




January 8, 2002

MEMORANDUM FOR The Federal Co-Chairman
ARC Executive Director

SUBJECT: OIG Report 02-8(H), ARC Grants PA-7784-C19 and C20,
Technical Assistance

Attached is a copy of our report dealing with Pennsylvania technical assistance grants. Reported conditions pertain to the untimely drawdown of funds and limited retrievable support for contractor expenditures or matching contributions. These conditions were included in prior reports. Recommendations were made for quarterly drawdowns and improved documentation. The grantee agreed with semiannual drawdowns and noted a revised filing system that should allow supporting documentation to be readily retrievable.

Semiannual drawdowns, if implemented, should alleviate the historical problem of no drawdowns until substantially after project activity has been completed. We are closing the report, but ARC should followup to ensure semiannual drawdowns are initiated.


Hubert N. Sparks
Inspector General

Enclosure

cc: Ms. Judy Rae

**Final Independent Accountant's Report on
Applying Agreed Upon Procedures to
Grant Agreement Expenditures**
Pennsylvania Department of Community and Economic Development
(PDCED)
Grants PA-7784-C19 and PA-7784-C20
Harrisburg, Pennsylvania

Submitted to the
**OFFICE OF INSPECTOR GENERAL
OF THE
APPALACHIAN REGIONAL COMMISSION**

Report No. 02-8 (H)

July 26, 2001

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**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES TO
GRANT AGREEMENT EXPENDITURES**

To the Inspector General of the Appalachian Regional Commission:

BACKGROUND AND OBJECTIVES

The Appalachian Regional Commission (ARC) is a regional economic development agency representing a unique partnership of Federal, state, and local government. The ARC is composed of the Governors of the 13 Appalachian states and a Federal Co-Chair appointed by the President. The geographical boundaries of the Appalachian Region extend from the southern tier counties in central and western New York to the northern counties in Alabama and Mississippi.

Each year Congress appropriates funds that ARC allocates among its member states in line with an allocation formula which is intended to provide a fair and reasonable distribution of available resources among the 13 Appalachian member states.

The Appalachian Regional Commission (ARC) awarded Consolidated Technical Assistant Grants PA-7784-C19 and PA-7784-C20 to the Pennsylvania Department of Community & Economic Development (PDCED) to fund state personnel and operational costs of the Governor's Appalachian Office and technical assistance projects. Grant C19, for the ARC program year which began October 1, 1998 and ended September 30, 1999, provided up to \$350,000 in ARC funding for these costs. Grant C20, for the ARC program year beginning October 1, 1999 and ending September 30, 2000, provided up to \$380,000 in ARC funding for these costs.

Grant PA-7784-C19 was amended 3 times and revised at least 4 times after it was signed in September 1997. Amendment 1, approved February 16, 1999, increased the total number of specific technical assistance projects from 3 to 4 and deobligated \$1,513 of Consolidated Technical Assistance grant funds. The deobligated funds were transferred to the PDCED's account established for the Appalachian Community Learning Project, which was not one of the technical assistance projects originally funded by Grant C19. The amendment did not change the grant ending date of September 30, 1999 and all other grant terms and conditions remained in full force and effect. Amendment 2, approved May 19, 1999, increased the total number of technical assistance projects from four 4 to 7 and revised the Women's Business Development project and the Minority Business Development Program. Amendment 2 did not show a change in the grant ending date of September 30, 1999, but 1 of the 2 technical assistance projects added by this amendment showed the period of performance was to end on February 1, 2000. Additionally, the Project Payment Record showed a grant expiration date of February 1, 2000. Amendment 2 also stated that no additional ARC funds were involved and that all other terms and conditions remained in full force and effect. Amendment 3, approved

February 4, 2000, reduced the total grant amount by \$37,216 to bring the grant total to \$312,784. Amendment 3 did not change the grant ending date of September 30, 1999 and all other grant terms and conditions remained in full force and effect.

