

APPALACHIAN REGIONAL COMMISSION
Grant Number PA-8290-94-C13-302-0426
and
Grant Number PA-8290-93-C12-302-0427

SURVEY REPORT

Enterprise Development Program

SEDA - COUNCIL OF GOVERNMENTS
R.D.#1 Box 372
Lewisburg, Pennsylvania 17837

OIG Report No. 95-37(H)

MAR 28 1995

PURPOSE AND SCOPE

In connection with our survey of the Revolving Loan Fund during our site visit with the SEDA - Council of Governments (SEDA-COG) on March 6-10, 1995, we also surveyed the financial and programmatic records as they relate to Grant Numbers PA-8290-93-C12-302-0427 (93-89) and PA-8290-94-C13-302-0426 (94-130) (Enterprise Development Grants) awarded by the Appalachian Regional Commission (ARC) to SEDA-COG. The period of performance for these grants is October 1, 1993 to September 30, 1994 and October 1, 1994 to September 30, 1995, respectively.

The objective of the survey and limited tests was to determine whether the SEDA - Council of Governments maintained adequate accountability over program funding and programmatic records as they relate to ARC Grant Numbers PA-94-130 and 93-89. The scope of our survey was limited to the following:

1. Held an entrance conference with Grantee personnel and discussed the scope of the survey.
2. Obtained and reviewed a copy of the grant agreements and all amendments.
3. Held discussions with the Financial Manager and Grants Program Manager regarding financial records and reporting and programmatic operations.
4. Obtained a copy of the final report for Grant Number 93-89 prepared by the SEDA - Council of Governments and submitted to ARC to determine if there was evidence that the specific objectives (tasks) according to the grant agreement had been performed.
5. Performed survey procedures to determine the Grantee's adherence to ARC Code, applicable OMB Circulars, and the Grant Agreements, as related to financial management of the grants.
6. Obtained and reviewed the June 30, 1994 SEDA - Council of Governments OMB Circular A-128 Single Audit Report.
7. Determined that the Federal and local matching contributions have been met and are in accordance with the Grant Agreements and ARC Regulations.
8. Analyzed the Grantee's cash receipts from ARC and determined if they had been recorded and spent according to the requirements of the ARC Grants, ARC Code, and OMB Circular A-87.

BACKGROUND

The SEDA - Council of Governments was awarded an Enterprise Development Grant by the Appalachian Regional Commission on October 1, 1993. The amount of the grant was a sum not to exceed \$390,000 or 50% of the actual, reasonable, and eligible costs of the project, as determined and approved by ARC, whichever is less. At the conclusion of this grant (September 30, 1994), SEDA - Council of Governments was awarded another Enterprise Development Grant on October 1, 1994 for a sum not to exceed \$400,000 or 50% of the actual, reasonable and eligible costs of the project, whichever is less.

The purpose of these grants is to provide financial assistance for the Grantee's Enterprise Development Program in the SEDA-COG Region of Appalachian Pennsylvania. The objectives of the Grantee's Program included:

1. The continued development of the capability to evaluate commercially-viable new products or processes through the pooling of ideas and professional review talent in the region;
2. The continued development of the capability to provide financing for new ventures through the pooling of public and private capital sources;
3. The continued development of the capability for helping the region's small businesses operate more effectively and efficiently through the pooling of business support and development services;
4. The continued development of the capability for helping new and emerging enterprises to successfully incubate through the pooling of site facilities and assistance to reduce initial start-up costs;
5. The identification and organization of specific areas as enterprise development zones where a comprehensive service capability could be focused; and
6. The monitoring of rail service in the region, and the identification of actions needed to ensure continued rail service where needed, when proposals are made for abandonment or other actions that would threaten the viability of businesses and industries that depend on rail service.

