
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**SEDA-Council of Governments
Local Development Districts Administration Grant (LDD)
Lewisburg, Pennsylvania**

**Final Report Number: 17-15
Project Number: PA-708G-C44 & C45
July 2017**

Prepared by:

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July 3, 2017

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Leon Snead & Company, P.C. completed an audit of grant numbers PA-708G-C44 and C45 awarded by the Appalachian Regional Commission (ARC) to the SEDA Council of Governments (SEDA-COG). The audit was conducted at the request of the ARC Office of Inspector General to assist the office in its oversight of ARC grant funds.

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements and the performance goals and objectives of the grant were met.

The controls over the grant funds were considered adequate, and the funds were generally administered in accordance with the budget and grant agreement. We questioned \$715 in costs because they were not incurred in accordance with the approved cost allocation plan. We also noted that the grantee's operating procedures needed improvement as they relate to the preparation and submittal of its financial reports. 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 SEDA-COG on May 24, 2017, for comments. SEDA-COG provided a response to the report on June 21, 2017. These comments are included in their entirety in the Appendix. Leon Snead & Company appreciates the cooperation and assistance received from the SEDA-COG and ARC staffs during the audit.

Sincerely,

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

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Background

Leon Snead & Company, P.C. completed an audit of grant numbers PA-708G-C44 and PA-708G-C45 awarded by the Appalachian Regional Commission (ARC) to the SEDA-Council of Governments (SEDA-COG). The audit was conducted at the request of the ARC Office of the Inspector General to assist the office in its oversight of ARC grant funds. The ARC grants provided SEDA-COG funding for continued support in administering the LDD program within its region.

The SEDA-COG is a public intergovernmental organization, established under authority of the state of Pennsylvania, to promote and support regional planning and development for 11 counties in central Pennsylvania. SEDA-COG is part of the Pennsylvania Local Development District (LDD) Network that provides funding and a variety of services to businesses, local governments, and other organizations. SEDA-COG services and programs include economic development, housing, transportation, weatherization, and low interest loans to small businesses.

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.

Grant PA-708G-C44 covered the period January 1 to December 31, 2015, provided \$102,055 in ARC funds and required \$102,055 in non-ARC match funding to meet the estimated annual LDD administrative costs. The ARC funds were primarily for salary and fringe benefit costs for the staff to manage the LDD-related activities, but also included some travel, rent, and other costs. The grant had been completed and administratively closed by ARC at the time of the audit. Grant PA-708G-C45 covered the period January 1 to December 31, 2016, provided \$103,000 in ARC funds and required \$110,583 in non-ARC match funding. As with the previous grant, the ARC funding was primarily for salary and fringe benefit costs but included some other amounts. The grant had ended but was not closed at the time of the audit.

We tested \$71,392 in reimbursed ARC funds to determine whether the charges were properly supported and allowable and reviewed match funding documentation to determine whether requirements were met.

We reviewed documentation and interviewed grantee personnel to obtain an understanding of the project, the accounting system, and operating procedures. We reviewed financial and project reports to determine whether they were properly supported and submitted in accordance with requirements. We reviewed the SEDA-COG administrative procedures and related internal controls to determine whether they were adequate to administer the grant and funds. The most recent Single Audit report was reviewed to identify any issues that impacted the ARC grants.

The primary criteria used in performing the audit were the grant agreement, 2 CFR Part 200 and relevant parts of the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of April 10-19, 2017 including on-site work at the SEDA-COG offices in Lewisburg, Pennsylvania. The audit results were discussed with the SEDA-COG representatives at the conclusion of the on-site visit and they generally concurred with the findings.

Summary of Audit Results

The grant funds were generally administered in accordance with the budget and other applicable requirements. The ARC fund amounts tested were adequately supported except for \$715 questioned because they were not charged to the grant in accordance with the approved cost allocation plan. There were adequate policies and procedural controls for administering the LDD grants except that written procedures had not been established for the process of gathering data and preparing required financial reports. This contributed to the final financial report for grant PA-708G-C45 being significantly overdue at the time of our audit. The grant matching requirements were met and documented, and the performance measures monitored by ARC were overall reasonably met.

