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**APPALACHIAN REGIONAL COMMISSION  
OFFICE OF INSPECTOR GENERAL  
AUDIT OF GRANT AWARD**

**Northwest Pennsylvania Regional Planning  
& Development Commission (PREP)  
Oil City, Pennsylvania**

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**Final Report Number: 18-14  
Project Number: PA-8285-C35  
March 29, 2018**

**Prepared By:**

**Bonadio & Co., LLP**  
Certified Public Accountants

March 29, 2018

Appalachian Regional Commission  
Office of Inspector General  
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Bonadio & Co., LLP completed an audit of grant number PA-8285-C35 awarded by the Appalachian Regional Commission (ARC) to the Northwest Pennsylvania Regional Planning and Development Commission (grantee) for the Partnership for Regional Economic Performance (PREP) program. The audit was performed to assist the Office of Inspector General in carrying out its oversight of ARC grant funds.

The primary objectives of the audit 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 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 objectives of the grant were met.

Overall, the grantee's financial management and administrative procedures, including related internal controls, were adequate to manage the funds provided under the ARC grant reviewed. The expenditures tested were supported and considered reasonable. The overall grant performance measures were adequately met.

Bonadio & Co., LLP appreciated the cooperation and assistance received from the grantee and the ARC staff during the audit.

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## **BACKGROUND**

Bonadio & Co., LLP completed an audit of grant number PA-8285-C35 awarded by the Appalachian Regional Commission (ARC) to the Northwest Pennsylvania Regional Planning and Development Commission (grantee). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of the ARC grant funds.

Grant C35 was awarded to cover the period July 1, 2016 to June 30, 2017. It provided \$400,000 in ARC funds and a required a match of \$400,000 in non-ARC funds to provide support for the Partnership for Regional Economic Performance (PREP) program, which is designed to provide economic development in the greater Northwest Pennsylvania area. Major components of the PREP program include business development assistance related to international market development, government procurement, electronic commerce, the tourism industry, and business financing. The grantee also coordinates and promotes business development services and strategic planning and community development assistance. The majority of the approved total budget was for staff salaries and benefits.

## **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 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 objectives of the grant were met.

We reviewed the documentation provided and interviewed grantee personnel to obtain an overall understanding of the grant activities, the accounting system, and operating procedures. We evaluated grantee administrative procedures and related internal controls to determine whether they were adequate to administer the grant funds. We examined financial and other required reports to determine if they were supported and submitted in accordance with the grant requirements. We also obtained the most recent Single Audit report to determine whether there were any reported issues that affected the ARC grant.

Of the \$800,000 in expenditures charged to the grant, we selected a sample of \$571,352, in expenditures for testing to determine whether the charges were properly supported and allowable. We also reviewed the grantee's procedures for allocating administrative costs to the grant.

The criteria used in performing the audit were ARC grant documents, the grant approval, the ARC code, other ARC requirements, and 2 CFR Part 200 "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards". The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was completed during the period of November 13, 2017 through November 15, 2017, which included on-site work at the grantee's office in Oil City, Pennsylvania. The audit results were discussed with grantee representatives at the conclusion of the on-site visit. The grantee's representative agreed with the audit results.

## SUMMARY OF AUDIT RESULTS

Overall, the grantee's administrative procedures were adequate to manage the grant funds reviewed. Total expenditures amounted to \$800,000 and based on test work results, Bonadio & Co., LLP did not question any costs incurred. The expenses tested were supported and considered reasonable. The grantee utilizes a cost allocation plan that appears to use a reasonable methodology. We found that the grantee had an adequate process in place for obtaining and recording data related to the goals of the grant. In addition, the records and reports indicated that the tasks required by the grant agreement were generally accomplished.

## PERFORMANCE MEASURES

- **Job Creation / Retention:** The outcomes reported by the grantee related to job creation/retention were examined for reasonableness. Job creation/retention reported by the grantee was examined during loan testing through the use of the IMPLAN report. All loan documentation consisted of the economic outlook upon the establishment of the business, as well as the jobs retained. The report used the "IMPLAN Model", which is a third party software model for assessing the economic impacts of project decisions. IMPLAN takes the total sales and/or revenue and projects the number of jobs created and/or retained. Therefore, the job creation/retention numbers reported by the grantee were not "actual" job figures, but were estimated based on economic impact figures, such as sales and revenue. The grantee should require supporting documentation from businesses served related to job creation or retention.

### Outputs: Businesses Served / Number of Closed Loans

- Projected Goals vs Reported Outputs:

<u>Goal Description</u>	<u>Projected</u>	<u>Reported</u>	<u>Variance</u>	<u>Percent Variance</u>	<u>Goal Met (Yes/No)</u>
New Businesses Served	85	45	(40)	(53%)	No
Total Business Served	337	197	(140)	(56%)	No
Number of Closed Loans	12	24	12	200%	Yes

- Reports obtained from the grantee's management information system demonstrated a mechanism for tracking the outputs of the grant and the assistance provided by the grantee. We reviewed the quarterly reports from the system and based on supporting documentation, we noted that 45 new businesses were served. Of the 197 reported businesses being served through the PREP program, we selected 26 businesses for testing to ensure the services were provided, based on the supporting documentation.

**Outcomes: Leveraged Finance / Business Improvement / Job Creation & Retention**

- Projected Goals vs Reported Outputs:

<u>Goal Description</u>	<u>Projected</u>	<u>Reported</u>	<u>Variance</u>	<u>Percent Variance</u>	<u>Goal Met (Yes/No)</u>
Leveraged Private Investment	\$3,000,000	\$5,626,375	\$2,626,375	188%	Yes
Public Financing Provided	\$1,000,000	\$2,848,387	\$1,848,387	284%	Yes
Public Financing Leveraged	\$1,000,000	\$1,250,000	\$250,000	125%	Yes
Businesses Improved	145	82	(63)	(57%)	No
Total Export Sales	\$150,000,000	\$202,213,592	\$52,213,592	135%	Yes
Total Non-Export Sales	\$75,000,000	\$105,608,681	\$30,608,681	141%	Yes
Jobs Created	206	269	63	131%	Yes
Job Retained	407	890	483	219%	Yes

- The outcomes of the grant were tested by reviewing financial information, internal reports, information provided by the businesses obtaining assistance, calculations and other supporting documentation. The following performance outcomes were noted:
  - **Investment / Financing:** The outcomes reported by the grantee related to Public Financing Provided and Public Financing Leveraged were traced to the loan closing documents. We noted a total of 24 closed loans and selected a sample of 10 closed loans noting the documentation agreed to the report without exception. For the Leveraged Private Investment outcome, \$5,626,375 related to the loan closings.
  - **Business Improvement:** The outcomes reported by the grantee related to Businesses Improved were included in the quarterly reports obtained. During our performance testing, we selected ten businesses designated by the grantee as businesses with improvement and reviewed the supporting documentation noting that the improvement appears reasonable.