

MEMORANDUM REPORT ON REVIEW OF THE
COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMERCE

Consolidated Technical Assistance

ARC Grant Nos: PA-7784-92-C13-302-0630
and PA-7784-93-C14-302-0624
October 1, 1992 through September 30, 1994

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Report Number: 96-30(H)

Date: July 30, 1996

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

FROM: Tichenor & Associates, CPAs
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman
ARC Executive Director

SUBJECT: Memorandum Review Report, 96-30(H) Commonwealth of Pennsylvania
Department of Commerce, Office of Economic Development. Program
and Cost Incurred Review - October 1, 1992 through September 30, 1994;
ARC Grant Numbers PA-7784-92-C13-302-0630 and PA-7784-93-C14-
302-0624.

PURPOSE: The purposes of our review were to determine that (a) all funds were expended in conformity with the approved budget and did not contravene any restrictions imposed by the terms and conditions of the grant, (b) the accounting, reporting and internal control systems provide for disclosure of pertinent financial and operating information, and (c) the objectives of the grant were being accomplished.

BACKGROUND: The Department of Commerce (Grantee) is a division of the Commonwealth of Pennsylvania government which is responsible for the daily operations of the Appalachian program in Pennsylvania, operational expenses of the Appalachian office and specific research and technical assistance initiatives.

ARC awarded grant number PA-7784-92-C13-302-0630 (92-C13) to the Grantee on October 1, 1992 and grant number PA-7784-93-C14-302-0624 (93-C14) on October 1, 1993. The original period of performance under each grant was one year. However, specific objectives of the first grant were granted an extension until November 30, 1993. The purpose of the grants was to provide funding for the Grantee to continue its Consolidated Technical Assistant Program for program years 13 and 14.

Both of the ARC grants were for an amount not to exceed \$350,000. The ARC grants were to fund up to 50 percent of the total, allowable costs incurred on the 92-C13 grant and up to only 39 percent of the total, allowable costs incurred on the 93-C14 grant. The project costs in excess of the \$350,000, or stated percentage, were to be paid either by the entities receiving technical assistance through the grants or by the State out of non-Federal resources. As of the date of our fieldwork, October 1995, ARC payments totalled \$117,603 for the 92-C13 grant and no payments had been made by ARC for the 93-C14 grant. Additional payments of \$146,508 and \$178,362, respectively, were made by ARC subsequent to fieldwork completion but prior to the issuance of the draft report in March 1996. The remaining balances of \$85,888 and \$171,638, were deobligated by ARC on December 7, 1995 and January 31, 1996, respectively.

We determined that the specific objectives of the Consolidated Technical Assistance grants included the following:

A. PENNSYLVANIA DEPARTMENT OF COMMERCE, OFFICE OF SMALL BUSINESS AND THE BUREAU OF APPALACHIAN DEVELOPMENT

Support of staff salaries and office operations for employees in the Office of Small Business and the Bureau of Small Business and Appalachian Development who are responsible for the daily operations of the Appalachian program.

B. RESEARCH/TECHNICAL INITIATIVES IN GRANTS

- Small Business Assistance Fairs. A demonstration project to sponsor small business assistance fairs in Appalachian Pennsylvania. These fairs, developed and supported by local interest, LDDs, SBDCs and others, are held to discuss assistance services available.
- Women's Business Development Program. A program designed to bridge the information gap between economic development professionals and their clients.
- International Marketing (First Grant only). As a follow-up to the export development program previously funded, the Trade Office will initiate a program addressing cultural barriers in international marketing. This project entails conducting two seminars relating to the cultural aspects of doing business in selected counties.
- Minority Manufacturers Strategy. An intensive review of minority firms to identify their characteristics. A Small Business Initiative for Minority Manufacturing Firms will be started. The grantee, using results of the current review, will develop an implementation plan, convene service delivery agencies to determine needs for outreach to minority firms, link prime contractors with

minority firms, involve the Industrial Resource Councils in technical assistance and create a support network among state agencies and minority firms.

- St. Mary's/Benzinger Municipal Government Project (First Grant Only). Analyze and recommend locations for the new municipal government of the City of St. Mary's. Articulate the proper governmental organization and department structure (programs, services, staffing). Prepare and ordinance and administrative code book.
- Southwest Regional Export Guide (Second Grant only). Prepare a guide to exporting for specialty manufacturers, software development, engineering and business services companies.
- Performance Audit Follow-up. In order to act upon any recommendations resulting from the 1991 performance audit, develop a specific work plan and budget for ARC approval prior to the initiation of any work under this component.
- Economic Development Summit (Second Grant only). Prepare and conduct an economic development summit for the purpose of bringing together leading participants in the economic development process in Pennsylvania to discuss its future in the Commonwealth as it moves into the 21st century. A document summarizing the summit will be prepared to assist the State in preparing itself for the future and to assist in updating the State Appalachian Development Plan.

