

---

**Independent Accountants' Report on  
Applying Agreed Upon Procedures to  
Grant Agreement Expenditures**

**Grant PA-12747-I-98-302  
Fay-Penn Economic Development Council  
Uniontown, Pennsylvania**

---

**Submitted to the  
OFFICE OF INSPECTOR GENERAL  
OF THE  
APPALACHIAN REGIONAL COMMISSION**

**Report No. 01-42 (H)**

**Prepared by**

**Leon Snead & Company, P.C.  
June 7, 2001**

**TABLE OF CONTENTS**

---

Background and Objectives .....1  
Scope and Methodology .....2  
Results.....3  
Conclusions.....9  
Distribution .....10  
Grantee’s Comments.....11

# INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED UPON PROCEDURES TO GRANT AGREEMENT EXPENDITURES

To the Inspector General of the Appalachian Regional Commission:

## ***BACKGROUND AND OBJECTIVES***

The Appalachian Regional Commission (ARC) is a regional economic development agency representing a unique partnership of Federal, state, and local government. The ARC is composed of the Governors of the 13 Appalachian states and a Federal Co-Chair appointed by the President. The geographical boundaries of the Appalachian Region extend from the southern tier counties in central and western New York to the northern counties in Alabama and Mississippi.

Each year Congress appropriates funds that ARC allocates among its member states in line with an allocation formula which is intended to provide a fair and reasonable distribution of available resources among the 13 Appalachian member states.

The Appalachian Regional Commission (ARC) awarded Grant PA-12747-I-98-302, Fayette County Workforce Training Pilot Program, to the Fay-Penn Economic Development Council which is located in Uniontown, Pennsylvania. Total project costs were estimated to be \$225,000 of which ARC was to pay not more than \$100,000 (44.4444%) of actual, reasonable and eligible project costs. The grantee was to pay or cause to be paid the non-ARC share of \$125,000 (55.5556%) in cash, contributed services, or in-kind contributions, as approved by ARC. The ARC grant funds were to be used to provide funds for a workforce training pilot program to address the training needs of current employees, unemployed and underemployed and non-college bound high school students, and to help defray some of the grantee's administration and marketing expenses. The training components were to include specialized skills training and the feasibility and design for an Employers Consortium Pre-employment Training Academy. The project anticipated that at least 65 companies and 235 employees would benefit from the six different training courses which were to be given.

Grant Agreement PA-12147-I-98-302 was amended twice after it was signed in June, 1998. Amendment 1, dated April 3, 2000, extended the original grant period of performance from April 1, 1998 through September 30, 1999 to April 1, 1998 through September 30, 2000. This amendment did not change the total amount of ARC funding to be provided or any of the other grant terms or conditions. Amendment 2, dated August 29, 2000, extended the amended grant period of performance from April 1, 1998 through September 30, 2000 to April 1, 1998 through December 31, 2000. This Amendment did not change the total amount of ARC funding to be provided but did change Article 1 of the original grant agreement to read *"This project shall be carried out in general accord with Grantee's proposal."*

Leon Snead & Company, P.C. is under contract to the Office of Inspector General (OIG) of the ARC to provide audit services. We performed agreed upon procedures on the

grant expenditures reported to the ARC for the period April 1, 1998 through December 31, 2000. The objectives of our agreed upon procedures were to determine whether the reported grant expenditures were allowable, allocable, and reasonable and whether the grantee was in compliance with applicable laws and regulations.

### ***SCOPE AND METHODOLOGY***

We performed the procedures enumerated below, which were agreed to by the Inspector General of the Appalachian Regional Commission solely to assist you in evaluating grant expenditures by the grantee. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report.

Consequently we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The provisions of Office of Management and Budget (OMB) Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations"; OMB Circular A-110 "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Learning, Hospitals, and Other Non-Profit Organizations"; OMB Circular A-122 "Cost Principles for Non-Profit Organizations"; the Federal Drug-Free Workplace Act of 1998 (Public Law 100-690); the Federal Anti-Lobbying Act (Public Law 101-121); the Federal Acquisition Regulation (FAR); other Federal, state, or local procedures designed to insure fair and non-discriminatory procedures were used for the selection of participants; agreed to procedures that emphasize the expenditure of grant funds in line with the provisions of the grant agreement; and the ARC Code were used as the basis for determining allowable costs and compliance requirements. These agreed upon procedures were performed in accordance with generally accepted auditing standards and *Government Auditing Standards*, 1994 version, as amended, issued by the Comptroller General of the United States.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the financial statements of the grantee. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We noted that the grantee reported expending all \$100,000 in ARC Grant PA-12747-I-98-302 funds on this project. The grantee also reported matching the ARC grant funds with \$125,000 in private industry grant matching expenditures. The grantee had been reimbursed for \$90,000 (90%) of the reported grant expenditures as of the time of our agreed upon procedures.

We visited the Fay-Penn Economic Development Council offices in Uniontown, Pennsylvania during the period June 5-7, 2001.

Specifically we performed the following procedures:

- We discussed the grant expenditure process and internal controls with Fay-Penn Economic Development Council officials.
- We reviewed the detail support for all of the reported \$100,000 in expenditures charged to ARC Grant PA-12747-I-98-302 between April 1, 1998 (the grant period of performance starting date) and December 31, 2000 (the authorized grant expenditure ending date) and tied the grant expenditures in with the supporting purchase orders, vendor invoices, payment checks, and other supporting documents.
- We reviewed the detail support for all of the reported \$125,000 in grant matching contributions either paid or caused to be paid by the grantee.
- We compared the grant expenditures made with the approved project budget to determine if grant funds were spent only on items which were included in the original project budget, and if ARC approval had been requested and obtained for any items not included in the original project budget or where the expenditure for any budget line item exceeded the ARC approved budgeted amount by more than 10%.
- We determined the future potential for establishing the world class training facility which the grantee envisioned, and which was included in the project budget.
- We assessed the achievement of the grant objectives.

