APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD

Northern Tier Regional Planning and Development Commission
Local Development Districts Administration Grant (LDD)
Towanda, Pennsylvania

Final Report Number: 16-1
Project Numbers: PA-708C-C42 and C43
October 2015

Prepared by:
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October 22, 2015

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

Leon Snead & Company, P.C. completed an audit of grant numbers PA-708C-C42 and C43 awarded by the Appalachian Regional Commission (ARC) to the Northern Tier Regional Planning and Development Commission (NTRPDC). The audit was performed to assist the Office of the Inspector 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 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 questioned $1,359 of indirect costs and $15,418 of fringe benefit costs due to inadequate supporting documentation for the rates used to calculate the amounts. Also, we questioned $78,936 in non-ARC match funding claimed for lack of adequate supporting documentation. In addition, we identified several areas where written procedures need to be established or improved.

The issues identified and the recommended corrective actions are discussed in the Findings and Recommendations section of this report. A draft report was provided to NTRPDC on September 11, 2015, for comments. NTRPDC provided a response to the report on October 16, 2015. The supporting documentation provided with the response is sufficient to resolve the finding and close the recommendations on fringe benefit costs. The comments are included in their entirety in Appendix of this report.

Leon Snead & Company appreciates the cooperation and assistance received from the NTRPDC and ARC staff during the audit.

Sincerely,

Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant numbers PA-708C-C42 and PA-708C-C43 awarded by the Appalachian Regional Commission (ARC) to the Northern Tier Regional Planning and Development Commission (NTRPDC). 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.

NTRPDC is a public, non-profit organization formed in 1970 from the coalition of the existing Northern Tier Regional Planning Commission and the Northern Tier Economic Development Association, and is one of seven Local Development Districts (LDD) established within Pennsylvania. It provides services, training and technical assistance to the five counties of Bradford, Sullivan, Susquehanna, Tioga and Wyoming. The major activities supported by ARC funding include grant development and administration, business financial assistance, transportation planning, and economic analysis.

A Board of Directors comprised of the County Commissioners from the five member counties and six private sector representatives oversee the programs, operations and administrative of NTRPDC. An Executive Director, selected by the Board, and eighteen support staff carry out the daily operational and program functions and provide the services from the offices located in Towanda, Pennsylvania. The major sources of funding for NTRPDC operations and programs are federal, state, and local grants and contracts, but smaller amounts are also obtained from county appropriations, donated services, and other sources. For the fiscal year ended June 30, 2014, NTRPDC reported total income of $4.1 million with $3.2 million from Federal grants and contracts including approximately $502,000 from ARC.

Grant PA-708C-C42, which was the primary focus of the review, covered the annual period January 1 to December 31, 2014 and provided $103,136 in ARC funding with non-ARC funding of $103,136 required to be provided by NTRPDC to meet total estimated costs. The majority of the approved total budget was for staff salaries, benefits and indirect costs. The grant had ended but had not been closed out administratively by ARC at the time of our audit. Grant PA-708C-C43, which was also reviewed, covered the period January 1 to December 31, 2015 and provided $102,055 in ARC funding with non-ARC funding of $102,055 required to be provided by NTRPDC to meet total estimated costs.

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 overall understanding of the grant activities, the accounting system, and administrative procedures.

We reviewed financial and project progress reports to determine if they were submitted in accordance with requirements. We reviewed applicable NTRPDC administrative procedures and related internal controls to determine if they were adequate to administer the grant funds. We reviewed the most recent Single Audit report to identify any significant issues relevant to the ARC grant. We selected and tested a sample of transactions valued at $49,170 of the total $103,136 expenditures for fiscal year 2014 to determine if they were adequately supported and allowable.

The primary criteria used in performing the audit were the provisions of the ARC grant agreements, applicable Office of Management and Budget (OMB) Circulars and relevant parts of the ARC Code. The audit was performed in general accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of August 3-13, 2015 including on-site work at the NTRPDC offices in Towanda, Pennsylvania. The audit results were discussed with NTRPDC staff at the conclusion of the on-site visit. The grantee was in general agreement with the preliminary results.

Summary of Audit Results

We have questioned $1,359 of indirect costs and $15,418 of fringe benefit costs reimbursed by ARC due to inadequate supporting documentation for the rates used. We questioned $78,936 in non-ARC match funding claimed for lack of adequate supporting documentation.

Also, we identified several areas where written procedures need to be established or improved.

NTRPDC was not using the performance measures established in ARC guidance to report and evaluate LDD grant performance for either of the grants reviewed. Instead, it was using measures established to evaluate and report performance on ARC PREP grants. Because correct measures were not used, and we plan to conduct a separate audit of PREP grants awarded to NTRPDC which will include evaluating performance, we did not fully assess the LDD grants. However, management actions are needed to better comply with LDD performance reporting requirements.

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

Findings and Recommendations

A. Indirect Costs

We questioned $1,359 of indirect costs charged to PA-708C-C42 and reimbursed by ARC because the rates used to calculate the costs were not consistent with federal requirements.

