APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD

Northern Tier Regional Planning and Development Commission
Partnerships for Regional Economic Performance (PREP)
Towanda, Pennsylvania

Final Report Number: 16-2
Project Numbers: PA-8305-C32 & C33
October 2015

Prepared by:
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October 26, 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-8305-C32 and C33 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 $89,290 of fringe benefit costs and $16,437 of indirect costs due to inadequate supporting documentation for the rates used to calculate the amounts. Also, we considered part of a $10,320 invoice charged to grant 8305-C32 to be unallowable because it was not properly allocated.

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 the 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, PC

Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant numbers 8305-C32 and C33 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

ARC grant PA-8305 (referred to as PREP grant) is a continuing, annual grant awarded to support NTRPDC's Enterprise Development Program that serves businesses and communities through four major work elements: small business financing; export development; procurement technical assistance; and e-commerce development. Complementary work elements that are also supported include community development assistance, workforce development, regional planning, entrepreneurial development, and the Team PA integrated business development program.

Grant PA-8305-C32 covered July 1, 2013 to June 30, 2014 and provided $285,000 in ARC funding with non-ARC funding of $285,000 required to be provided by NTRPDC to meet estimated program costs. The majority of the approved total budget was for staff salaries and benefits and indirect costs, but there were also some amounts budgeted for travel, contract services, and other costs. The grant had ended and was closed out administratively by ARC at the time of our review. Grant PA-8305-C33 covered July 1, 2014 to June 30, 2015 and provided $285,000 in ARC funding with non-ARC funding of $285,000 required to be provided by NTRPDC to meet total estimated costs. The grant had ended and a final report and reimbursement request submitted to ARC, but it had not been administratively closed out at the time of our review.

Objectives, Scope, and Methodology

The review 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 and funds. We reviewed the most recent Single Audit report to identify any significant issues relevant to the ARC grant and review. We selected and tested a sampled of transactions valued at $251,235 of the total $570,000 expenditures requested for the two grants to determine if the amounts were adequately supported and allowable.

The primary criteria used in performing the audit were the provisions of the ARC grant agreement, 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 August 24-31, 2015 including on-site work at NTRPDC offices in Towanda, Pennsylvania. The audit results and possible corrective actions were discussed with NTRPDC staff during the on-site visit.

Summary of Audit Results

We concluded that the financial and administrative policies and procedures were in compliance with applicable Federal requirements and adequate for administering the ARC grants. However, we identified some areas where written policies and procedures need to be established or improved.

We have questioned $89,290 of fringe benefit costs and $16,437 of indirect costs claimed due to inadequate supporting documentation for the rates used to calculate the claimed amounts. Also, we considered part of $10,328 charged to grant 8305-C32 for an invoice to be unallowable because it was not properly allocated.

The actual grant metrics and narrative results in the final report submitted to ARC on both grants, with respect to planned output and outcome goals, showed that the majority of the grant goals were either met or exceeded. Therefore, it appeared that the grant performance, on an overall basis, was acceptable for both grants. However, in reviewing and verifying source information for some of the metric data reported on grant 8305-C33, we identified some instances where the reported data was not accurate and consistent with ARC guidance.

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. Fringe Benefit Costs

We questioned $42,324 for fringe benefit costs charged to grant 8305-C32, and reimbursed by ARC, and $46,966 in fringe costs requested for reimbursement on grant 8305-C33 because these amounts were calculated with rates that were not approved by the cognizant agency. This occurred because NTRPDC did not obtain an approved fringe rate for determining costs to charge the grants.

Under federal cost principles in 2 CFR 225 applicable to NTRPDC, grantees can charge costs either directly based on actual cost, or indirectly based on established cost pools and related 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 then used to allocate costs to the ARC and other grants. Appendix E, Section F, of 2 CFR 225 requires that if a fringe benefit rate is not approved as part of the central service cost allocation (i.e. indirect cost) plan, the rate must be reviewed and approved by the cognizant agency during the indirect cost negotiation process. Accordingly, to be considered allowable grant costs the approved rate must be used.

