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March 5, 1996

Mr. Hubert N. Sparks
Inspector General
Appalachian Regional Commission
1666 Connecticut Avenue, NW
Suite 215
Washington, DC 20235

RE: Financial Statements and Single Audit Review

Dear Mr. Sparks:

At your request, we have reviewed the Financial Statements and Single Audit submitted to the Appalachian Regional Commission (ARC) by North Central Pennsylvania Regional Planning and Development Commission (the Commission) for the fiscal year ended June 30, 1994. Based on our review of the financial statements, audit reports and supplemental schedules and notes, we have identified several areas of potential concern to ARC. We suggest that you address each of the following areas by requesting a written response from the Commission. The written response should be supported with documentation, as necessary.

INTERNAL CONTROL

Cash Management

At June 30, 1994 the Commission had requested reimbursement in excess of costs incurred by an amount of \$272,471 under the Job Training and Partnership Act (JTPA) Program. This demonstrates an internal control weakness in the Commission's cash management procedures. The grant documents stipulated that the Commission was to implement a cash management system which would ensure that only the minimum amount of cash required to effectively operate the various programs was requested and/or retained.

COMPLIANCE

Finding Not Put Into Perspective

The cash management finding described above was not put into perspective in the report. The auditor should have related the dollar effect of the reimbursement amount requested in excess of costs incurred and mentioned above to total costs incurred under the program.

GRANTS/CONTRACTS/PROGRAM

Unexpended Obligated Funds

Based on the Schedule of Federal Awards, there appear to be ARC grants with unexpended funds and little program activity. The Commission should explain the lack of program activity and use of these unexpended funds, plus accrued interest, to address this issue.

Potential Duplication or Inconsistent Treatment of Indirect Costs

There appears to be a potential for duplication or inconsistent treatment of indirect costs, based on the schedule of indirect costs included in the report. The Commission should provide detailed documentation that supports how total costs were accumulated and allocated or direct charged for the following categories of cost: maintenance, supplies, printing and publications, space, utilities, telephone, postage and insurance.

Questioned Operating Lease Costs

The Department of Commerce, Office of Inspector General, reclassified an operating lease as a capital lease, in accordance with Financial Accounting Standards Board Statement # 13, and recommended a refund of \$200,228. The Commission should provide detailed documentation on this area in order to illustrate if ARC is entitled to a similar refund in connection with this reclassification.

OTHER

Independent Auditors' Report Does Not Contain a Required Element

The independent auditors' report on the financial statements does not contain a reference to generally accepted government auditing standards (GAGAS), which is required by Government Auditing Standards (GAS), Section 5.3.

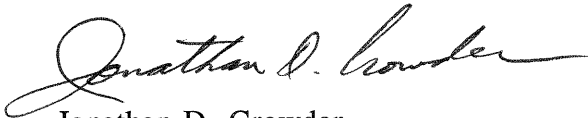
Mr. Hubert N. Sparks
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Principal Effects of Adverse Opinion Not Provided

An adverse opinion was issued on the financial statements, due to the Commission's policy of preparing its financial statements on the basis of accounting that demonstrates compliance with various grantor agency budgetary reporting requirements, which is a comprehensive basis of accounting other than generally accepted accounting principles. However, the principal effects of the subject matter of the adverse opinion on the financial position, results of operations and cash flows, or a statement that the effects are not reasonably determinable, were not provided, as required by generally accepted auditing standards.

We recommend that the Commission provide the requested documentation to ARC, Office of Inspector General, as soon as possible. Please let us know if you have any questions on these matters.

Sincerely,



Jonathan D. Crowder
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Dear Mr. Sparks:

At your request, we have reviewed the Financial Statements and Single Audit submitted to the Appalachian Regional Commission (ARC) by Northwest Pennsylvania Regional Planning and Development Commission (the Commission) for the fiscal year ended September 30, 1994. Based on our review of the financial statements, audit reports and supplemental schedules and notes, we have identified several areas of potential concern to ARC. We suggest that you address each of the following areas by requesting a written response from the Commission. The written response should be supported with documentation, as necessary.

GRANTS/CONTRACTS/PROGRAM

Lack of Activity/Unexpended Obligated Funds

We noted that the following grants had unobligated balances or deficits in the following amounts since at least September 30, 1993:

Description	Amount
Enterprise Development - Administrative VIII	\$ 1,990
Economic Development Project VI	\$ 6,538
Economic Development Project VII	\$ (9,503)
Office of Vocation Rehabilitation Program I	\$ 1,420
Ailing Business Technical Assistance	\$ 1,222

The Commission should provide documentation on the current status of these programs, i.e., the current unobligated balances, recent program activity, expected future activity, etc.

Matching Requirements

We noted that one particular ARC grant, Administrative VIII, is being matched with other Federal dollars. Unallowable costs, referred to as "Local Expense" in this report, were also included in the total costs of the grant. The report does not state what the matching requirement was; however, the result of removing these local expenses from allowable grant costs appears to be that the total match is inadequate. Also, there are adjustments to each type of match - local, in-kind, state and Federal funds. We believe there is potential that similar issues exist for other ARC programs. There is also the possibility that the same dollars were used to match more than one program. The Commission should provide detailed supporting documentation on how the matching requirements were met for this and all other ARC grants covered by this report.

Potential Duplication or Inconsistent Treatment of Indirect Costs

There appears to be a potential for duplication or inconsistent treatment of indirect costs, based on the Statement of Indirect Costs Allocated included in the report. Please provide detailed documentation that supports how total costs were accumulated and allocated or direct charged for the following categories of cost: employee benefits, office supplies, postage, printing and publications and membership dues.

COMPLIANCE

Incorrect Reporting of Match Not Described in Compliance Report

The incorrect reporting of matching costs, as described above, was not included in the Compliance Report as required.

OTHER

Independent Auditors' Report Does Not Contain a Required Element

The Independent Auditors' Report does not mention cash flows in its last paragraph, as required by U.S. Auditing Standards, (AU), AU 508.08-508.09.

Principal Effects of Qualified Opinion Not Provided

A qualified opinion was issued on the financial statements, due to the Commission's policy for revenue recognition, which is a departure from generally accepted accounting principles (GAAP). However, the principal effects of the subject matter of the qualification on the financial position, results of operations and cash flows, or a statement that the effects are not reasonably determinable, were not provided, as required by generally accepted auditing standards.

Amounts Do Not Tie Within the Financial Statements

The income amount presented on the Statement of Income, Obligations and Unobligated Balance for the Enterprise Development - Administrative XII grant (\$602,525) does not agree with the amount shown in the Notes to Schedule of Federal Financial Assistance (\$575,820).

We recommend that the Commission provide the requested documentation to ARC, Office of Inspector General, as soon as possible. Please let us know if you have any questions on these matters.

Sincerely,



Jonathan D. Crowder
TICHENOR & ASSOCIATES