SCOPE: Our survey was based on a review of the grant agreements between ARC and the Grantee and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. In summary, we determined if the objectives listed above were met, the accountability over ARC funds was sufficient as required by the OMB circulars, and the Grantee complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with Grantee personnel. Our results and recommendations are based on those procedures.

We provided the Grantee with a draft report, which included the results of our survey as reported below, on March 19, 1996 and requested that the Grantee provide a written response or additional documentation to address the reported results. The Grantee provided a response dated June 17, 1996. Comments are summarized in the applicable report sections and included in full as an exhibit.

RESULTS: The following findings and recommendations are based on our survey:

I. COSTS INCURRED

The following table summarizes the costs claimed by the Grantee, including costs to be reimbursed by ARC and matching costs.

92-C13

Objective	Approved			Actual		
	ARC	Match	Total	ARC	Match	Total
Office of Small Business: Personnel Costs	\$ 123,164	\$ 209,711	\$ 332,875	\$ 121,885	\$ 121,885	\$ 243,771
Office of Small Business: Operations Costs	30,006	30,006	60,012	30,006	40,634	70,640
International Marketing	6,500	6,500	13,000	4,223	4,223	8,446
Minority Manufacturing	38,000	38,000	76,000	34,200	34,200	68,400
Women's Conferences	35,000	129,140	164,140	11,416	11,773	23,189
Small Business Assistance Fairs	15,000	15,000	30,000	3,629	4,310	7,939
St Mary/Bensinger	60,000	60,000	120,000	58,753	108,708	167,461
TOTAL	\$ 307,670	\$ 488,357	\$ 796,027	\$ 264,112	\$ 325,734	\$ 589,846

93-C14

Objective	Approved			Actual		
	ARC	Match	Total	ARC	Match	Total
Office of Small Business: Personnel Costs	\$ 159,471	\$ 194,504	\$ 353,975	\$ 119,448	\$ 119,448	\$ 238,896
Office of Small Business: Operations Costs	30,000	30,000	60,000	20,667	21,797	42,464
Performance Audit	15,529	15,529	31,058	0	0	0
Minority Manufacturing	35,000	65,000	100,000	0	0	0
Economic Development Summit	10,000	47,500	57,500	0	0	0

Objective	Approved			Actual		
	ARC	Match	Total	ARC	Match	Total
Women's Conferences	35,000	129,140	164,140	4,691	56,855	61,546
Small Business Assistance Fairs	15,000	15,000	30,000	5,807	5,807	11,613
SW Regional Export Guide	50,000	50,000	100,000	50,000	52,821	102,821
TOTAL	\$ 350,000	\$ 546,673	\$ 896,673	\$ 200,612	\$ 256,727	\$ 457,339

Improper Allocation of Personnel Costs

The Grantee charged all personnel costs to the ARC Consolidated Technical Assistance grant, half as reimbursable costs and half as match. However, a prior audit of the Consolidated Technical Assistance program reported that only 76 percent of the counties in the Commonwealth of Pennsylvania are within the ARC region. Therefore only 76 percent of the Grantee's personnel costs should be claimed as benefitting the ARC grant and be allocable to the grant in accordance with OMB Circular A-87, Attachment A, , Paragraph C.2.a. which states:

"A cost is allocable to a particular cost objective to the extent of benefits received by such objective."

We recommend that the following adjustment to allowable personnel costs be made:

	<u>Claimed</u>	<u>Questioned</u>	<u>Recommended</u>
ARC Contract 92-C13:			
Federal	\$121,885	\$29,252	\$92,633
State	\$121,885	\$29,252	\$92,633
ARC Contract 93-C14:			
Federal	\$119,448	\$28,668	\$90,780
State	\$119,448	\$28,668	\$90,780

Grantee Comment

The Grantee stated that the salary costs claimed under the grant were only 73 percent of the total salaries incurred for the ARC grant. The Grantee provided a schedule, included as an attachment to this report, to summarize total salaries by employee and the allocation to ARC.

