

Office of Inspector General

Report Prepared by Bonadio & Co., LLP

Audit of Grant Award – Ohio University Innovation Center



Office of Inspector General

APPALACHIAN REGIONAL COMMISSION

Audit Report: 20-10

April 30, 2020



April 30, 2020

TO: Charles Howard, Interim Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit of Grant Award – Ohio University Innovation Center
Report Number 20-10

This memorandum transmits the Bonadio & Co., LLP report for the audit of costs charged by the Ohio University Innovation Center per its sponsored agreement with the Appalachian Regional Commission. The objective of the audit was to determine if costs claimed by the Ohio University Innovation Center were allowable, allocable, reasonable, and in conformity with the Commission's award terms and conditions and Federal financial assistance requirements. In addition, the audit determined whether the performance measures were met, not met, or not likely to be met.

OIG Oversight of the Audit

Bonadio & Co., LLP is responsible for the attached audit report and the conclusions expressed in this report. We do not express any opinion on the conclusions presented in Bonadio & Co., LLP's audit report. To fulfill our responsibilities, we:

- Reviewed Bonadio & Co., LLP's approach to and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with Bonadio & Co., LLP, as necessary, to discuss audit progress, findings, and recommendations;
- Reviewed the audit report prepared by Bonadio & Co., LLP; and
- Coordinated issuance of the audit report.

We thank your staff for the assistance that was extended to the auditors during this audit. If you have any questions regarding this report, please contact me at 202-884-7675.

Attachment

March 31, 2020

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

Bonadio & Co., LLP completed an audit of grant number PW-18610-IM-302-16 awarded by the Appalachian Regional Commission (ARC) to the Ohio University Innovation Center (grantee) for the Leveraging Innovation Gateways and Hubs Toward Sustainability (LIGHTS) program. 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.

Overall, the grantee's financial management and administrative procedures, including related internal controls, were adequate to manage the funds provided under the ARC grant reviewed. The expenditures tested were supported and considered reasonable.

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 grant PW-18610-IM-302-16 awarded by the Appalachian Regional Commission (ARC) to the Ohio University Innovation Center (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 grant was awarded under the Partnership for Opportunity and Workforce and Economic Revitalization (POWER) initiative, which is a multi-agency effort to invest resources into the communities that were negatively impacted by changes in the coal economy.

The grant provided \$3,235,566 including \$2,000,000 in ARC funds and a required match of \$1,235,566 in non-ARC funds to cover the period October 1, 2016 to September 30, 2019. Minor changes to budget items were subsequently approved without an increase in funding or a change to the period of performance. The grantee, along with local partnering organizations, will use the funding to strengthen an Innovation Ecosystem in the Appalachian tristate region (West Virginia, Kentucky and Ohio), leveraging existing Innovation Hubs and Emerging Gateways to replicate the capabilities of the award-winning models throughout the target region in Ohio. Through strategically-identified regional partners, the program will create companies, high-wage jobs, and greater private investment in the coal-impacted communities. The partner Innovation Hubs will provide facilities, equipment, and engineering/design expertise to support emerging solutions and products in a wide range of industry sectors. The Emerging Gateways will provide an entry point for creative, innovative individuals and startups to access the product and business development support services, expertise, and equipment within the broader entrepreneurial ecosystem. The grantee anticipated these activities will result in 500 businesses served, 360 new jobs created and leveraged private investment of \$5 million. ARC funding will support personnel, travel, equipment, supplies, and contractual costs. The program's overall objective is to address the fallout from the closures of coal operations, power production facilities and industrial suppliers in 28 counties in three states.

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); (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. No internal control deficiencies were noted related to the ARC program.

We reviewed expenditures of the grant for the period of October 1, 2016 to December 31, 2018. During this period, there were \$2,176,039 of expenditure, including \$1,330,647 of ARC funds and \$845,392 of non-federal expenditures charged to the grant. We selected a sample of \$219,613 in total project expenditures to determine whether the charges were properly supported and allowable.

The criteria used in performing the audit were ARC 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 April 10, 2019 through April 12, 2019 at the grantee’s office in Athens, Ohio. The audit results were discussed with grantee representatives at the conclusion of the on-site visit.

SUMMARY OF AUDIT RESULTS

Overall, the grantee’s administrative procedures were adequate to manage the grant funds received. As of September 30, 2019, grant expenditures totaled \$3,246,430 including \$1,994,082 of ARC funding and \$1,252,348 of matching funds. Based on audit procedures performed, we 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; however, some of the program outcomes were not met. The final report was submitted November 13, 2019.

The outputs and outcomes of the grant were tested by reviewing financial information, internal reports and other supporting documentation. The grant’s performance measures included an anticipated output of providing services to 500 businesses and anticipated outcomes of 50 new businesses created, 360 new jobs created and \$5,000,000 of leveraged private investments funding.

As of September 30, 2019, the grantee has reported \$38,014,254 of leveraged private funding for the projects, assisted in the creation of 91 new jobs, created 212 new businesses and improved 378 businesses in 11 communities. The grantee believes the leveraged investment total is a key indicator of the program’s success. The Gateways model was able to expand and innovate outdated products and production methods and also assist in getting new products to the market. However, the grantee did not meet the projected outcome of new jobs created. They believe a lack of access to the digital economy and also a lack of capital available to individual entrepreneurs were challenges in creating new jobs.