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

**Southwestern Pennsylvania Commission
Partnerships for Regional Economic Performance (PREP)
Pittsburgh, Pennsylvania**

**Final Report Number: 17-17
Project Number: PA-11055-C23
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Prepared By:

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Appalachian Regional Commission
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Bonadio & Co., LLP completed an audit of grant number PA-11055-C23 awarded by the Appalachian Regional Commission (ARC) to the Southwestern Pennsylvania Commission for the Partnerships for Regional Economic Performance. The audit was performed to assist the Office of Inspector General in carrying out its oversight of ARC grant funds.

The primary objectives of the audit 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 appropriate 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 objectives of the grant were met.

Overall, the grantee's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant reviewed. The costs tested were supported and considered reasonable. We found that the grantee had an accepted process in place for obtaining and recording data related to the objectives of the grant. In addition, the records and reports indicated that the tasks required by the grant agreement were generally being accomplished, with some exceptions.

Bonadio & Co., LLP appreciated the cooperation and assistance received from Southwestern Pennsylvania Commission and the ARC staff during the audit.

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BACKGROUND

Bonadio & Co., LLP completed an audit of grant number PA-11055-C23 awarded by the Appalachian Regional Commission (ARC) to the Southwestern Pennsylvania Commission (grantee) for the Partnerships for Regional Economic Performance. The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of the ARC grant funds.

ARC grant number PA-11055-C23 was awarded to cover the period July 1, 2015 to June 30, 2016. It provided \$400,000 in ARC funds and \$713,180 in non-ARC funds (\$563,830 State and \$149,350 Local) to provide support for the Partnership for Regional Economic Performance (PREP) program, which is designed to provide economic development in the greater Pittsburgh, Pennsylvania area. Major components of the PREP program include business development assistance which includes international market development, government procurement, electronic commerce, the tourism industry, and business financing. The grantee also coordinates and promotes business development services and strategic planning and community development assistance. The majority of the approved total budget was for staff salaries, benefits and indirect costs.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were appropriate 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 objectives of the grant were met.

We reviewed the documentation provided and interviewed grantee personnel to obtain an overall understanding of the grant activities, the accounting system, and operating procedures. We evaluated grantee administrative procedures and related internal controls to determine whether they were adequate to administer the grant funds. We examined financial and other required reports to determine if they were supported and submitted in accordance with the grant requirements. We also obtained the most recent Single Audit report to determine whether there were any reported issues that impacted the ARC grant.

Of the \$1,066,089 in expenditures charged to grant PA-11055-C23, we selected a sample of \$476,420, in expenditures for testing to determine whether the charges were properly supported and allowable. We also reviewed the grantee's procedures for allocating indirect charges to the grant.

OBJECTIVES, SCOPE, AND METHODOLOGY (Continued)

The criteria used in performing the audit were ARC grant documents, the grant approval, the ARC code, other ARC requirements, federal cost principles, and audit requirements for federal awards. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was completed during the period of March 27, 2017 through March 30, 2017, which included on-site work at the Southwestern Pennsylvania Commission in Pittsburgh, Pennsylvania. The audit results were discussed with grantee representatives at the conclusion of the on-site visit. The grantee's representative agreed with the audit results.

SUMMARY OF AUDIT RESULTS

Overall, the grantee's administrative procedures were adequate to manage the grant funds reviewed. Total expenditures amounted to \$1,066,089 and based on test work results, Bonadio & Co., LLP did not question any costs incurred. The expenses tested were supported and considered reasonable. We found that the grantee had an adequate process in place for obtaining and recording data related to the goals of the grant. In addition, the records and reports indicated that the tasks required by the grant agreement were generally accomplished, with some exceptions, as described below in the Other Observations – Performance Measures section.

The grantee does not have an audited indirect cost percentage. They have a cost allocation plan. The grantee's plan methodology appeared reasonable.

There were no recommendations noted as a result of our audit procedures.