Additional Comments:

We reviewed the support provided by the Grantee during fieldwork and were unable to reconcile the information to the schedule included with the response. Our calculations of the total salaries and the ARC percent were based on the support provided during fieldwork as follows:

- The Grantee provided two schedules entitled Appalachian Regional Commission, Personnel Costs Breakdown, for the period October 1, 1992 to January 15, 1993 and for the period January 16, 1993 through June 30, 1993. These schedules included a detailed breakdown of the personnel, the biweekly pay, the percent allocated to ARC, and the total benefits.
- The Grantee provided payroll vouchers to support the biweekly pay detailed on the above schedule.
- The Grantee provided the Appropriation Expenditure Adjustment which was used to transfer the personnel costs to the ARC grant in the accounting records.

In order to determine that additional salaries were incurred for the ARC grant project, the Grantee should provide to ARC the additional documentation, specifically the Personnel Costs Breakdown and the Appropriation Expenditure Adjustment, for the period July 1, 1993 through September 30, 1993.

We also reviewed the support provided for the second grant period, October 1, 1993 through September 30, 1994. We determined that the Grantee had provided all of the support for the entire grant period. Total salaries incurred, according to the support, were \$238,896 which is equal to the amount claimed. Therefore, we continue to recommend that ARC participate in only 76 percent of these salary costs, subject to the 39 percent overall grant participation, because only 76 percent of the counties serviced by the Grantee are within the ARC region.

Total Costs for Minority Manufacturing Strategy - 92-C13

As discussed in the Background section, the grants included an objective with respect to Minority Manufacturing. Under the 92-C13 the Grantee subcontracted a company named COSTAR to complete this objective. The approved budget, as summarized above, was for \$76,000, 50 percent to be funded by ARC and 50 percent to be paid by the State as matching costs. We determined that the total costs claimed for the work performed by COSTAR were not properly supported.

Before completing the Minority Manufacturing Strategy (MMS) project, COSTAR notified the Grantee that it would be ceasing operations upon the completion of three projects, MMS being

one of the projects. COSTAR further indicated that it had a remaining operating budget to complete the projects of \$250,000. COSTAR submitted and was paid for two invoices totaling \$34,200 for work on the MMS project. The Grantee, however, claimed a total of \$68,400: the \$34,200 invoiced plus an additional \$34,200 as matching costs. We considered the additional \$34,200 to be unsupported in accordance with OMB Circular A-102, Subpart C, Financial Administration. We therefore recommend that the total costs claimed for the MMS project on 92-C13 be limited to \$34,200, 50 percent to be funded by ARC and 50 percent to be paid by the State as matching costs.

Grantee Comment

The Grantee noted that COSTAR is attempting to obtain more information to support the match and if additional documentation is not provided the funding claimed on this project will be decreased.

Total Costs Claimed for Reimbursement

The Grantee requested ARC reimbursement for 50 percent of the total costs claimed under the 93-C14 grant. However, as stated in the Background section of this report and summarized in the approved budget section of the table above, ARC participation was limited to 39 percent of the total, allowable costs incurred. Notwithstanding the fact that the allowability of all costs could not be determined, as discussed in the Internal Control finding below, we recommend that ARC limit payment on this grant to 39 percent of \$400,003 (\$457,339 claimed less \$57,336 in unallocable personnel costs) or \$156,001.

In addition, we recommend that ARC limit participation to 50 percent of the total allowable costs under the 92-C13 grant of \$497,143 (\$589,847 claimed less \$58,504 in unallocable personnel costs and \$34,200 in unsupported costs from COSTAR) or \$248,572.

Subsequent to the completion of fieldwork, but prior to the issuance of the draft report on March 19, 1996, ARC made payments to the Grantee totaling \$264,111 and \$178,362, on grants 92-C13 and 93-C14 respectively. These payments were determined by ARC based on their review of the approved budgets and claimed costs as summarized in the above table. The Grantee claimed total ARC costs of \$264,111 under 92-C13, which represented less than 50 percent of the total costs incurred as reported. Therefore, ARC reimbursed the Grantee for all costs claimed. The Grantee claimed total ARC costs of \$200,612 under 93-C14, which represented approximately 44 percent of the total costs incurred as reported. However, as stated above, the grant provided for funding of only 39 percent of the total allowable costs. Therefore, ARC calculated 39 percent of the total reported costs in reimbursing the Grantee ($\$457,339 \times 39\% = \$178,362$). Because the review had not been completed, ARC was unaware of the

recommendations with respect to personnel costs, COSTAR costs, and the incomplete grant objectives.

Grantee Comment

The Grantee concurred with the finding but noted that ARC rules and regulations are very confusing as respects the expected level of matching.

