
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD**

**Virginia Department of Housing and Community Development
Richmond, Virginia**

**Final Report No. 16-32
Project Number: VA-7782-C32 and C33
September 2016**

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Leon Snead & Company, P.C. completed an audit of grant numbers VA-7782-C32 and VA-7782-C33 awarded by the Appalachian Regional Commission (ARC) to the Virginia Department of Housing and Community Development (DHCD). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

The primary objectives of the audit were to determine if: (1) program funds were managed in accordance with the applicable federal requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal controls were adequate and working 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 grant goals and objectives were met.

We concluded that the grant funds were managed and expended in accordance with the budget and other applicable requirements and the amounts sampled and tested were adequately supported except for some indirect costs. We questioned \$13,207 of indirect costs reimbursed by ARC on grant 7782-C32 because the rate used to calculate the costs was not approved. The policies and procedural controls being followed to administer the grants were adequate and reasonably consistent with applicable accounting and reporting requirements. However, problems were identified regarding the final project and financial reports submitted to ARC that need to be corrected. Match funding amounts claimed were met and adequately supported. The grant goals and objectives were considered to be adequately met based on reported outputs and outcomes. The questioned costs, issues with the final reports, and recommended corrective actions are discussed in the Findings and Recommendations section of this report.

A draft report was provided to DHCD on September 7, 2016, for comments. DHCD provided a response to the report on September 27, 2016.

Leon Snead & Company appreciates the cooperation and assistance received from the DHCD and ARC staffs during the audit.

Sincerely,



Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grants VA-7782-C32 and VA-7782-C33 awarded by the Appalachian Regional Commission (ARC) to the Virginia Department of Housing and Community Development (DHCD). The audit was conducted at the request of the ARC, Office of Inspector General, to assist in its oversight of ARC grant funds.

The ARC awards annual grants to each of the 13 states in the designated Appalachian Region to assist them in promoting and administering the ARC program within the state. ARC grant VA-7782 is a continuing, annual grant awarded to the DHCD under Section 302 of the Appalachian Regional Development Act of 1965 (ARDA). Its purpose is to provide sustained support to help the state administer a consolidated technical assistance program for the seven Local Development District offices, 25 counties, and eight independent cities within the Virginia Appalachian area. Routine program operations for providing technical assistance are primarily carried out by the ARC Program Manager and seven support staff members including field office personnel. The primary ARC-related activities carried out by these staff, and funded by the grant are: developing the State 4-year Development Plan and annual ARC Strategy; assisting in developing and processing grant applications from the local counties, cities, and individuals to obtain ARC funding for construction and non-construction projects; monitoring all ARC-funded non-construction projects within the state; assisting in close-out of completed projects.

Grant 7782-C32 covered the period July 1, 2014 to June 30, 2015 and provided \$240,000 in ARC funding and required \$240,000 in non-ARC match funding. The majority of the approved budget was for salaries, benefits, and indirect costs but included other costs like travel. The grant had been completed and administratively closed out by ARC with reported total expenditures of \$239,904 in ARC funds and \$278,669 in match funds. Grant 7782-C33 covered the period July 1, 2015 to June 30, 2016 and provided \$240,000 in ARC funding and required \$240,000 in non-ARC match funding. The approved budget categories and amounts were similar to the previous grant. The grant was completed, the final reports were submitted to ARC, but it was not administratively closed out at the time of our review. Total expenditures were reported as \$215,085 in ARC funds and \$216,886 in match funds.

Objectives, Scope, and Methodology

The primary objectives of this performance audit were to determine if: (1) program funds were managed in accordance with the applicable federal requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal controls were adequate and working 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 grant goals and objectives were met.

We sampled and tested \$242,224 of the total \$459,989 expenditures that had been claimed and billed by DHCD on the grants to determine if they were adequately supported and allowable.

We reviewed documentation provided and interviewed grantee personnel to obtain an overall understanding of the grant activities, accounting system, and general operating procedures. We

reviewed financial and project reports to determine if they were submitted timely and in accordance with requirements. We reviewed and discussed applicable grantee administrative procedures and related internal controls to determine if they were consistent with requirements and adequate to administer the grant funds. We reviewed the most recent Single Audit report to identify any issues that significantly impacted the ARC grant and audit.

The primary criteria used in performing the audit were the grant terms and requirements, ARC manuals and guidance, 2 CFR, applicable Office of Management and Budget Circulars, and relevant parts of the ARC Code. The audit was conducted in accordance with *Government Auditing Standards*. On-site fieldwork was performed during August 22-26, 2016 at DHCD offices in Richmond, Virginia. Preliminary results were discussed with DHCD staff during the visit and they generally agreed with the matters discussed.

