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

**North Central PA Regional Planning and Development Commission
Partnerships for Regional Economic Performance (PREP)
Ridgway, Pennsylvania**

**Final Report Number: 15-09
Project Numbers: PA-8312-C31 & C32
March 2015**

**Prepared by:
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March 24, 2015

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Leon Snead & Company, P.C. completed an audit of grant numbers PA-8213-C31 and PA-8213-C32 awarded by the Appalachian Regional Commission (ARC) to the North Central Pennsylvania Regional Planning and Development Commission (North Central). The audit was performed to assist the Office of Inspector General in carrying out its oversight of ARC grant activities.

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 and best practices, 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 the goals and objectives of the grant were met.

Overall, North Central's administrative procedures were adequate to manage the grant and funds reviewed. The costs tested were supported and considered reasonable, and we did not question any incurred costs. We found that North Central 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 accomplished. The overall grant performance measures, with respect to anticipated outputs and outcomes, were mostly met. However, there were several individual performance outputs and outcomes that were not met and were not adequately explained in North Central's final report to ARC. In addition, the final report did not reflect the entire project year, only the fourth quarter activity. Lastly, we noted several areas where the grantee did not have adequate written policies and procedures.

The issues relating to written policies and procedures and performance reporting noted during the audit and our recommended corrective actions are discussed in detail in the Findings and Recommendations section of the report. A draft report was provided to North Central on February 11, 2015, for comments. North Central provided a response to the report on March 20, 2015. Their comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from North Central and the ARC staff during the audit.

Sincerely,

Leon Snead & Company, P.C.
Leon Snead & Company, P.C.

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Background

Leon Snead and Company, P.C. completed an audit of grant numbers PA-8312-C31 and PA-8312-C32 awarded by the Appalachian Regional Commission (ARC) to the North Central Pennsylvania Regional Planning and Development Commission (North Central). 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.

ARC grant number PA-8312-C31 was awarded to cover the period July 1, 2013 to June 30, 2014. It provided \$285,000 in ARC funds and required \$285,000 in non-ARC funds for the grantee to provide support for the Partnerships for Regional Economic Performance (PREP) program, which is designed to provide for economic development in North Central Pennsylvania. Major components of the PREP program included business finance assistance, transportation planning, government procurement assistance, market development and export marketing assistance. The majority of the approved budget was for staff salaries and benefits and indirect costs, but there were also some amounts for travel, supplies, and other costs. The grant had ended and was closed out administratively by ARC. The total project cost reported under the grant was \$570,000.

ARC grant number PA-8312-C32 provided \$285,000 in ARC funds and required \$285,000 in non-ARC funds for North Central to carry out its planned PREP activities during the period July 1, 2014 through June 30, 2015. The grant was still in progress at the time of the audit.

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.

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

Of the \$285,000 in expenditures charged to grant PA-8312-C31 and claimed for reimbursement through June 30, 2014, we selected a sample of \$87,864 in expenditures for testing to determine whether the charges were properly supported and allowable. Of the \$285,000 in expenditures charged to grant PA-8312-C32 and claimed for reimbursement through January 14, 2015, we selected a sample of \$16,824 in expenditures for testing to determine whether the charges were properly supported and allowable.

The primary criteria used in performing the audit were the provisions of the ARC grant agreement; Office of Management and Budget Circular (OMB) Circular 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards; 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 January 5-19, 2015, including on-site work at North Central's office in Ridgeway, Pennsylvania. The audit results were discussed with the North Central representatives at the conclusion of the on-site visit.

Summary of Audit Results

Overall, North Central's administrative procedures were adequate to manage the grant and funds reviewed. The costs tested were supported and considered reasonable, and we did not question any incurred costs. We found that North Central 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 accomplished. The overall grant performance measures, with respect to anticipated outputs and outcomes, were mostly met. However, there were several individual performance outputs and outcomes that were not met and were not adequately explained in North Central's final report to ARC. In addition, the final report did not reflect the entire project year, only the fourth quarter activity. Lastly, we noted several areas where the grantee did not have adequate written policies and procedures. Our findings on performance reporting and written policies and procedures and the corresponding recommended corrective actions are discussed in the Findings and Recommendations section of the report. In its response to the draft report on March 20, 2015, North Central indicated agreement with the findings and that actions were in process to implement the recommendations.