II. COMPLIANCE

Objectives Not Performed

The following objectives included in the scope of the 93-C14 were not performed by the Grantee:

- Performance Audit
- Minority Manufacturing Strategy project
- Economic Development Summit

The Grantee did not claim any costs associated with the above projects. However, the Grantee did not justify the deletion of these objectives or request ARC approval to remove them from the scope of performance. We recommend that the Grantee inform ARC of all intended changes to the scope of the grant and request approval for the deletion of grant objectives.

Grantee Comments

The Grantee concurred and noted that in the future requests for project additions or deletions will be submitted for approval.

Final Reimbursement Request

The Grantee did not file its' final reimbursement requests in accordance with the grant conditions. The two grant periods ended on September 30, 1993 and 1994, respectively. However, the Grantee did not file final reimbursement requests (SF-270) for the two grants until September 22, 1995. The grant agreement states, in Paragraph 9(b):

"A final expenditure report shall be submitted within 60 days of the end of the grant period..."

We recommend that the Grantee implement procedures to assure that all grant conditions are complied with including the timely submission of all progress reports and reimbursement requests.

Grantee Comment

The Grantee concurred and noted that efforts are being made to submit all reports in a timely manner.

III. INTERNAL CONTROLS


Accounting System and Documentation

The Grantee did not maintain adequate source documentation to support the use of all funds under the grant in accordance with OMB Circular A-102, Subpart C, Financial Management. Support for many of the costs claimed were memorandums generated by subcontractors or other departments, which were not supported by specific transactions in the general ledger. We were unable to tie matching costs, except personnel costs, and a large portion of the ARC reimbursable costs to the accounting records in order to determine that the costs were incurred, allowable and allocable to the ARC grants.

The Grantee stated that the accounting system will be modified in order to identify all costs incurred by project. We recommend that this modification be made and that ARC audit the fiscal year 1995 Consolidated Technical Assistance grant to assure that the modified system in adequate to account for all program costs.

CONCLUSION: The Grantee's accounting system is not adequate to properly record, accumulate and report costs under the ARC grant. As a result the Grantee claimed unallocable and unsupported costs, which we recommend not be participated in by ARC, and was not able to support the allowability of the remaining costs claimed. In addition, the Grantee did not complete all of the grant objectives.

We recommend that the Grantee design and maintain an accounting system which more adequately and accurately accounts for costs and that ARC perform additional audits to assure that the changes are adequate.


TICHENOR & ASSOCIATES
Woodbridge, Virginia

COMMONWEALTH OF PENNSYLVANIA
Department of Commerce

June 17, 1996

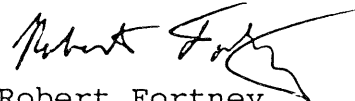
Tichenor & Associates
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12531 Clipper Drive, Suite 202
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Dear Sirs:

Enclosed is the Department of Commerce's responses to the draft report done by your office for the Appalachian Regional Commission (ARC) on Grant numbers PA-7784-92-C13-302-0630 and PA-7784-93-C14-302-0624. Time period was October 1, 1992 through September 30, 1994.

If you have any questions or need more information on any of the responses, please call me at (717) 783-8173.

Sincerely,



Robert Fortney
Chief, Budget & Fiscal
Department of Commerce

Finding - The Department of Commerce Improperly Allocated Personnel Costs.

Recommendations

We recommend that the following adjustment to allowable personnel costs be made:

	<u>Claimed</u>	<u>Questioned</u>	<u>Recommended</u>
ARC Contract 92-C13:			
Federal	\$121,885	\$29,252	\$92,633
State	\$121,885	\$29,252	\$92,633
ARC Contract 93-C14			
Federal	\$119,448	\$28,668	\$90,780
State	\$119,448	\$28,668	\$90,780

Management's Response

The Total salaries and fringe benefits for the ARC Contract 92-C13 are \$335,226.95. The \$243,770.80 charged to the grant is 73% of the total. Documentation is attached.

ARC Contract 93-C14 is a little different in that a budget was submitted and approved by ARC for four position to be funded at 100%. This is the way the Department charged the salaries in accordance with the approved budget. We feel that the amount charged to the grant is the correct amount. Documentation is attached.

Finding - The Department of Commerce Claimed \$34,200 in match costs for the Minority Manufacturing Strategy project that were unsupported in accordance with OMB Circular A-102, Subpart C, Financial Administration.

Recommendations

We recommend that the total match of \$34,200 be disallowed and that ARC funding be limited to half of the \$34,200 paid to COSTAR for the project.