## ***RESULTS***

We noted the following findings:

### *(1) Allowable Training Expenditures Overbilled*

#### Condition

The cost of training 31 persons who did not qualify for ARC subsidized training was included in the training costs which were allocated to the ARC. The ARC was charged its pro rata share for training all 239 training course attendees, not just the 208 attendees who were qualified to receive ARC subsidized training.

#### Criteria

The Grant Agreement called for the ARC to pay 44.4444% of the cost of training an estimated 235 individuals, who met ARC's training grant subsidy qualification criteria, in one of six different ARC approved training courses.

Discussion

The grantee identified 31 persons who did not qualify for ARC subsidized training, but nevertheless the grantee billed ARC its pro rate share for training these 31 attendees. Criteria for eligibility for ARC subsidy included:

- The company has less than 300 employees in Fayette County and less than 600 employees in the Commonwealth.
- The company is not a Fortune 500 company.
- Any one company cannot receive more than \$5,000 in ARC subsidy per training session.
- The total training cost per employee cannot exceed \$2,500.

ARC was overbilled \$10,689 for a pro rata share of the costs of training 31 course attendees who did not qualify for ARC subsidized assistance, as follows.

Course Name	(a) Number Billed	(b) Number Qualified for ARC subsidy	(c) Number overbilled (a-b)	(d) Cost per Unit	(e) Overbilled (cxd)
Dale Carnegie Leadership	86	72	14	1200	16,800
Dale Carnegie Leadership	32	29	3	1300	3,900
Dale Carnegie Sales	28	27	1	1200	1,200
OSHA Seminar	18	9	9	195	1,755
Teambuilding Supervisor	54	50	4	99	396
Total CostNet Qualified for ARC Subsidy					24,051
ARC share					44.4444%
Amount Overbilled to ARC					\$10,689

### Recommendation

The ARC should disallow the \$10,689 in training costs allocated to it as its share of the total training cost of the 31 course attendees who did not qualify to receive ARC subsidized training.

### Grantee Comments

During the exit conference, I realized that the accounting procedures used by our organization for documenting the required matching funds throughout the administration of this grant project did not coincide with information supplied in the original grant application. We, in error, included the training costs for ineligible attendees in our match. Thus, we reluctantly accept the recommendation that \$10,689 in grant funds be disallowed.

### Accountants' Response

None.

### *(2) Questionable Training Expenditures*

#### Condition

The ARC grant was charged \$18,489 for training provided after the ARC informed the grantee that providing this training was not an acceptable approach to using the grant funds.

#### Criteria

Only expenditures which are allowable, allocable, and reasonable are acceptable as ARC grant charges.

#### Discussion

The Senior ARC Program Manager sent a memorandum, dated May 18 2000, to two Pennsylvania Department of Community and Economic Development Entrepreneurial Assistance Office (EAO) management officials notifying them that a grantee request to amend the grant scope of work to allow the grantee "*to focus exclusively on Dale Carnegie Leadership Training and OSHA training courses [on an as-needed basis, until such time as the ARC grant appropriation is depleted,] is not an acceptable approach to the ARC.*" EAO officials subsequently approved on August 25, 2000 a request from the Fay-Penn Executive Vice President to use ARC grant funds for additional Dale Carnegie Leadership Training. The primary additional training after the ARC guidance was Dale Carnegie Leadership Training. After receiving notification that ARC did not consider this approach acceptable, the grantee expended 87% of the total funds expended on training on the Dale Carnegie Leadership Training. The ARC grant

was charged \$18,489 for this training, which was provided during November or December, 2000.

#### Recommendation

The ARC should disallow the \$16,756 (the \$18,489 billed, less \$1,733 which was included in the \$10,689 questioned above) which was allocated to the ARC as the ARC share of the cost of providing Dale Carnegie Leadership Training to 29 otherwise eligible trainees approximately five months after the ARC Project Manager notified officials in the Pennsylvania Entrepreneurial Assistance Office (EAO) in Harrisburg, PA that using ARC grant funds to provide additional Dale Carnegie Leadership Training was "not an acceptable approach to the ARC." The disallowance should be made from the Pennsylvania Area Development allocation administered by the EAO and not from Pennsylvania Distressed Counties funds administered by the grantee.

#### Grantee Comments

As noted in the discussion section of this item, Fay-Penn proceeded with the additional training upon the approval of the PA EAO. It is our understanding that federal ARC and PA EAO (the state ARC office) are equal partners in the program, giving the state ARC office the authority to make certain decisions for eligible projects within its jurisdiction. Consequently, we feel that this should not be an issue and Fay-Penn should, certainly, not be penalized for conducting this additional training class.

#### Accountants' Response

None.

#### *(3) Questionable Administrative Expenses*

#### Condition

There was no evidence that the grantee had either requested or received ARC approval to increase the dollar amount of administrative expenses chargeable to the grant by approximately 30%.

#### Criteria

Prior ARC approval must be obtained to increase any grant budget line item expenditure by more than 10%.

