

MEMORANDUM REPORT ON REVIEW OF THE  
NORTHWEST PENNSYLVANIA REGIONAL  
PLANNING AND DEVELOPMENT COMMISSION

Revolving Loan Fund,  
Enterprise Development Grants,  
and  
Regional Incubator Grant

ARC Grant Nos: PA-7752F-93-I-302-1117 and  
PA-8285-93-C12-302-0427  
for the period October 1, 1993 through September 30, 1994

ARC Grant No: PA-8285-94-C13-302-0426  
for the period October 1, 1994 through September 30, 1995

ARC Grant No: PA-10774-91-I-302-0318  
for the period October 1, 1991 through March 31, 1993

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Report Number: 96-8(H)

Date: November 29, 1995

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Prepared by:

Tichenor & Associates  
Certified Public Accountants  
Woodbridge, Virginia

Under Contract Number J-9-G-2-0010 with the  
U.S. Department of Labor  
Office of the Inspector General  
Office of Audit

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

FROM: Tichenor & Associates  
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman  
ARC Executive Director

SUBJECT TO: Memorandum Review Report No. 95-40(H)

Grantee: Northwest Pennsylvania Regional Planning and  
Development Commission

Grant Nos: Revolving Loan Fund: PA-7752F-93-I-302-1117;  
Enterprise Development Grants: PA-8285-93-C12-302-  
0427 and PA-8285-94-C-13-302-0426: and, Regional  
Incubator Grant: PA-10774-91-I-302-0318.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Northwest Pennsylvania Regional Planning and Development Commission were expended in accordance with the ARC approved grant budgets and did not violate any restrictions imposed by the terms and conditions of the referenced grants; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; (c) the objectives of the grant were being met. We also performed a limited review of prior issues identified by ARC pertaining to the Regional Incubator grant.

BACKGROUND: The Northwest Pennsylvania Regional Planning and Development Commission (Grantee) is a nonprofit organization formed for the purpose of civic improvement and economic development of eight counties (Clarion, Crawford, Erie, Forest, Lawrence, Mercer, Venango and Warren) in the state of Pennsylvania. The Grantee is funded by contributions from these counties as well as federal and state grant awards.

ARC recapitalized the Revolving Loan Fund through ARC Grant Number PA-7752F-93-I-302-1117 for the period October 1, 1993 through September 30, 1994. The purpose of the Revolving Loan Fund was to provide continued funding for the economic development revolving loan fund (RLF).

ARC also awarded \$390,000 and \$400,000, respectively, under ARC Grant Numbers PA-8285-93-C12-302-0427 and PA 8285-94-C13-302-0426 for the periods October 1, 1993 through September 30, 1994 and October 1, 1994 through September 30, 1995, respectively. The purpose of the Enterprise Development Grants was to provide financial assistance for the continuation of the Grantee's Enterprise Development Program in Appalachian Pennsylvania. As of the date of our review, ARC payments to the Grantee for the Enterprise Development Grants totalled \$368,583 and \$288,752 for the 1993 and 1994 grants, respectively.

Based on our review of the grant agreements, we determined that the specific objectives of the RLF and Enterprise Development grants programs were to:

Revolving Loan Fund:

The RLF was created to loan money to area companies to:

- To create and retain private sector jobs;
- To overcome financial gaps in development projects;
- To leverage other public and private sector funds;
- To assist small business and local entrepreneurs in obtaining credit;
- To provide a source of capital for businesses owned by minorities, women, or other economically disadvantaged persons.

Enterprise Development Grants:

The Enterprise Development project consisted of:

- Loan packaging and financial assistance;
- Economic development related grant packaging assistance;
- Procurement assistance;
- Export assistance;
- Information and technical assistance;

- PA Work Force 2000;
- Warren/Forest County assistance program;
- Economic Development Related Highway Planning;
- Population and Marketing Analysis Center (PMAC);

SCOPE: Our review was limited to certain aspects of the grants, and was based on our understanding of the grant agreements between ARC and the Grantee and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. We also reviewed and relied on the available annual independent financial statement audit and Single Audit to the extent deemed appropriate. In summary, we tested to determine if the objectives listed above were met, the accountability over ARC funds was sufficient as required by the Office of Management and Budget (OMB) Circulars and the Grantee complied with the requirements of the grant agreements. In addition, we discussed the program objectives and performance with Grantee personnel and the Program Coordinator at ARC. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at the Grantee's offices in Franklin, PA:

**A. Incurred Costs**

**Finding**

Misclassification of Indirect Costs

The Grantee claimed indirect costs of \$6,300 as direct costs of the Enterprise Development Grant (PA-8285-93-C12-302-0427). These indirect costs included \$6,000 for the preparation of the 1994 Annual Report. The Annual Report discusses and benefits the entire Commission and therefore should have been allocated to all programs and grants. In addition, the Grantee claimed \$300 in consulting costs for the presentation of "The Winning Proposal". However, all other costs of the presentation were charged directly to a non-ARC grant entitled the Grantsmanship grant. Costs must be allocated to the grant based on the benefit received in accordance with OMB Circular A-122, Attachment A, Paragraph A.4.a., which states:

"A cost is allocable to a particular cost objective, such as a grant...in accordance with the relative benefits received. A cost is allocable to a Government award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it: (1) Is incurred specifically for the award...."

