

**MEMORANDUM REPORT ON THE REVIEW OF
NORTHERN TIER PLANNING AND DEVELOPMENT COMMISSION**

**Administrative Grant
and
Enterprise Development Grant**

**ARC Grant Nos: PA-0708C-95-C23-302-0623
and PA-8305-94-C13-302-0426
October 1, 1994 through September 30, 1995**

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Report Number: 96-31 (H)

Date: September 30, 1996

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Prepared by:

**Tichenor & Associates
Certified Public Accountants
Woodbridge, Virginia**

**Under Contract Number J-9-G-5-0010 with the
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TICHENOR & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

WASHINGTON OFFICE
12531 CLIPPER DRIVE SUITE 202
WOODBIDGE VA 22192

PARTNERS

WILLIAM R. TICHENOR
JONATHAN D. CROWDER
JAMES M. ANDERSON
DEIRDRE MCKENNA REED

BUSINESS: (703) 490-1004
METRO: (703) 352-1417
FAX: (703) 491-9426
E-MAIL: TICHASSOC@AOL.COM

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

FROM: Tichenor & Associates
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report No. 96-31 (H)

SUBJECT TO: Memorandum Review Report on Northern Tier Regional Planning and
Development Commission, Administration and Enterprise Development,
Towanda, Pennsylvania. ARC Grant Nos: PA-0708C-95-C23-302-0623
and PA-8305-94-C13-302-0426.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Northern Tier Regional Planning and Development Commission (the Grantee) were expended in accordance with the ARC approved grant budget and did not violate any restrictions imposed by the terms and conditions of the grant; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and (c) the objectives of the grant had been met.

BACKGROUND: ARC awarded Grant Number PA-0708C-95-C23-302-0623, an administrative grant, with total funding of \$66,057, to the Grantee for the period October 1, 1994 through September 30, 1995. ARC required that the grant funding be matched with \$66,057 of Grantee cash and in-kind. ARC made four advance payments to the Grantee totalling \$64,349, with the final payment being made on July 31, 1995.

ARC also awarded Grant Number PA-8305-94-C13-302-0426, an enterprise development grant, with total funding of \$280,000 to the Grantee for the period October 1, 1994 through September 30, 1995. ARC required that the grant funding be matched with \$280,000 of Grantee cash and in-kind. ARC made four advance payments and one final payment totalling \$256,001, with the final payment being made on December 7, 1995. A deobligation of the remaining \$23,999 balance was processed by ARC on December 7, 1995.

The funds for these grants was to provide financial assistance for the continuation of the Grantee's Enterprise Development Program in the Northern Tier Region of Appalachian Pennsylvania. The specific tasks of the grant program were:

- To promote awareness of the direct loan program, increase loan activity, and reduce the time for processing and promoting continued growth and development of staff;
- To provide export services to manufacturers, service/retail providers and agricultural businesses;
- To provide outreach functions to area businesses to increase the number of firms participating in the program;
- To provide assistance to counties and municipalities for development projects funded by state and federal agencies which would maintain an environment conducive to economic development in general and job generation and retention in particular;
- To maximize the public's awareness and utilization of the economic development programs;
- To coordinate the job training needs and economic development components in order to provide a complete comprehensive service network for businesses; and
- To participate in a regional planning process to assess the needs of the transportation system to accommodate economic development. To undertake 5 special studies analyzing the potential of major intersections and stretches of highway.

SCOPE: We performed a financial and compliance review of the grants as described in the Purpose, section of this report. Our review was based on the terms of the grant agreements and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. We determined if the specific tasks of the grants had been achieved, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if the Grantee had complied with the requirements of the grant agreements. In addition, we discussed the program objectives and performance with the Grantee's personnel. 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 Towanda, Pennsylvania on March 25 through March 28, 1996.

A. Incurred Costs

The Grantee claimed total program costs, from October 1, 1994 through September 30, 1995, of \$128,698 (50 percent reimbursable from ARC and 50 percent match) and \$512,002 (50 percent reimbursable from ARC and 50 percent match) for the administrative and enterprise development grants, respectively. We reviewed the costs claimed for reimbursement and determined that, in general, the funds had been expended as reported. However, we noted several conditions which affect the allowability of some of the claimed costs.