OTHER OBSERVATIONS – PERFORMANCE MEASURES

Outputs: Businesses Served / Number of Closed Loans

- Budgeted Goals vs Actual Outputs:

<u>Goal Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent Variance</u>	<u>Goal Met (Yes/No)</u>
New Businesses Served	53	52	(1)	(2%)	No
Total Business Served	590	520	(70)	(12%)	No
Number of Closed Loans	10	6	(4)	(40%)	No

- Reports obtained from the grantee's management information system demonstrated a mechanism for tracking the outputs of the grant and the assistance provided by the grantee. We reviewed the quarterly reports from the system and based on supporting documentation, we determined that a total of 52 new businesses served. We observed 518 businesses being served through one of the main purposes of the PREP program, selecting a total of twenty businesses for testing to ensure the services were provided based on the reports. All twenty selections resulted in services provided including:
 - Export Assistance:** Services provided included helping with attending a global trade show, assisting with work orders related to a Canadian Company, and with export documentation.
 - Government Procurement:** Services provided included assistance with obtaining certifications and client counseling.
 - Business Financial Assistance:** Services provided included financial assistance with loan applications, tax credits, and loan closings. Bonadio & Co., LLP reviewed six loans which were the result of the PREP program utilizing ARC funds, noting all appeared proper.

OTHER OBSERVATIONS – PERFORMANCE MEASURES (Continued)

Outcomes: Leveraged Finance / Business Improvement / Job Creation & Retention

- Budgeted Goals vs Actual Outputs:

<u>Goal Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent Variance</u>	<u>Goal Met (Yes/No)</u>
Leveraged Private Investment	\$44,800,000	\$57,878,599	\$13,078,599	29%	Yes
Public Financing Provided	\$1,500,000	\$1,175,000	(\$325,000)	(22%)	No
Public Financing Leveraged	\$1,250,000	\$3,367,000	\$2,117,000	169%	Yes
Businesses Improved	335	344	9	3%	Yes
Total Export Sales	\$50,000,000	\$27,609,188	(\$22,390,812)	(45%)	No
Total Non-Export Sales	\$50,000,000	\$30,312,484	(\$19,687,516)	(39%)	No
Jobs Created	2,200	1,265	(935)	(43%)	No
Job Retained	3,975	1,750	(2,225)	(56%)	No

- The outcomes of the grant were supported by reviewing financial information, internal reports, information provided by the businesses obtaining assistance, calculations and other supporting documentation. The following performance outcomes were examined:
 - Investment / Financing:** The outcomes reported by the grantee related to Public Financing Provided and Public Financing Leveraged were traced to the loan closing documents. We noted a total of six closed loans and the documentation reviewed agreed to the report without exception. For the Leveraged Private Investment outcome, \$1,001,124 was related to the Loan Closings and \$56,877,475 was related to the Keystone Opportunity Zone.
 - Business Improvement:** The outcomes reported by the grantee related to Businesses Improved were included in the quarterly reports obtained. We selected five businesses during our performance testing which were designated by the Grantee as businesses with improvement. We reviewed the supporting documentation noting that the improvement as reported to the grantee from the business appears reasonable. Additionally, an "Impact" report prepared by the grantee analyzed the business impact, and provided the details of the information received from the impacted businesses. Included in this report were the Total Export sales of \$27,609,188 and Total Non-Export sales of \$30,312,484.
 - Job Creation / Retention:** The outcomes reported by the grantee related to Job Creation/Retention were examined for reasonableness. Job creation/retention reported by the grantee was examined during loan testing and through the use of the "Impact" report. All loan documentation consisted of the economic outlook upon the establishment of the business, as well as the jobs retained. The "Impact" report used the "IMPLAN Model", which is a third party software model for assessing the economic impacts of project decisions. IMPLAN takes the total sales and/or revenue and projects the number of jobs created and/or retained. Therefore, the job creation/retention numbers reported by the grantee were not "actual" job figures, but were estimated based on economic impact figures, such as sales and revenue.