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

Findings and Recommendations

A. Financial Reporting Procedures

The final financial report for the 2016 LDD administrative grant PA-708G-C45 had not been submitted at the time of the audit and was over two months late. The grant period ended on December 31, 2016 and the final report was due by January 31, 2017. A timely final report is needed by ARC to close out the grant and manage the grant funds properly.

The report had not been submitted because the Fiscal Controller, who was the person that routinely prepared these reports, unexpectedly resigned in early January 2017 and there was no other SEDA staff that had been trained to properly prepare the report. We were also told that the departing Controller would not agree to stay on or return to help transition or train anyone. A new Fiscal Controller was hired on March 6, 2017. In discussing the overdue report, the new Controller explained that it was considered a priority action, but he had been unable to prepare it thus far due to difficulty learning and understanding the accounting records, how the grant costs were structured, and the overall report process. In reviewing SEDA-COG's written procedures we did not see any describing the reporting process--ARC grants or otherwise--and the new Controller had not found any useful information on this in the financial files either.

Although having key staff such as the Controller depart unexpectedly can impact operations and delay some activities, we believe absence of written procedures and adequately trained backup staff unnecessarily increased the delay in submitting the required grant report.

Recommendations

The SEDA-COG Fiscal Controller should:

1. Establish written procedures for preparing and submitting required financial reports to ARC;
2. Ensure there are other staff sufficiently knowledgeable of the reporting requirements and procedures to serve as backup in preparing required reports if the primary person is not available; and
3. Expedite preparing and submitting the final financial report on grant PA-708G-C45 so ARC can close the grant.

Grantee's Response

- We agree that written procedures for preparing and submitting required financial reports be established. Written procedures will be prepared to correct this issue.
- We agree that sufficient cross training is needed to be sure that the reporting requirements and procedures are completed accurately and timely and to serve as a backup for the individual responsible for reporting. Cross training will be done to correct this issue.

- We agree that the final financial report on grant PA-708G-C45 needs prepared and submitted. We have successfully submitted the final financial report on grant PA-708G-C45.

Auditor's Comments

ARC will determine whether the corrective actions taken and planned are adequate to resolve the finding and close the recommendations.

B. Allowable Costs

Costs of \$715, included in the amounts sampled, were incorrectly charged to ARC funds on grant PA-708G-C45. This occurred because they were not recorded as direct costs in accordance with the approved cost allocation plan but were allocated based on salary distributions. As a result they were considered not adequately supported and questionable as allowable costs.

SEDA-COG was using a cost allocation plan, approved by a cognizant State office, to determine how costs should be recorded on projects, including the ARC grants. The plan identified certain categories of costs that would be charged directly to a grant or project--such as postage based on using postage meters--and certain categories that were considered "shared direct" costs which commonly apply to many programs--such as supplies--that would be allocated by a predetermined method such as salary distributions. One factor for being considered an allowable cost on the grants is that it must meet applicable federal cost principles in 2 CFR 200. Section 200.414 provides that costs--such as those identified by SEDA-COG as shared direct or commonly used--can be allocated if there is a process to assign them to the proper project on a reasonable and consistent basis, and that a cost allocation plan represents that process. Also, to be considered allowable costs, all amounts must have proper supporting documentation. For direct costs charged and recorded on the grant, supporting documentation would typically include the bill and payment showing the purchased item or service was specifically applicable to that grant and that the grant funds were available and to be used for payment. For shared direct or common costs being allocated to various grants or projects, adequate documentation would normally include the bill and payment for the total purchases or services, and documentation showing the allocation basis used to determine the portion of the total costs applicable to the individual grant or project.

We sampled \$71,392 charged to LDD grant PA-708G-C45 which had ended but a final financial report had not been prepared and submitted to ARC. We identified \$715 in contractual, postage, printing & copying, and advertising costs that were identified as direct costs in the plan but were actually charged to the ARC grant on a salary allocation basis. These costs should have been correctly applied as direct costs to the grant under the allocation plan and had supporting documents showing they were incurred only for the grant and grant funds were to be used. Since these allocation decisions were apparently made by the previous Controller without involvement or knowledge of other staff, and that individual was no longer an employee, we were unable to determine why the cost allocation plan was not followed. In looking at accounting reports for grant PA-708G-C45 on costs not included in our sample, and reports on grant PA-708G-C44 that was closed, these categories of costs appeared to be routinely allocated based on salary amounts rather than as direct costs.

