
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**SEDA-Council of Governments
Partnerships for Regional Economic Performance (PREP)
Lewisburg, Pennsylvania**

**Final Report Number: 17-16
Project Number: PA-8290-C34 & C35
July 2017**

Prepared by:

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July 3, 2017

Appalachian Regional Commission
Office of the Inspector General
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Leon Snead & Company, P.C. completed an audit of grant numbers PA-8290-C34 and C35 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 \$9,298 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 grants PA-8290-C34 and PA-8290-C35 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.

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. It is part of the Pennsylvania Local Development District (LDD) Network that provides funding and a variety of technical assistance and services to businesses, local governments, and other organizations and one of the largest LDD offices in the state. The ARC grants (referred to as PREP grants) provided SEDA-COG continued annual funding support for its regional enterprise development program. That program provides technical assistance in export marketing, government procurement, business development and funding, housing and community development, and other areas.

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-8290-C34 covered the period July 1, 2015 to June 30, 2016, provided \$400,000 in ARC funds and required \$443,333 in non-ARC match funding to meet the estimated annual enterprise development program costs. Most of the total budget, and approved ARC funds, were for salary and fringe benefit costs for SEDA-COG staff, but there was also funding for travel, contractual, and other costs. The grant had been completed and administratively closed by ARC at the time of the audit. Grant PA-8290-C35 covered the period July 1, 2016 to June 30, 2017, provided \$400,000 in ARC funds and required \$443,333 in non-ARC match funding. As with the previous grant, the budget and ARC funding was primarily for salary and fringe benefit costs but also included other types of costs. The grant was ongoing at the time of the audit.

We tested \$112,921 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 and there were none.

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.

Summary of Audit Results

The grant funds were generally administered in accordance with the budget and other applicable requirements. The sampled costs charged to ARC funding were adequately supported except for \$9,298 questioned because they were not charged to the grants in accordance with the approved cost allocation plan. There were policies and procedural controls for administering the grants except that written procedures had not been established for the process of gathering data and preparing required financial reports. This contributed to the third quarter financial report for grant PA-8290-C35 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 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 financial report for second quarter expenditures on grant PA-8290-C35 had not been submitted at the time of the audit and was over two months late. The quarterly reporting period ended on December 31, 2016 and the financial report was due by January 31, 2017. A timely interim financial report is necessary for SEDA-COG to obtain reimbursement and help fund operations, and to allow ARC to monitor and manage the grant funds effectively.

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-COG staff that had been trained to be able 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 reporting process. Cost information for the second quarter report had been collected at the time of our visit, but was still being reviewed due to concerns about the accuracy and process. In reviewing SEDA-COG's written procedures we did not see any describing the data gathering and reporting process--for 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 the absence of written procedures, and adequately trained backup staff, unnecessarily increased the delay in submitting the required grant report in this case.

Recommendations

The SEDA-COG Fiscal Controller should:

1. Establish written procedures for preparing and submitting required financial reports to ARC that include what accounting reports and data are needed, who prepares them, how data should be verified, and timing of submissions ;
2. Ensure there is staff sufficiently trained and 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 submitting the second quarter financial report on grant PA-8290-C35.

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 second quarter financial report on grant PA-8290-C35 needs prepared and submitted. We have successfully submitted the second quarter financial report on grant PA-8290-C35.

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 \$9,298, included in the amounts sampled, were incorrectly charged to ARC funds on grant PA-8290-C34. 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 inadequately 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 \$112,921 charged to grant PA-8290-C34 which had been administratively closed by ARC using a final financial report submitted by SEDA-COG. We identified \$9,298 in contractual, postage, printing & copying, and advertising costs that were identified as direct costs in the cost allocation plan but were actually charged to the ARC grant on a salary allocation basis. These costs should have been charged to the grant as direct costs and had supporting documents showing they were specifically required for the grant and grant funds were to be used. The supporting documents provided to us showed they were allocated as shared direct type costs. 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-8290-C35, and the remaining amounts on C34 that were not sampled, these four 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 C35 was still on-going and since a final financial report is yet to be prepared, 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-8290-C34 and reimburse to ARC the amount determined unallowable.
2. Prior to submitting the third quarter report on grant PA-8290-C35: (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 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 reimbursement on the final financial report for grant PA-8290-C35 and all future grants.

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

Mr. Snead,

After reviewing the draft reports provided by Leon Snead & Company, PC for ARC Grants PA-8290-C34 & C35 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 second quarter financial report on grant PA-8290-C35 needs prepared and submitted. We have successfully submitted the second quarter financial report on grant PA-8290-C35.

B. Allowable Costs

1. We have reviewed the costs charged under grant PA-8290-C34. 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 second quarter and third quarter reports on grant PA-8290-C35 we reviewed the costs charged for the questioned categories and found no substantial differences. When submitting the second quarter 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,

Handwritten signature of Dennis E. Robinson in cursive script.
Dennis E. Robinson
Executive Director