#### Discussion

The grantee did not provide any documentary support to show that advance ARC approval had either been requested, or obtained, to increase the dollar amount of administrative expenses allocable to this project from \$8,750 to \$11,347. The



grantee reallocated \$2,597 of unexpended grant funds on its sixth, and final, payment request to ARC from other approved budget line items to administrative expenses. The reallocation increased administrative expenses by approximately 30%. These additional administrative expenditures are not considered allowable grant charges because there was no indication the ARC had approved them. The grantee billed the ARC for \$1,204 in additional administrative expenses. The ARC share of these additional costs, if approved, would have been \$1,154. We are questioning only \$1,165 of the \$1,204 as the grantee underbilled ARC by \$39 for administrative expenses on Progress Payment 5. The additional administrative charges were acceptably documented. They were questioned solely because advance ARC approval was not obtained to authorize the grantee to charge these additional costs to the grant project.

#### Recommendation

The ARC should disallow \$1,165 of the \$5,054 (\$3,850 paid to the grantee on Progress Payment 5 plus \$1,204 included in the grantee's final billing to the ARC) in administrative expenses allocated to the ARC by the grantee. The actual ARC share of the total ARC approved project administrative expenses was \$3,889 ( $\$8,750 \times 44.4444\%$ ).

The ARC should also remind the grantee that it must obtain advance approval from the ARC to reprogram grant funds from one approved budget line item to another if the reprogramming will increase the total cost of the gaining budget line item by more than 10% of the originally approved line item cost.

#### Grantee Comments

Because of the approved extended time frame to complete this project, Fay-Penn incurred additional administrative expenses for this project over and above the budgeted amount. As noted in the discussion section for this item, these expenses were acceptably documented. I failed to submit an approval request to ARC to reallocate additional costs to the administrative line item. If ARC will not permit the reallocation of these acceptably documented costs after the fact, then we understand and accept the recommendation to reimburse ARC the disallowed \$1,165 in grant funds.

#### Accountants' Response

None.

*(4) Workforce Academy Project Budget Line Item Objective Was Not Achieved*

#### Condition

The grantee has abandoned its objective of establishing a world class training facility.

### Criteria

The grant agreement objectives should be achieved. The grant agreement included as Appendix C, Workforce Development Academy Plan, for establishment of a world class training facility.

### Discussion

The grantee expended \$21,375 in project costs attributed to the Plan for Academy project budget line item. The ARC paid \$9,490 of these costs. The detail support for the Plan For Academy expenditures consisted of three consulting firm billings totaling \$21,375. The billings were for providing services which would result in establishing a business plan for a Fay Penn Workforce Development Academy. The resulting business plan was never implemented.

Correspondence in ARC's grant files indicated the grantee planned to lease a building for the academy, but discovered that the building to be leased had asbestos contamination. A letter dated March 27, 2000 from the grantee's Executive Vice President to the Director, Pennsylvania Entrepreneurial Assistance Office, Commonwealth of Pennsylvania, stated in part that as a result of this and other problems *'....it was concluded by the consultants that although their study supports the Academy feasibility, it was recommended that due to its complexity, the Academy will require a significant amount of additional planning effort and is not ready for implementation at this time.'* As a result, the grantee dropped its plans to establish an Academy and requested permission to reallocate the deobligated \$71,560 in ARC 1998-99 Special Distressed Grant funds to fund a Keystone Opportunity Zone Site Development Plan Initiative. This Initiative, which would involve approximately 2,600 acres in Fayette County, Pennsylvania, is now under consideration.

### Grantee Comments

In summation, in spite of the problems encountered during the administration of this project, i.e. staff turnover, training course revisions, and scrapping of the workforce academy, these ARC grant funds had a tremendous impact in one of ARC's most distressed areas. Not only did we exceed the number of individuals to be trained, but because of the PA EAO's approval of our program revision, we were able to accommodate the training needs of our local employers – which was the original intent of the grant.

### Accountants' Response

None.

(5) *The Training Objective of the Grant Was Only Partially Achieved*

Condition

The purpose of the grant was to provide a workforce training pilot program that addressed the training needs of current employees, unemployed and underemployed and non-college bound high school students. The training actually provided was primarily training which would maintain or improve the skills of current employees.

Criteria

The grant agreement objectives should be achieved.

Discussion

Most of the ARC subsidized training was for either Dale Carnegie Leadership courses (30 trainees budgeted vs. 101 ARC-subsidized trainees trained) or for Teambuilding Supervisor training courses (25 trainees budgeted vs. 50 ARC-subsidized trainees trained). Only 9 trainees received ARC subsidized OSHA safety training vs. 80 subsidized trainees budgeted, and no trainees received Train-The Trainer training vs. 30 trainees budgeted to receive this training.

Grantee Comments

In summation, in spite of the problems encountered during the administration of this project, training course revisions, and scrapping of the workforce academy, these ARC grant funds had a tremendous impact in one of ARC's most distressed areas. Not only did we exceed the number of individuals to be trained, but because of the PA EAO's approval of our program revision, we were able to accommodate the training needs of our local employers – which was the original intent of the grant.

Accountants' Response

None.

**CONCLUSIONS**

Based on the results of our agreed upon procedures, in our opinion \$71,390 of the grant fund expenditures reported to the ARC as having been incurred between April 1, 1998 and December 31, 2000 which were charged to the ARC for Grant PA-12747-I-98-302 were allowable, allocable and reasonable and should be accepted by the ARC.

The \$28,610 questioned costs are a total of three exceptions. The first exception totaled \$10,689 in grant funds billed to the ARC for providing subsidized training to 31 individuals who did not meet the ARC criteria to receive subsidized training. The second exception totaled \$16,756 in ARC grant funds which were used to provide Dale

Carnegie Leadership Training well after the ARC Program Manager informed two managerial level officials in the Pennsylvania Department of Community and Economic Development Entrepreneurial Assistance Office (EAO) that their request to expend the remaining grant funds exclusively on Dale Carnegie Leadership Training and OSHA training courses was not acceptable to the ARC. The third exception was a net of \$1,165 in administrative expenses which exceeded the budget line item by more than 10% without ARC approval.