NTRPDC was charging fringe benefit costs to the PREP grants on an indirect basis using a calculated fringe rate based on a combined pool of all fringe costs, rather than recording and charging them directly based on actual, individual employee costs. Although it had obtained an approved rate from its cognizant agency for charging indirect costs, it did not submit information on the method and rate it was using for fringe costs in order to obtain an approved rate.

Recommendations

NTRPDC should:

1. Obtain formal ARC approval to accept the $42,324 and $46,966 in fringe costs charged to the grants or submit a revised final financial report and refund the amounts to ARC.
2. Obtain an approved fringe rate from the cognizant agency for use on ARC grants during the 2015 and future periods.

Grantee's Response

NTRPDC does not agree with the assessment of fringe benefit costs. Our fringe benefit cost categories (FECA, UC, etc.) are outlined in our cost allocation plan with a listing of total fringe costs. 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. A copy of the cost allocation plan is included in the grantee's response in the Appendix of this report.

Auditor's Comments

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

B. Indirect Costs

We questioned $15,441 and $996 of indirect costs charged to grants 8305-C32 and C33 respectively, 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 recording grant costs and requesting reimbursement.

NTRPDC's fiscal year is July 1 to June 30 and the approved rate applies to the FY period. Both grants reviewed covered the same period, so the approved indirect cost rate obtained applied to costs during the grant period. The approved indirect rate applicable to the C32 grant period was 25.47% and the approved rate applicable to grant C33 was 33.06%. The approved rate is to be applied to total Salary and Fringe Benefits costs to calculate the amount of indirect costs. In reviewing the costs and supporting documentation we determined that NTRPDC was not using the approved rate to calculate and charge indirect costs, but was instead using another method and calculated rate.

We were told that indirect costs were automatically calculated and allocated within the accounting system each month based on cumulative total amount of salary and fringe costs and total amount of recorded "Management & General" (M&G) and "Common" costs. Separate cost pools had been created to accumulate M&G and Common costs. NTRPDC did not have any formal definition of these two categories but staff explained that M&G costs primarily reflected administrative time charged by the Executive Director, Deputy Director, Administrative Support Specialist, and Accounting Coordinator, while Common costs reflected administrative time charged by other staff. There was a rate for M&G and separate rate for Common and the rates vary each month and quarter. For our analysis and discussion we used the amounts actually charged to the grant and billed to ARC which reflect a "blended" cumulative rate for all of the individual months over the grant period. As reflected in the final 270 financial report on grant C32, the effective indirect cost rate related to the total amount of indirect costs charged to ARC was 34.2% vs. the 25.47% approved rate. Based on total indirect costs in the final 270 report on grant C33, the effective indirect rate used was 33.6% vs. the 33.06% approved rate.

Using the approved rates for the grant period, and applying them to the recorded total amount of salary and fringe costs reported in the final 270 financial report, we calculated the allowable amount of indirect costs for grant C32 was $45,061 rather than the $60,502 reported and reimbursed to NTRPDC. This represents an excess reimbursement of $15,441. The allowable amount of indirect for grant C33 based on the approved rate was $62,229 rather than the $63,225 reported and requested for reimbursement. This would result in an excess reimbursement of $996 if ARC pays the requested amount in the final billing. It should be noted that the final amount of indirect costs allowable to each grant will depend on the final allowable amount of fringe benefits costs since the indirect rate is based on total Salary + Fringe Benefits costs.

Therefore, the amount of refund or adjustment necessary on each grant must be determined after the amount of fringe costs we questioned has been resolved.

Recommendation

NTRPDC should:

Submit revised final 270 financial reports on grants 8305-C32 & C33 to ARC and refund the $15,441 and $996 in questioned costs or obtain formal ARC approval waiving the corrections and refunds.

Grantee's Response

NTRPDC does not agree with the assessment of indirect costs. Per our 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. (See indirect cost plan in the Appendix of this report)

Auditor's Comments

ARC will determine whether the information provided in the grantee's response are adequate to resolve the finding and close the recommendation.

C. Cost Allocation

Section C of Federal cost principles in 2 CFR 225 applicable to NTRPDC states that costs are allowable if they are reasonable and allocable (to the grant) and that costs must be allocated according to the relative benefits received (by the grant). Further, it states that any cost allocable to a particular grant may not be shifted to other federal awards to overcome funding deficiencies or avoid other restrictions. The latter requirement means that the allocation must be made according to the extent of benefits received (by the grant) and not based on funding availability or budgeting needs.