Findings and Recommendations

A. Written Policies and Procedures

We evaluated North Central's policies and procedures for compliance with ARC and other Federal requirements. In doing so, we determined that North Central had written policies and procedures for a number of areas relevant to management, many of which were included in North Central's Employee Handbook and Accounting Procedures Manual. However, there were a number of areas, including grant reporting, purchasing and procurement, and timesheet preparation and processing for which written policies and procedures need to be established or further developed in order to strengthen North Central's financial management system and internal controls.

We examined the process for preparing the financial and project reports required under the grant. There were no written procedures describing who was responsible for report preparation, the timing requirements, the types of reports and required data, and the overall process for submitting them to the Federal agency.

Staff described to us some of the procedures used to make purchases, and the related documents used, such as purchase orders. Generally, the process and documents disclosed appeared reasonable. Although there were no large purchases on the grants reviewed, written policies and procedures are necessary to ensure that effective procurements would result if larger purchases were necessary in the future.

We determined in evaluating salary costs that employees are required to maintain timesheets and an electronic system was being used. Using timesheets is consistent with the requirements for documenting salary costs on the grant and the process described to us appeared reasonable. However, the overall requirements and process being followed on timekeeping was not fully documented or described in the Employee Handbook. We believe the agency's internal control would be improved, if the requirements and steps to be followed were documented in the Handbook.

Recommendation

North Central should review its operational activities to identify the policies and procedures necessary to effectively administer federal grants and meet related requirements, and take action to document and/or update them as necessary in order to strengthen their financial management system and internal controls. This should include establishing written policies and procedures for financial and project reporting on grants, purchasing and procurements, and timesheet preparation and processing.

Grantee Response

North Central indicated agreement with the finding. They stated they are undertaking a comprehensive review of their written policies and procedures to ascertain the extent to which they need to be amended to accurately capture policies and procedures currently in practice. Policies and/or procedures in practice but not accurately documented in written form will be

added; particularly with respect to financial and project reporting on grants, purchasing and disbursements and timesheet preparation and processing.

Reviewer's Comments

The recommendation should remain open and ARC will determine whether the actions identified in the grantee's response are adequate to resolve the recommendation or whether additional information or actions are needed.

B. Performance Reporting

To determine if the ARC grant goals were met, we reviewed the metrics and results included in the final report on grant PA-8312-C31 since it had been completed. The grant application included performance goals in the form of 76 individual metrics, either as a planned output or planned outcome. The final report submitted to ARC showed that most (64 of 76) of the planned outputs and outcomes were either met or exceeded. Three outputs/outcomes were substantially exceeded in our judgment. Based on the metrics and results reported, we concluded that the project goals were reasonably met and that overall performance on the grant was acceptable.

The actual results on grant PA-8312-C31 contained in the final report to ARC showed that 12 of the 76 planned performance outputs and outcomes were below expected levels. Two of the 12 were significantly underachieved, in our judgment, compared to what was planned. We considered significant underachievement to be less than 60% of what was planned. The two outcomes considered to be significantly underachieved were related to the areas of "private sector dollars leveraged" and the "change in government sales." Of these, the outcome for "private sector dollars leveraged" within the Business Finance Assistance area had an estimated goal of \$7,000,000 for the year. The actual reported total was \$4,082,136, resulting in an underachievement of \$2,917,864. The outcome for "change in government sales" within the Government Procurement Assistance area had an estimated goal of \$1,500,000 for the year. The actual reported total was (\$1,500,725), resulting in an underachievement of \$3,000,725. Grant PA 8312-C32 was still active so no final report was available.

The final report submitted to ARC did not contain any explanation of these 12 performance categories, especially the two with the largest deviations, to help the reader understand the numbers being reported and reasons for the underperformance. ARC guidance in its Grant Management Handbook on project reporting does not explicitly state what information should be reported regarding individual performance goals. However, it does generally encourage information that helps document outputs and outcomes and discuss problems encountered.