Management's Response

The Department has made contact with the director of COSTAR is making a final attempt to obtain more information to support the match. We agree that if we are unable to get the additional documentation then we will decrease the funding claimed on this project.

Finding - The Department of Commerce requested ARC reimbursement for 50 percent of the total costs under grant 93-C14. However the approved budget stated that ARC participation be limited to 39 percent of the total, allowable costs incurred.

Recommendations

We recommend that ARC limit payment on this grant to 39 percent.

Management's Response

The Department will agree to this finding but not without saying that ARC rules and regulations are very confusing. One time we are told that each project must be matched at least 50/50 and then the next time it is the total match that must be met.

Finding - The Department of Commerce included objectives in the scope of the 93-C14 that were not performed.

Recommendations

We recommend that the Department of Commerce inform ARC of all intended changes to the scope of the grant and request approval for the deletion of grant objectives.

Management's Response

The Department agrees with this finding and will in the future submit approval requests to ARC for all changes be they additions or deletions.

Finding - The Department of Commerce did not file its' final reimbursement requests in accordance with the grant conditions.

Recommendations

We recommend that the Department of Commerce implement procedures to assure that all grant conditions are complied with including the timely submission of all progress reports and reimbursement requests.

Management's Response

The Department agrees with this finding and is making every effort to submit all reports in a timely manner.

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<u>NAME</u>	<u>TOTAL CHARGED</u>	<u>YEARLY SALARY & BENEFITS</u>
Personnel (Salary plus fringe benefits)		
Emily White	\$29,217.53 x 2	\$78,833.03
Kathy Wilson	\$23,209.94 x 2	\$62,503.38
Terri Redmond	\$15,544.93 x 2	\$42,372.12
Linda Young	\$16,164.00 x 2	\$45,239.18
Andre Nelson	\$12,140.00 x 2	\$35,642.86
Sue Bashore	\$14,846.00 x 2	\$38,205.90
Yvonne Johnson	\$10,763.00 x 2	\$32,430.48
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TOTAL:	\$121,885.40 x 2 = \$243,770.80 =====	\$335,226.95 =====

The office' budget estimates for the FY 93 program year are as following:

	<u>ARC FUND</u>	<u>STATE FUND</u>	<u>TOTAL</u>
<u>Personnel (Salary plus fringe benefits)</u>			
* Office Director Emily White	\$43,548	\$43,548	\$87,096
* Bureau Director Kathy Wilson	\$33,528	\$33,527	\$67,055
Economic Development Analyst Terri Redmond	\$16,533	\$28,273	\$44,806
Business Consultant Yvonne Johnson (10/4/93-9/30/94)	\$15,719	\$26,879	\$42,598
Business Consultant Linda Young	\$17,090	\$29,225	\$46,315
* Clerk Typist III Andre Nelson	\$17,498	\$17,497	\$34,995
* Clerk Typist III Yvonne Johnson (10/1-93-10/3/93) Christa Stone (3/28/94-9/30/94)	\$15,555	\$15,555	\$31,110
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TOTAL:	\$159,471	\$194,504	\$353,975
Operations:	\$15,000	\$15,000	\$30,000

The ARC portion of staff salary is computed as follow: Those positions designated with an asterisk are funded at 50%. The Office Director, Bureau Director and their support staff work primarily with ARC and ARC related activity. All other positions are funded at 36.9%.

<u>NAME</u>	<u>TOTAL CHARGED</u>	<u>YEARLY SALARY & BENEFITS</u>
Personnel (Salary plus fringe benefits)		
Emily White	\$14,575.90 x 2 (10/1/93-2/11/94)	\$29,151.80 (10/1-93-2/11/94)
Kathy Wilson	\$33,376.75 x 2	\$66,753.49
Terri Redmond	\$16,533.00 x 2	\$43,927.57
Linda Young	\$17,090.00 x 2	\$44,923.02
Andre Nelson	\$17,498.00 x 2	\$36,828.46
Yvonne Johnson		
Business Consultant(10/4/93-9/30/94)	\$15,719.00 x 2	\$35,437.98 (10/4/93-9/30/94)
Clerk Typist III (10/1/93-10/3/93)	\$126.17 x 2	\$252.34 (10/1/93-10/3/93)
Christa Stone	\$4,528.92 x 2 (3/28/94-9/30/94)	\$9,057.83 (3/28/94-9/30/94)

TOTAL:	\$119,447.74 x 2 = \$238,895.48 =====	\$266,332.49 =====