1. Membership Dues to a Lobbying Organization - Administrative Grant

The Grantee claimed a portion of its 1995 membership dues to a state lobbying organization. Membership dues for the lobbying organization charged to the grant totalled \$2,250. The Grantee correctly eliminated the first dues payment of \$2,500 to the Economic Planning and Development Council of Pennsylvania from the grant eligible costs. However, the Grantee did not eliminate the remaining payment of \$2,250, which likewise is not eligible for grant reimbursement or matching. These costs are unallowable per OMB Circular A-122, Attachment B. 21, which states:

"Costs associated with the following activities are unallowable: a....(5) Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying."

We recommend that the Grantee eliminate the remaining membership dues from eligible grant project costs. We also recommend that the Grantee assure that these costs are not claimed for reimbursement on future grants.

Grantee's Response:

The Grantee concurred with the finding. The Grantee stated that its policy is to charge these types of expenses to unrestricted sources and that this was an isolated error. It requested instruction on how to reimburse ARC.

2. Costs Not Allocable to the ARC Grant - Administrative Grant

The Grantee claimed \$6,448 as direct project costs which we determined were indirect in nature and which should have been allocated to all of the Grantee's projects. Specifically, the Grantee claimed \$2,280 for computer software and \$400 for a typewriter purchased for the receptionist. Since the software and the typewriter were not necessary solely for the ARC grant projects, and were used in the conduct of all Grantee business, the costs should not have been claimed as directly reimbursable under the administrative grant.

The Grantee also claimed \$3,768, the entire cost, for the Grantee's staff to attend an OMB Circular Seminar. The seminar costs consisted of \$3,500 for a lecturer fee and \$268 in luncheon charges. Again, since the entire Grantee staff attended the conference, not only those employees assigned to work on the ARC grant projects, these costs should have been allocated to all projects.

OMB Circular A-122, Attachment A, Paragraph C defines indirect costs. Costs must be allocated to the grant based on the benefit received in accordance with OMB Circular A-122, Attachment A, Paragraph A.4., which states:

"a. A cost is allocable to a particular cost objective, such as a grant, project, service, or other activity, in accordance with the relative benefits received...."

We recommend that the Grantee establish an appropriate basis for the allocation of these costs to all applicable projects, and reduce the amount claimed for reimbursement under the ARC grant for costs allocable to those other projects. We also recommend that the Grantee identify indirect costs when they occur and allocate the costs based on benefit.

Grantee's Response:

The Grantee disagreed with the finding. It stated that it is the intent of the local development grant to support administrative activities of the LDD. It also stated that every program within the agency falls within the ARC scope of work and that therefore these expenses are allowable under the ARC administrative grant.

Additional Comments:

We do not disagree that the costs are allowable administrative costs. We continue to point out that the costs are indirect in nature, as supported by the indirect cost rate computation and analysis which includes equipment and meeting expenses as indirect accounts, and should be allocated to all programs, ARC and other programs, including the JTPA and the USDA programs.

3. Unsupported Costs - Administrative and Economic Development Grants

The Grantee claimed \$3,143 for costs incurred and reimbursed under the prior year ARC grants. The Grantee's fiscal year did not coincide with the grant periods. The Grantee, in accumulating the costs for reimbursement, erroneously carried forward the prior fiscal year balances, which had been claimed for reimbursement under the prior grants. This resulted in unallowable costs for the current year of:

0708C-95-C23-302-0623 - LDD	\$ 136
8305-94-C13-302-0426 - EDD	<u>3,007</u>
Total	<u>\$3,143</u>

These costs are unallowable in accordance with OMB Circular A-122, Attachment A, Paragraph A.2.f., which states:

"To be allowable under an award, costs must meet the following general criteria:...f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period."

Grantee's Response:

The Grantee concurred with our finding. It requested instruction on how to reimburse ARC.

4. Interest on Advances

The Grantee received advances from ARC and deposited the amounts in an interest bearing account. Interest earned on the advances was credited to the Grantee's general fund and was not allocate to the various funding sources. OMB Circular A-110, Attachment I, Paragraph 8 states:

"Interest earned on Federal advances must be remitted promptly to the Federal agencies that provided the funds."

The Grantee calculated ARC's share of interest earned as allocated it to the grants as follows:

0708C-95-C23-302-0623 - LDD	\$ 39
8305-94-C13-302-0426 - EDD	<u>161</u>
	<u>\$ 200</u>

Grantee's Response:

The Grantee concurred with our finding. It stated that interest on advances will be calculated and reported on the quarterly reports as program income.

