

**MEMORANDUM REPORT ON THE REVIEW OF  
SOUTHWESTERN PENNSYLVANIA REGIONAL DEVELOPMENT COUNCIL**

**Enterprise Development Program**

**ARC Grant No: PA-11055-94-C2-302-0426  
ARC Contract No.: 94-127**

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**Report Number: 96-37(H)**

**Date: September 30, 1996**

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SOUTHWESTERN PENNSYLVANIA REGIONAL DEVELOPMENT COUNCIL**

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**Prepared by:  
Tichenor & Associates  
Certified Public Accountants  
Woodbridge, Virginia**

**Under Contract Number J-9-G-5-0010 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  
OIG Report No. 96-37 (H)

**SUBJECT TO:** Memorandum Review Report on Southwestern Pennsylvania Regional  
Development Council, Enterprise Development Program, Pittsburgh,  
Pennsylvania. Grant Nos: PA-11055-94-C2-302-0426: ARC Contract  
No. 94-127.

**PURPOSE:** The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Southwestern Pennsylvania Regional Development Council (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-11055-94-C2-302-0426, with ARC funding of \$400,000 or 46.7 percent of the actual, reasonable and eligible costs of the project, for the period October 1, 1994 through September 30, 1995. ARC required that the grant be matched with \$456,073 of grantee cash and in-kind. ARC made four payments to the Grantee totalling \$360,000, and the final grant payment of \$40,000 was made on January 5, 1996. The funds for this grant were to provide financial assistance for the continuation of the Grantee's Enterprise Development Program in the Southwestern Region of Appalachian Pennsylvania.

Appalachian Regional Commission  
Southwestern Pennsylvania Regional  
Development Council

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Based on our review of the grant agreement, we determined that the specific tasks of the grant program were:

- To assist businesses seeking to obtain federal and state procurement contracts by providing technical assistance and convening regional outreach conferences;
- To assist businesses in selling products to foreign countries by providing technical assistance in all facets of exporting;
- To assist businesses in obtaining financing for start-ups and expansions by assessing venture viability, assisting in business planning, and preparing loan applications;
- To develop, establish, and implement a network of providers of economic development services, market the network, and monitor the network operation;
- To maintain and disseminate information to assist businesses and community development;
- To facilitate the freight transportation system in the region, and manage the three modal communities (air, rail, and freight);
- To advance long range plan land use strategies for rural areas, by researching economic and demographic characteristics, detailing industrial profiles, researching rural development policies and programs, and developing strategies to meet developmental goals of rural areas.
- To pursue recommendations and update export survey data developed in the Grantee's 1993-1994 Enterprise Development Program;
- To do a study titled "Assess the Economic Impact of Agriculture" that assesses the economic value and multiplier effects of agriculture in Southwestern Pennsylvania.

SCOPE: We performed a financial and compliance review of the grant as described in the Purpose, above. Our review was based on the terms of the grant agreement and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. We determined if the tasks listed above had been performed, if the accountability over ARC funds was sufficient as required by the Office of Management and Budget (OMB) Circulars, and if the Grantee had complied with the requirements of the grant agreement. 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 Pittsburgh, Pennsylvania April 8 through April 12, 1996:

**A. Incurred Costs**

The Grantee claimed total program costs from October 1, 1994 through September 30, 1995 of \$878,332 for the enterprise development program, \$400,000 of which was to be reimbursed from ARC. We reviewed the costs claimed for reimbursement and determined that the funds had generally been expended as reported. However, we noted several conditions which affect the allowability of some of the claimed costs.

The Grantee claimed \$177 of travel costs for the Executive Director to attend an Economic Planning and Development Council of Pennsylvania (EPDCP) meeting in Harrisburg, Pennsylvania. EPDCP's function is largely for lobbying efforts and is thus not an allowable charge to the grant in accordance with OMB Circular A-122, Attachment B, Paragraph 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 all costs associated with lobbying activities, including any membership costs, labor costs or travel costs, from eligible grant program costs. We also recommend that the Grantee assure that these costs are not claimed for reimbursement, or as match, on future grants.

**B. Internal Controls**

1. Improper Matching of Revenue and Expenses

Our follow-up on the status of findings and recommendations contained in prior audit and review reports indicated the Grantee had not implemented policies and procedures to assure that costs associated with the revolving loan fund (RLF) were not charged to the enterprise development grant. Although the ARC Program Coordinators for both the Enterprise Development grant and the RLF grant agreed the Grantee's accounting method was acceptable, this method is a departure from generally accepted accounting principles. Therefore, we continue to recommend that the administrative costs of each grant be separately identified and reported as expenses of the appropriate grant.

The Grantee was also inconsistent in reporting the nature of travel costs and related labor hours. The Grantee charged employee labor to one program and the related travel costs to a different program. For example, we determined that the Grantee had charged travel costs as direct costs to ARC. However, the related labor costs were charged as indirect costs to the LDD Planning and Administration project code as supported by the employee timesheet. In accordance with OMB Circular A-87, Attachment A, Paragraph D. 2., costs incurred should be treated consistently either as a direct or an indirect cost. In addition, Paragraph C.1.f. states that to be allowable, costs must not be allocable to any other program. We recommend that the Grantee properly identify and expense labor and the related travel cost either as a direct cost of the appropriate cost objective or allocate the costs to all programs in an equitable manner.

