



April 10, 2000

MEMORANDUM FOR The Federal Co-Chairman
ARC Executive Director

SUBJECT: OIG Reports

Enclosed are copies of the following reports for which our records do not indicate transmittal to your office. The reports were previously distributed to the grantees. In most instances, the reports were closed on issuance based on the absence of material findings.

- 00-13(H) Benton County, Mississippi, Head Start Facility
00-14(H) Team Pennsylvania Entrepreneurial Education Program
00-15(H) Team Pennsylvania Entrepreneurial Network Initiative
00-16(H) Northern Tier Pennsylvania RPDC Administrative Grant
00-17(H) New York State Technical Assistance
00-20(H) Kentucky Regional Diabetes Healthcare Delivery in Appalachia
00-21(H) Tennessee Technical Assistance
00-22(H) Clay County, Tennessee, Industrial Project
00-23(H) Southwest Virginia Higher Education Center
00-24(H) Appalachian Rural Systemic Initiative, Kentucky
00-25(H) Dental Care, Cumberland Plateau Health District, Virginia
00-29(H) Carraway Life Saver Program, Alabama
00-31(H) Alabama J-1 Followup Visits

These reviews generally disclosed that grant funds were accounted for, controls were in place, and project tasks were completed.

Report 00-15(H), Team Pennsylvania Entrepreneurial Network Initiative, contains several open issues with respect to a small claim for costs incurred prior to grant start; \$3,185 in unsupported matching costs; and subrecipient monitoring.

Report 00-20(H), Regional Diabetes Healthcare Delivery in Appalachia, questions \$12,247 in personnel costs incurred outside the grant period. Report 00-21(H), Tennessee Technical Assistance recommends improved identification of performance measures and results.

Several reports are awaiting auditee comments with a primary issue noted in these reports being limited grantee oversight or monitoring of subrecipients or subcontractors with the result being difficulty to assess whether the activities performed were commensurate with the costs incurred.

Hubert N. Sparks
Inspector General

Enclosures

cc: Ms. Judy Rae

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Alabama Kentucky Mississippi North Carolina Pennsylvania Tennessee West Virginia
Georgia Maryland New York Ohio South Carolina Virginia

MEMORANDUM REPORT ON REVIEW OF  
**PENNSYLVANIA DEPARTMENT OF COMMUNITY & ECONOMIC  
DEVELOPMENT**  
HARRISBURG, PENNSYLVANIA

Team Pennsylvania Entrepreneurial Network Initiative

ARC Grant Number: PA-12904-98

October 1, 1997 through March 31, 1999

Prepared By:

Tichenor & Associates, LLP  
Certified Public Accountants  
304 Middletown Park Place, Suite C  
Louisville, Kentucky 40243

**TICHENOR & ASSOCIATES, L.L.P.**  
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

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TO: Appalachian Regional Commission (ARC)  
Office of Inspector General (OIG)

FROM: Tichenor & Associates  
Louisville, Kentucky

REPORT FOR: The Federal Co-Chairman  
ARC Executive Director  
OIG Report Number 00-15 (H)

SUBJECT: Memorandum Review Report of Pennsylvania Department of Community & Economic Development, Harrisburg, Pennsylvania, Grant Number PA-12904-98.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Pennsylvania Department of Community & Economic Development for its Team Pennsylvania Entrepreneurial Network Initiative were expended in accordance with the ARC approved grant budget and did not violate any restrictions imposed by the terms and conditions of the grant; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and (c) the objectives of the grant have been met.

BACKGROUND: ARC awarded Grant Number PA-12904-98 to the Pennsylvania Department of Community & Economic Development for the period October 1, 1997 through March 30, 1999. Total grant funding was for an amount not to exceed \$550,600, or approximately 80 percent of actual, reasonable and eligible project costs, whichever was less. ARC required that the grant be matched with \$137,650 or 20 percent in cash, contributed services, and in-kind contributions, as approved by ARC. ARC made three advance/progress payments totaling \$522,342. ARC deobligated \$28,258 of unused grant funds on July 16, 1999.

The purpose of this grant was to create a collaborative public/private alliance, which could stimulate new value, added service, new market opportunities, and regional market driven activities. The synergistic effect would enhance the awareness of entrepreneurship in rural areas and increase the rate of new business formation and expansion within the 52 Appalachian counties of Pennsylvania. Goals will be accomplished within three phases.