The basic requirements applicable to NTRPDC for calculating and charging indirect costs are contained in 2 CFR 225 (Circular A-87) "Cost Principles for State, Local, and Tribal Governments." To claim indirect costs under Federal awards, grantees must use financial data to develop an indirect cost rate proposal containing the calculated rate, certify that rate, obtain approval of the proposed rate from the organization's cognizant federal agency, and use the approved rate for calculating costs and requesting reimbursement.

The project budgets submitted by NTRPDC and approved by ARC for PA-708C-C42 and PA-708C-C43 included indirect costs. Although ARC approved the estimated budget, it did not approve a specific rate or amount to be used in charging and claiming the costs for reimbursement. Grantees are required to comply with applicable federal requirements in charging indirect and other costs to the grants unless the grant terms specify otherwise. We confirmed that NTRPDC was following federal requirements and submitting a Certificate of Indirect Costs to its cognizant agency (Commerce Department) as required, and was obtaining an approved indirect cost rate for use in charging indirect costs on the LDD and other grants.

NTRPDC's fiscal year is July 1 to June 30 and the rate approved by the cognizant agency applied to each fiscal year period. Since the grant covered the calendar period of January 1 to December 31, two different rates would normally apply to indirect costs on the grant. The approved indirect rates applicable to PA-708C-C42 were 25.47% for the first six months of the grant and 33.06% for the final six grant months. We determined by examining costs charged to the grant that the indirect cost amount reported to ARC in the final report and reimbursed by ARC were not calculated using the approved rates. Rather, the final financial report, section 11, showed that $19,035 of indirect costs were charged to the grant and claimed for reimbursement based on a single 31.41% rate and not the rates cited above. We were told this was a system-generated rate, since indirect costs are automatically calculated and allocated within the accounting system each month based on the cumulative total amount of salary and fringe costs and the total amount of recorded "Management & General" and "Common" costs.

To be compliant with the federal requirements, NTRPDC should be charging indirect costs to the ARC grants based on the approved rates and applying them to costs for the appropriate grant period. Since this was not being done, we question the amount of indirect costs charged to PA-708C-C42 and reimbursed by ARC. Using the approved rates for the grant period, and applying them to the recorded total amount of salary and fringe costs for each 6-month period on the grant, we calculated the allowable amount of indirect costs was $17,676 rather than the $19,035 reported and reimbursed to NTRPDC. This resulted in an over reimbursement of $1,359.

Recommendations

NTRPDC should:

1. Submit a revised final financial report for PA-708C-C42 to ARC refunding the $1,359 in question or obtain formal ARC approval waiving the correction and refund.

2. Establish written policies and procedures covering the use of indirect cost rates and recording of such costs on federal grants to ensure compliance with federal requirements.

3. Corresponding changes should be made to the NTRPDC accounting system to accurately calculate and record indirect costs to grants in accordance with the approved rates and requirements.

4. Ensure the approved rates and proper procedures are applied to determine indirect costs in the final billing submitted for PA-708C-C43 if the corrective actions in #2 above have not been fully implemented.

Grantee's Response

NTRPDC stated that it does not agree with the assessment of indirect costs. NTRPDC further stated that it has the option to use one of two methods for allocating indirect costs: a fixed rate or make adjustments to costs charged to programs based on actual charges calculated. NTRPDC has chosen the method of making adjustments to actual costs.

Auditor's Comments

The supporting document NTRPDC provided appears to support its position. However, we cannot calculate the impact this will have on the costs questions. The grantee's response did not address recommendations 2 through 4. As a result, we are providing the information to the ARC and ARC will determine whether the information is adequate to resolve the finding and close the recommendations.

B. Fringe Benefit Costs

We questioned $15,418 in fringe benefit costs charged to PA-708C-C42 and reimbursed by ARC because the calculated fringe rate used by the grantee was not approved by their cognizant agency. NTRPDC had not requested and obtained an approved fringe rate when it requested an approved indirect cost rate.

Under federal cost principles in 2 CFR 225, grantees can charge costs either directly or indirectly based on calculated rates. If fringe benefits costs are charged directly, the individual benefit costs (insurance, retirement, etc.) for each employee must be recorded and allocated directly to each activity (grant). If charged indirectly, all employee costs can be accumulated in cost pools and then allocated based on an overall, calculated rate. On the ARC grants, NTRPDC was using the indirect method and calculating a single rate that was used to allocate costs to the ARC and other grants. Appendix E, Section F, of 2 CFR 225 requires if fringe benefit rates are not approved as part of the central service cost allocation plan, the rates must be reviewed and approved by the cognizant agency during the indirect cost negotiation process.

Although NTRPDC had obtained an approved indirect cost rate from the cognizant agency, it did not include information and a request to obtain an approved fringe rate. Therefore, NTRPDC should not have been charging fringe costs to the ARC grants on an indirect basis. We question the $15,418 total fringe benefit costs charged to PA-708C-C42, and reimbursed by ARC, since it was not based on an approved rate in compliance with federal requirements. Fringe costs on PA-708C-C43 are also being calculated and recorded in the same fashion. We are not questioning them at this time because the grant is still in progress and NTRPDC has not submitted a financial report to ARC and received final reimbursement. However, corrective action will also be needed prior to closing that grant.