Grant PA-7784-C20 was also amended 3 times. Amendment 1, approved November 17, 1999, apparently increased the total number of technical assistance projects from 5 to 7 in accordance with the revised budget which was attached. We could not verify this as the September 13, 1999 letter which was incorporated into Amendment 1 could not be located in either the ARC or grantee project files. However, the revised budget, which was attached to Amendment 1, listed 2 new technical assistance projects. Amendment 1 also stated that all other (grant) terms and conditions remained in full force and effect. Amendment 2, approved February 4, 2000 increased the total number of technical assistance projects from 7 to 8 and added grant funds to the project in the amount of \$37,216. This increased total Grant C20 funding from \$380,000 to \$417,216. Amendment 2 also increased the non-ARC share of the total project costs from \$529,074 to \$757,234 in cash, contributed services, or in-kind contributions, as approved by ARC. The amendment also stated that all other terms and conditions remained in full force and effect and that a revised budget was attached. Amendment 3, approved March 6, 2000 increased the total number of technical assistance projects from 8 to 9 and added grant funds to the project in the amount of \$25,000. This increased total Grant C20 funding from \$417,216 to \$442,216. Amendment 3 also increased the non-ARC share of the total project costs from \$757,234 to \$857,234 in cash, contributed services, or in-kind contributions, as approved by ARC. The amendment also stated that all other terms and conditions remained in full force and effect and that a revised budget was attached.

We noted that the grantee reported expending \$274,351 of the \$350,000 in ARC grant PA-7784-C19 funds. Of the remaining \$75,649, \$38,433 was deobligated in January, 2001. The remaining \$37,216 was transferred to ARC Grant PA-7784-C20. The final ARC Progress Payment Record showed the grantee expending \$296,808 of the \$442,216 in obligated ARC Grant PA-7784-C20 funds. The ARC deobligated the remaining \$145,408 in May 2001. The grantee reported matching the ARC Grants PA-7784-C19 and PA-7784-C20 funds with \$387,466 and \$498,644 in state and/or local grant matching expenditures, respectively.

Leon Snead & Company, P.C. is under contract to the Office of Inspector General (OIG) of the ARC to provide audit services. We performed agreed upon procedures on the grant expenditures reported to the ARC for the period October 1, 1998 through September 30, 2000. The objectives of our agreed upon procedures were to determine whether the reported grant expenditures were allowable, allocable, and reasonable and whether the grantee was in compliance with applicable laws and regulations.

SCOPE AND METHODOLOGY

We performed the procedures enumerated below, which were agreed to by the Inspector General of the Appalachian Regional Commission solely to assist you in evaluating grant expenditures by the grantee. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report.

Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The provisions of Office of Management and Budget (OMB) Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations"; OMB Circular A-102, "Grant Cooperative Agreements with State and Local Governments"; OMB Circular A-122 "Cost Principles for State, Local, and Indian Tribal Governments"; the Federal Drug-Free Workplace Act of 1998 (Public Law 100-690); the Federal Anti-Lobbying Act (Public Law 101-121); the Federal Acquisition Regulations (FAR); other Federal, state, or local procedures designed to insure fair and non-discriminatory procedures were used for the selection of participants; agreed to procedures that emphasize the expenditure of grant funds in line with the provisions of the grant agreement; and the ARC Code were used as the basis for determining allowable costs and compliance requirements. These agreed upon procedures were performed in accordance with generally accepted auditing standards and *Government Auditing Standards*, 1994 version, as amended, issued by the Comptroller General of the United States.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the financial statements of the grantee. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We visited the Pennsylvania Department of Community and Economic Development (PDCED) offices in Harrisburg, Pennsylvania during the period April 9 thru April 13, 2001. The grantee subsequently furnished additional documentary support for some of the grants C19 and C20 expenditures during May and July, 2001.

Specifically we performed the following procedures:

- We discussed the grant expenditure process and internal controls with Pennsylvania Department of Community and Economic Development (PDCED) Headquarters officials in Harrisburg, PA.
- We reviewed the available detail support for \$239,089 (87.1%) of the reported expenditures charged to ARC Grant PA-7784-C19 between October 1, 1998 (the

grant period of performance starting date) and February 1, 2000 (the grant period of performance ending date) and tied the grant expenditures in with the supporting ARC Personnel Costs schedules, Monthly Allotment Ledger Transaction Update Reports, voucher transmittal documents, Comptroller's Office Executive Offices annual billings, appropriation expenditure adjustment documents, vendor invoices, and other supporting documents.