B. Matching Costs

As discussed in the Background section of this report, the administrative grant was required to be matched by the Grantee: \$36,057 from Grantee cash and \$30,000 from Grantee in-kind. Based on the Grantee's budget, the \$36,057 in contributed cash was to have been a grant received from the Pennsylvania Department of Transportation. However, this grant was never awarded to the Grantee. Therefore, the Grantee substituted the match requirement with meetings and "Single Point of Contact" activity.

The Grantee claimed \$64,349 of ARC reimbursable costs and an equal amount of match as follows:

In-Kind Meetings	\$ 52,353
Single Point of Contact	<u>11,996</u>
	<u>\$ 64,349</u>

The in-kind meetings were supported with sign in sheets and mileage calculation. The costs of the meeting were \$25 per hour and \$.30 per mile. Included were meetings funded by the Department of Labor JTPA program in the amount of \$13,531. Also, the \$11,996 for the "Single Point of Contact", a job training program which was in place in Pennsylvania prior to the initiation of the JTPA program, was funded by the Department of Labor and the Department of Welfare. We determined that these amounts, \$25,527 (\$13,531 + \$11,996), funded by other federal sources is not considered an allowable source of match in accordance with OMB Circular A-110, Attachment E, Paragraphs 2 and 3, which state, in part:

"2. c. Cash contributions represent the recipient's cash outlay, including the outlay of money contributed to the recipient by non-Federal third parties....3.a. Cost sharing or matching may consist of:...(2) Project costs financed with cash contributed or donated by other non-Federal public agencies and institutions, and private organizations and individuals...."

We recommend that the Grantee review their records to determine if other, non-Federal cash or in-kind was contributed to the ARC administrative grant and provide the alternative match to ARC for review. If the Grantee does not have other match sufficient to meet the grant requirements, we recommend that ARC limit funding to 50 percent of the total allowable project costs.

Grantee's Response:

The Grantee disagreed with the finding. The Grantee stated that the LDD grant was to have been matched with cash from the PennDOT Rural Transportation grant, and that this grant was received. Additionally, The Grantee stated that the LDD grant was reported as matched with \$30,000 in-kind and \$34,349 of SPOC contributed cash. The Grantee also stated that they had inadvertently applied match to the wrong grants.

Additional Comments:

Although the Grantee disagreed with the finding, it represented there were errors in its reporting of the match for both the LDD grant and the EDD grant. We reviewed the Grantee's Financial Status Report (FSR), which did not report the amounts discussed by the Grantee. In addition, we were unable to verify that the PennDOT grant was actually received. (Also see Grantee's Response to the Program Results, below) Therefore, we continue to recommend that the Grantee itemize its match for each grant and submit the revised FSR to ARC, along with supporting documentation as necessary.

C. Program Results

The enterprise development grant's specific tasks included seven areas of concentration. One of those areas, Regional Transportation Planning Program, encompassed undertaking five special studies to review the developmental/impact potentials of major intersections and stretches of highway having special potentials. These studies were not performed. The Grantee has been waiting for funding from the Pennsylvania Department of Transportation mentioned above.

Grantee Response:

The Grantee stated the studies had not been performed due to lack of funding from the Pennsylvania Department of Transportation. It stated that the studies would be performed if funding from the Pennsylvania Department of Transportation was received.

Additional Comments:

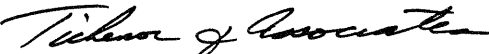
The Grantee stated in its comments to the Matching Costs, above, that the grant from PennDOT had been received.

DISCUSSION:

The results were discussed with the Grantee on March 28, 1996. The Grantee did not concur with Incurred Cost finding number two, Costs Not Allocable to the ARC Grant - Administrative Grant.

RECOMMENDATIONS:

We recommend that ARC resolve the allowability of lobbying costs charged to the grant award, the costs claimed for the seminar attended by non-ARC personnel, the unsupported costs for prior year balances, and interest earned on advances. In addition, we recommend ARC determine the allowability of matching costs. Once the total allowable grant costs have been determined, we recommend that ARC limit funding to 50 percent of the total allowable costs and seek to recover any costs which they determine to be unallowable. Lastly, we recommend that ARC require the Grantee to outline how they intend to accomplish the five studies proposed and funded under the Regional Transportation Planning Program.