Recommendations

NTRPDC should:

1. Submit supporting documentation for the unapproved rate used to ARC and obtain approval to allow the $15,418 fringe costs reimbursed on PA-708C-C42 or submit a revised final financial report and refund the $15,418 of questioned costs to ARC.
2. Obtain an approved fringe rate from the cognizant agency for use on PA-708C-C43 and adjust any amounts recorded to date on the grant to ensure the final requested amount is correct.
3. Implement procedures to ensure a cognizant agency approved fringe rate is obtained and used on future ARC and other federal grants unless fringe costs are either charged directly as provided by 2 CFR 225 or other methods are specifically approved by the grantor agency.

Grantee's Response

NTRPDC does not agree with the assessment of fringe benefit costs and provided supporting documentation for its conclusion.

Auditor's Comments

The information provided in the grantee's response is sufficient to resolve the finding and close the recommendations.

C. Matching Funds

We questioned $78,936 in matching funds because NTRPDC only provided supporting documentation for $24,200 of the $103,136 that was required by the grant agreement for PA-708C-C42. This was because accounting reports and other methods were not used to identify the actual amounts available when preparing the final financial report.

ARC requires grantees to provide non-ARC recipient funding (matching funds) to fund the total project on many grant projects. Federal cost principles require costs charged to grants to be adequately supported and reasonable in order to be allowable and the requirement also applies to funds claimed as match to meet grant budget requirements. The approved budget for PA-708C-C42 showed a total project cost of $206,272, with $103,136 ARC funds and $103,136 non-ARC recipient match. The final report submitted to ARC showed the total actual project cost was as budgeted with $103,136 ARC funds expended and $103,136 claimed as match.

We were told that the total $103,136 of match claimed in the final report was related to in-kind contributions received by NTRPDC. We requested documentation to verify the amount was supported and allowable. The documentation provided was considered adequate for support and the amounts shown as contributions appeared to be reasonable and acceptable under the federal cost principles. However, the amounts contained and supported in these documents only totaled $24,200 of the $103,136 claimed. We were told by the grantee that in preparing the final financial report, staff did not use either accounting system reports or similar methods to identify the total in-kind contributions obtained during the grant period to determine what might be eligible for match. Instead, they presumed that enough contributions had been received and were available to meet the grant budget requirements and entered the $103,136 amount on the final financial report without verifying it.

We were also told that no other in-kind amounts were available for use as match on the grant, other than the $24,200 reflected in the support documents provided. However, staff stated that they could possibly identify other types of funds (such as cash donations) which would be eligible for use to meet the LDD requirements for the grant. Because the documentation available during the audit did not fully support the total $103,136, we question the $78,936 that was not supported and verifiable.

Recommendation

NTRPDC should provide ARC documentation to support the $78,936 of match funding that were questioned on PA-708C-C42 or submit an adjusted final financial report to reflect the amounts of ARC and match funding that can be supported and refund any amounts that were over-reimbursed by ARC.

Grantee's Response

NTRPDC recognize a short fall that occurred of in-kind match during program year 14. This short fall was attributed to a reduction of meetings held, and an internal miscommunication of the monitoring of in-kind being generated. As a Corrective Action NTRPDC will enact internal

controls of monitoring the in-kind being generated and in future Work Plans will propose match consisting of a combination of in-kind and non-federal cash match funds.

Auditor's Comments

ARC will determine whether the actions identified in the grantee's response are adequate to resolve the finding and close the recommendations.

D. Documenting Reported Financial Information

NTRPDC did not have written policies and procedures documenting the process for preparing and submitting required LDD financial reports. We obtained a description of the process, including what reports and information were used to determine the amounts to be reported and how the reports were processed for submission to ARC. Generally, the process and reports used were considered acceptable and we were able to reasonably match up the accounting reports with the financial data included in the report. However, we identified a problem regarding support for the ARC expenditures and match amounts included in the financial report.

We determined that the staff was not filing and maintaining the actual accounting system reports and related information used to identify ARC funding expenditure amounts and prepare the financial report. They had to re-create those reports and information for us to be able to complete the audit. By not filing the original supporting documentation, there is a risk of not being able to accurately re-create this information in the event of system failure or loss of data. We were able to complete our verification efforts with the information ultimately provided to us. However, we believe it would serve as a better management and internal control if the information used to prepare the financial report was consolidated at the time the report was prepared and filed in a way that it would be readily available in the future.

The same situation existed with information for the non-ARC funding match amounts reported. As discussed earlier in the report, staff could not readily provide a summary or other type of documentation to support the total amount of match funding claimed on the grant. The documentation provided only supported part of the total match claimed, not the total amount. Additionally, staff was not documenting match amounts in a manner to allow verification that the amounts used on the LDD grant were not also being claimed as match on another grant. Federal guidelines only allow funding to be used as match on one grant, not multiple grants, so NTRPDC needs some method to document that this requirement is being met.

Recommendations

NTRPDC should establish written procedures governing the preparation of required federal grant financial reports that will ensure:

1. The ARC expenditure and non-ARC Match amounts reported and claimed are fully documented and supported in accordance with federal requirements.

2. The accounting reports and other supporting information used to prepare each ARC financial report are maintained in a central place and are readily available for audit or other uses.