In addition, Attachment A, Paragraph A.4.b. states:

"Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award."

### **Grantee's Response**

The Grantee concurred that the \$6,000 for the preparation of the Annual Report is an indirect cost and should be allocated to all programs. The Grantee stated that an adjustment will be made to accomplish the allocation.

The Grantee disagreed that the \$300 in consulting costs was not chargeable to the ARC grant. The Grantee stated that the consulting costs were for the development of a grant-writing seminar and not for the presentation of the seminar which occurred later.

### **Additional Comments**

We concur that the cost of the Annual Report should be allocated to all programs. We recommend that ARC review the allocation of the costs and pay only its share in making the final payment on this grant. We continue to consider the \$300 in consulting costs to be related to the seminar funded by the Grantsmanship grant. Therefore we believe these costs should have been likewise charged to that grant.

### **Finding**

#### Interest Earned on ARC Advance Payments Was Not Refunded

The Grantee received advance payments from ARC and deposited the funds into an interest bearing account. However, the interest earned on the advances was not calculated, reported or refunded to ARC. OMB Circular A-110, Attachment D requires that interest on advances be calculated and returned to the Treasury on a quarterly basis.

### **Grantee's Response**

The Grantee concurred that the interest should be calculated and refunded. The Grantee calculated the interest and intends to return it to ARC. The Grantee also stated that future interest earned will be calculated and reported as program income.

## **Additional Comments**

We agree with the Grantee's response. However, the Grantee did not submit support for their interest calculations. Therefore, we recommend that ARC review the calculations in determining the total costs payable under the grant.

## **B. Internal Accounting Controls**

### **Finding**

#### Improper Allocation of Personnel Costs

The Grantee's has an established workday of seven hours. Overtime is not compensated, but is required to be recorded on individual timesheets, prepared semi-monthly by all personnel. The Grantee allocates salaries, fringe benefits and indirect costs based only on the first seven hours of each day. Overtime does not affect either the hourly rate to be allocated to each project.

This method of accounting could result in the overstating of personnel costs as well as associated fringe benefits and indirect costs which are allocated based on personnel costs. The programs which are worked on during the overtime hours receive benefit without cost, while the programs which are worked on during the normal work period must absorb all of the cost. In accordance with OMB Circular A-110, Attachment A, Paragraph A.4.a., costs should be allocated based on benefit. The proper method of cost accounting for personnel costs when overtime is not compensated is to divide the employee's salary for the period by the total hours worked, direct and indirect, to establish the effective hourly rate. The rate is then multiplied by the total hours on each program to allocate total personnel costs.

We did not determine the effect of the Grantee's method of allocating personnel costs. However, we recommend that the Grantee design and implement procedures to assure that all time is recorded on the personnel timesheets and that costs are allocated based on total hours.

### **Grantee's Response**

The Grantee stated that all employees work a seven hour day and that the only overtime incurred is while on travel status.

### **Additional Comments**

We continue to emphasize that, when applicable, all time should be recorded on employee timesheets and properly accounted for.

## **Finding**

### Travel Costs in Excess of Ceilings Established by the Federal Travel Regulations

The Grantee claimed travel costs which exceeded the rates established for lodging and per-diem established in the Federal Travel Regulations (FTR's). The Grantee stated the FTR's allowed costs up to 150% of the established ceilings. We agreed that the FTR's make allowance for costs in excess of the established rates, however, the FTR's require prior approval for costs exceeding the limits. We found no documentation indicating prior approval from ARC for incurred travel costs. We did not quantify the portion of costs exceeding the FTR's, but we do recommend the Grantee establish controls to obtain prior approval from ARC for any costs in excess of the ceilings established by the FTR's.

### **Grantee's Response**

The Grantee stated that they have procedures established to seek lodging that does not exceed FTR but that in most cases it is not possible to locate lodging within the established guidelines. The Grantee further contended that requiring prior written approval from ARC would create a tremendous amount of paper shuffling.

### **Additional Comments**

The FTR encourages prior written approval for travel costs which exceed the established guidelines. Therefore, we continue to recommend that such approval be obtained from ARC, with consideration of blanket approval by ARC when use of actual subsistence cost is necessary.

## **C. Other**

Our review included a review of the total costs incurred under the Regional Incubator grant. Our review of these costs resulted in the following.

## **Finding**

### Inaccurate Reporting of Incurred Costs

The ARC financial office indicated that the financial statements remitted by the Grantee did not support the total expenditures for the Regional Incubator as reimbursed by ARC. We reviewed the audited financial statements and determined that the ARC financial office's calculations were correct. Although the Grantee claimed \$90,000 for reimbursement, costs incurred totalled only \$87,500. Therefore, the Grantee claimed \$2,500 which was not incurred. These costs are unallowable in accordance with OMB Circular A-110, Attachment F, which states in part:



"1.a. Accurate, current and complete disclosure of the financial results of each federally sponsored project... 1.f. Procedures for determining the reasonableness, allowability and allocability of costs in accordance with the provisions of the applicable Federal cost principles and the terms of the grant...."