TICHENOR & ASSOCIATES
Woodbridge, Virginia
March 28, 1996

NORTHERN TIER

Regional Planning & Development Commission
507 Main Street • Towanda, PA, USA 18848 • 717-265-9103 • 717-265-7585 - fax

September 24, 1996

Deidre McKenna Reed
Tichenor & Associates
12531 Clipper Drive, Suite 202
Woodbridge, Virginia 22192

RE: Draft Review Report
on Enterprise Development and Administrative grants
for the period October 1, 1994 through September 30, 1995

Dear Ms. Reed:

Pursuant to your September 3, 1996, correspondence, enclosed please find NTRPDC's response to your results and recommendations of the above referenced.

If you have any questions or wish to discuss this in further detail, feel free to contact me.

Thank you very much and I look forward to your response.

Sincerely,



Kevin D. Abrams
Executive Director

KDA:dm

1600.01

"We mean business...and more of it!"

Local Development District Serving Bradford, Sullivan, Susquehanna, Tioga and Wyoming Counties

A. Incurred Costs

1. Membership Dues to a Lobbying Organization - Administrative Grant

The Grantee claimed a portion of its 1995 membership dues to a state lobbying organization. Membership dues for the lobbying organization charged to the grant totaled \$2,250. The Grantee correctly eliminated the first dues payment of \$2,500 to the Economic Planning and Development Council of Pennsylvania from the grant eligible costs. However, the Grantee did not eliminate the remaining payment of \$2,250, which likewise is not eligible for grant reimbursement or matching. These costs are unallowable per OMB Circular A-122, Attachment B. 21, which states:

“Costs associated with the following activities are unallowable: a...(5) Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying.”

We recommend that the Grantee eliminate the remaining membership dues from eligible grant project costs. We also recommend that the Grantee assure that these costs are not claimed for reimbursement on future grants.

RESPONSE

NTRPDC concurs with this finding. It is NTRPDC's policy to charge these types of expenses to unrestricted sources. This was an isolated error. NTRPDC will wait for instruction on how to reimburse ARC for the \$2,250.

2. Costs Not Allocable to the ARC Grant - Administrative Grant

The Grantee claimed \$6,448 as direct project costs which we determined were indirect in nature and which should have been allocated to all of the Grantee's projects. Specifically, the Grantee claimed \$2,280 for computer software and \$400 for a typewriter purchased for the receptionist. Since the software and the typewriter were not necessary solely for the ARC grant projects, and were used in the conduct of all Grantee business, the costs should not have been claimed as directly reimbursable under the administrative grant.

The Grantee also claimed \$3,768, the entire cost, for the Grantee's staff to attend an OMB Circular Seminar. The seminar cost consisted of \$3,500 for a lecturer fee and \$268 in luncheon charges. Again, since the entire Grantee staff attended the conference, not only those employees assigned to work on the ARC grant projects, these costs should have been allocated to all projects.

OMB Circular A-122, Attachment A, Paragraph C defines indirect costs. Costs must be allocated to the grant based on the benefit received in accordance with OMB

Circular A-122, Attachment A, Paragraph A.4, which states:

- “a. A cost is allocable to a particular cost objective, such as a grant, project, service, or other activity, in accordance with the relative benefits received...”

We recommend that the Grantee establish an appropriate basis for the allocation of these costs to all applicable projects, and reduce the amount claimed for reimbursement under the ARC grant for costs allocable to those other projects. We also recommend that the Grantee identify indirect costs when they occur and allocate the costs based on benefit.

RESPONSE

NTRPDC disagrees with the auditor’s recommendation. It is our understanding the intent of the local development grant is to support the administrative activities of the LDD. Every program within our agency falls within the ARC Scope of Work, therefore, we feel these expenses are allowable under the ARC administrative grant.

3. Unsupported Costs - Administrative and Economic Development Grants

The Grantee claimed \$3,143 for costs incurred and reimbursed under the prior year ARC grants. The Grantee’s fiscal year did not coincide with the grant periods. The Grantee, in accumulating the costs for reimbursement, erroneously carried forward the prior fiscal year balances, which had been claimed for reimbursement under the prior grants. This resulted in unallowable costs for the current year of:

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8305-94-C13-302-0426 - EDD	<u>3,007</u>
Total	<u>\$3,143</u>

These costs are unallowable in accordance with OMB Circular A-122, Attachment A, Paragraph A.2.f., which states:

“To be allowable under an award, costs must meet the following general criteria: ... f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period.”

