors and had missing information, and progress reports were not submitted to ARC in the format required. This was primarily due to DCA not having established written policies and procedures for grant reporting to document the requirements and provide staff adequate guidance. As a result, reporting was not fully compliant with ARC requirements and ARC HQ officials were not receiving complete and accurate information needed to effectively monitor and evaluate grant results and process reimbursements.

Financial Reports. To receive reimbursement or funding advances during the grant period, grantees must submit a Request for Reimbursement Form (SF-270) financial report, a separate backup worksheet providing details on the amounts expended and requested, and an interim progress report. There is no periodic interim reporting requirement for the SF-270 reports as there is for progress reports. They are submitted as needed to obtain reimbursement or an advance. Several SF-270 financial reports contained errors. For example, the final report for grant C35 showed total expenditures of \$211,424 on line 11(a), which was incorrect. The detailed worksheet required to accompany the SF-270 report showed that total expenditures were \$250,164 and that \$211,424 was only the salary portion of the total. The other types of errors included entering the incorrect grant number (7769-C35 was shown on reports for the time period of grant C36), and not correctly marking in section 1 that the report covered both an advance funding request and reimbursement (such as on Q1 report for grant C36). Having the Program Manager obtain and review financial reports would improve the reimbursement process and help reduce errors.

Progress Reports. ARC required interim progress reports every 120 days and a final report 30 days after completion for grant C35, and required a progress report for each six-month period and a final report for grant C36. According to the ARC Grant Administration Manual and other reporting guidance, interim progress reports must include: a completed ARC Performance Progress Report (PPR) cover sheet; a narrative section (describing accomplishments during the period, performance measure results, problems encountered, and planned activities for the next reporting period); and a financial summary if reimbursement is not being requested.

The progress reports reviewed did not contain a cover sheet or a narrative section with the required information--i.e. accomplishments, performance measures and planned activities. The reports contained a brief bullet-form list of activities performed each month, such as "participated in strategic planning workshop;" "participated in IMCP conference calls;" and "continued work with DCA staff to ensure smooth transition of RSBA functions."

The final reports reviewed were similar to the interim reports and discussed activities during the last reporting period. They did not provide overall project perspective and conclusions on grant activities and results expected under ARC guidance.

Recommendation

DCA should establish procedures and controls to ensure that financial and progress reports prepared and submitted to ARC are complete, accurate, and timely.

DCA response

DCA acknowledges that internal workflow processes, as noted in the audit report, could have been more effective. To that end, staff immediately began reviewing policies following this audit's exit conference. As a result, DCA has established and implemented new workflow procedures and controls for completing, reviewing, and submitting the SF270, ARC reimbursement worksheets, and ARC progress reports.

C. Sub-Grant Funding

Funding provided for awarding small sub-grants under the TA grants was not being utilized in a timely manner and not otherwise being re-programmed to other justified TA activities or returned to ARC for other uses.

The approved budgets for the two grants audited included \$15,000 for awarding small sub-grants. Per the grant agreements, these small grants will be used to support special opportunities that arise for grant requests that are too small and/or are without sufficient lead time to pursue during the regular grant cycle. They will generally not exceed \$5,000 each in ARC funds, with most considerably less, and will be used for such activities as supporting travel costs to attend conferences, leadership training, and planning activities. All small grants are required to be submitted to ARC for approval by the Federal Co-Chair. According to ARC program staff, Georgia is one of two ARC states that request and use this type of funding under the TA grants. DCA did not currently have any written procedures governing what kind of projects these funds should be used for and how they should be selected, awarded, and administered.

Two concerns were noted in reviewing the use of the funds approved for these sub-grants. First, very few projects were being approved and most of the grant funds were not used. On grant 7769-C35, only one sub-grant was awarded for which ARC funds had been expended and used to reimburse the sub-grantee during the TA grant period. That project involving \$7,500 of ARC funds for a city to extend its broadband network, under which the city also provided \$7,500 match. One other sub-grant involving \$1,519 of ARC funds for a city to install a historical marker was awarded during the C35 grant period. However, that project had been delayed and the ARC funds were not expended by the time the TA grant C35 ended. DCA reported the \$7,500 of unexpended funds in its final report and ARC de-obligated it during closeout. Grant 7769-C36, which has been completed and final financial report sent to ARC for close-out, showed none of the \$15,000 budgeted was expended. This funding will be subject to de-obligation when the grant is closed out.

In discussing the unexpended amounts, staff told us that despite efforts to inform the local planning districts (LDDs) and governments of the funding availability, there were few requests for the funds. We noted that the earlier OIG audit of 7769-C31 also discussed the issue of not using any of the \$30,000 sub-grant funding provided by ARC in that grant. The reason given by DCA at that time was also difficulty in obtaining applications.

Second, the two projects that were awarded did not appear to be consistent with the type of project indicated in the ARC announcements, i.e., travel costs, training, and planning activities. Rather, they were more of the nature of projects funded by ARC through the normal ranking and selection process. Both were described as a construction project--one for a city broadband system and the other for installing a historical marker.

Recommendations

DCA should:

1. Reevaluate budgeting for the TA grant for sub-grants or limit the amount requested to the minimum that can be reasonably justified based on anticipated needs and can be expected to be completed during the grant year.
2. Consult with ARC about the types of projects considered eligible for sub-grant funding.

DCA response

DCA does not concur with this finding. As noted in the draft audit report, DCA has included funding for the small sub-grants in its annual CTA budget request for many years and, without exception, all CTA budgets have been approved as requested.

This small sub-grant program continues to be included in CTA budget requests for the following reasons:

1. The activity is eligible and affords the State the flexibility to respond to small requests in a timelier manner; and
2. Budgets are developed a year in advance with full expectations that any funds being requested will be used.

We do agree that the small sub-grant program has not been used extensively. While DCA may decide at some point to discontinue the program, we conclude that this is within our discretion and should not be included as a finding.

D. Matching Funds

The grantee underpaid its share of the total project costs for grant GA-7769-C35. The grant agreement provided \$148,946 in ARC funding and required \$148,946 in grantee matching funds, for a total project cost of \$297,893, resulting in a funding ratio of 50% ARC share to 50% non-ARC share. DCA's final Reimbursement Request Worksheet, provided along with their final SF-270 and covering the period of April 1, 2016 through June 30, 2016, reported their total project cost as \$250,164, with \$128,832 charged to ARC and \$121,332 charged to non-ARC match. Based on the 50% to 50% share ratio found in the grant agreement, \$125,082 should have been allocated to both ARC funds and non-ARC match. Because the established matching ratio was not met as required by the grant agreement, the grantee owes the ARC \$3,750.

Recommendation

DCA should refund the underpayment of total project costs in the amount of \$3,750 to ARC.

DCA response

DCA does not concur with this finding. In FY'15, DCA and ARC approved a project for the City of Dahlonega to be paid from the Small Grant Fund. The total project cost was \$15,000 to install fiber optic cable between the Lumpkin County Courthouse and the Dahlonega City Hall, with the local portion of the project being \$7,500. Both the DCA Commissioner and the ARC Federal Co-Chair approved this project, although the project was not finalized and completed until FY'16.

Upon project completion, the city asked for reimbursement and submitted the necessary invoices. Because the city had provided the match, DCA paid the reimbursement request from our ARC federal organizational code, which is 100% federal payment. Adding the City of Dahlonega's \$7,500 match to the \$121,332, the required match of \$128,832 has been achieved. As the City of contributed the required match for this project, DCA asserts that the State and the Department of Community Affairs appropriately matched FY16 ARC funds.