

MEMORANDUM REPORT ON  
INTERNAL CONTROL REVIEW OF

SOUTHERN TIER WEST  
REGIONAL PLANNING AND DEVELOPMENT BOARD

SALAMANCA, NEW YORK

ADMINISTRATIVE GRANT

ARC GRANT NO: NY-2329-95-c22-302-0627

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Report Number: 97-9 (H)

Date: October 18, 1996

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**Prepared by:**

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

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U.S. Department of Labor  
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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. 97-9 (H)

**SUBJECT TO:** Internal Control Review on Southern Tier West Regional Planning and  
Development Board, Administrative Claims for the Section 302 Grants,  
Salamanca, New York. Grant No: NY-2329-95-C22-302-0627.

**PURPOSE:** The purpose of our review was to determine if Southern Tier West Regional Planning and Development Board's (Grantee) accounting, reporting and internal control systems were adequate to provide disclosure of pertinent financial and operating information.

**BACKGROUND:** ARC awarded administrative grant number NY-2329-95-C22-302-0627, with ARC funding of \$139,000 to the Grantee for the period October 1, 1994 through September 30, 1995. ARC required that the grant award be matched with Grantee cash and in-kind of at least \$139,000. ARC made four advance payments through July 1, 1995 totaling \$139,000. The purpose of the grant was to enable the Grantee to establish and expand economic development services.

**SCOPE:** We performed an internal control review of the grant as described in the Purpose section of this report. 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 Grantee had internal controls in place to accumulate accurate data for purposes of claims to the ARC. We also determined 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 agreement. 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 Salamanca, New York on April 29 through May 2, 1996:

**A. Incurred Costs**

The Grantee claimed total reimbursable costs from October 1, 1994 through September 30, 1995 of \$139,000. Procedures for testing the Grantee's internal controls required we review a sample of transactions claimed for reimbursement. We noted several conditions that affect the allowability of some of the claimed costs.

Unsupported Costs

The Grantee claimed \$210 of travel costs which was not supported by documentation as follows:

Registration Fees	\$120
Travel	<u>90</u>
	<u>\$210</u>

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

"To be allowable under an award, costs must meet the following general criteria:...g. Be adequately documented."

2. Costs Not Directly Allocable to the ARC Grant

The Grantee claimed \$2,016 for registration fees and travel to National Association of Development Organizations (NADO) Conferences in Boston, Massachusetts and San Francisco, California on September, 22 through 26, 1995 and early October 1994, respectively.

Registration Fees for Boston Conference	\$1,000
Lodging and meals for San Francisco Conference	<u>1,016</u>
	<u>\$2,016</u>

Costs must be allocated to the grant based on the benefit received in accordance with OMB Circular A-122, Attachment A, Paragraph A.4. The functions of NADO benefit all of the Grantee's programs and thus should be allocated to all such programs. We recognize that the attending official is the current President of the Appalachia District Director's Association and

as such represents the organization at natural functions. Therefore, this issue should be reviewed by ARC staff with respect to charging all costs to ARC.

Grantee's Comments:

The Grantee stated since its Director is the current president of the Appalachia District Director's Association, the costs for NADO conferences are a part of their administrative functions and, therefore, should be chargeable to the LDD Administrative grant.

Additional Comments:

The Director's performance benefits all of the Grantee's functions, regardless of funding source. Therefore, the benefits the Director receives from the activities at NADO conferences should be allocated to all programs. This approach to charging NADO costs is consistent with other Local Development Districts in the Appalachian Region.

3. Unallowable Entertainment Charges to the ARC Grant

The Grantee claimed travel costs for membership to the US Air Club. We interpreted the \$150 membership to the airline club, charged to a Diners Club account, to represent unallowable entertainment charges in accordance with OMB Circular A-122, Attachment B, Paragraph B. 12, which states:

"Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable."

Grantee's Comments:

The Grantee agreed the membership fee was an unallowable charge. However, the Grantee incurred allowable costs in excess of the grant in the amount of \$3,300 overall, and \$250 in the travel category. The Grantee stated the questioned costs could have been paid by monies other than ARC.

Additional Comments:

Based on the documentation provided us during fieldwork, we found the membership was charged to ARC, and therefore should be omitted. In addition, all expenses incurred for the project, whether charged directly to ARC or claimed as in-kind/matching expenses, must be allowable.

## **B. Internal Controls**

We identified weaknesses in the internal controls and the reporting of costs stemming from the Grantee's lack of formal accounting policies. There were no policies and procedures for documenting travel costs or labor hours. Additionally, procedures were lacking in accounting for costs by expense category. The lack of policies and procedures resulted in the following weaknesses:

### 1. Travel Not in Accordance to the Federal Travel Regulations

The Grantee claimed lodging costs exceeding the guidelines established by the Federal Travel Regulations (FTRs). We recognize there is some confusion about applicable travel regulations, but pending changes in ARC guidance, we understand the FTRs are applicable. Therefore the portion of travel which exceeds these guidelines is unallowable. We were unable to quantify the unallowable amount due to the lack of documentation filed with the Grantee's Diners Club account, used to document travel costs, as discussed below.