SUMMARY OF SURVEY RESULTS

1. There was sufficient supporting documentation that the Grantee had recorded all receipts from ARC and spent the funds according to the requirements of the ARC Grants, ARC Code, and OMB Circular A-87 for costs.
2. There was sufficient supporting documentation that the Federal and local matching contributions had been met and were in accordance with the Grant agreements and ARC Regulations.
3. The Grantee's policies regarding time and attendance records for employees met the OMB Circular A-87 requirements.
4. The Grantee adhered to the ARC Code, OMB Circular A-87, and the Grant Agreements relating to their financial management procedures.
5. Based on the final report for Grant Number 93-89 prepared by SEDA-COG and submitted to ARC, it appears that the specific tasks according to the grant agreement have been met and continue to be developed under Grant Number 94-130.
6. It appears that the Grantee's method of allocating administrative expenses is reasonable.

Our survey did disclose one matter which we believe needs to be brought to the attention of the SEDA-Council of Governments. A similar observation and recommendation was included in Report No. 95-12e(H).

OBSERVATION

While we recognize that the Financial Manager appears to have complete and accurate financial records relating to the ARC Grants, these records are being kept on a manual system. Because of the complexity of these records, this manual system is susceptible to human error and is overly dependent on the Financial Manager's knowledge of the system. SEDA-COG management stated they are planning to expand the level of services they provide through an anticipated increase in future funding. We believe that without conversion to a computerized accounting system, this expansion would be difficult to accommodate with the current manual system.

We understand that SEDA-COG has made the decision to computerize their financial accounting system and staff are currently receiving training in the new program, this effort should be a priority for the organization in order to expedite the conversion as quickly as possible. This may require additional short-term assistance for the Financial Manager in order to provide for the additional work this conversion process will require. The Financial Manager indicated she

would like to have the system fully operational by July 1, 1995. We concur with this target but recognize that unless this project receives priority attention within SEDA-COG, the July first goal will not be met.

RECOMMENDATION

Priority emphasis should be placed on automating the financial accounting system.

Our survey did not disclose any other matters that need to be brought to the attention of SEDA-Council of Governments.

GRANTEE'S COMMENTS

The Grantee concurred with all observations noted in this report.

*** ACTIVITY REPORT ***

TRANSMISSION OK

TX/RX NO.	0251
CONNECTION TEL	87034919426
CONNECTION ID	TICHENOR & ASSOC
START TIME	06/23 08:00
USAGE TIME	06'31
PAGES	16
RESULT	OK

*Background
material*

APPALACHIAN REGIONAL COMMISSION
 APPROVED PROJECTS, 1993-1996
 CEDA-COG (PA)

Post-It Fax Note	7671	Date	02/21/97
To	Doude Reed	From	H. Speaks
Co./Dept.	MASSACHUSETTS	Co.	ARC-016
Phone #	911-9426	Page #	703-881-7675
Fax #	911-9426	Fax #	

	PROJECT NAME	ARC FUNDS	BASIC FUNDS	STATE FUNDS	LOCAL FUNDS
08290-93	SEDA-COG ENTERPRISE DEVELOPMENT PROGRAM	390000	150000	115000	125000
10781-93	SEDA-COG COMMUNITY DEVELOPMENT CENTER	75000	0	30000	45000
00708G-94	SEDA-COG DEVELOPMENT DISTRICT	58362	10000	0	50000
1993 TOTAL:		523362			

00708G-95	SEDA-COG DEVELOPMENT DISTRICT	74362	0	0	140000
11693-94	WOODBINE LANE (MAHONING TOWNSHIP.) ACCESS ROAD	105000	0	0	105000
08290-94	SEDA-COG ENTERPRISE DEVELOPMENT PROGRAM	400000	150000	130000	120000
1994 TOTAL:		579362			