Grantee's Response

NTRPDC agree with the assessment on better documenting reported financial information. Currently there are no documented written procedures for the preparation of financial reports to funding sources. NTRPDC contacted WIPFLI, an agency specialized in the services of nonprofits and governmental units, for templates to draft procedures for preparing financial reports. NTRPDC has received the templates and is presently fine-tuning the verbiage for said

procedures. All accounting reports will be kept with the financial reports submitted to funding sources and will be accessible for any review. As, a result of this situation NTRPDC is taking a proactive approach and reviewing all accounting and personnel policies and procedures.

Auditor's Comments

ARC will determine whether the actions identified in the grantee's responses are adequate to resolve the finding and close the recommendations.

E. Performance Measures

The final project report submitted to ARC on PA-708C-C42 did not contain the performance measures reflected in ARC guidance for LDD grants. This was due to the NTRPDC Director and staff not being aware of the ARC guidance and required measures and instead including other measures (that more related to the ARC PREP grants) in its application project plan and in subsequent annual performance reports. As a result, NTRPDC was not fully compliant with ARC requirements and therefore not providing the correct performance measure information needed by ARC to evaluate LDD grant results.

ARC had provided guidance on the format for LDD Administrative grants that applied to activities beginning January 1, 2014, which covered the period of PA-708C-42. The guidance included two performance measures that were to be used to report and evaluate LDD grants and results. These were:

- Show a breakout of the total administrative budget for the LDD during the grant year indicating the total dollar and percentage of each funding source for both ARC and non-ARC support.

- A measure providing information on non-ARC activities within the LDD region showing (a) the anticipated grants and dollar amount of each and (b) some outcomes in terms of jobs created and retained, students trained, businesses or households served, and amount of private sector investment that were anticipated from these projects.

The performance measures used by NTRPDC on PA-708C-C42, both in the grant application proposal and the final project report, were not those included in the ARC guidance. Rather, the measures included in the application and reported on in the final project report were many of the same measures used for ARC PREP grants. These included individual metrics for different activities such as regional planning assistance, business financial assistance, economic development outreach, and export outreach. The NTRPDC director stated that these same PREP-related measures, and not the ones in the LDD guidance, had been included in applications and final reports in the past, without either the State ARC office or ARC ever indicating they were unacceptable.

ARC recently revised its guidance for LDD grants beginning 2015, which included establishing some new performance measures for reporting and evaluating grant results to replace the ones shown above for the 2014 period. Considering this new guidance, we do not feel it is either critical or a good use of resources to prepare a corrected final report on PA-708C-C42 and are not recommending such action. However, steps are needed to ensure that NTRPDC staff obtain, understand, and follow the ARC guidance on performance reporting on LDD grants. We also noted that the project plan submitted by NTRPDC for PA-708C-C43 does not reflect the new performance measures contained in ARC's new 2015 LDD guidance.

Recommendations

NTRPDC should:

1. Establish written policy and procedures to ensure that ARC performance measure tracking and reporting requirements, including the specific outputs and outcomes, are identified, understood, and followed.

2. Contact the ARC LDD program manager to clarify what should be done to ensure that the correct measures applicable to the current 2015 LDD grant are established, tracked, and results reported in the final project report.

Grantee's Response

NTRPDC welcomes the opportunity to discuss the content of the work plan with ARC. NTRPDC does however question why the work plan, which captures all the activities of NTRPDC and not just the activities under the PREP Program, was approved. NTRPDC had no prior knowledge the work plan was not consistent with program guidelines and was implementing its work plan as approved by ARC.

Auditor's Comments

ARC will determine whether the actions identified in the grantee's response are adequate to resolve the finding and close the recommendations.

RESPONSE: Finding A: Indirect Costs

NTRPDC does not agree with the assessment of indirect costs.

Per our attached indirect cost plan which is approved annually by the Department of Commerce (EDA); NTRPDC has the option to use one of two methods for allocating indirect costs: a fixed rate or make adjustments to costs charged to programs based on actual charges calculated. NTRPDC has chosen the method of making adjustments to actual costs. The GMS accounting system which is utilized by NTRPDC calculates all costs which are allocated to the "Management & General" and "Common" cost pools and those costs are then spread to respective programs by the salaries & fringe charged to each program. Equitably, programs with higher salary costs will bear a higher percentage of indirect costs. The GMS accounting system NTRPDC uses makes actual adjustments to costs throughout the year on a year-to-date basis. This method allows for the most accurate method to bill indirect costs to federal grants and contracts.

NTRPDC acquired two independent opinions; one of which is attached to this response from Janet Johnson a senior manager at WIPFLI. WIPFLI is an organization that specializes in the cost principles for non-for-profit and governmental entities. As stated earlier, we stand behind the belief that we are correctly charging our federal grants and contracts based on the use of actual costs. The second opinion we obtained from Mr. Bob Lloyd, a consultant specializing in administration and oversight of federal contracts and awards. His opinion was also in concurrence with the method of using actual costs and making adjustments throughout the year.

RESPONSE: Finding B: Fringe Benefit Costs

NTRPDC does not agree with the assessment of fringe benefit costs.

