Office of Inspector General

Report Prepared by Bonadio & Co., LLP

Audit of Grant Award – Northern Tier Regional Planning and Development Commission

Office of Inspector General

APPALACHIAN REGIONAL COMMISSION

Audit Report: 20-12 May 7, 2020

May 7, 2020

TO: Charles Howard, Interim Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit of Grant Award – Northern Tier Regional Planning and Development Commission, Report Number 20-12

This memorandum transmits the Bonadio & Co., LLP report for the audit of costs charged by the Northern Tier Regional Planning and Development Commission per its sponsored agreement with the Appalachian Regional Commission. The objective of the audit was to determine if costs claimed by the Northern Tier Regional Planning and Development Commission 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

Bonadio & Co., LLP
Certified Public Accountants

Report 20 - 12

April 15, 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 numbers PA-8305.C36 & PA-8305.C37 awarded by the Appalachian Regional Commission (ARC) to the Northern Tier Regional Planning and Development Commission (grantee) for the Northern Tier Partnership for Regional Economic Performance (PREP) 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. The overall grant performance measures were adequately met as noted in the Summary of Audit Results section of the report. However, we noted one matter that requires management's attention, as described in the Finding and Recommendation section.

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 numbers PA-8305.C36 & PA-8305.C37 awarded by the Appalachian Regional Commission (ARC) to Northern Tier Regional Planning and Development Commission (Commission). 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.

Grants C36 and C37 provided $285,000 in ARC funds and a required match of $285,000 in non-ARC funds totaling $1,140,000 to support for the Partnership for Regional Economic Performance (PREP) program. The grants were awarded to cover the periods July 1, 2017 to June 30, 2018, and July 1, 2018 to June 30, 2019, respectively. The program is designed to provide economic development in the greater Northern Tier Pennsylvania area. Major components of the PREP program include business development assistance and services, electronic commerce, the tourism industry, and business financing. A significant portion of the approved total budget was for staff salaries and benefits.

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.

Of the expenditures charged to the grants through June 30, we selected a sample of $39,590 in payroll expenditures for testing to determine whether the charges were properly supported and allowable. In addition, we reviewed the general ledger noting that matching costs exceeded $285,000 for each grant year. 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 September 23, 2019 through September 27, 2019, which included on-site work at the grantee's office.

SUMMARY OF AUDIT RESULTS

Overall, the grantee's administrative procedures were adequate to manage the grant funds reviewed. Total grant expenditures amounted to $1,143,535 as a result of additional local matching expenditures. Based on test work results, 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 grants, except for not reporting actual jobs created and retained figures. In addition, the records and reports indicated that the tasks required by the grant agreement were accomplished.

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. It was noted that one of the projected outputs included serving 359 businesses over the audit period. We observed documentation showing 472 businesses served.

The outcomes reported by the grantee relating to Leveraged Private Investment and Export Revenues were traced to the supporting documents. Leveraged Private Investment of $14,556,551 and Export Revenues of $74,857,510 with both exceeding projected outcomes during each grant year.

Finding and Recommendation

Performance Measures

The outcomes reported by the grantee related to job creation/retention were examined in total for grants C36 and C37. The grantee did not collect source data in a manner needed to meet ARC reporting requirements. To be useful in evaluating grant performance, the metric data reported to ARC must reflect actual results and must be reported in a format consistent with ARC guidance and expectations. Job creation/retention reported by the grantee was reported by the grantee using the IMPLAN report. The "IMPLAN Model" is a third-party software model used to assess the economic impacts of project decisions but does not collect actual jobs created and retained. IMPLAN takes the total sales and/or revenue and projects the number of jobs created and/or retained. Therefore, the job creation/retention numbers of 991 jobs retained and 370 jobs created and reported by the grantee were not "actual" job figures, but were estimated based on economic impact figures, such as sales and revenue.

Recommendation

That the grantee establish a process and develop written procedures to ensure that performance data submitted meets ARC guidance and accurately represents actual grant results.

Grantee's response

IMPLAN is the approved model for jobs created and jobs retained for all seven of the Pennsylvania Local Development Districts. The acceptance of this model stems from a joint decision and agreement between the Pennsylvania Department of Community and Economic Development and ARC. Pennsylvania uses IMPLAN to determine the jobs created and jobs retained for its Export and Government Contracting programs. The program is used because each industry has a different set of multipliers as compared to the Divisor Method that was used previously. Please see the attached memo from the initial use of IMPLAN.