### ***DISTRIBUTION***

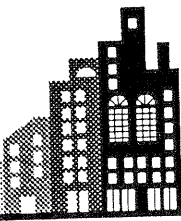
This report is intended for the information and use of the OIG and management of the ARC and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

*Leon Snead & Company, P.C.*

LEON SNEAD & COMPANY, P. C.

June 7, 2001

## GRANTEE'S COMMENTS



# FAY-PENN ECONOMIC DEVELOPMENT COUNCIL

Two West Main Street, Suite 407 • P.O. Box 2101 • Uniontown, PA 15401-1701 • Phone: 724/437-7913 Fax: 724/437-7315

July 19, 2001

Alexis M. Stowe,  
Vice President  
Leon Snead & Company, P.C.  
416 Hungerford Drive, Suite 400  
Rockville, MD 20850

Re: Grant PA-12747-I-98-302

Dear Ms. Stowe:

We are in receipt of the Draft Report for the above referenced grant. Following are our written comments to each finding and recommendation contained in the report:

- 1) Allowable Training Expenditures Overbilled – During my exit conference with Mr. Schantin prior to his completion of the audit, I realized that the accounting procedures used by our organization for documenting the required matching funds throughout the administration of this grant project did not coincide with information supplied in the original grant application. We, in error, included the training costs for ineligible attendees in our match. Thus, we reluctantly accept the recommendation that \$10,689 in grant funds be disallowed.
- 2) Questionable Training Expenditures – As noted in the discussion section of this item, Fay-Penn proceeded with the additional training upon the approval of the PA EAO. It is our understanding that federal ARC and PA EAO (the state ARC office) are equal partners in the program, giving the state ARC office the authority to make certain decisions for eligible projects within its jurisdiction. Consequently, we feel that this should not be an issue and Fay-Penn should, certainly, not be penalized for conducting this additional training class.
- 3) Questionable Administrative Expenses – Because of the approved extended time frame to complete this project, Fay-Penn incurred additional administrative expenses for this project over and above the budgeted amount. As noted in the discussion section for this item, these expenses were acceptably documented. I failed to submit an approval request to ARC to reallocate additional costs to the administrative line item. However, I do not accept Mr. Schantin's statement that it appears this was done so Fay-Penn would not have to refund any unspent grant funds. If ARC will not permit the reallocation of these acceptably documented costs after the fact, then we understand and accept the recommendation to reimburse ARC the disallowed \$1,165 in grant funds.

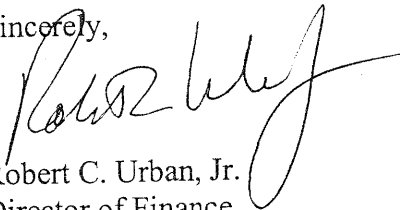
Page 2 – Alexis M. Stowe

In summation, in spite of the problems encountered during the administration of this project, i.e. staff turnover, training course revisions, and scrapping of the workforce academy, these ARC grant funds had a tremendous impact in one of ARC's most distressed areas. Not only did we exceed the number of individuals to be trained, but because of the PA EAO's approval of our program revision, we were able to accommodate the training needs of our local employers - which was the original intent of the grant.

I hope this information is beneficial to you as you finalize your audit report for submission to the Appalachian Regional Commission.

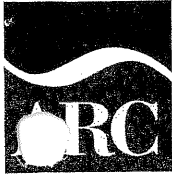
Please feel free to call me if you need any additional information or if you have any questions.

Sincerely,



Robert C. Urban, Jr.  
Director of Finance

Fp/0594-01



**MEMORANDUM**

Date: April 3, 2002

Subject: OIG Report 01-42(H)—Grant PA 12747-I-98, Fayette Workforce Training Pilot Program

To: Clifford Jennings, ARC Inspector General

---

This memo responds to the above referenced OIG Report, as distributed by October 10, 2001 letter from Mr. Hubert Sparks to Ms. Louise D'Isidoro, Project Director, Fay-Penn Economic Development Council.

In response to the OIG Report, the grantee has reimbursed the ARC by check the amount of \$689 for the disallowed training costs charged to grant. The said check was sent to ARC by March 28, 2002 letter (see attached).

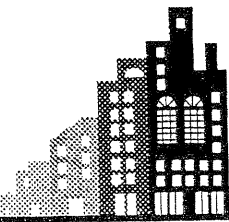
Report recommendations have been reviewed with the Pennsylvania ARC State Office by the ARC staff. Other concerns identified in the report have been resolved with appropriate actions taken by the grantee.

Please let me know if the Commission staff can be of additional assistance.

Thomas M. Hunter  
Executive Director

CC: Jesse L. White, Jr.  
Neil Fowler  
Lisa Atkinson Brown  
Sue Moreland  
Alfred Lewis





# FAY-PENN

## ECONOMIC DEVELOPMENT COUNCIL

Two West Main Street, Suite 407 • P.O. Box 2101 • Uniontown, PA 15401-1701 • Phone: 724/437-7913 Fax: 724/437-7315

March 28, 2002

Judy P. Rae  
Director, Program Operations Division  
Appalachian Regional Commission  
1666 Connecticut Avenue, NW, Suite 700  
Washington, DC 20009-1068

Re: Appalachian Regional Commission Grant No. PA-12747-I-98  
Fayette Workforce Training Pilot Program

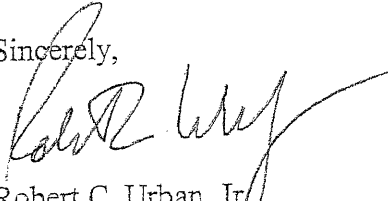
Dear Ms. Rae:

We are in receipt of your letter dated February 1, 2002 requesting repayment of grant funds for disallowed costs.