Employees are classified into several categories as outlined in our cost allocation plan; not all employees receive the same benefits. NTRPDC's cost allocation goes on further to state that fringe benefit costs are accumulated by expenditure category in the accounting system. The accumulated fringe costs are distributed to each grant by a rate which represents the ratio of fringe benefits to gross salaries by class. This methodology results in the application of fringe benefit costs and eliminates the time-consuming process of calculating and distributing cost by individual. Through the use of the rate, fringe costs are distributed equitably through a rate which is derived on the basis of benefits provided. The costs and rate of benefits are accounted for on actual basis and allocated in total to grants on a monthly basis.

Our fringe benefit cost categories (FICA, UC, etc.) are outlined in our cost allocation plan with a listing of total fringe costs. As mentioned above, fringe benefit costs are allocated out by gross salaries. NTRPDC's fringe benefit rate could be calculated from the cost allocation plan that is submitted to the Department of Commerce.

If ARC requests, NTRPDC can provide a detailed breakout of the $15,418 of fringe benefit costs that were charged to PA-708C-C43.

RESPONSE: Finding C: Matching Funds

NTRPDC recognizes a short fall that occurred of in-kind match during program year 14. This short fall was attributed to a reduction of meetings held, and an internal miscommunication of the monitoring of in-kind being generated. As a Corrective Action NTRPDC will enact internal controls of monitoring the in-kind being generated and in future Work Plans will propose match consisting of a combination of in-kind and non-federal cash match funds.

RESPONSE: Finding D: Documenting Reported Financial Information

NTRPDC agrees with the assessment on better documenting reported financial information.

Currently there are no documented written procedures for the preparation of financial reports to funding sources. NTRPDC contacted WIPFLI, an agency specialized in the services of nonprofits and governmental units, for templates to draft procedures for preparing financial reports. NTRPDC has received the templates and is presently fine-tuning the verbiage for said procedures. All accounting reports will be kept with the financial reports submitted to funding sources and will be readily accessible for any review.

As a result of this situation NTRPDC is taking a proactive approach and reviewing all accounting and personnel policy procedures.

RESPONSE: Finding E: Performance Measures

NTRPDC welcomes the opportunity to discuss the content of the work plan with ARC. NTRPDC does however question why the work plan, which captures all the activities of NTRPDC and not just the activities under the PREP Program, was approved. NTRPDC had no prior knowledge the work plan was not consistent with program guidelines and was implementing its work plan as approved by ARC.

UNITED STATES DEPARTMENT OF COMMERCE
Economic Development Administration
Washington, DC 20230

May 7, 2015

To:
Kevin Abrams
Northern Tier Regional Planning and Development Commission
312 Main Street
Towanda, PA 18848

Referenced: Certificate of Indirect Costs for State and Local Governments and Indian Tribes

This letter is to confirm that the Economic Development Administration (EDA) has accepted the Certificate of Indirect Costs for Northern Tier Regional Planning and Development Commission for the period July 1st, 2014 through June 30th, 2015 with a rate of 33.06%. Pursuant to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (codified at 2 C.F.R. Part 200) (OMB Uniform Guidance), your organization is not required to submit an indirect cost allocation proposal or plan narrative to EDA as its Cognizant Agency. Your organization is required to develop an indirect cost proposal and retain the proposal and related documentation for audit purposes. Paragraph D.1.b. of Appendix VII to 2 C.F.R. Part 200 states:

> [G]overnmental departments or agencies must develop an indirect cost proposal in accordance with the requirements of this Part and maintain the proposal and related supporting documentation for audit. These governmental departments or agencies are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency for indirect costs.

When actual costs are known at the end of your fiscal year, you organization is required to account for differences between estimated and actual indirect costs by means of either: a) making an adjustment to the next year's indirect cost rate calculation to account for carry-forward (the difference between the estimated costs used to establish the rate and the actual costs of the fiscal year covered by the rate); or b) making adjustments to the costs charged to the various programs based on the actual charges calculated. Your organization's indirect cost charges will be subject to audit to determine the allowability of both direct and indirect costs.

It is important to note that your organization is still required to submit to EDA an annual Certificate of Indirect Costs within six months after the close of your fiscal year.

A copy of this letter will be retained in your official award file. If you have any questions, please email Stephen Devine of my staff at sdevine@eda.gov or call him at (202) 482-9076.

Sincerely,

Tom Guevara
Deputy Assistant Secretary for Regional Affairs
Economic Development Administration

U.S. Department of Commerce, Economic Development Administration
1401 Constitution Avenue, NW
Washington, DC 20230

CERTIFICATE OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal prepared and maintained herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal dated December 19th, 2014 to establish indirect cost rate for the year fiscal year beginning July 1, 2014 and ending June 30, 2015 are allowable in accordance with the requirements of the Federal award(s) to which they apply and OMB Circular A-87"Cost Principles for State , Local, and Indian Tribal Governments". Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

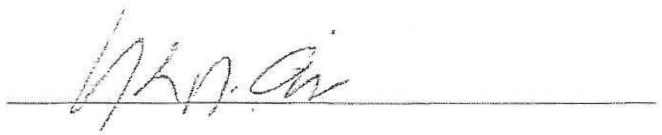
(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that would affect the predetermined rate.