12179-95	ROUTE 487/FRANKLIN TOWNSHIP INTERCHANGE IMPROV	500000	0	100000	50000
00708G-95S	SEDA-COG DEVELOPMENT DISTRICT	73684	0	0	15000
11552-95	SEDA-COG REGL.GRAPHIC INFO.SYS.PROJ.(0708G-95)	150000	0	0	12000
08290-95	SEDA-COG ENTERPRISE DEVELOPMENT PROGRAM	400000	150000	130000	12000
12062-95	SEDA-COG M-NET SPECIALIZED SECTOR COMPONENT DV	35000	0	0	35000
12075-95	SEDA-COG FOREST PRODUCTS MATCHMAKER NETWORK	67000	35000	40000	27000
1995 TOTAL:		1225684			

00708G-96	SEDA-COG DEVELOPMENT DISTRICT	75434	10000	50000	15000
12400-96	JUNIATA COUNTY INDUSTRIAL PARK	200000	812000	252000	105000
08290-96	SEDA-COG ENTERPRISE DEVELOPMENT PROGRAM	400000	145000	150000	60000
12401-96	SEDA-COG REGL.COORD. INFO.MNGMT. TECHNOLOGIES	60000	0	0	60000
11552-96	SEDA-COG REGL.GRAPHIC INFO.SYS.PROJ.(0708G-95)	175000	0	0	175000
1996 TOTAL:		910434			

00708G-97	SEDA-COG DEVELOPMENT DISTRICT	76192	10000	50700	15000
1997 TOTAL:		76192			

To Doude Reed
 703-491-9426



APPALACHIAN REGIONAL COMMISSION

OFFICE OF
INSPECTOR GENERAL
1666 Connecticut Avenue, N.W.
Washington, D.C. 20235
202/673-7822

April 7, 1992

Mr. Dennis Robinson
Executive Director
SEDA-COG
R. D. No. 1
Lewisburg, PA 17837

RE: 92-2(H-4)

Dear Mr. Robinson:

As discussed with you during our survey visit of February 25-27, 1992, we are providing you, through this letter, the results of our survey of SEDA-COG. No formal response by SEDA-COG is necessary

The purposes of our survey were (1) to determine the allowability of the administrative costs claimed under ARC grants, including the areas of travel, meals, and leases, and (2) to accumulate comparative data for the Office of Inspector General to utilize at the Local Development District Conference on March 9, 1992.

We surveyed the administrative costs claimed under the following grants:

- a. PA-0708G-90-C19-302-0621
October 1, 1989 - September 30, 1990
- b. PA-0708G-91-C20-302-0629
October 1, 1990 - September 30, 1991
- c. PA-0708G-92-C21-302-0624
October 1, 1991 - September 30, 1992

We utilized Federal Travel Regulations (FTRs) and OMB cost principles to analyze and evaluate grant expenditures.

The following survey results were noted.

a. Questioned/Ineligible Costs

We noted several issues/items charged against the ARC grant that we considered questionable or ineligible.

Also, correspondence in ARC files noted that, in response to SEDA-COG's internal audit report dated September 28, 1990, ARC had determined the \$15,167 in travel obligations were considered ineligible due to language in the internal audit report indicating some of the travel expenditures could have been ineligible. Since SEDA-COG had sufficient additional funds to meet matching requirements, ARC did not pursue this matter further. However, in view of recent large legal expenses, it is unclear as to whether SEDA-COG will continue to have excess funds to offset reductions in eligible costs; and in any event, good business practice would include charging of only eligible costs to Federal grants rather than reliance on subsequent cost adjustments.