2. Fringe Benefits and Indirect Costs not Adjusted to Actual

The Grantee allocates costs to grants for fringe benefits and overhead based on budgeted figures. Prior to year end, June 30, an adjustment is made to the amounts charged to reflect actual fringe benefit and overhead costs. The period of performance for the grant does not coincide with the Grantee's fiscal year and therefore extends beyond June 30. Therefore, the fringe benefits and overhead charged for the last quarter, July 1 through September 30, are based on budgeted figures which could exceed the actual costs for the period.

We recommend that the Grantee develop a method to determine the actual fringe benefits and overhead costs for the last quarter of the grants and to adjust these costs to reflect actual costs prior to requesting reimbursement.

3. Travel Not in Accordance to the Federal Travel Regulations

The Grantee incurred lodging costs which exceeded the guidelines established by the Federal Travel Regulations. The portion of travel which is in excess of the allowed lodging represents unallowable costs for the grant program. Pending clarification by ARC about the applicability of the Federal Travel Regulations, we concluded that the Grantee is responsible for using the Federal Travel Regulations.

We recommend that the Grantee implement policies and procedures to assure that the Federal Travel Regulations are implemented.

**C. Program Results**

The Grantee has achieved most of the objectives specified in the grant agreement, with the exception of the freight planning program. The grant required the Grantee to develop a regional plan for rail, maintain a freight transportation database and an air cargo database. There was never an air cargo database because the Grantee did not receive the local match. The rail plan was discussed on numerous occasions, but never developed. The Executive Director stated the rail plan is currently being developed and should be completed during 1996.

DISCUSSION: We discussed the results of our review on April 12, 1996. The Grantee provided no oral response to our findings.


RECOMMENDATIONS: We recommend the Grantee reimburse ARC for the unallowable travel costs identified above, and that they revise procedures to ensure travel costs are consistent with labor costs. We further recommend the Grantee implement travel policies adhering to the Federal Travel Regulations unless or until clarification is received from ARC about applicable travel regulations. ARC should follow-up with the Grantee to determine its plans on the air cargo database and determine if the rail plan was or is being developed.

Grantee's Comments:

The Grantee concurred with all findings with the exception of travel costs questioned as lobbying efforts.

Additional Comments:

Our review of EPDCP's minutes supported our claim that there were lobbying costs involved with EPDCP functions. Therefore, we continue to recommend an adjustment to ARC for travel costs of \$177.

  
TICHENOR & ASSOCIATES  
Woodbridge, Virginia



September 18, 1996

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- Ma L. Pollock  
Executive Director

Dear Ms. Reed:

This letter is a response to your firm's review and comments on the Council's Enterprise Development Program grant for the period October 1, 1994 through September 30, 1995. We would appreciate your consideration of the information provided below.

Regarding costs incurred incidental to a meeting of the Economic Planning and Development Council (EPDC): Your comments are based on a presumption that "EPDC's function is largely for lobbying efforts." EPDC is organized as a 501c4 entity and as such is permitted to do a wide variety of not-for-profit activities including lobbying. Further, its mission includes monitoring legislation affecting economic development. However, EPDC's mission also includes serving as the umbrella organization for the seven Local Development Districts in the Commonwealth; formulating long-range economic development strategies for the Commonwealth; providing a forum for Development Districts to discuss and address issues of common concern; working closely with all state agencies on various public policies related to economic development; fostering local involvement and regional cooperation, and promoting the use of expanded and innovative economic development tools. (See enclosure). Minutes of EPDC meetings were provided to Rene Jorgeson to document how the organization pursues its mission. Those minutes, I believe, demonstrate that EPDC's activities predominately include addressing issues of common concern working closely with state agencies on various public policies related to economic development. Any ARC activities associated with lobbying are now charged to non-grant accounts.

Regarding coordination of labor and travel costs: we acknowledge your comment.

Regarding fringe benefits and indirect cost adjustments: we recognize, as you did, that the disparity in fiscal years between that of the grant and the grantee



Deirdre M. Reed  
September 18, 1996  
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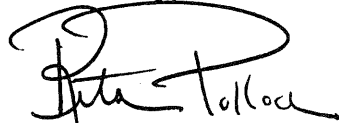
causes difficulties for reconciling actual and budgeted fringe benefits and indirect costs. Per your recommendation, we will investigate and, if practical, implement a quarterly adjustment process.

Regarding application of the federal travel regulations: as you indicated, there is some ambiguity whether federal travel regulations supersede our own travel policies. We now use grant funds in accord with the federal regulation; any incurred costs that exceed the limits of federal regulations are paid with other sources.

Regarding program results: The Council proposed to develop an air cargo database as a follow-up to the Air Cargo Market Strategy previously prepared with ARC support. The Council submitted applications to the PA Department of Transportation and Allegheny County Department of Aviation for the primary financial support for this activity. After considerable delay, PennDOT made a grant offer. Allegheny County, however, declined to make available the matching funds. At the time the PennDOT offer was made, county elections had just been held, resulting in a complete change of leadership. The out-going administration did not find it prudent to advance the air cargo database as it was an integral part of a substantial air cargo initiative. Without local policy and financial support, the Council did not think it prudent to advance the air cargo work. The PennDOT grant offer was declined. Regarding the rail plan, this project was delayed to enable coordination of the regional and state rail plans. The work was accomplished with funding from sources other than ARC; the final document is now being prepared.

Please contact me at your earliest convenience if you have any questions or seek additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Rita Pollock", written over a large, loopy flourish.

Rita L. Pollock  
Executive Director