1. The seven regional sub-grants
  - To strengthen the partnership and demonstration of teamwork within the regions.
  - The assessment of existing programs and services and identification of unmet need.
  - The formation of a streamlined network that will ensure timely and relevant service.
  - Determination of positive results of intervention and a system for ongoing technical assistance.
  - The participation in the Team PA effort to further the development of world class communities.
2. Financial Management Seminars will be conducted within twelve sites of the ARC region targeting clients of small business incubators as well as recipients of the Ben Franklin Challenge Grant program. The program will target the businesses that are in the first two stages of their development, Start-up and High-growth.
3. The formation of an interagency team that will develop comprehensive seminar presentations and collateral materials for two phases of business assistance. Phase one will provide comprehensive information on state regulations, requirements and sources of assistance. Phase two will provide workshops on how to complete forms, applications and preparation of documentation needed when soliciting for state services and/or assistance.

SCOPE: We performed a program review of the grant as described in the Purpose above. Our review was based on the terms of the grant agreement and on the application of certain review procedures in accordance with the ARC, OIG Review Program. Specifically, we determined if the tasks listed above had been performed, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if the Pennsylvania Department of Community & Economic Development had complied with the requirements of the grant agreement. We discussed the program objectives and performance with Pennsylvania Department of Community & Economic Development personnel. In addition, we performed independent reviews at two of the seven regional sub-grantee offices, the North Tier Region, Towanda, Pennsylvania and the Central Region, Lewisburg, Pennsylvania. The regional sub-grants outlined as phase 1. consisted of \$491,000, or 89 percent, of the total ARC award. Our results and recommendations are based on those procedures and were conducted in accordance with applicable Governmental Auditing Standards.

RESULTS: The following results were based on our review performed at Pennsylvania Department of Community & Economic Development offices in Harrisburg, Pennsylvania and at the two sub-grantee offices in Towanda and Lewisburg, Pennsylvania from August 30<sup>th</sup> to September 3<sup>rd</sup>, 1999.

## **A. Incurred Costs**

The Grantee claimed total program costs of \$660,415, of which they claimed direct reimbursable costs from October 1, 1997 through March 31, 1999 of \$522,342 and in-kind cost of \$138,073. ARC deobligated \$28,258 of unused grant funds on July 16, 1999. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported.

## **B. Internal Controls**

### Monitoring of Subrecipients

Pennsylvania Department of Community & Economic Development included seven sub-grantees in its application for federal assistance. The sub-grantees were to help ensure that all 52 ARC counties benefited from the award through development of their own local entrepreneurship efforts. Each sub-grantee was to receive either \$64,320 or \$72,472 in ARC funds and was required to match \$4,964 or \$5,593 respectively, in local funds. Pennsylvania Department of Community & Economic Development performed minimal monitoring of the sub-grantees to ensure that the sub-grantees administered the federal awards in accordance with federal requirements.

OMB Circular A-133, Compliance Supplement, Part 3, Compliance Requirements, item M, Subrecipient Monitoring states:

- “Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable Federal regulations;

Factors such as size of awards, percentage of the total program’s funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring.

Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient’s single audit or program-specific audit results and evaluating audit findings and the subrecipient’s corrective action plan.”

Our review of the Northern Tier Region had the following internal control weaknesses that affected the compliance with the terms of the sub-grant agreement:

### 1. Contracts for Services Did Not Contain All Required Provisions

The contracts for services did not contain all provisions as required by OMB Circular A-110. For example, the Northern Tier contract with the Brandow Company for the implementation

of the business plan of the Entrepreneurial Network Initiative did not address the following issues:

OMB Circular A-110, Subpart E, Post-Award Requirements, .48-Contract Provisions, paragraph (4)(a), states:

“Contracts in excess of the small purchase threshold shall contain contractual provisions or conditions that allow for administrative, contractual, or legal remedies in instances in which a contractor violates or breaches the contract terms, and provide for such remedial actions as may be appropriate.”

Further, OMB Circular A-110, Subpart E, Post-Award Requirements, .48-Contract Provisions, paragraph (4)(b), states:

“All contracts in excess of the small purchase threshold shall contain suitable provisions for termination by the recipient, including the manner by which termination shall be effected and the basis for settlement. In addition, such contracts shall describe conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated because of circumstances beyond the control of the contractor.”

2. Prior to the Effective Date of the Grant, \$1,022 of Costs Were Incurred

The Northern Tier Region incurred travel and meeting expense of \$1,022 before the grant inception date of May 15, 1998. ARC General Contract and Administrative Provisions, Article 14, Records Requirements, Audit, Adjustments, and Refunds paragraph (2) states:

“All disbursements shall be for obligations incurred, after the effective date, in the performance of this contract, and shall be supported by contracts, invoices, vouchers, and other data, as appropriate, evidencing the disbursements.”

3. Matching Costs Not Met

The Northern Tier Region received \$64,320 as its ARC award and was to provide matching contribution of \$4,964 or 7%. However, only \$1,779 of the match was met, leaving \$3,185 unmatched.

ARC General Contract and Administrative Provisions, Article A14 Records Requirements, Audit, Adjustment and Refunds States:

“Contractor shall maintain custody of time records, payrolls, and other data, as appropriate, to substantiate all services reported to the Commission as Contributed Services under this contract.”