Enclosed please find check number 6989 in the amount of \$689.00 as repayment of the grant funds from the above referenced grant project.

Thank you for your assistance in getting this issue resolved to everyone's satisfaction.

Sincerely,



Robert C. Urban, Jr.  
Director of Finance

C: Sue Moreland  
Neil Fowler  
Mike Krajovic

Enclosure

Fp/0180-02



October 10, 2001

Ms. Louise D'Isidoro, Project Director  
Fay-Penn Economic Development Council  
Two West Main Street, Suite 407  
P. O. Box 2101  
Uniontown, PA 15401-1701

Re: Report No. 01-42 (H)  
Grant No. PA-12747

Dear Ms. Louise D'Isidoro:

Enclosed is a copy of our report dealing with a grant for a workforce training pilot program. The work was performed by an auditor with Leon Snead & Company, P.C. under contract with my office.

The report notes that \$10,689 should be disallowed because ARC was charged for 31 attendees who did not qualify for ARC subsidized training; identified questionable costs of \$16,756 related to approval by the Pennsylvania Department of Community Economic Development of additional training not recommended by ARC; questioned costs of \$1,204 related to transfer of funds to the administrative expense account and noted that two grant objectives were not achieved.

We recognize that the questioned costs pertaining to the increased Dale Carnegie Leadership Training is a matter for resolution between ARC and the Office of Entrepreneurial Assistance of the Pennsylvania Department of Community and Economic Development.


The other issues require resolution between ARC and Fay-Penn Economic Development Council and the response to the draft report notes agreement with the issue of eligible attendees and intent to request ARC approval of the budget transfer. With respect to the achievement of grant objectives, we recognize the response comments but believe these type issues require additional communication between grantee and ARC staff during the grant period to assure directions and actions are consistent with grant intents.

We will follow-up with ARC program staff within 60 days to determine resolution of the financial issues noted above.

A copy of the report is being provided to the Federal Co-Chairman, ARC Executive Director and Pennsylvania State Alternate.

The courtesies and cooperation afforded the auditor were appreciated.

Sincerely,

  
Hubert N. Sparks  
Inspector General

Enclosure

---

**Independent Accountants' Report on  
Applying Agreed Upon Procedures to  
Grant Agreement Expenditures**

**Grant PA-12747-I-98-302  
Fay-Penn Economic Development Council  
Uniontown, Pennsylvania**

---

**Submitted to the  
OFFICE OF INSPECTOR GENERAL  
OF THE  
APPALACHIAN REGIONAL COMMISSION**

**Report No. 01-42 (H)**

**Prepared by**

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

**June 7, 2001**

## TABLE OF CONTENTS

---

Background and Objectives .....	1
Scope and Methodology .....	2
Results.....	3
Conclusions.....	9
Distribution .....	10
Grantee's Comments.....	11

**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED UPON PROCEDURES TO  
GRANT AGREEMENT EXPENDITURES**

To the Inspector General of the Appalachian Regional Commission:

***BACKGROUND AND OBJECTIVES***

The Appalachian Regional Commission (ARC) is a regional economic development agency representing a unique partnership of Federal, state, and local government. The ARC is composed of the Governors of the 13 Appalachian states and a Federal Co-Chair appointed by the President. The geographical boundaries of the Appalachian Region extend from the southern tier counties in central and western New York to the northern counties in Alabama and Mississippi.

Each year Congress appropriates funds that ARC allocates among its member states in line with an allocation formula which is intended to provide a fair and reasonable distribution of available resources among the 13 Appalachian member states.

The Appalachian Regional Commission (ARC) awarded Grant PA-12747-I-98-302, Fayette County Workforce Training Pilot Program, to the Fay-Penn Economic Development Council which is located in Uniontown, Pennsylvania. Total project costs were estimated to be \$225,000 of which ARC was to pay not more than \$100,000 (44.4444%) of actual, reasonable and eligible project costs. The grantee was to pay or cause to be paid the non-ARC share of \$125,000 (55.5556%) in cash, contributed services, or in-kind contributions, as approved by ARC. The ARC grant funds were to be used to provide funds for a workforce training pilot program to address the training needs of current employees, unemployed and underemployed and non-college bound high school students, and to help defray some of the grantee's administration and marketing expenses. The training components were to include specialized skills training and the feasibility and design for an Employers Consortium Pre-employment Training Academy. The project anticipated that at least 65 companies and 235 employees would benefit from the six different training courses which were to be given.

Grant Agreement PA-12147-I-98-302 was amended twice after it was signed in June, 1998. Amendment 1, dated April 3, 2000, extended the original grant period of performance from April 1, 1998 through September 30, 1999 to April 1, 1998 through September 30, 2000. This amendment did not change the total amount of ARC funding to be provided or any of the other grant terms or conditions. Amendment 2, dated August 29, 2000, extended the amended grant period of performance from April 1, 1998 through September 30, 2000 to April 1, 1998 through December 31, 2000. This Amendment did not change the total amount of ARC funding to be provided but did change Article 1 of the original grant agreement to read *"This project shall be carried out in general accord with Grantee's proposal."*

Leon Snead & Company, P.C. is under contract to the Office of Inspector General (OIG) of the ARC to provide audit services. We performed agreed upon procedures on the

grant expenditures reported to the ARC for the period April 1, 1998 through December 31, 2000. The objectives of our agreed upon procedures were to determine whether the reported grant expenditures were allowable, allocable, and reasonable and whether the grantee was in compliance with applicable laws and regulations.

