
APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD

Southwestern Pennsylvania
Corporation (SPC)
Pittsburgh, Pennsylvania

Final Report Number: 19-25
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Appalachian Regional Commission
Office of Inspector General
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Bonadio & Co., LLP completed an audit of grant number PW-18714 awarded by the Appalachian Regional Commission (ARC) to the Southwestern Pennsylvania Corporation (grantee) on behalf of the Catalyst Connection. The audit was performed to assist the Office of Inspector General in carrying out 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 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); (5) the performance measures were met or likely to be met; and (6) matching requirements of the grant were satisfied.

Overall, the grantee's financial management and administrative procedures, including related internal controls, were adequate to manage the funds provided under the ARC grant. The expenditures tested were supported and considered reasonable. The overall grant performance measures were met or will likely be met by the end of the grant's period of performance. We noted one matter that requires the attention of management. The grantee did not provide supporting documentation for actual jobs created or retained as described in further detail in the Finding and Recommendation section.

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 PW-18714-IM-17 awarded by the Appalachian Regional Commission (ARC) to the Southwestern Pennsylvania Corporation (grantee) on behalf of Catalyst Connection. 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.

The grant was awarded under the Partnership for Opportunity and Workforce and Economic Revitalization (POWER) initiative. The grant provided total funding of \$1,701,805 including \$662,567 in ARC funds and required a match of \$1,039,238 in non-ARC funds to cover the period October 1, 2016 to September 30, 2018, with an extension to March 31, 2019. The proposed scope of work entails a program of direct technical assistance to 85 small and medium-sized firms in the coal, freight and logistics supply chain. ARC funds would pay for personnel, travel, contractual, and indirect costs. The contractual line item constitutes the bulk of the costs incurred by Catalyst Connection consultants and includes 25 mini-grants to assisted firms up to \$10,000 apiece. Through targeted technical assistance, the grantee will help regional manufacturers identify opportunities to strengthen their business model by growing through domestic and international market opportunities, implement strategies to develop new products, improve operating efficiency through ISO and Lean best practices, preparing to shift away from coal focused industry to new opportunities in metals and advanced materials manufacturing and associated spinoff manufacturing sectors. The projected benefits of the program include improving businesses, creating and retaining jobs.

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); (5) the performance measures were met or likely to be met; and (6) matching requirements of the grant were satisfied

We obtained 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 and monitor performance measures. 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 \$1,065,961 in total expenditures charged to the grant through September 30, 2018, we selected a sample of \$454,084, 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 2 CFR Part 200 "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards", the ARC code, and the grant agreement. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was completed during the period of October 17, 2018 through October 19, 2018, which included on-site work at the grantee's office in Pittsburgh, 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 financial management, administrative procedures and related internal controls were adequate to manage the grant funds received. Total projected expenditures amounted to \$1,065,961 through September 30, 2018 including \$420,188 in ARC funds and \$645,733 in non-ARC funds. The grantee had remaining funds of \$635,844 to cover the extension period ending March 31, 2019. We did not question any costs incurred. The expenses tested were supported and considered reasonable. We found that the grantee had an adequate process in place for obtaining and recording data related to the goals of the grant with the exception of the matter noted below in the Finding and Recommendation section. In addition, the records and reports indicated that the tasks required by the grant agreement were generally accomplished or should be accomplished by the end of the grant.

At the time of the audit, the grantee provided support for 78 businesses improved. The grant has an anticipated output of 85 businesses improved. The grant also calls for an anticipated outcome of 25 mini-grants with an estimated economic impact of \$2.5 million, including sales, cost savings and jobs. As of May 31, 2018, 14 mini-grants were distributed with a calculated impact of \$53 million. The grantee believes the remaining project outputs and outcomes will be achieved by the end of the grant, as they are currently working with an additional 24 manufacturing companies that have applied for mini-grants and are assisting an additional 9 companies.

Finding and Recommendation

Performance Measures – Supporting Documentation

The grant was awarded with anticipated outcomes of 30 jobs created and 300 jobs retained. The grantee uses a third party software package called IMPLAN to track job creation and job retention outcomes. IMPLAN projects the number of jobs created and/or retained using total sales and/or revenue. However, our testing of performance measures noted that the grantee calculated that outcomes related to jobs created and jobs retained were exceeded based on the IMPLAN calculations. No supporting documentation of actual jobs created or retained was provided by the grantee in support of the outcomes. We originally reported the same finding to the grantee in the audit report issued January 3, 2017.

Recommendation

The grantee should request and retain supporting documentation from businesses served related to job creation or retention to track actual jobs created or retained. The grantee should establish a method to determine the actual number of jobs created and jobs retained.

Grantee response

Wherever and whenever possible the grantee will use job creation and retention numbers reported by the companies assisted. When job numbers are unreported, SPC will use the approved and accepted methodology currently agreed to calculate jobs creation and retention numbers based on reported sales.