Summary of Audit Results

We concluded that the grant funds were managed and expended in accordance with the budget and other applicable requirements and the amounts sampled and tested were adequately supported except for some indirect costs. We questioned \$13,207 of indirect costs reimbursed by ARC on grant 7782-C32 because the rate used to calculate the costs was not approved. The policies and procedural controls being followed to administer the grants were adequate and reasonably consistent with applicable accounting and reporting requirements. However, problems were identified regarding the final narrative report. Match funding amounts claimed were met and adequately supported. The grant goals and objectives were considered to be adequately met based on reported outputs and outcomes.

The issues and recommended corrective actions are discussed in the Findings and Recommendations section of this report.

Findings and Recommendations

Indirect Costs

The approved budgets on both grants included indirect costs. Under the applicable federal cost principles for indirect costs in 2 CFR, DHCD is required to prepare an annual indirect cost rate plan and submit it to their cognizant agency for review and approval. And under the principles, the cognizant agency is required to review and approve them in a timely manner. DHCD had submitted the required plans showing the proposed rates for the time periods of the costs for the two ARC grants covered in the audit (FY-2014 and FY-2015). The proposed rate for 2014 applicable to grant 7782-C32 was 72.11% and the applicable rate for 2015 on grant 7782-C33 was 59.41%. DHCD did not receive a timely approved rate for FY-2014 for use on ARC grant C32 so it used the proposed rate of 72.11% to determine the indirect costs to charge the grant and submit the final SF-270 financial report to ARC for grant closeout. ARC closed the grant out based on the submitted report and reimbursed DHCD \$75,011 for indirect costs that were based on the 72.11% rate.

DHCD subsequently received an approved rate applicable to the ARC grants on May 20, 2016. A provisional rate of 59.41% was approved covering the period of costs from 7/1/2014 to 6/30/2016. These periods coincide with the effective period of the two ARC grants and therefore would be considered the correct and allowable rates for determining indirect costs on the two grants. In closing out grant C33, DHCD correctly used the approved 59.41% rate in preparing the final SF-270 financial report and the total cumulative \$58,678 claimed and reported for indirect costs is considered accurate and allowable.

However, the \$75,011 total cumulative amount of indirect costs claimed for reimbursement on grant C32 is not considered supported and allowable. Since DHCD received an approved rate of 59.41% for the time period of the grant, we consider that to be the appropriate rate to determine allowable indirect costs rather than the proposed but unapproved rate of 72.11%. Applying the approved rate, the correct amount of total indirect costs allowable on grant C32 would be \$61,804, not the \$75,011 that was claimed and reimbursed. Accordingly, we consider the \$13,207 additional costs resulting from not using an approved rate to be unallowable and should be refunded to ARC.

Recommendation

The DHCD ARC should submit a revised SF-270 report for grant 7782-C32 and refund the \$13,207.

Grantee's Response

DHCD stated in its response that they will submit a request for approval for the indirect rate costs used to close the grant and formally waiving the requirement to make the refund.

Reviewer's Comments

ARC will determine whether the proposed actions identified in the grantee's response are adequate to resolve the finding and close the recommendation or whether additional information or actions are needed.

Grant Reporting

The terms of the grant agreements required both interim project progress reports and a final report to be submitted to ARC. The interim project reports submitted appeared useful and informative and were complete and accurate. However, the narrative progress report submitted at the end of the grant covered only activities for the last quarter. The ARC grant administrative manual indicates that the final report provide a comprehensive summary of the entire grant period including information on overall grant accomplishments (including final actual performance goal results), problems encountered, and lessons learned. The final reports submitted did not provide that type of summary for the overall grant period.

Recommendation

The DHCD ARC should submit a final progress narrative report as required in ARC guidance for grant C33 that clearly details the requested information and contains the appropriate summary information for the entire grant period.

Grantee's Response

DHCD stated they concur with the recommendation and are in the process of preparing their FY 2018 ARC Consolidated Technical Assistance request for ARC and have revised the outputs and outcomes to be more quantitative. Also, they stated they will be submitting a revised project and financial report for grant C33 indicating the final report and summary information for the grant period.

Reviewer's Comments

ARC will determine whether the proposed actions identified in the grantee's response are adequate to resolve the finding and close the recommendation or whether additional information or actions are needed.