### ***SCOPE AND METHODOLOGY***

We performed the procedures enumerated below, which were agreed to by the Inspector General of the Appalachian Regional Commission solely to assist you in evaluating grant expenditures by the grantee. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report.

Consequently we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The provisions of Office of Management and Budget (OMB) Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations"; OMB Circular A-110 "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Learning, Hospitals, and Other Non-Profit Organizations"; OMB Circular A-122 "Cost Principles for Non-Profit Organizations"; the Federal Drug-Free Workplace Act of 1998 (Public Law 100-690); the Federal Anti-Lobbying Act (Public Law 101-121); the Federal Acquisition Regulation (FAR); other Federal, state, or local procedures designed to insure fair and non-discriminatory procedures were used for the selection of participants; agreed to procedures that emphasize the expenditure of grant funds in line with the provisions of the grant agreement; and the ARC Code were used as the basis for determining allowable costs and compliance requirements. These agreed upon procedures were performed in accordance with generally accepted auditing standards and *Government Auditing Standards*, 1994 version, as amended, issued by the Comptroller General of the United States.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the financial statements of the grantee. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We noted that the grantee reported expending all \$100,000 in ARC Grant PA-12747-I-98-302 funds on this project. The grantee also reported matching the ARC grant funds with \$125,000 in private industry grant matching expenditures. The grantee had been reimbursed for \$90,000 (90%) of the reported grant expenditures as of the time of our agreed upon procedures.

We visited the Fay-Penn Economic Development Council offices in Uniontown, Pennsylvania during the period June 5-7, 2001.

Specifically we performed the following procedures:

- We discussed the grant expenditure process and internal controls with Fay-Penn Economic Development Council officials.
- We reviewed the detail support for all of the reported \$100,000 in expenditures charged to ARC Grant PA-12747-I-98-302 between April 1, 1998 (the grant period of performance starting date) and December 31, 2000 (the authorized grant expenditure ending date) and tied the grant expenditures in with the supporting purchase orders, vendor invoices, payment checks, and other supporting documents.
- We reviewed the detail support for all of the reported \$125,000 in grant matching contributions either paid or caused to be paid by the grantee.
- We compared the grant expenditures made with the approved project budget to determine if grant funds were spent only on items which were included in the original project budget, and if ARC approval had been requested and obtained for any items not included in the original project budget or where the expenditure for any budget line item exceeded the ARC approved budgeted amount by more than 10%.
- We determined the future potential for establishing the world class training facility which the grantee envisioned, and which was included in the project budget.
- We assessed the achievement of the grant objectives.

## ***RESULTS***

We noted the following findings:

### *(1) Allowable Training Expenditures Overbilled*

#### Condition

The cost of training 31 persons who did not qualify for ARC subsidized training was included in the training costs which were allocated to the ARC. The ARC was charged its pro rata share for training all 239 training course attendees, not just the 208 attendees who were qualified to receive ARC subsidized training.

#### Criteria

The Grant Agreement called for the ARC to pay 44.4444% of the cost of training an estimated 235 individuals, who met ARC's training grant subsidy qualification criteria, in one of six different ARC approved training courses.



Discussion

The grantee identified 31 persons who did not qualify for ARC subsidized training, but nevertheless the grantee billed ARC its pro rate share for training these 31 attendees. Criteria for eligibility for ARC subsidy included:

- The company has less than 300 employees in Fayette County and less than 600 employees in the Commonwealth.
- The company is not a Fortune 500 company.
- Any one company cannot receive more than \$5,000 in ARC subsidy per training session.
- The total training cost per employee cannot exceed \$2,500.

ARC was overbilled \$10,689 for a pro rata share of the costs of training 31 course attendees who did not qualify for ARC subsidized assistance, as follows.

Course Name	(a) Number Billed	(b) Number Qualified for ARC subsidy	(c) Number overbilled (a-b)	(d) Cost per Unit	(e) Overbilled (cxd)
Dale Carnegie Leadership	86	72	14	1200	16,800
Dale Carnegie Leadership	32	29	3	1300	3,900
Dale Carnegie Sales	28	27	1	1200	1,200
OSHA Seminar	18	9	9	195	1,755
Teambuilding Supervisor	54	50	4	99	396
Total CostNet Qualified for ARC Subsidy					24,051
ARC share					44.4444%
Amount Overbilled to ARC					\$10,689

### Recommendation

The ARC should disallow the \$10,689 in training costs allocated to it as its share of the total training cost of the 31 course attendees who did not qualify to receive ARC subsidized training.

### Grantee Comments

During the exit conference, I realized that the accounting procedures used by our organization for documenting the required matching funds throughout the administration of this grant project did not coincide with information supplied in the original grant application. We, in error, included the training costs for ineligible attendees in our match. Thus, we reluctantly accept the recommendation that \$10,689 in grant funds be disallowed.

### Accountants' Response

None.

### *(2) Questionable Training Expenditures*

#### Condition

The ARC grant was charged \$18,489 for training provided after the ARC informed the grantee that providing this training was not an acceptable approach to using the grant funds.

#### Criteria

Only expenditures which are allowable, allocable, and reasonable are acceptable as ARC grant charges.

#### Discussion

The Senior ARC Program Manager sent a memorandum, dated May 18 2000, to two Pennsylvania Department of Community and Economic Development Entrepreneurial Assistance Office (EAO) management officials notifying them that a grantee request to amend the grant scope of work to allow the grantee "*to focus exclusively on Dale Carnegie Leadership Training and OSHA training courses [on an as-needed basis, until such time as the ARC grant appropriation is depleted,] is not an acceptable approach to the ARC.*" EAO officials subsequently approved on August 25, 2000 a request from the Fay-Penn Executive Vice President to use ARC grant funds for additional Dale Carnegie Leadership Training. The primary additional training after the ARC guidance was Dale Carnegie Leadership Training. After receiving notification that ARC did not consider this approach acceptable, the grantee expended 87% of the total funds expended on training on the Dale Carnegie Leadership Training. The ARC grant

was charged \$18,489 for this training, which was provided during November or December, 2000.