In addition, the final report narrative did not contain the type of information that is needed to fully understand the overall grant activities and results. ARC guidance for progress and final project reports, in its Grant Management Handbook, provides that the final report should be viewed as an opportunity to share the results with the public, should reflect the entire grant period not just the final period, and should be written as if no one has had any previous knowledge of the grant activities. Additionally, ARC instructions on the format of final report narrative state that the grantee should discuss issues and problems that arose, how those were addressed or resolved, and also discuss the key grant successes and suggest ways the experience may be helpful to others (i.e., best practices used or lessons learned).

Also, we noted that the report title indicated it was a "quarterly progress report" covering the quarter ended June 30, 2014, rather than a "final report" covering the entire grant period. The narrative provided only a discussion of the activities and results during that quarterly period, rather than providing a discussion of the entire grant period and related major activities and results. There was not a discussion of the final results for any individual metrics that were either significantly underachieved or exceeded. However, we noted that the outputs and outcomes section of the report reflected activity on the program metrics for the entire year. The narrative

section represents examples where the report should have, consistent with ARC guidelines, explained (a) what problem(s) contributed to not meeting the planned goal and what was, or could have been, done to improve the situation, and (b) what practices or factors allowed the goals to be significantly exceeded so that other organizations could be aware of them and possibly use them to improve their own performance.

North Central did not have any formal written policies or procedures that described or implemented the applicable ARC guidance in the Grant Manual or other data we used for the audit. We believe the value and usefulness of North Central project reports to ARC, particularly the final report, would be greatly improved by fully discussing the goals that are significantly underachieved, including details on: what the numbers are reflecting; reasons for the underperformance; and what actions, if any, were taken or might be considered to better achieve the planned goal. Management attention is needed to ensure this is done.

Recommendations

We recommend that North Central:

1. Establish procedures for preparing ARC PREP interim and final grant project reports.
2. Provide clear explanations for individual performance goals (outputs and outcomes) where there is significant lack of progress or achievement. This would include discussing the reasons for underperformance and the actions that are being taken or could be taken to improve achievement.

Grantee Response

North Central indicated agreement with the finding. They stated they are working to establish a written set of procedures as regards the preparation of ARC PREP interim and final grant reports which will include a more descriptive narrative explaining/justifying performance goal achievement.

Reviewer's Comments

The recommendation should remain open and ARC will determine whether the actions identified in the grantee's response are adequate to resolve the recommendation or whether additional information or actions are needed.

From: Eric Bridges [ebridges@exchange.ncentral.com]
Sent: Friday, March 20, 2015 12:47 PM
To: Leon Snead & Company
Cc: Jim Chorney (jchorney@ncentral.com)
Subject: RE: Draft Report - Audit of North Central PA Regional Planning and Development Commission (PREP) - PA-8312-C31 & C32

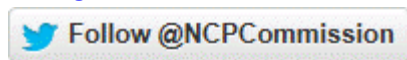
Good Afternoon:

My apologies for the delay. I concur with the recommendation in the report. As far as action taken to implement the recommendations, we are undertaking a comprehensive review of our written policies and procedures to ascertain the extent to which they need to be amended to accurately capture policies and procedures currently in practice. Policies and/or procedures in practice but not accurately documented in written form will be added; particularly with respect to financial and project reporting on grants, purchasing and procurements and timesheet preparation and processing. We are also working to establish a written set of procedures as regards the preparation of ARC PREP interim and final grant reports which will include more descriptive narrative explaining/justifying performance goal achievement.

Thanks for the opportunity to comment. Please let me know if there is anything else you require.

Eric

Eric Bridges, Executive Director
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Join my on LinkedIn www.linkedin.com/in/ericmbridges

From: Leon Snead & Company [<mailto:leonsnead.companypc@erols.com>]
Sent: Wednesday, February 11, 2015 2:59 PM
To: Eric Bridges
Subject: Draft Report - Audit of North Central PA Regional Planning and Development Commission (PREP) - PA-8312-C31 & C32

Good Afternoon Mr. Bridges,

Attached is a copy of the draft report on the above referenced audit for your review and comments. Please provide your comments by March 11, 2015. Please indicate whether you concur or nonconcur with the recommendations in the report and state what actions have been taken or are contemplated to implement the recommendations. If you have any questions, please call or e-mail me. Thanks very much for your assistance.

Leon Snead
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