(3) The indirect cost rate calculated within the proposal is 33.06%, which was calculated using an indirect cost rate base type of total direct salaries plus fringe benefits. The calculations were based on the actual costs from fiscal year 2014, to obtain a federal indirect cost billing rate for fiscal year 2015.

(4) All documentation supporting the indirect cost rate identified above must be retained by the Recipient. This rate should be reviewed and validated as part of the Recipient's annual financial audit.

Subject to the provisions of the Program Fraud Civil Remedies Act of 1986, (31 USC 3801 et seq.), the False Claims Act (18 USC 287 and 31 USC 3729); and the False Statement Act (18 USC 1001), I declare to the best of my knowledge that the foregoing is true and correct.

Organization Name: Northern Tier Regional Planning and Development Commission

Signature: 

Name of Authorized Official: Kevin D. Abrams

Title: Executive Director

Date of Execution: December 19th, 2014

NORTHERN TIER REGIONAL PLANNING AND DEVELOPMENT COMMISSION

COST ALLOCATION PLAN
Fiscal Year beginning July 1, 2014
And following periods until amended

INTRODUCTION

The Northern Tier Regional Planning and Development Commission is a Local Development District (LDD) as designated by Appalachian Regional Commission (ARC), an Economic Development District (EDD) as designated by Economic Development Administration (EDA), a Local Workforce Investment Area for the Workforce Investment Act (LWIA) and a designated Procurement Technical Assistance Center (PTA) for the Defense Logistics Agency (DLA), and an Area Loan Organization (ALO) as designated by Pennsylvania Department of Commerce. NTRPDC was established by agreement of the Boards of Commissioners of Bradford, Sullivan, Susquehanna, Tioga and Wyoming Counties.

The fiscal year of the agency is July 1 to June 30. Funding for programs is obtained at various periods of time and may not coincide with the agency's fiscal year. The agency is governed by an Executive Committee composed of representatives from each county. The Executive Committee reviews and approves the agency budget each fiscal year, including all indirect, salary, and fringe benefit costs.

COST ALLOCATION METHOD

Northern Tier Regional Planning and Development Commission has operated utilizing an indirect rate methodology since 1974. All indirect costs, salaries and fringe benefit costs are accumulated each month and fully allocated to all active projects operating under valid contracts.

The agency operates programs housed at 312 Main Street, Towanda, Pennsylvania. The provisions of *2 CFR Chapter 1, Chapter II, Part 200, ET, al., "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards"*, provide for the establishment of cost pools which are to be distributed over the benefiting activity in some rational and equitable manner. The concept of indirect costs is introduced and defined as follows in Section 200.56: "Indirect costs incurred for a common or joint purpose benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved."

> *To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.*
> *Section 200.416 addresses Special Considerations for States, Local Governments and Indian Tribes as follows. (a) For states, local governments and Indian tribes, certain services, such as motor pools, computer centers, purchasing, accounting, etc., are provide to operating agencies on a centralized basis. Since Federal awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be*

identified and assigned to benefitted activities on a reasonable and consistent basis. The central services cost allocation plan provides that process. (b) Individual operating agencies (governmental department or agency), normally charged Federal awards for indirect costs through an indirect cost rate. A separate indirect cost rate(s) proposal for each operating agency is usually necessary to claim indirect costs under Federal awards. Indirect costs include (1) The indirect costs originating in each department of agency of the government unit carrying out Federal awards and (2) The costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs. (c) The requirements for development and submission of cost allocation plans (for central service costs and public assistance programs) and indirect cost rate proposals are contained in Appendices IV,V and WI to this part.
Appendix WII to Part 200, States and Local Governments and Indian Tribe Indirect Cost Proposals. address the process whereby such entities prepare an indirect cost proposal.

Northern Tier Regional Planning and Development Commission has chosen a **Direct Salary plus Fringe** methodology because programs with greater salary costs should reasonably incur costs that accumulate in an indirect cost pool.

All administrative costs incurred by NTRPDC unless directly associated to a specific program, will be considered indirect costs. Many cost categories will be considered both direct and indirect. The following is a listing of general expense categories outlining how expenses will be allocated.

Salaries:
Salaries of personnel assigned to work directly on projects will be charged directly to the project. Administrative salaries will be a part of the indirect cost pool. Administrative salaries include salaries or portions of salaries of those personnel whose time is so fragmented between grants that it is not practical to allocate it, such as the Executive Director, the Fiscal Staff, and Support Staff.

Leave Benefits:
Leave benefits are authorized and documented in the Agency's Personnel Policies. Leave costs are allocated through a leave cost pool based on direct salary when earned.

Fringe Benefits:
Fringe benefits are established by the Agency and are documented in the Personnel Policies. Employees are placed into different classes, depending on the fringe benefits they receive. The fringe benefits will be accumulated by expenditure category in the accounting system. The accumulated pool costs are distributed to each project or other cost center through a rate that represents the ratio of fringe benefit costs to gross salaries by class. This consistent allocation procedure results in the application of fringe benefit costs and precludes the time-consuming process of calculating and distributing these costs by individual. Through the use of a rate, fringe benefit costs are distributed equitably through a rate which is derived on the basis of benefits provided.