#### Recommendation

The ARC should disallow the \$16,756 (the \$18,489 billed, less \$1,733 which was included in the \$10,689 questioned above) which was allocated to the ARC as the ARC share of the cost of providing Dale Carnegie Leadership Training to 29 otherwise eligible trainees approximately five months after the ARC Project Manager notified officials in the Pennsylvania Entrepreneurial Assistance Office (EAO) in Harrisburg, PA that using ARC grant funds to provide additional Dale Carnegie Leadership Training was "not an acceptable approach to the ARC." The disallowance should be made from the Pennsylvania Area Development allocation administered by the EAO and not from Pennsylvania Distressed Counties funds administered by the grantee.

#### Grantee Comments

As noted in the discussion section of this item, Fay-Penn proceeded with the additional training upon the approval of the PA EAO. It is our understanding that federal ARC and PA EAO (the state ARC office) are equal partners in the program, giving the state ARC office the authority to make certain decisions for eligible projects within its jurisdiction. Consequently, we feel that this should not be an issue and Fay-Penn should, certainly, not be penalized for conducting this additional training class.

#### Accountants' Response

None.

#### *(3) Questionable Administrative Expenses*

#### Condition

There was no evidence that the grantee had either requested or received ARC approval to increase the dollar amount of administrative expenses chargeable to the grant by approximately 30%.

#### Criteria

Prior ARC approval must be obtained to increase any grant budget line item expenditure by more than 10%.

#### Discussion

The grantee did not provide any documentary support to show that advance ARC approval had either been requested, or obtained, to increase the dollar amount of administrative expenses allocable to this project from \$8,750 to \$11,347. The

grantee reallocated \$2,597 of unexpended grant funds on its sixth, and final, payment request to ARC from other approved budget line items to administrative expenses. The reallocation increased administrative expenses by approximately 30%. These additional administrative expenditures are not considered allowable grant charges because there was no indication the ARC had approved them. The grantee billed the ARC for \$1,204 in additional administrative expenses. The ARC share of these additional costs, if approved, would have been \$1,154. We are questioning only \$1,165 of the \$1,204 as the grantee underbilled ARC by \$39 for administrative expenses on Progress Payment 5. The additional administrative charges were acceptably documented. They were questioned solely because advance ARC approval was not obtained to authorize the grantee to charge these additional costs to the grant project.

#### Recommendation

The ARC should disallow \$1,165 of the \$5,054 (\$3,850 paid to the grantee on Progress Payment 5 plus \$1,204 included in the grantee's final billing to the ARC) in administrative expenses allocated to the ARC by the grantee. The actual ARC share of the total ARC approved project administrative expenses was \$3,889 (\$8,750 x 44.4444%).

The ARC should also remind the grantee that it must obtain advance approval from the ARC to reprogram grant funds from one approved budget line item to another if the reprogramming will increase the total cost of the gaining budget line item by more than 10% of the originally approved line item cost.

#### Grantee Comments

Because of the approved extended time frame to complete this project, Fay-Penn incurred additional administrative expenses for this project over and above the budgeted amount. As noted in the discussion section for this item, these expenses were acceptably documented. I failed to submit an approval request to ARC to reallocate additional costs to the administrative line item. If ARC will not permit the reallocation of these acceptably documented costs after the fact, then we understand and accept the recommendation to reimburse ARC the disallowed \$1,165 in grant funds.

#### Accountants' Response

None.

*(4) Workforce Academy Project Budget Line Item Objective Was Not Achieved*

#### Condition

The grantee has abandoned its objective of establishing a world class training facility.

## Criteria

The grant agreement objectives should be achieved. The grant agreement included as Appendix C, Workforce Development Academy Plan, for establishment of a world class training facility.

## Discussion

The grantee expended \$21,375 in project costs attributed to the Plan for Academy project budget line item. The ARC paid \$9,490 of these costs. The detail support for the Plan For Academy expenditures consisted of three consulting firm billings totaling \$21,375. The billings were for providing services which would result in establishing a business plan for a Fay Penn Workforce Development Academy. The resulting business plan was never implemented.

Correspondence in ARC's grant files indicated the grantee planned to lease a building for the academy, but discovered that the building to be leased had asbestos contamination. A letter dated March 27, 2000 from the grantee's Executive Vice President to the Director, Pennsylvania Entrepreneurial Assistance Office, Commonwealth of Pennsylvania, stated in part that as a result of this and other problems *'...it was concluded by the consultants that although their study supports the Academy feasibility, it was recommended that due to its complexity, the Academy will require a significant amount of additional planning effort and is not ready for implementation at this time.'* As a result, the grantee dropped its plans to establish an Academy and requested permission to reallocate the deobligated \$71,560 in ARC 1998-99 Special Distressed Grant funds to fund a Keystone Opportunity Zone Site Development Plan Initiative. This Initiative, which would involve approximately 2,600 acres in Fayette County, Pennsylvania, is now under consideration.

## Grantee Comments

In summation, in spite of the problems encountered during the administration of this project, i.e. staff turnover, training course revisions, and scrapping of the workforce academy, these ARC grant funds had a tremendous impact in one of ARC's most distressed areas. Not only did we exceed the number of individuals to be trained, but because of the PA EAO's approval of our program revision, we were able to accommodate the training needs of our local employers – which was the original intent of the grant.