Auditor's Comments

Although the IMPLAN Model is appropriately used for program operation guidance and developing estimated outcomes the methodology used does not provide needed information to arrive at the number of jobs actually created or retained nor meet current requirements for reporting actual jobs being created. As a result of the methods and data used the information needed is not documented to arrive at to arrive at actual figures. Therefore, the grantee needs to develop and implement policy and procedures that will provide data supporting actual jobs were created as a result of ARC grant funds and activities.

pennsylvania
DEPARTMENT OF COMMUNITY
& ECONOMIC DEVELOPMENT

MEMO

TO Henry King

FROM Neil Fowler

DATE January 1, 2008

RE PA Enterprise Development Revised Impact Reporting System

At the urging of ARC, and in full agreement with the Commission, PA has revised its system of collecting and reporting impact data for the enterprise development program (EDP) offered by our seven Local Development Districts. As you know, the EDP consists of three core business assistance services:

- Business Finance
- Government Marketing (Procurement)
- International Business Development (Exporting)

The current methodology that was adopted several years ago utilizes a formula that analyzed a change in sales for the Government Marketing and International Business development programs and incorporated a previously accepted divisor to produce a job impact figure. However, the U.S. Dept. of Commerce discontinued its utilization of its divisor to determine job impacts and thus we recognized the need to once again develop a justifiable methodology.

In close consultation with ARC and our seven LDDs, it was determined that implementation of the highly-regarded IMPLAN economic modeling system would be utilized to more accurately measure the impact of the EDP. The Commonwealth of PA made a significant investment of resources to purchase the system for each of the LDDs and each District has assigned one or more staff members to be responsible for data collection, population and analysis.

The data that will be used to determine the number of jobs created and jobs retained for the Export and Procurement programs will come directly from Client Re-Enrollment forms. These forms are collected by the individual LDDs each quarter to determine which companies are using the services of the above mentioned programs. The required information for obtaining the job information is location of the company, sales data and employment numbers. This information will populate the IMPLAN system in order to calculate the job creation and retention numbers. Indications are the IMPLAN system will report impacts that are slightly lower – but more accurate – than our current process.

The foundation of the EDP is based upon one-on-one technical assistance to small and medium sized businesses by trained and experienced LDD staff. From personal experience, as well as program review and monitoring, a significant portion of staff time is dedicated to clients that are experiencing difficulties increasing or maintaining sales levels in the procurement and/or export market sectors. It is certainly not surprising that the most active EDP clients are frequently those that are experiencing a business downturn and are turning to all possible resources to react to market difficulties.

The IMPLAN model is designed to measure the job creation impacts of EDP clients that were successful in realizing a sales increase when compared to the previous annual reporting period. The IMPLAN methodology also is used to estimate employment levels as a retention measure for those EDP clients that experience no sales increase or a downturn at the end of the reporting period. This is done for those client firms which continue to actively utilize the EDP services supported by ARC and the Commonwealth in an attempt to reverse these trends.

PA and its LDDs believe it is important to recognize the significant time and resources dedicated to client companies that need the most help – a philosophy that is central to ARC's emphasis on helping its most needy communities.

The LDD enrollment/re-enrollment process is designed to identify those clients that commit time and resources to utilizing the services offered via the EDP. If and when a client chooses to discontinue implementing the consulting services offered by an LDD, they are removed from the client database and impacts are no longer reported. This annual re-enrollment process ensures the integrity of the impact system by demanding that client firms attest to, and actively utilize, the services offered through the LDD. We believe that this retention methodology is a valid way to estimate retention on an annual basis.

For those clients included in the IMPLAN metrics that have realized a sales decrease when compared to the previous annual reporting period, the LDD project status report narrative will describe the efforts undertaken by both the client and LDD staff that resulted in the sales data used to populate the Implan model. No impacts for sales loss clients will be reported without a descriptive narrative that clearly links grantee activities to the reported impacts.

There will be no change in the methodology used to report impacts for Business Finance assistance. Data collected for this core service is obtained directly from loan application documents prepared by client companies seeking public financing.