

Office of Inspector General

*Report Prepared by Leon Snead & Co., PC
Audit of Grant Award - The Southern Alleghenies Planning
and Development Commission (SAP&DC)*

Grant Number PW-18777



**Appalachian
Regional
Commission**

Office of Inspector General

Audit Report: 21-12

June 28, 2021




Appalachian
Regional
Commission

Office of Inspector General

June 28, 2021

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General 

SUBJECT: Audit Report 21-12— The Southern Alleghenies Planning and Development
Commission (SAP&DC)

This memorandum transmits the Leon Snead & Co. PC, report for the audit of costs charged to Grant Number PW-18777, The Southern Alleghenies Planning and Development Commission (SAP&DC) project per its agreement with the Appalachian Regional Commission. The objective of the audit was to determine if costs claimed were allowable, allocable, reasonable, and in conformity with the Commission's award terms and conditions and Federal financial assistance requirements. In addition, the audit determined whether the performance measures were met, not met, or not likely to be met.

Leon Snead & Co. PC, is responsible for the attached audit report and the conclusions expressed in this report. There are three audit recommendations in this report.

We do not express any opinion on the conclusions presented in Leon Snead & Co., PC audit report. To fulfill our responsibilities, we:

- Reviewed the approach to planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with Leon Snead & Co., PC, as necessary,
- Reviewed the audit report prepared by Leon Snead & Co., PC; and
- Coordinated issuance of the audit report.

We thank your staff for the assistance that was extended to the auditors during this audit. Please contact me at 202-884-7675, if you have any questions regarding the report.

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June 17, 2021

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

Leon Snead & Company, P.C. completed an audit of grant numbers PW-18777-IM and 18777-IM-C1 awarded by the Appalachian Regional Commission (ARC) to the Southern Alleghenies Planning and Development Commission (SAP&DC), located in Altoona, Pennsylvania. 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); (5) the matching requirements; and (6) the established performance measures were met.

The recipient's administrative procedures and related internal controls were adequate to manage its ARC grant funds. However, we questioned \$27,707 of the expenses SAP&DC reimbursed to one vendor because they were not adequately supported. The remaining costs tested were considered reasonable and supported. Performance goals were met or exceeded on the closed grant and progress toward achieving the planned goals was reasonable on the open grant. Project and financial reports were submitted in a timely manner.

The audit results were discussed with SAP&DC officials at the conclusion of the onsite field work. In response to our draft report, the SAP&DC officials concurred with the finding and stated that corrective actions on the recommendation were in process.

Sincerely,


Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grants PW-18777-IM and PW-18777-IM-C1 awarded by the Appalachian Regional Commission (ARC) to Southern Alleghenies Planning and Development Commission (SAP&DC) located in Altoona, PA. 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 grants provided ARC funding to support implementation of a diversified program of business technical assistance to entrepreneurs in the Western Pennsylvania counties of Bedford, Fulton, Huntingdon, Blair, Cambria, and Somerset. They were awarded under the Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative, which is an integrated, multi-agency effort to align and invest federal economic and workforce development resources in communities and regions negatively impacted by changes in the coal economy.

The SAP&DC is an ARC and EDA local development district, created under State laws as a non-profit organization. It is the primary grantee on the grants but is collaborating with multiple partners through sub-grant agreements, to build out the region's entrepreneurial ecosystem by providing local residents access to a wide array of business support services, and technical assistance from coaches and mentors. The project budgets include ARC funds as well as matching funds from other Federal, State, and local sources, to cover personnel, fringe, travel, supplies, equipment, contractual, and indirect costs.

Grant PW-18777-IM covered the period 04/01/2017 to 03/31/2020. The approved budget included \$1,213,868 ARC funds, \$459,000 other Federal funds, \$524,487 State funds, and \$249,726 Local funds, for a total estimated project cost of \$2,447,081. The grant had ended and was administratively closed by ARC on 06/26/2020, at a total project cost of \$3,691,005 with \$1,194,627 charged to ARC funds.

Grant PW-18777-IM-C1 was applied for and awarded while the initial grant was still in process, to allow SAP&DC to expand the program to serve entrepreneurs in three additional counties. It covered the period 10/01/2018 to 09/30/2021. The approved budget included \$1,227,447 ARC funds, \$684,000 other Federal funds, \$247,000 State funds, and \$296,447 Local funds, for a total estimated project cost of \$2,454,894. The grant was amended on 03/22/2021 to extend the ending date to 09/30/2022 and increase the approved budget to an estimated total cost of \$2,484,833, with no change to ARC funding. The grant was still in progress at the time of the audit and total project costs of \$2,166,837 had been reported, of which \$637,028 had been reimbursed by ARC.

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 (6) the established performance measures were met.

We interviewed the Finance Director and grant project manager to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed applicable written financial and administrative policies and procedures to determine if they complied with federal requirements and were adequate to administer the grant. We judgmentally selected \$690,846 of the total \$1,831,655 reimbursed by ARC on both grants, and reviewed supporting records to determine whether the charges were properly supported and allowable. We also examined supporting information on the total \$2,496,378 matching costs reported on the closed grant to verify they were properly supported and allowable. We reviewed the most recent annual financial statement audit report to identify any issues that could significantly impact the ARC grant costs and this audit.