One amount reviewed was $10,328 charged to grant 8305-C32 for an invoice paid on 6/30/2014 to the Central Pennsylvania Workforce Development Corporation for Research Consortium services and information. Staff told us the research information obtained by participating in the consortium benefits a number of different program activities and grants including the ARC PREP, State PREP, Workforce development, and the Commerce/EDA grant. NTRPDC did not have written policy or standard procedure for allocating the costs for contracts such as the Research Consortium services. We were told deciding where to charge these costs was typically based more on grant funding availability, rather than grant benefits. There had not been any attempt to examine the extent to which each of the four program areas/grants named above actually benefit to determine the proper allocation. This was primarily due to not considering the federal requirement and need to take such action. As a result, when the bill was due for the 2014 Consortium costs, there was sufficient funding available on the ARC C32 PREP grant, so those funds were used to pay the total bill and charged to the grant for reimbursement.

Based on the federal cost principles, and the fact that the Consortium services and information does not only benefit the ARC PREP grant, we do not consider the total invoice amount of $10,328 to be fully allocable and allowable against the ARC funds. Some portion of the amount charged to the grant is not allowable and management actions are needed to address this.

Recommendations

NTRPDC should:

1. Determine the proper, justifiable ratio of allocation of the Research Consortium services and information among NTRPDC programs and grant, based on the benefits to each program/grant, recalculate the proper allocation to the ARC grant, and process a corrected 270 report and refund to ARC for the amount of the $10,328 that was not justified and supportable; and

2. Update NTRPDC written financial policies and procedures to ensure that the allocation requirements and principles in 2 CFR 225 are adopted and followed in directly allocating the Research Consortium and similar costs to ARC and other federal awards.

Grantee's Response

NTRPDC disagrees with the assessment on cost allocation. We concur that the benefit of the research consortium is broad and is shared across multiple programs. We are of the opinion that the ARC PREP program is also broad in its reach across multiple programs and that it serves as an "umbrella" for many of our community and economic development programs. We therefore feel that the $10,328 in costs is reasonable and justified under ARC PREP.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response are adequate to resolve the finding and recommendations.

D. Developing and Verifying Performance Data

The final project report submitted to ARC on grant PA-8305-C33 contained performance measure data that were not accurate and consistent with ARC guidance. This was due to a combination of factors including not collecting source data in a manner needed to meet ARC reporting requirements, and not adequately verifying the reported data prior to submission to ARC. As a result, the actual grant performance results reported are not reliable and the value of the information to ARC in assessing grant performance and meeting its reporting requirements is diminished.

Performance measurement and the complete and accurate reporting of results are an important and necessary part of overall ARC grant management. To be useful for evaluating grant performance, the metric data reported to ARC must accurately reflect actual results and must be presented in the format and manner consistent with ARC guidance and expectations. Otherwise, the information could be misleading and result in incorrect conclusions on the success of the grant and effective use of the funds. ARC provides guidance on preparing required project reports and performance measures including "Frequently Asked Questions" that covers final report format and content information, and the "Guide to ARC Project Performance Measures" that provides definitions of measures ARC uses and instructions on how to report the data.

The ARC PREP grants covered in our review had a substantial number of different performance metrics in terms of outputs and outcomes that cover the different programs including the core areas of Business Financial Assistance (loans), Export Marketing, and Government Procurement Assistance. Grant 8305-C33 had 39 individual performance metrics for measuring and evaluating overall grant results. The grant had been completed and a final project report including actual results on all the metrics had been submitted to ARC. Our review included evaluating and verifying the reported results.

Based upon the reported metric data and narrative results, we concluded that the grant goals were satisfactorily achieved on an overall basis. However, we noted in discussing the data reported and verifying the sources and support for some of the data, that some metrics were not accurately reported. This situation raised a question, in our opinion, about the reliability of the reported results and any related assessment on overall results. For example, the metrics for the number of jobs created and retained under the Business Finance Assistance Loan Program activities were not being reported consistent with ARC guidance. The "Guide to ARC Project Performance Measures" states that part-time and seasonal positions should be converted to full-time equivalents for reporting purposes, so that the total number can be used as full-time jobs or assessing grant impact.