The total amounts charged to the two grants for the four categories of costs are questioned as allowable since they were not consistent with the cost allocation plan--thus not compliant with the applicable cost principles. Grant C45 did not have a final financial report and was not closed, we feel corrective action is needed on it, and also that steps are needed to ensure costs are properly determined and charged on future ARC grants.

Recommendations

The SEDA-COG Fiscal Controller should:

1. Review the costs charged under grant PA-708G-C44 and reimburse to ARC the amount determined unallowable.
2. Prior to submitting the final financial report on grant PA-708G-C45: (a) review the costs charged for the categories questioned to determine if using the allocation method, rather than charging them direct, resulted in a substantial difference; (b) make any adjustments necessary to ensure ARC funds are not overcharged; and (c) provide ARC written confirmation that these actions were taken when submitting the final close out financial report; and
3. Implement procedures to ensure that a cost allocation plan is established that will result in supportable and proper charges to ARC and federal grants and that the plan is followed in recording all costs on the grants and preparing financial reports for reimbursements.

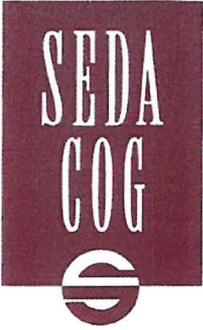
Grantee's Response

The grantee had the following comments in reference to recommendation 1. "We have reviewed the costs charged under grant PA-708G-44. We do not agree that we need to reimburse ARC for the expenses deemed unallowable. The unallowable costs are questioned due to incorrect wording in our cost allocation plan developed in 2013".

The grantee indicated agreement with recommendations 2 & 3. SEDA-COG officials stated that corrective action had been taken on recommendation 2 and corrective actions were in process on recommendation 3.

Auditor's Comments

ARC will determine whether the corrective actions taken and planned are adequate to resolve the finding and close the recommendations.



June 12, 2017

Leon Snead & Company, PC

After reviewing the draft reports provided by Leon Snead & Company, PC for ARC Grants PA-708G-C44 & C45 we have prepared the following responses to your recommendations:

A. Financial Reporting Procedures

1. We agree that written procedures for preparing and submitting required financial reports be established. Written procedures will be prepared to correct this issue.
2. We agree that sufficient cross training is needed to be sure that the reporting requirements and procedures are completed accurately and timely and to serve as a backup for the individual responsible for reporting. Cross training will be done to correct this issue.
3. We agree that the final financial report on grant PA-708G-C45 needs prepared and submitted. We have successfully submitted the final financial report on grant PA-708G-C45.

B. Allowable Costs

1. We have reviewed the costs charged under grant PA-708G-C44. We do not agree that we need to reimburse ARC for the expenses deemed unallowable. The unallowable costs are questioned due to incorrect wording in our cost allocation plan developed in 2013. This cost allocation plan calls for direct charges for expenditures that are specific to certain grants and calls for allocations based on a percentage of salaries for expenditures that are agency wide costs. Many of the questioned costs were for agency wide expenditures such as printing and copying. For example, we mail out a monthly newsletter to organizations in our community with happenings at SEDA-COG, this cost is allocated for the entire agency and not for one specific grant due to the all-encompassing nature of the expenditure.
2. Prior to submitting the final report on grant PA-708G-C45 we reviewed the costs charged for the questioned categories and found no substantial differences. When submitting the final close out financial report we provided ARC with written confirmation that these actions were taken when submitting.
3. We agree that procedures need to be implemented to ensure the cost allocation plan is established that will result in supportable and proper charges to ARC and federal grants and that the plan is followed in recording all costs on the grants and preparing financial reports for reimbursements. We are reviewing the cost allocation plan and will be revising it.

We appreciate your time and recommendations for helping us improve our processes at SEDA-COG.

Sincerely,


 Dennis E. Robinson
 Executive Director