On-site fieldwork was performed May 10-14, 2021, at SAP&DC offices located in Altoona, PA. The preliminary audit results were discussed with the Executive Director and other staff at the conclusion of the on-site visit.

The primary criteria used in performing the audit were 2 CFR 200, the ARC Code and the grant agreement. The audit was performed in accordance with Generally Accepted Government Auditing Standards.

Summary of Audit Results

SAP&DC had written policies and procedures for applicable grant activities that were considered adequate for administering the grants and funds reviewed. The expenditures charged to the grants and reimbursed by ARC, that we sampled and tested were considered adequately supported and allowable except for some contractual costs on grant 18777-IM-C1. We questioned \$27,707 costs charged on a contract with Rebel Fox Farm, Inc. because documentation submitted with the requests for the reimbursements was not adequate to support the cost incurred.

Required project and financial reports were being prepared and submitted timely. The project report format and information were consistent with ARC requirements, and were very informative and useful in evaluating progress and final results. Match funding requirements in the grant budgets were being exceeded and reported amounts had adequate supporting documentation. All of the planned performance goals on the closed grant were met or exceeded, and progress on the active grant toward achieving the planned goals was reasonable.

The questioned costs, along with recommended corrective actions, are discussed in the Finding and Recommendations section of this report.

Finding and Recommendations

Support for Costs

As required in Federal cost principles in 2 CFR 200.403(g), and by the grant terms and conditions, all costs must be adequately documented and supported in order to be allowable. The grant agreement terms state that all disbursements must be supported with contracts, invoices, vouchers, and other information and documentation.

We have questioned \$27,707 in payments made by the recipient because the invoices submitted by the contractor for reimbursement did not include adequate support for the services provided.

These costs were under a \$166,100 contract awarded to Rebel Fox Farm Inc. for professional services to provide a public relations campaign to increase awareness and interest in the grant program. The schedule of costs in the contract describes six levels of services to be provided and the associated cost for each level. The payment invoices we reviewed (Nos. 1165, 1172, 1177, 1182, 1186, 1218, 1226, 1234 and 1247) were associated with the following two levels of service.

1. *Maintaining and developing media relations, developing content to pitch to media outlets, getting Start-Up Alleghenies stories published across a variety of outlets. (36 months of effort = \$1,685 per month).*

The payment invoices for this level of services did not describe what services were provided to maintain and develop media relations, develop content to pitch to media outlets or get Start-Up Alleghenies stories published across a variety of outlets. The invoices merely stated that the payment requests were for “PR Services retainer”.

2. *Social media management and content development to build upon the media releases and relationships. This is our primary communication platform that has proven to connect with the entrepreneurs in a meaningful manner. (36months of effort = \$1,725 per month).*

The payment requests for this level of services did not describe what was done to develop content to build upon the media releases and relationships as described in the contract. The invoices merely stated that the payment requests were for “Social Media retainer”.

The invoices did not include, and SAP&DC did not otherwise provide us from their records, sufficient supporting information to either identify the individual costs included in the total amount billed, or to allow independent verification that the costs were within the grant scope, reasonable and allowable under Federal cost principles.

We were told that the SAP&DC program manager and staff coordinated closely with this contractor and had personal knowledge of the activities and used this knowledge in approving the amounts contained in the invoices. The contractor also provided annual reports describing their activities. Direct oversight and knowledge of the contractor’s activities is necessary for good

contract administration. However, contract administration also entails assuring that invoice payments are supported by contractor certifications of the services provided.

The invoices in our test were paid consistent with amounts submitted by the contractor, and were approved by SAP&DC. We determined that \$125,474 of contractual costs had been reimbursed by ARC on grant 18777-IM-C1 at the time of our audit. We were told that all invoices submitted had the same description of services as the invoices we reviewed, which we concluded was insufficient support for the reimbursements. Since none of the Rebel Fox Farm invoices, including those tested, contained the proper supporting documentation, we believe the entire amount of \$125,474 charged to date on grant 18777-IM-C1 is subject to question for lack of support.

Recommendations

SAP&DC should:

1. Obtain from the contractor, and provide to ARC for review, supporting documentation to show what services were provided for \$27,707 of costs charged to grant 18777-IM-C1 on the invoices in question, or
2. Credit the grant for the amount that cannot be accurately supported and verified; and
3. Require the contractor to submit cost details and supporting documentation for all remaining invoices, and use it to validate and support amounts paid and charged to the grant.



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MEMORANDUM

Date: June 16, 2021
To: Leon Snead
From: Steve Howsare, Executive Director
Subject: Audit of ARC Grant No. PW-18777

The SAP&DC staff has reviewed the draft report for PW-18777-IM & 18777-IM-C1 prepared and presented to the Commission by Leon Snead & Company, P.C. on June 3, 2021.

We concur with the report that was submitted for our review.

In order to address the recommendations that were made:

- We have obtained supporting documentation for invoices: 1165, 1172, 1177, 1182, 1186, 1218, 1226, 1234 and 1247 from Rebel Fox Farm totaling \$27,707. We have supplied that information to Jennifer Simon, our ARC Project Coordinator. She intends to add it to our ARCnet file.
- SAP&DC will require Rebel Fox Farm to submit cost details and supporting documentation for all future invoices for costs charged to the grant.

Thank you for the opportunity to review and respond to the draft report.