The loan application summaries prepared by NTRPDC staff, in most cases showed the number of jobs reported to ARC was a single number reflecting both full-time and part-time positions. We were told that NTRPDC does not obtain a breakout of expected part-time vs. full-time jobs from loan applicants. Rather, the loan staff simply request or obtain an estimate of jobs to be created or retained from the applicant without distinguishing between part and full time. As a result, the jobs data reported to ARC on the Loan Program are not accurately reflective of what ARC would otherwise expect the data to show, and the numbers reported are likely overstated since some of the positions might be part-time. We could not determine the degree of error due to lack of information, but it could be large or small depending on the number of part-time positions involved and how they convert to FTE.

We also noted other metrics where the reported data was not consistent with the source documentation, thus not accurately reported. For the metric of "number of people trained" reported separately under both the Market Development program and Transportation/Local Government program, NTRPDC was reporting the number of individuals that were registered to attend the presentation, rather than the actual number that attended. As a result, the total number trained for the grant year based on actual attendance was 167 rather than the 175 reported on Market Development, and 147 rather than the 171 reported on Transportation. Similarly, on the metric "number of technical assistance sessions" under the Technology/Energy Development program, NTRPDC reported a total of 70 sessions for the grant year. However, the supporting records showed 73 actually being performed. The difference was apparently due to a clerical error in preparing the final report which was not identified and corrected during the review prior to submission to ARC.

We believe that management attention is needed to ensure that actual performance data included in the ARC reports, especially final reports, are consistent with ARC requirements and as accurate as possible.

Recommendations

NTRPDC should:

1. Review the final performance metric data included in the final report on grant 8305-C33, trying to obtain more accurate jobs data, and provide ARC an updated report.

2. Establish written procedures that will ensure that performance data are collected in a manner and format that will meet ARC guidance and accurately represent grant results.

Grantee's Response

We agree with the auditor's assessment.

As part of a proactive approach to correct this situation we have reviewed and revalidated all appropriate source data and documentation, and adjusted our final report numbers to reflect such.

In reference to the issue that reported numbers were not being consistently verified and documented, this has been corrected, and we are confident that we have rectified the situation moving forward.

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 $42,324 of fringe benefit costs that were charged to PA-8305-C32 and $46,966 in fringe costs charged to PA-8305-C33.

RESPONSE: Finding C: Cost Allocation

NTRPDC disagrees with the assessment on cost allocation.

We concur that the benefit of the research consortium is broad and is shared across multiple programs. We are of the opinion that the ARC PREP program is also broad in its reach across multiple programs and that it serves as an "umbrella" for many of our community and economic development programs. We therefore feel that the $10,328 in costs is reasonable and justified under ARC PREP.

RESPONSE: Finding D: Developing and Verifying Performance Data

Based on the preliminary feedback we received from Mr. Richard Dix, Senior Auditor, Leon Snead & Co., we submitted a revised Outcome/Output Matrix as part of our Final Report for PA-8305-C33-14 on September 10th, 2015.

Although Mr. Dix concluded that "actual grant metrics and narrative results in the final report showed that the majority of the grant goals were either met or exceeded, and therefore, it appears the grant performance on an overall basis was acceptable", he also noted "some instance where the data reported was not accurate and consistent with ARC guidance". We agree with this assessment.

As part of a proactive approach to correct this situation we have **reviewed and revalidated all appropriate source data and documentation**, and adjusted our final report numbers to reflect such.

In some instances, reported numbers were not being consistently verified and documented, in part due to lack of written policies and procedures for new staff members to follow. This has been corrected, and we are confident that we have rectified the situation moving forward.

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
2501 West Beltline Highway, Ste 401, Madison, WI 53713
www.wipfli.com

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.

Janet S Johnson, CPA, CMA | **Senior Manager | Wipfli LLP** | Office: 608.270.2970 | Fax: 608.274.8085
2501 West Beltline Highway, Ste 401, Madison, WI 53713
www.wipfli.com

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

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