### **Grantee's Response**

The Grantee stated that the Single Audit reports all unexpended funds. The Grantee's procedure is to wait for ARC to close out and give instructions for either returning or carrying over unspent monies.

### **Additional Comments**

We recommend that the Grantee return the unspent funds since the project is complete and the final request was processed by ARC.

### **RECOMMENDATIONS:**

Based on the results discussed above, we recommend the following:

1. We recommend that the Enterprise Development grant PA-8285-93-C12-302-0427 be reduced by the portion of the \$6,000 in indirect costs allocable to other programs. We also recommend that the questionable \$300 in consulting costs be resolved with ARC.
2. We recommend that the Grantee provide support for the calculation of interest earned on ARC advances and refund the interest to ARC. We also recommend future grants be funded on the reimbursement rather than the advance basis.
3. We recommend that the Grantee implement a cost system which properly accounts for all hours worked and allocates personnel costs based on total time worked.
4. We recommend that the Grantee obtain written approval from ARC for use of actual subsistence costs and that the approval be included with applicable travel vouchers.
5. We recommend that the Grantee reduce the amount claimed under the Regional Incubator grant by \$2,500 for costs not incurred.

*Tichenor & Associates*

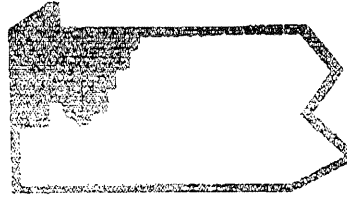
TICHENOR & ASSOCIATES

Woodbridge, Virginia

May 11, 1995

# NORTHWEST PENNSYLVANIA

REGIONAL PLANNING AND DEVELOPMENT COMMISSION



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September 1, 1995

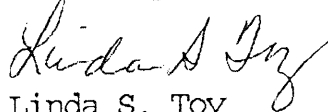
Ms. Deirdre C. McKenna  
Tichenar & Associates  
12531 Clipper Drive Suite 202  
Woodbridge, VA 22192

Dear Ms. McKenna:

Enclosed please find response to the draft review report.

If you have any questions or comments, please call me at (814) 437-3024.

Sincerely,

  
Linda S. Toy  
Accountant

Enclosure

LST/bjm

## RESPONSE TO ARC AUDIT RECOMMENDATION

### A. INCURRED COSTS

1. After careful consideration the Northwest Commission concurs with Tichenar and Associates regarding \$6,000 directly charged to Enterprise Development Grant (PA-8285-93-C12-302-0427), an adjustment will be made to indirect this cost and ARC will share the cost with other programs.

In August of 1994, the Northwest Commission contracted \$300 with a consultant to develop a grant-writing seminar. The cost incurred was to determine if a grant-writing seminar would be feasible, not for the presentation itself. The benefit received was a successful seminar which came to fruition on November 17, 1994. The Commission believes such cost is allocable to the ARC grant.

Interest earned on ARC advance payments has been calculated for the period October 1, 1993 through September 30, 1994 as \$933.27 (302a), and \$493.52 (302b). These amounts will be reimbursed. The interest-earned for the period October 1, 1994 through June 30, 1995 is \$1,117.68 (302a), and \$365.80 (302b). These amounts and future earned interest will be reported as program income on a quarterly basis. The Northwest Commission strongly opposes future ARC funding to be made on the reimbursement basis. The Northwest Commission depends on advance payments from ARC for cash flow. If ARC would implement payment on a reimbursement basis, approximately six (6) months would

elapse before we would have funds to operate; three (3) months for the quarter, one (1) month to report to ARC and one (1) to (2) months to approve the report and issue a treasury check.

**B. Internal Accounting Controls**

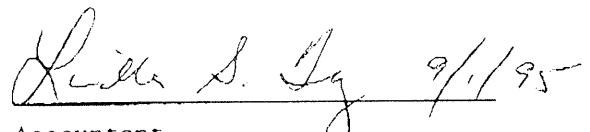
1. All Northwest Commission employees work a seven hour day. Only when an employee is on travel status do the hours exceed seven per day. Employees receive no compensation of any form for those travel hours incurred that, when combined with non-travel hours, exceed seven hours for any particular day. Any excess hours are considered personal.

2. The Northwest Commission has a procedure established to seek lodging that does not exceed FTR; in most cases it isn't possible. We contend ARC requiring prior written approval for individual requests would create a tremendous amount of paper shuffling. Any expense exceeding 150% of FTR is not charged to the grant.

**C. Other**

The Single Audit reports all unexpended funds. The Northwest Commission procedure is to wait for ARC to close out and give instructions for either returning or carrying over unspent monies.

  
Executive Director

  
Accountant