## Accountants' Response

None.

(5) *The Training Objective of the Grant Was Only Partially Achieved*

Condition

The purpose of the grant was to provide a workforce training pilot program that addressed the training needs of current employees, unemployed and underemployed and non-college bound high school students. The training actually provided was primarily training which would maintain or improve the skills of current employees.

Criteria

The grant agreement objectives should be achieved.

Discussion

Most of the ARC subsidized training was for either Dale Carnegie Leadership courses (30 trainees budgeted vs. 101 ARC-subsidized trainees trained) or for Teambuilding Supervisor training courses (25 trainees budgeted vs. 50 ARC-subsidized trainees trained). Only 9 trainees received ARC subsidized OSHA safety training vs. 80 subsidized trainees budgeted, and no trainees received Train-The Trainer training vs. 30 trainees budgeted to receive this training.

Grantee Comments

In summation, in spite of the problems encountered during the administration of this project, training course revisions, and scrapping of the workforce academy, these ARC grant funds had a tremendous impact in one of ARC's most distressed areas. Not only did we exceed the number of individuals to be trained, but because of the PA EAO's approval of our program revision, we were able to accommodate the training needs of our local employers – which was the original intent of the grant.

Accountants' Response

None.

**CONCLUSIONS**

Based on the results of our agreed upon procedures, in our opinion \$71,390 of the grant fund expenditures reported to the ARC as having been incurred between April 1, 1998 and December 31, 2000 which were charged to the ARC for Grant PA-12747-I-98-302 were allowable, allocable and reasonable and should be accepted by the ARC.

The \$28,610 questioned costs are a total of three exceptions. The first exception totaled \$10,689 in grant funds billed to the ARC for providing subsidized training to 31 individuals who did not meet the ARC criteria to receive subsidized training. The second exception totaled \$16,756 in ARC grant funds which were used to provide Dale

Carnegie Leadership Training well after the ARC Program Manager informed two managerial level officials in the Pennsylvania Department of Community and Economic Development Entrepreneurial Assistance Office (EAO) that their request to expend the remaining grant funds exclusively on Dale Carnegie Leadership Training and OSHA training courses was not acceptable to the ARC. The third exception was a net of \$1,165 in administrative expenses which exceeded the budget line item by more than 10% without ARC approval.

***DISTRIBUTION***

This report is intended for the information and use of the OIG and management of the ARC and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

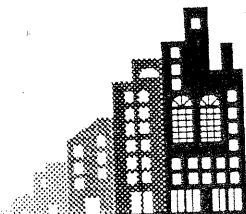
*Leon Snead & Company, P.C.*

LEON SNEAD & COMPANY, P. C.

June 7, 2001

## GRANTEE'S COMMENTS





**FAY-PENN**  
ECONOMIC DEVELOPMENT COUNCIL

Two West Main Street, Suite 407 • P.O. Box 2101 • Uniontown, PA 15401-1701 • Phone: 724/437-7913 Fax: 724/437-7315

July 19, 2001

Alexis M. Stowe,  
Vice President  
Leon Snead & Company, P.C.  
416 Hungerford Drive, Suite 400  
Rockville, MD 20850

Re: Grant PA-12747-I-98-302

Dear Ms. Stowe:

We are in receipt of the Draft Report for the above referenced grant. Following are our written comments to each finding and recommendation contained in the report:

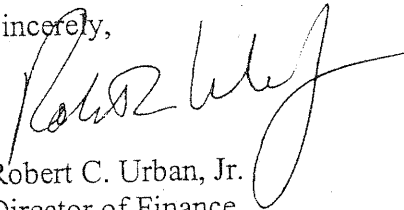
- 1) Allowable Training Expenditures Overbilled – During my exit conference with Mr. Schantin prior to his completion of the audit, I realized that the accounting procedures used by our organization for documenting the required matching funds throughout the administration of this grant project did not coincide with information supplied in the original grant application. We, in error, included the training costs for ineligible attendees in our match. Thus, we reluctantly accept the recommendation that \$10,689 in grant funds be disallowed.
- 2) Questionable Training Expenditures – As noted in the discussion section of this item, Fay-Penn proceeded with the additional training upon the approval of the PA EAO. It is our understanding that federal ARC and PA EAO (the state ARC office) are equal partners in the program, giving the state ARC office the authority to make certain decisions for eligible projects within its jurisdiction. Consequently, we feel that this should not be an issue and Fay-Penn should, certainly, not be penalized for conducting this additional training class.
- 3) Questionable Administrative Expenses – Because of the approved extended time frame to complete this project, Fay-Penn incurred additional administrative expenses for this project over and above the budgeted amount. As noted in the discussion section for this item, these expenses were acceptably documented. I failed to submit an approval request to ARC to reallocate additional costs to the administrative line item. However, I do not accept Mr. Schantin's statement that it appears this was done so Fay-Penn would not have to refund any unspent grant funds. If ARC will not permit the reallocation of these acceptably documented costs after the fact, then we understand and accept the recommendation to reimburse ARC the disallowed \$1,165 in grant funds.

In summation, in spite of the problems encountered during the administration of this project, i.e. staff turnover, training course revisions, and scrapping of the workforce academy, these ARC grant funds had a tremendous impact in one of ARC's most distressed areas. Not only did we exceed the number of individuals to be trained, but because of the PA EAO's approval of our program revision, we were able to accommodate the training needs of our local employers - which was the original intent of the grant.

I hope this information is beneficial to you as you finalize your audit report for submission to the Appalachian Regional Commission.

Please feel free to call me if you need any additional information or if you have any questions.

Sincerely,



Robert C. Urban, Jr.  
Director of Finance