Fringe benefits provided to employees are:

Fringe Benefits	Full Time	Part Time
Health & Hospitalization Insurance	Yes	No

Workers' Compensation	Yes	Yes
Employee 457 Retirement Plan	Yes	No
Life/Disability Insurance	Yes	No
Unemployment Compensation	Yes	Yes
Medicare Tax	Yes	Yes
Tuition Reimbursement	Yes	No
Employee Assistance Program	Yes	Yes

The costs and rates of benefits will be accounted for on an actual basis and allocated in total to projects or cost centers on a monthly basis.

Indirect Costs: Costs are incurred that benefit the entire agency. Generally these are categorized as Indirect Costs. Indirect Costs are further categorized as Common costs or Management and General Costs. This category of costs consists of salaries, and non-salary support costs necessary for carrying out all programs. These categories of cost are developed individually and then are combined and allocated in total each month. The indirect cost budget itemizes these expenses. Management and General Expenses allocated to the Workforce programs shall be identified and allocated to administrative portions of any state or federal award.

Equipment:
Equipment purchased and leased will be considered a direct cost when clearly identifiable for a particular program. Costs for agreements on NTRPDC-owned office machines and repairs on other NTRPDC-owned machines are considered indirect costs when the equipment benefits the total agency. Examples include copy and fax machines.

Insurance &Bonding:
The cost of insurance on contents of the agency shall be considered as indirect cost. The cost of bonding of agency employees shall be considered indirect as this benefits all grants. Liability insurance for the agency's governing body is considered an indirect cost.

Dues:
The agency holds membership in national and state organizations which benefit the entire organization. These membership dues shall be considered indirect costs. Dues to organizations directly benefiting a specific project shall be considered a direct cost of the program.

Subscriptions:
NTRPDC has traditionally held subscriptions to national and state magazines as well as local newspapers. These subscriptions benefit all programs of the agency and will be considered indirect costs. Cost of subscriptions directly related to one program shall be considered a direct cost.

Consumable Supplies:
General office supplies are purchased in sufficient quantities to receive volume cost savings and to have items on hand when needed. Supplies are kept at a central location with all programs having access at all times. This cost is considered indirect. A project needing special or unusual supplies shall bear these expenses as a direct cost to that project.

Contracted Services:
Contracted services include fees paid to the agency's accounting software contractor for licenses and support. Other expenses, include expenses related to the payroll processing system (ADP), brokerage fees for health insurance and fees paid to an outside firm that acts as the controller by overseeing the work of the Accounting Coordinator.

Outside Printing:
This category will be charged as an indirect cost when it relates to the publication of the agency's newsletter and total agency reports. Other indirect printing costs can include general brochures on the agency, business cards or other miscellaneous items which would benefit the total programs of NTRPDC. Reports and other items directly related to a project or program shall be a direct charge to that program.

Legal:
Fees paid to NTRPDC's attorney for his services that are related to general agency business such as preparation of by-laws, resolutions, etc., shall be considered as indirect cost. Any grant program requiring an extraordinary or clearly identifiable amount of legal services would have those costs charged directly to the program.

Travel:
Travel is charged both direct and indirect based upon the allocation of the individual's time and the travel required in that position. Travel related directly to a project will be charged to that project.

Postage:
Postage used to maintain NTRPDC's general operation shall be considered an indirect cost. A special project requiring an unusual amount of postage will be charged with that expense as a direct cost to that project.

Meeting Expenses:
The Executive Committee, which normally meets six times each year. It is the agency's final policy-making and approving body. The Full Commission meets semi-annually. These meeting expenses are considered indirect costs.

Other Shared Costs: (see section 5 in summary)
Specific shared costs that can be readily identified and allocated on a more direct basis may be accumulated in cost pools and allocated on a fair and reasonable basis.

Currently we have three such cost pools.

Building Use Allowance:
The cost of office space occupied by staff whose salaries are indirectly charged in charged to the indirect cost pool. The cost of the space for staff whose salaries are charged on a mixed basis will be allocated on a mixed basis in the same ratio as their salaries are allocated. The space for common areas such as the restrooms, hallways and kitchen will be charged as an indirect cost.

Vehicle Use Allowance:
The cost of agency vehicles including monthly lease payments, fuel, maintenance, repair, and insurance is allocated based on completed vehicle use logs.

Audit Expenses:
Costs for the agency audit are allocated to programs based upon billable hours. A breakdown of hours is provided by the auditing firm.

In summary: The following is a brief description of the accounting policies that are followed by the agency in applying the requirements of *Title 2 CFR Chapter I, Chapter II, Part 200 ET. al.*

1. Allowability or non-allowability of specific costs is determined by the principles of *Title 2 CFR Chapter I, Chapter II, Part 200 ET. al.*

2. Costs are related to the agency as a whole shall be considered indirect.

3. Indirect costs are defined in *Title 2 CFR Chapter I, Chapter II, Part 200 ET. al* and would be accumulated in a pool and distributed to grants in relationship to the salaries and fringe benefits of that grant.

4. Costs which can be identified specifically with a particular cost objective will be charged directly to that objective.

5. Costs that can reasonably be identified as benefiting two or more programs will be considered shared costs and allocated on a clear, fair and reasonable basis.

6. Travel costs will be charged directly to projects to the extent possible.

Conclusion:

Northern Tier Regional Planning and Development Commission's Executive Committee reviews and approves the agency budget for each fiscal year.