During our review of the Central Region, we noted an extensive A-133 Audit that sited numerous issues of internal control over financial reporting. There were no issues in regard to the sub-grant agreement that we reviewed; however, we feel that the ARC should be made aware of the report. For example, the A-133 report included the same condition we noted as finding No. 1 regarding contract provisions as well as a finding on one quarterly progress report not submitted.

### **Program Results**

Our review of Pennsylvania Department of Community & Economic Development and its Team Pennsylvania Entrepreneurial Network Initiative indicated all specific tasks identified in the grant, and summarized above, had been achieved.

### DISCUSSION:

We discussed these issues with the Pennsylvania Department of Community & Economic Development management during the exit conference held on September 15, 1999. Management responded by stating it generally agreed with the findings and recommendations. Management stated that it would obtain support for the reported match.

### RECOMMENDATIONS:

We recommend the Pennsylvania Department of Community & Economic Development implement controls to ensure adequate oversight of all subrecipients of federal money. We also recommend that all contracts entered into by subrecipients be reviewed and approved by the Pennsylvania Department of Community & Economic Development. We recommend that approval be obtained for incurring costs prior to the effective date of the grant award and that support is obtained from The Northern Tier that all matching costs were properly met. In addition, we recommend that all progress reports be prepared and submitted per the grant and subgrant agreements.

### OTHER:

We provided a copy of our draft report to the Pennsylvania Department of Community & Economic Development management on January 6, 2000. Management responded to our findings and recommendations as follows:

#### 1. Subrecipient Contracts for Services Did Not Contain all Required Provisions

Agency response: The Department agrees with the Auditor's finding. We will require that all terms and conditions sited in OMB Circular A-110 be included in any subrecipients contracts that exceeded the small purchase threshold.

#### 2. Prior to the Effective date of the Grant \$1,022 of Costs Were Incurred

Agency response: The Department agrees with the Auditor's finding. We are looking at this

particular situation and will request that the funds be returned.

3. Matching Costs Not Met

Agency response: The Department agrees that the match figure claimed may not be correct. We are asking the Grantee to provide us with a new backup to support their match amount. We will evaluate the match at that time. On a more global view it was the Department's understanding that the grant needs to be matched at the project level but not at the Grantee level.

4. Quarterly Progress Reports Were Not Submitted

Agency response: The Department agrees with the finding. We will require all Grantees to submit the Quarterly Progress Reports. In addition we will establish a tracking system for all special initiative projects that is consistent with our other programs tracking system to make sure that the reports are received on time and reviewed.

ADDITIONAL COMMENTS:

We consider Pennsylvania Department of Community & Economic Development management response to our findings and recommendations as adequate. No further recommendations are made at this time.

*Tichenor & Associates*

TICHENOR & ASSOCIATES, LLP  
Louisville, Kentucky

September 15, 1999



**Project Payment Record**

**As of 08/10/1999**

**Project Number:** 12904      **Suffix:** 0      **Phase:** I      **State:** PA      **FY:** 1998

**Project Title:** Team PA Entrepreneurial Network Initiative

**Grantee:** PA Department of Community & Economic Development

**Effective Date:** 10/01/1997

**Expiration Date:** 03/31/1999

**Project Coordinator:** DaffnerR

**Retention:** \$55,060.00

**Status:** Closed

Item #	Date	Transaction	Notes	Amount (\$)	Balance
	03/04/1998	OBLIG		550,600.00	
1	04/28/1998	ADV/PROG		-39,540.05	
2	06/22/1999	PROGRESS		-418,297.76	
3	07/16/1999	FINAL		-64,503.87	
	07/16/1999	DEOBLIG		-28,258.32	
				<b>Balance:</b>	<b>\$0.00</b>

Appalachian Regional Commission  
Payment Request Number: 2

Project Title: Team Pennsylvania Entrepreneurial Networks

Date: 06/20/99

Payee: PA Dept of Community and Economic Development

Project #: PA 12904 I 302

Progress Pmt Period: 2/1/98 - 3/26/99

Advance Pmt Period:           

Progress Payment Requested: \$ 481,297.76

Advance Payment Requested: \$ 0.00

**ARC Funds Due Now: \$418,297.76**

Total ARC Funds Previously Paid: \$ 39,540.05

Total ARC Cost Through 3/26/99: \$ 457,837.81 (77 %)

Local Match Through 3/26/99: \$ 136,298.50 (23 %)

Max ARC \$ Prior to Final Payment: \$495,540.00

Total ARC Grant: \$550,600.00

Adjustment in Payment Request: \$0.0

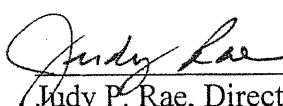
<input checked="" type="checkbox"/> Satisfactory progress report received.	<input checked="" type="checkbox"/> Satisfactory budget report received.
<input checked="" type="checkbox"/> Electronic Payment Form Attached or On File	

**General status of project:** Project is almost completed; strategic planning documents have been received from all 7 Local Development Districts in the region, and trainings have been held as planned. Final close-out payment expected shortly.

