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

**Southern Tier West Regional  
Planning & Development Board  
Salamanca, New York**

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**Final Report Number: 19-10  
Project Number: NY-2329-C43 and NY-2329-C44  
December 5, 2018**

**Prepared By:**

**Bonadio & Co., LLP**  
Certified Public Accountants

December 5, 2018

Appalachian Regional Commission  
Office of Inspector General  
1666 Connecticut Avenue, N.W.  
Washington, D.C. 20009

Bonadio & Co., LLP completed an audit of grants number NY-2329-C43 and NY-2329-C44 awarded by the Appalachian Regional Commission (ARC) to the Southern Tier West Regional Planning and Development Board (the grantee). 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); (5) the performance measures were met or likely to be met; and (6) matching requirements of the grant were satisfied.

We noted areas in need of improvement with respect to internal controls and grant accounting including allocating indirect costs and fringe benefits, which are noted in the Findings and Recommendations section. The overall grant performance measures were adequately met. The grantee agreed with the findings.

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

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## **BACKGROUND**

Bonadio & Co., LLP completed an audit of grants number NY-2329-C43 and NY-2329-C44 awarded by the Appalachian Regional Commission (ARC) to the Southern Tier West Regional Planning and Development Board (the grantee). 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.

The grantee serves as a Local Development District (LDD) responsible for coordinating the Appalachian Region Program in three western New York counties. The funds provided by ARC support the LDD activities, which includes grant development and administration, technical assistance to businesses and local organizations, community capacity building, infrastructure development, and coordination of ARC programs and interests with other Federal and State organizations. A 16-member board of directors, comprised of five members from each of the three counties and one representative from the Seneca Indian Nation, oversees the grantee programs and operations. The day-to-day operations are carried out by an executive director and other professional staff members. The majority of funds for the operations and programs come from Federal and State sources. The grantee also receives funds through county and local contributions, investment income, and other sources.

The grant period for the grants is January 1 to December 31, 2016 and 2017, respectively. Both grants provided \$300,000 in ARC funds and \$300,000 in non-ARC funds. The majority of the approved total budget was for staff salaries, benefits and administrative costs.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

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); (5) the performance measures were met or likely to be met; and (6) matching requirements of the grant were satisfied.

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 findings related ARC grants.

Of the expenditures charged to each of the aforementioned grants, we tested \$600,000 of ARC funds and matching funds to determine whether the charges were properly supported and allowable. We also reviewed the grantee's procedures for allocating administrative costs to the grant.

The criteria used in performing the audit were ARC grant documents, the grant approval, the grant agreement, the ARC code, other ARC requirements, and 2 CFR Part 200 "Uniform Administrative Requirements, 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 June 4, 2018 through June 6, 2018, which included on-site work at the grantee's office in Salamanca, New York. 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 and have provided a response that is included in the Appendix.

## SUMMARY OF AUDIT RESULTS

In 2016 and 2017, the grantee received \$300,000 of ARC funds and required a matching contribution of \$300,000. With the exception of the matters noted in the findings and recommendation section below, the expenses tested were supported and considered reasonable. We noted deficiencies in the design and effectiveness of the grantee's internal controls and also identified questioned costs related to the allocation of indirect costs and fringe benefits expenses. Both matters are discussed in detail in the findings below. The overall grant performance measures were adequately met for the grant,

## FINDINGS AND RECOMMENDATIONS

### 1) Internal controls

The grantee's internal control structure is not designed effectively to ensure that grant expenses are allowable and supported.

Federal regulations state that recipients' financial management systems shall provide for " ... Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes .... " A critical element of an adequate financial system is having adequate internal controls over key financial transactions and processes.

After evaluating the grantee's internal control structure and effectiveness, we noted the following deficiencies:

- The grantee does not have a centralized accounting software to track activity. Essentially, the grantee utilizes a Microsoft Access listing for all receipts and an MIP software system to process all disbursements. Because of this decentralized accounting set up, no balance sheet is maintained, which could pose a problem in future years.
- Bank reconciliations are not reviewed and approved.
- No documentation of approval of payroll increases was maintained.
- Payroll expenses reported on requests for reimbursement were based on budgeted expenses not actual. Actual program hours are recorded by the employees but not reconciled to amounts charged to the grant.
- Documentation of the review and approval of travel reimbursements is not consistently maintained.

The internal control deficiencies noted above could result in errors and improper payments.

### Recommendation:

We recommend that the grantee implement the following internal controls:

- A general ledger system should be installed to ensure that management and the board of directors have accurate information to provide proper oversight.
- Bank reconciliations should be reviewed and approved by the treasurer on a monthly basis.
- Documentation of the approval of payroll increases should be maintained.
- Payroll expenses charged to the grant should reflect actual hours directed towards the grant's activities.
- All expenses should be reviewed by management and/or the board of directors. Documentation of the review process should be maintained.

Procedures should be established to ensure that stated internal controls are followed and proper management and board supervision is consistently occurring.

## **FINDINGS AND RECOMMENDATIONS (continued)**

### **Grantee response:**

The grantee agrees with the recommendations of our internal controls findings and have stated that they already implemented a different centralized accounting system, incorporating Quickbooks as their accounting system. The grantee also stated that they started utilizing this software on July 1, 2018, the start of the fiscal year. They will also implement better controls involving the board of directors as recommended, with the belief that these recommendations will make them a better organization.

### **2) Allocation of indirect costs and fringe benefits**

The amounts charged to the grants for indirect costs and fringe benefits were calculated incorrectly for both the 2016 and 2017 grants. Indirect costs and fringe benefits were allocated to each grant by applying the percentage of the grant's budgeted expenses in relation to the grantee's total expenses. The grant was budgeted to be 78% of the grantee's total expenses in 2016 and 75% in 2017.

- In 2016, we calculated that the indirect expense to be \$12,034 more than reported and the fringe benefits expense was \$5,457 less than reported on the final submitted grant report. Based on our recalculation, the grantee's reported expenses were understated by \$6,577 for 2016.
- In 2017, we noted that the indirect expense was \$5,134 less than reported and the total fringe benefits expense was \$5,828 less than reported on the final submitted report. Based on our recalculation, the grantee's reported expenses were overstated by \$10,962 for 2017.

We determined that program costs were overstated by \$4,385 for the two grant years.

### **Recommendation:**

The grantee should work with ARC to determine an appropriate method to use to resolve the overpayment.

### **Grantee response:**

The grantee stated they would work with the ARC in relation to the finding of costs submitted inappropriately.



## SOUTHERN TIER WEST

*Regional Planning & Development Board*

*James Cooper, Chairman*

*Donald R. Rychmowski, Executive Director*

December 5, 2018

Gregg H. Evans, CPA, Partner  
The Bonadio Group  
The Foundry  
432 North Franklin Street  
Syracuse, NY 13204

Dear Mr. Evans:

Southern Tier West has reviewed your findings related to the audit your firm undertook in relation to grants numbered NY-2329-C43 and NY-2329-C44 awarded by the Appalachian Regional Commission (ARC) to the Southern Tier West Regional Planning and Development Board (the grantee).

Below are your findings and recommendations. We agree with your recommendations of our internal controls and have already implemented a different centralized accounting system, incorporating Quickbooks as our accounting system. We started utilizing this software on July 1, 2018 the start of our fiscal year. We will also implement better controls involving our board of directors as recommended, with the belief that these recommendations will make us a better organization. We will also work with the Appalachian Regional Commission as suggested in relation to your finding of indirect funds submitted inappropriately.

I thank you for your thorough review of our records and your efforts to make us a better organization.

Sincerely,

Richard T. Zink  
Executive Director