Recent history and current agency budgeting, the indirect costs allocated will range between 25% and 41% of direct salary plus fringe benefits.

The most recent A-133 single audit computation is attached.

10. Indirect Cost Rate

During the year ended June 30, 2014, indirect costs were allocated to individual programs as a percentage of direct salaries and related fringe benefit expense. The allocation of indirect costs for all programs was computed as follows:

Total direct salaries	$ 776,750
Total related fringe benefits	253,571
Total direct salaries and benefits	$ 1,030,321
Indirect costs:	
Salaries and wages	$ 151,238
Contracted services	50,556
Fringe benefits	50,437
Program supplies	21,124
Telephone	20,597
Insurance expense	10,780
Building use allowance	8,269
Miscellaneous	6,450
Meeting expense	4,256
Outside printing costs	3,417
Travel	3,195
Equipment lease	2,483
Professional fees	2,445
Postage	2,276
Tuition and training	1,188
Periodicals and books	1,161
Advertising	769
Total	$ 340,641

Indirect cost rate calculation:

$$\text{Indirect cost rate} = \frac{\text{Total indirect costs}}{\text{Total direct salaries and benefits}}$$

$$\text{Indirect cost rate} = \frac{\$\ 340,641}{\$\ 1,030,321} = 33.06\%$$

Amy Benjamin

From: Johnson, Janet <JSJohnson@wipfli.com>
Sent: Wednesday, September 02, 2015 9:39 AM
To: Amy Benjamin
Cc: MyWipfli
Subject: RE: My Wipfli Ask A Question - Northern Tier Regional Planning & Development Commission

Hi Amy – since you are a unit of government, you don't need to submit your indirect cost rate proposal to your cognizant agency annually for approval, which is what the letters says. You can treat your rate as "fixed with carryforward" which means that you will roll the difference between the rate you use all year and the rate you calculate at the end of the year based on actual costs into the next year's rate. For example, if your actual costs come in 1% higher than the rate you used all year, you will add 1% to the next year's rate. Likewise, if the rate you calculate based on actual costs comes in 1% lower than the rate you used, you will deduct 1% from next year's rate. You can also charge your funding sources a rate based on actual costs as the year goes along, but this is more complicated and most units of government find it easier to roll any differences into the next year's rate.

Your rate is not t provisional rate which is a temporary rate and is rarely issued to a unit of government. I am working out of the office this week but if you would like to discuss this, let me know. I'm on the west coast so tomorrow morning would be a good time for a call.

Janet S Johnson, CPA, CMA | **Senior Manager** | **Wipfli LLP** | Office: 608.270.2970 | Fax: 608.274.8085
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From: Amy Benjamin [mailto:benjamin@NORTHERNTIER.ORG]
Sent: Wednesday, September 02, 2015 7:47 AM
To: Johnson, Janet
Subject: RE: My Wipfli Ask A Question - Northern Tier Regional Planning & Development Commission

Hi Janet-

Thanks for getting back to me. I've attached the letters for last year and current year.

Amy Benjamin
Fiscal Manager

Northern Tier Regional Planning & Development Commission
312 Main Street
Towanda, PA 18848
benjamin@northerntier.org
(570)265-1526
Fax (570)265-7585

From: Johnson, Janet [mailto:JSJohnson@wipfli.com] **On Behalf Of** MyWipfli
Sent: Tuesday, September 01, 2015 4:49 PM
To: Amy Benjamin <benjamin@NORTHERNTIER.ORG>; MyWipfli <mywipfli@wipfli.com>
Subject: RE: My Wipfli Ask A Question - Northern Tier Regional Planning & Development Commission

Hi Amy – Please send me a copy of your letter and I will take a look.

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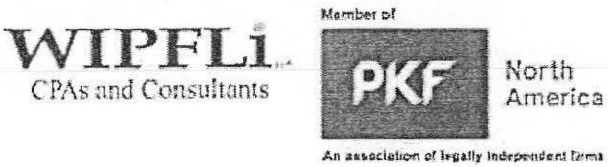

Register for the 3rd Annual Wipfli Winter Training Conference. Our conference is all about you, your community impact, and addressing your needs to better run your organization. Ask me for the details.

From: benjamin@northerntier.org [mailto:benjamin@northerntier.org]
Sent: Friday, August 28, 2015 3:00 PM
To: MyWipfli
Subject: My Wipfli Ask A Question - Northern Tier Regional Planning & Development Commission

Details:

Name	: Amy Benjamin
Title/Position	: Fiscal Manager
Organization Name	: Northern Tier Regional Planning & Development Commission
Email	: benjamin@northerntier.org
Phone	: 570-265-1526
City	: Towanda
State	: PA

Type of Program	: Fiscal
Topic	: Indirect Cost Rate
Question	: Hello, My question is regarding our indirect cost rate approval letter. We have one source that interprets that the letter is stating we should be using a fixed rate. However, there is mixed feelings within our agency of what the letter really says. We are hoping a representative from WIPFLI can look at a copy of a letter to see what their interpretation is, if the rate should be fixed, provisional, etc. Any help is appreciated. Sincerely, Amy Benjamin