**Recommended:**

  
\_\_\_\_\_  
Ray Daffner  
Manager - Entrepreneurial Development

**Approved:**

  
\_\_\_\_\_  
Judy P. Rae, Director  
Program Operations Division

ARC GRANT PA-12904-98

	BUDGET	ARC	STATE MATCH	OTHER MATCH	TOTALS	COMPARISON OF BUDGET TO ARC
Personnel	10,000.00	5,398.91	5,398.92	0.00	10,797.83	4,601.09
Train the Trainer Program	25,000.00	29,601.09	818.96	26,475.44	56,895.49	(4,601.09)
Ben Franklin Seminars	24,600.00	24,600.00	0.00	73,575.00	98,175.00	0.00
Network Alliance Grants	491,000.00	398,237.81	0.00	30,030.18	428,267.99	92,762.19
<b>GRAND TOTAL</b>	<b>550,600.00</b>	<b>457,837.81</b>	<b>6,217.88</b>	<b>130,080.62</b>	<b>594,136.31</b>	<b>92,762.19</b>



April 3, 2000

Ms. Joyce O'Brien, Director  
Entrepreneurial Assistance Office  
Pennsylvania Department of Community  
and Economic Development  
357 Forum Building  
Harrisburg, PA 17120

re: OIG Report 00-15(H), Grant PA-12904-98

Dear Ms O'Brien:

Enclosed is a copy of our report dealing with a grant to create a collaborative public/private alliance to enhance the awareness of entrepreneurship in rural areas and increase the rate of new business formation and expansion within the Appalachian counties of Pennsylvania. The work was performed by auditors with Tichenor and Associates, C.P.A., under contract with my office.


The report includes recommendations pertaining to monitoring subrecipients; subcontractor provisions; \$1,022 in costs incurred prior to the start of the grant period; \$3,185 in unsupported matching costs; and completion of reports. The response included in the report notes intended management actions on the recommendations with the exception of subrecipient monitoring.

We will followup with ARC with respect to the resolution of the cost and match questions but would appreciate your comment about the monitoring of subrecipients. For example, a review of the subrecipients' annual audit report is generally an acceptable practice; but it is unclear if this, or other, type of monitoring was performed.

A copy of this report is being provided to the Federal Co-Chairman and ARC Executive Director.

The courtesies and cooperation afforded the auditors were appreciated.

Sincerely,

  
Hubert M. Sparks  
Inspector General

Enclosure



**Pennsylvania Department of Community and Economic Development**  
Entrepreneurial Assistance Office  
Small Business Resource Center

August 28, 2000

Mr. Ray Daffner  
Appalachian Regional Commission  
1666 Connecticut Avenue, Northwest  
Washington, DC 20235

Dear Mr. Daffner,

PA - 12904

I am pleased to respond to your request for clarification stemming from a recent audit of year one of Pennsylvania's Entrepreneurial Network Initiative.

- Your auditor posed a question related to dates on a previously submitted Form 270. I understand that our Comptroller's office spoke with Mr. Banks and the issue was resolved.
- Mr. Banks also sought additional information related to sources of matching funds. According to our Budget office, those sources are as follows:

State Match

1. Personnel costs
2. Travel vouchers
3. General funds

Other Match

1. Personnel and travel costs by other State agencies participating in the Train The Trainer project.
2. Financial Management Seminars:
  - Ben Franklin (State)
  - PNC Bank (Private)
  - Urish Popeck (Private)
3. Local Development District cash contributions for Entrepreneurial Networks.

Please let me know if you need additional information.

Sincerely,

Neil Fowler, Manager

Cc: Joyce O'Brien

need ARC approval of 1,024 spent before start of grant period.



March 21, 2000

MEMORANDUM FOR MR. BILL TICHENOR, TICHENOR & ASSOCIATES

SUBJECT: Report 00-15(H), Team Pennsylvania Entrepreneurial Network Initiative.

Sorry for not commenting sooner, but I would eliminate the duplication of the finding regarding contracts for services not containing all required provisions. This finding is cited in Section B, Internal Controls, and again after noting the A-133 report.

It is not clear if the second finding on contracts and the finding on progress reports come from the A-133 audit. In either event, I would paraphrase the A-133 finding by noting the types of deficiencies reported.

*Hubert N. Sparks*  
Hubert N. Sparks  
Inspector General

Enclosure

*Changes not made  
but in the interest of  
time I approved  
issuance of report.  
HS  
3/23/00*