RESPONSE

NTRPDC agrees with the unallowable cost of \$3,143. The error was the result of the way in which the prior fiscal year numbers were entered into the computer. These expenses were inadvertently entered twice. NTRPDC will wait for instruction on how to reimburse this amount to ARC.

4. Interest on Advances

The Grantee received advances from ARC and deposited the amounts in an interest bearing account. Interest earned on the advances was credited to the Grantee's general fund and was not allocated to the various funding sources. OMB Circular A-110, Attachment I, Paragraph 8 states:

“Interest earned on Federal advances must be remitted promptly to the Federal agencies that provided the funds.”

The Grantee calculated ARC's share of interest earned as allocated it to the grants as follows:

0708C095-C23-302-0623 - LDD	\$ 39
8305-94-C12-302-026 - EDD	<u>161</u>
Total	\$200

RESPONSE

NTRPDC agrees. Interest on advances will be calculated and reported on the quarterly reports as program income.

B. Matching Costs

As discussed in the Background section of this report, the administrative grant was required to be matched by the Grantee: \$36,057 from Grantee cash and \$30,000 from Grantee in-kind. Based on the Grantee's budget, the \$36,057 in contributed cash was to have been a grant received from the Pennsylvania Department of Transportation. However, this grant was never awarded to the Grantee. Therefore, the Grantee substituted with the match requirement with meetings and "Single Point of Contact" activity.

The Grantee claimed \$64,349 of ARC reimbursable costs and an equal amount of match as follows:

In-Kind Meetings	\$52,353
Single Point of Contact	<u>11,996</u>
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The in-kind meetings were supported with sign in sheets and mileage calculation. The costs of the meeting were \$25 per hour and \$.30 per mile. Included were meetings funded by the Department of Labor JTPA program in the amount of \$13,531. Also, the \$11,996 for the "Single Point of Contact", a job training program which was in place in Pennsylvania prior to the initiation of the JTPA program, was funded by the Department of Labor and the Department of Welfare. We determined that these amounts, \$25,527 (\$13,531 + \$11,996), funded by other federal sources is not considered an allowable source of match in accordance with OMB Circular A-110, Attachment E, Paragraphs 2 and 3, which state, in part:

"2. c. Cash contributions represent the recipient's cash outlay, including the outlay of money contributed to the recipient by non-Federal third parties...3. a. Cost sharing or matching may consist of:... (2) Project costs financed with cash contributed or donated by other non-Federal public agencies and institutions, and private organizations and individuals..."

RESPONSE

NTRPDC disagrees with this finding. The LDD grant was to have been matched with \$36,057 in contributed cash from the PennDOT Rural Transportation grant and \$30,000 in-kind. The ARC Enterprise Development grant was to be matched with \$105,904 state Enterprise Development and \$17,496 of SPOC contributed cash.

The PennDOT grant was received, and in fact there was \$66,309 of contributed cash available as match from this grant. However, this match was inadvertently applied to the ARC EDD grant. The SPOC contributed match that was to be applied to the EDD grant was then applied to the LDD grant.

The SPOC program is funded by the Pennsylvania Department of Labor. It is a combination of state and federal money. The state share of the program for 6/30/95 was \$424,852. The match used was to have been charged to ARC Enterprise Development, and the PennDOT match charged to ARC Enterprise Development should have been charged to ARC LDD.

The LDD grant was reported as matched with \$30,000 in-kind and \$34,349 of SPOC contributed cash. The total documented IN-KIND was \$52,352.72, however only \$30,000 was applied to the LDD grant.

C. Program Results

The Enterprise Development grant's specific tasks included seven areas of concentration. One of those areas, the Regional Transportation Planning program, encompassed undertaking five special studies to review the developmental/impact potentials of major intersections and stretches of highway having special potentials. These studies were not performed. The Grantee has been waiting for funding from the Pennsylvania Department of Transportation mentioned above.

RESPONSE

NTRPDC acknowledges that the five special transportation studies were not conducted. This was a result of a lack of funding from the Pennsylvania Department of Transportation. If and when funding becomes available, the studies would be conducted.