The items noted included:

1. SEDA-COG did not always adhere to FTRs, including the 10-hour per diem rule. Our review of travel costs charged to ARC showed that SEDA-COG also claimed some excess travel costs for both lodging and meals because maximum actual cost limitations were not utilized. Also charged to travel were some costs of local meals and items we considered as entertainment. In addition, the corresponding supporting documentation needed improvement; i.e., travel documentation did not always indicate the travel destination or persons attending.
2. Third-party meals were charged to ARC for clients and Board of Directors meetings. We recognize that meals for Directors attending board meetings are subject to interpretation and should be clarified with ARC. We consider other third-party meals to be ineligible costs.
3. Other questionable items charged to ARC included the coffee fund, award plaques, potting soil, and planters. In addition, we noted that SEDA-COG could improve their documentation and justification of items charged to ARC. We noted direct costs charged to ARC that were lacking in adequate supporting documentation.

b. Other

1. SEDA-COG does not have supporting documentation for the in-kind rate used for the Board of Directors' contributions. A rate of \$25 per hour was used to calculate donated time at board meetings. OMB Circular A-102, Attachment F provides guidelines

for the documentation of the rate of volunteer services.

2. Although we did not note any adverse conditions, it appears SEDA-COG could improve the separation of duties. For example, the two-person accounting department has control over all of the cash receipts and disbursement responsibilities.
3. SEDA-COG leases its building and facilities from its nonprofit affiliate, SEDA Foundation. SEDA Foundation owns the land and the building. SEDA-COG contends that the two entities are separate; but SEDA Foundation has no employees. All services needed are performed by SEDA-COG employees, and certain members of SEDA-COG's Board of Directors are also on the Board for SEDA Foundation. Although we did not question the amount of the rental payment, it appears that the lease arrangement is less than arm's length. In addition, there is no formal lease agreement between SEDA Foundation and SEDA-COG.
4. SEDA-COG identified using OMB Circulars A-87, A-102, A-110, and A-122 when determining the allowability and allocability of costs.
5. SEDA-COG provided the necessary support to show that the grants surveyed were adequately matched.

We recommend SEDA-COG initiate the following actions:

- a. Since the FTR is applicable for ARC grants, it should be followed for all travel activities.
- b. Ineligible costs should be deleted from claims and postings to Federal accounts, and an ineligible cost account should be established if such costs are eligible to be charged to local funds.
- c. SEDA-COG should obtain specific guidance from ARC program coordinators for the allowability of items questioned above, including meals for board members.
- d. As required by OMB Circulars A-87 and A-102, SEDA-COG should justify and document the \$25 per hour in-kind rate for time contributed by board members. If this rate cannot be supported, a revised rate should be utilized.
- e. SEDA-COG could improve internal controls by:

1. Further separation of cash receipts and voucher review/approval to enhance separation of duties
2. Maintaining adequate supporting documentation for costs charged to ARC


Internal controls assist SEDA-COG in complying with the requirements of an adequate accounting system and help ensure that good management practices are being followed. Additionally, written policies and procedures and adequate documentation to support actions aid in ensuring compliance with OMB circulars with regard to grant costs.

- f. SEDA-COG should seek ARC's guidance on the applicability of OMB Circulars A-110 and A-122.
- g. Lease arrangements should be formalized.

If you have any questions, please call Ms. Jo Ann Brenner or me at (202) 673-7822.

The courtesies and cooperation extended to the auditors during their visit were appreciated.

Sincerely,



Hubert N. Sparks
Inspector General

APPALACHIAN REGIONAL COMMISSION

Revolving Loan Fund

Grant Number PA-10109-88-I-302-0615

and

Grant Number PA-7752A-93-I-302-1117

SURVEY REPORT

SEDA - COUNCIL OF GOVERNMENTS

R.D.#1 Box 372

Lewisburg, Pennsylvania 17837

OIG Report No. 95-12e(H)

MAR 28 1995

PURPOSE AND SCOPE

We performed a survey of the financial and programmatic records as they relate to Grant Numbers PA-10109-88-I-302-0615 (90-108) and PA-7752A-93-I-302-1117 (93-66) awarded by the Appalachian Regional Commission (ARC) to SEDA-Council of Governments (SEDA-COG). The grant period for Grant 93-66 began October 1, 1992 and continues as long as the Revolving Loan Fund is in operation. The grant period for Grant Number 90-108 began August 16, 1990 and also continues as long as the Revolving Loan Fund Program is in operation. We performed the survey during the week of March 6-10, 1995.