- We reviewed the available detail support for at least the same dollar amount in reported grant PA-7784-C19 State, applicant, and local grant matching expenditures as was shown in the paragraph above.
- We reviewed the available detail support for \$282,623 (95.2%) of the reported expenditures charged to ARC Grant PA-7784-C19 between October 1, 1999 (the grant period of performance starting date) and September 30, 2000 (the grant period of performance ending date) and tied the grant expenditures in with the supporting ARC Personnel Costs schedules, Monthly Allotment Ledger Transaction Update Reports, voucher transmittal documents, Comptroller's Office Executive Offices annual billings, appropriation expenditure adjustment documents, vendor invoices, and other supporting documents.
- We reviewed the available detail support for at least the same dollar amount in reported grant PA-7784-C20 State, applicant, and local grant matching expenditures as was shown in the paragraph above.
- We compared the grant expenditures made with the project budgets for both Consolidated Technical Assistance grants to determine if grant funds were spent only on items which were included in the original project budgets, and if ARC approval had been requested and obtained for any items not included in the original project budgets.
- We obtained and reviewed copies of the 2 most recent prior ARC reports on the grantee which covered ARC Grants PA-7784-92-C13 and PA-7784-93-C14 and ARC Grant PA-7784-95-C16 to determine if the recommendations contained in these reports had been implemented.

RESULTS

We noted the following exceptions:

- 1) *Final Reimbursement Requests Still Not Timely*

Condition

The Grantee did not file its final reimbursement requests in a timely manner.

Criteria

- (1) OMB Circular A-102, Attachment, Section 3.a., page 10.
- (2) Part II, Article 4, which was attached to both Grant PA-7784-C19 and PA-7784-C20 states, in Paragraph 9(b), that “a final expenditure report shall be submitted within 60 days of the end of the grant period....”

Discussion

We found that the grantee did not file its final reimbursement requests in a timely manner. This same condition was reported in the 2 prior ARC reports on the grantee that we reviewed.

Grant PA-7784-C19 grant period ended on February 1, 2000, and the PDCED submitted the final reimbursement request on October 6, 2000. Grant PA 7784-C20 grant period ended on September 30, 2000 and PDCED submitted the final reimbursement request on March 19, 2001.

Recommendation

The PDCED should comply with the grant requirement that final expenditure reports be submitted within 60 days after the end of the grant period.

Grantee's Comments

The PDCED has 60 days after the end of the grant period to submit a final expenditure report. It is acknowledged that those reports have not been timely. One of the problems with the 60-day window is that the PDCED may have a project completed at or near the end of the grant period. The PDCED may not receive an invoice for payment from the grantee until several weeks after the occurrence of the event. Once the invoice is received, the process of sending the invoice for payment to the Comptroller and the process of having the check cut by the Treasury may take a month or longer. In addition, the reconciliation of the ARC accounts by the Budget & Fiscal Office takes additional time. As a result of these processing times, the 60-day window has been unachievable. The PDCED is making every effort to have the grantee submit invoices as early as possible and to expedite the payment and reconciliation processes.

Accountants' Response

None.

2) *Periodic Grant Fund Draw Downs Not Made*

Condition

No interim grant fund draw downs were made on ARC Grants PA-7784-C19 and PA-7784-C20.

Criteria

The grantee should request reimbursement from ARC for expenditures incurred against each grant no less often than quarterly throughout the grant expenditure period of performance.

Discussion

Our agreed upon procedures disclosed that no interim grant fund draw downs were made on either ARC Grants PA-7784-C19 or PA-7784-C20. This same condition was reported in 1 of the 2 prior ARC reports on the grantee that we reviewed.

Recommendation

The PDCED should perform ARC grant fund draw downs at least quarterly.

Grantee's Comments

Historically the PDCED has waited until the end of the grant year to request a draw down. In cooperation with the Comptroller and the Budget & Fiscal Office, a draw down will be requested on a semi-annual basis as opposed to a quarterly basis. The reason for the semi-annual draw down is that the amount of the yearly grant has recently been reduced to less than half the former amount.

Accountants' Response

None.