The objective of the survey was to determine whether the Grantee maintained adequate accountability over program funding and programmatic records as they relate to ARC Grant Numbers 90-108 and 93-66. The scope of our survey was limited to the procedures enumerated in the following paragraphs:

1. Held an entrance conference with Grantee personnel and discussed the scope of the survey.
2. Obtained and reviewed a copy of each grant agreement and the novation agreement.
3. Held discussions with the Financial Manager and the RLF Program Manager regarding financial records, reporting, and programmatic operations.
4. Obtained and reviewed a list of the current loans outstanding and their status as of February 14, 1995.
5. Obtained and reviewed a copy of the most recent Financial Status Report (September 30, 1994) filed by the Grantee with ARC and traced several expenses to supporting documentation to determine that the expenses were in accordance with the ARC Revolving Loan Fund Guidelines.
6. Performed survey procedures to determine the Grantee's adherence to the ARC Revolving Loan Fund Guidelines related to: revolving loan fund management, reporting requirements, and financial audit requirements.
7. Obtained and reviewed the June 30, 1994 SEDA-Council of Governments OMB Circular A-128 Single Audit.
8. Held an exit conference with Grantee personnel to discuss any observations and recommendations.

SUMMARY OF SURVEY RESULTS

1. It appears that the Grantee maintains adequate financial records and controls relating to the Revolving Loan Fund.
2. Twenty-two of the outstanding loans are current, one company is in Chapter 11 bankruptcy and two are currently out of business.
3. It appears that the borrowers, who are current on their loans, have achieved or are achieving their job creation goals.
4. It appears that the Grantee maintains adequate contact with the borrowers.
5. It appears that the Grantee's method of allocating administrative expenses is reasonable.

Our survey disclosed two matters which we believe need to be brought to the attention of SEDA-Council of Governments.

OBSERVATION #1

While we recognize that the Financial Manager appears to have complete and accurate financial records relating to the ARC Grants, these records are being kept on a manual system. Because of the complexity of these records, this manual system is susceptible to human error and is overly dependent on the Financial Manager's knowledge of the system. SEDA-COG management stated that they are planning to expand the level of services they provide through an anticipated increase in future funding. We believe that without conversion to a computerized accounting system, this expansion would be very difficult to accommodate with the current manual system.

We understand that SEDA-COG has made the decision to computerize their financial accounting system and staff are currently receiving training in the new program, this effort should be a priority for the organization in order to expedite the conversion as quickly as possible. This may require additional short-term assistance for the Financial Manager in order to provide for the additional work this conversion process will require. The Financial Manager indicated she would like to have the system fully operational by July 1, 1995. We concur with this target but recognize that unless this project receives priority attention within SEDA-COG, the July first goal will not be met.

RECOMMENDATION

Priority emphasis be placed on automating the financial accounting system.

BACKGROUND

The SEDA-Council of Governments was awarded a Revolving Loan Fund of \$250,000 by the Appalachian Regional Commission on October 15, 1990. The entire obligation has been loaned, but this grant continues as long as the Revolving Loan Fund Program is in operation.

The Appalachian Regional Commission funded a Pennsylvania Capital Loan Fund (PCLF) Program on September 30, 1980 (under Contract Number 80-232). This funding was available to the seven Local Development Districts (LDD) in Pennsylvania for lending under their Revolving Loan Programs. In 1992, ARC made the decision to close Grant 80-232 in order to transfer management for these funds from the PCLF to the LDDs. At the time of this novation (October 1, 1992), there was \$1,604,010.08 of grant funding, including all amendments, recapitalizations, and partial deobligations. Of this amount, SEDA-COG had \$545,692.42 in outstanding loan balances consisting of \$223,439.22 in ARC funds and \$322,253.20 in program income. In addition to the loan balances, the grant funds, which remained on deposit in the PCLF at the time of the novation agreement, were allocated to the seven LDDs. An additional \$43,132.37 was made available to SEDA-Council of Governments through this allocation. ARC deobligated the total funding to SEDA-COG of \$266,571.59 (\$223,439.22 and \$43,132.37) and reobligated it under Grant Number 93-89. As of the date of our survey, the additional \$43,132.37 is still available for drawdown from ARC.

As of February 14, 1995, SEDA-Council of Governments had 22 loans outstanding totaling \$1,333,500. These loans have a total remaining unpaid balance of \$699,500.19. Three of these loans are currently in default, two because of the companies went out of business and one because the company has filed Chapter 11 bankruptcy.

Since the novation agreement SEDA-Council of Governments has been reporting these two grants to ARC as one on the semi-annual Financial Status Reports.

SUMMARY OF SURVEY RESULTS

1. It appears that the Grantee maintains adequate financial records and controls relating to the Revolving Loan Fund.
2. Twenty-two of the outstanding loans are current, one company is in Chapter 11 bankruptcy and two are currently out of business.
3. It appears that the borrowers, who are current on their loans, have achieved or are achieving their job creation goals.
4. It appears that the Grantee maintains adequate contact with the borrowers.
5. It appears that the Grantee's method of allocating administrative expenses is reasonable.

Our survey disclosed two matters which we believe need to be brought to the attention of SEDA-Council of Governments.

OBSERVATION #1

While we recognize that the Financial Manager appears to have complete and accurate financial records relating to the ARC Grants, these records are being kept on a manual system. Because of the complexity of these records, this manual system is susceptible to human error and is overly dependent on the Financial Manager's knowledge of the system. SEDA-COG management stated that they are planning to expand the level of services they provide through an anticipated increase in future funding. We believe that without conversion to a computerized accounting system, this expansion would be very difficult to accommodate with the current manual system.

We understand that SEDA-COG has made the decision to computerize their financial accounting system and staff are currently receiving training in the new program, this effort should be a priority for the organization in order to expedite the conversion as quickly as possible. This may require additional short-term assistance for the Financial Manager in order to provide for the additional work this conversion process will require. The Financial Manager indicated she would like to have the system fully operational by July 1, 1995. We concur with this target but recognize that unless this project receives priority attention within SEDA-COG, the July first goal will not be met.

RECOMMENDATION

Priority emphasis be placed on automating the financial accounting system.

OBSERVATION #2

SEDA-Council of Governments incurred extraordinary legal costs in defending against a suit filed by the Creeger Brick & Building Supply Company in 1987. The project included a Pennsylvania Capital Loan Fund approved by SEDA-COG under the ARC portion of the program. The legal fees totaled \$321,276.14 between the Creeger Brick legal costs and the insurance company lawsuit. (See Exhibit A)

The State of Pennsylvania component of the PCLF paid for the entire Creeger Brick suit totaling \$235,352.91. The total insurance lawsuit of \$85,923.23 was divided among the State portion of PCLF, ARC portion of PCLF and the RLF Program at SEDA-COG. The insurance settlement with SEDA-COG was for \$250,000. With this money, SEDA-COG reimbursed the State PCLF the entire \$235,352.91 of the Creeger Brick suit leaving \$14,647.09 remaining to be allocated. With the allocations based on the amount of funding each gave to the insurance suit, ARC should receive \$7,162.43, SEDA-COG RLF should receive \$5,111.83 and the State PCLF should receive \$2,372.83. However, ARC only received a reimbursement of \$1,435.42 as reported in the September 30, 1994 Financial Status Report.

RECOMMENDATION

We recommend that SEDA-Council of Governments reimburse ARC \$5,727.01, the difference between the correct amount for their portion of the total insurance settlement (\$7,162.43) and the amount that SEDA-COG has already reimbursed them for (\$1,435.42).

GRANTEE'S COMMENTS

The Grantee concurred with all observations noted in this report.