3) *Source Documentation Not Readily Available*

Condition

Original expenditure and/or grant matching source documents to support grant claims were not readily available.

Criteria

To be allowable under Federal awards, costs must be adequately documented. OMB Circular A-87 Section C, paragraph 1.j., page 6 of 31.

Discussion

During our review of ARC Grants PA-7784-C19 and PA-7784-C20 expenditures we found that documentation was not available during field work to support invoices from contractors or grant matching expenditures. We could obtain adequate documentary support for personnel costs. However, for most of the other reported grant and grant matching expenditures, we could trace the dollar amounts reported to the ledger reports or other similar reports, but could not obtain copies of the original vendor invoices, billings, grant matching donation letters, or other documentation which would permit us to verify that the costs charged to the grants were allowable, allocable, and reasonable. In some instances certifications attesting that certain vendor invoices were properly chargeable to the grants or summaries of the total costs charged to the grant by expenditure category were available. However, neither copies of the actual vendor invoices nor detailed breakdowns of the total cost were provided when the fieldwork was conducted. Additional information was mailed to us later. The same condition was reported in the two prior ARC reports on the grantee that we reviewed.

Recommendation

The PDCED should design, implement and maintain a simplified filing system in which source documents that support grant transactions are readily retrievable.

Grantee's Comments

The audit indicated a lack of supporting documents such as invoices or letters indicating a match for the ARC grant. The PDCED has developed a new filing system that should correct those deficiencies.

Accountants' Response

None.

CONCLUSIONS

Based on the results of our agreed upon procedures, in our opinion the \$274,351 in grant fund expenditures incurred between October 1, 1998 and February 1, 2000 which were charged to the ARC for Grant PA-7784-C19 were allowable, allocable and reasonable and should be accepted by the ARC. Additionally, in our opinion the \$296,808 in grant fund expenditures incurred between October 1, 1999 and September 30, 2000 which were accepted by the ARC for Grant PA-7784-C20 were allowable, allocable and reasonable.

DISTRIBUTION

This report is intended for the information and use of the OIG and management of the ARC and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Leon Snead & Company, P. C.

LEON SNEAD & COMPANY, P. C.

July 26, 2001

GRANTEE'S COMMENTS



PA Department of Community and Economic Development
Center for Entrepreneurial Assistance

4th Floor, Commonwealth Keystone Building | Harrisburg, PA 17120-0225
Tel: 800.280.3801 | Fax: 717.787.4088

December 27, 2001

Ms. Alexis M. Stowe, Vice President
Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, MD 20850

Re: Draft report No. 02-8(H) for ARC grants PA-7784-C19/C20

Dear Ms. Stowe:

This letter is in response to your audit. Each finding in the audit will be addressed separately.

Final Reimbursement Requests Still Not Timely. The PDCED has 60 days after the end of the grant period to submit a final expenditure report. It is acknowledged that those reports have not been timely. One of the problems with the 60-day window is that the PDCED may have a project completed at or near the end of the grant period. The PDCED may not receive an invoice for payment from the grantee until several weeks after the occurrence of the event. Once the invoice is received, the process of sending the invoice for payment to the Comptroller and the process of having the check cut by Treasury may take a month or longer. In addition, the reconciliation of the ARC accounts by the Budget & Fiscal Office takes additional time. As a result of these processing times, the 60-day window has been unachievable. The PDCED is making every effort to have the grantee submit invoices as early as possible and to expedite the payment and reconciliation processes.

Periodic Grant Fund Draw Downs Not Made. Historically the PDCED has waited until the end of the grant year to request a draw down. In cooperation with the Comptroller and the Budget & Fiscal Office, a draw down will be requested on a semi-annual basis as opposed to a quarterly basis. The reason for the semi-annual draw down is that the amount of the yearly grant has recently been reduced to less than half the former amount.

Accounting System and Documentation. The audit indicated a lack of supporting documents such as invoices or letters indicating a match for the ARC grant. The PDCED has developed a new filing system that should correct those deficiencies.

If you have any questions, please call me at 717-720-7424.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Hess', with a long horizontal stroke extending to the right.

Eugene D. Hess
Economic Development Analyst II

cc: Bob Fortney
file