### 2. Travel Not Sufficiently Documented

Supporting evidence for travel claims was considered inadequate. Lodging, airfare, rental car, and some meals for personnel are paid through the Director's personal Diners Club account. Although most travel is incurred by the Director, other personnel also incurred some travel costs. Travel vouchers are completed only for the expenses which were paid on the Diners Club account. The Grantee does not require any documentation to support charges on the Diners Club account. Payment is made in total without support for the traveller, purpose for the trip, or explanation of the transaction. Total charges to the Diners Club account in 1995 were \$14,425 which was partially charged to ARC.

### 3. Inconsistent Charges Between Direct Travel and Labor Hours

We found inconsistencies in the Grantee's charges for travel and labor costs. In some instances we determined the Director's travel costs were charged directly to ARC. However, related labor costs, as supported by the Director's timesheet, were charged to indirect codes or other programs. This inconsistency represents incorrect charges between cost categories and programs. In determining the cause of this problem, we found the Accountant prepared the Director's timesheet.

4. Labor Hours Not Reconcilable to Costs Claimed

We were unable to reconcile claimed salaries to the Grantee's payroll register. The Grantee recognized that there were errors in claimed salaries during 1994. The Grantee made adjustments in October 1995 through January 1996 for the prior period to correct these errors. The Grantee, however, made errors in the adjustments. Therefore, numerous adjustments were made. Based on the payroll system and the Grantee's adjustments, it appears claims to ARC may have been understated, but the Grantee could not explain the variances.

5. Misclassification of Equipment Purchases

The Grantee charged a copier and computer equipment as direct costs to the ARC grant. This was an allowable charge based on the grant agreement. However, because the Grantee recorded the entry as part equipment, part supplies, and part printing, the purchase would cause the Grantee to exceed budget limit for equipment.


The internal control weaknesses discussed were reportedly the result of errors made by and procedures followed by the accounting manager. This manager has since retired and been replaced. The Director indicated this would alleviate many problems identified in our review.

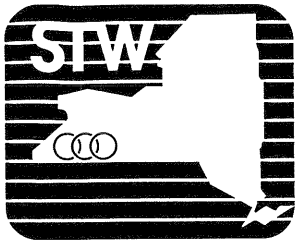
RECOMMENDATIONS:

We recommend the Grantee design and implement accounting policies and procedures, in coordination with officials at ARC and its external auditors, to encompass applicable internal control functions. We recommend ARC determine the eligibility of questioned costs summarized in the Incurred Costs section of this report.

GRANTEE'S COMMENTS:

The Grantee agreed that the internal controls need improvements. They are in the process of implementing all the suggestions outlined, as well as additional controls that were lacking. The Grantee stated that the lack of internal controls is not an excuse for poor documentation but the cause of it.

  
TICHENOR & ASSOCIATES  
Woodbridge, Virginia



**Southern Tier West**  
**Regional Planning**  
**& Development Board**

*Donald R. Rychnowski, Executive Director*

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October 3, 1996

Hubert Sparks, ARC Inspector General  
Appalachian Regional Commission  
1666 Connecticut Ave. NW  
Washington, D.C. 20235

Dear Mr. Sparks:

I am writing in response to the audit of the Southern Tier West Regional Planning and Development Board's financial Statements performed by Rene Jorgenson, of Tichenor and Associates. There were four audits completed of four different Appalachian Regional Commission programs. Since we have only received three audits at the time of this response, I will limit my response to those three program areas.

The first program is the LDD Administrative Grant, number NY-2329-95-C22-302-0627. The first finding relates to incurred costs which were not properly documented. It is our feeling that this relates to the internal control issues that were outlined later in your report and I will address in more detail later.

The second finding states that costs for a NADO conference are not allocable to an ARC grant. That these charges should be spread throughout all the programs of Southern Tier West and not charged solely to our administrative grant. Since Donald Rychnowski is the current president of the Appalachia District Director's Association, we view these costs as part of our administrative function. The bylaws of NADO state that their purpose is, "to provide a structure under which development organizations may work together in cooperation with state and federal governments in devising and implementing effective programs whose principal objectives are to improve regional economies, strengthen local governments, and improve both the quality of life and access to economic opportunity for all citizens."

Southern Tier West sees this organization as a way to improve our effectiveness in implementing our programs. To spread these costs across all programs would misrepresent these costs. The conferences improve our administrative function. Using the logic of spreading these costs across all programs we would have to reevaluate our other expenses and how they are allocated. Our local government program has paved the way for many additional grants, such as our municipal partnership and environmental programs. Should some of their costs be charged to the Community Assistance Programs just because it made these programs more effective.



Hubert Sparks  
October 7, 1996  
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The third issue relates to unallowable costs charged to an ARC grant. We agree that the cost of \$150.00 for the membership to the US AIR Club is an unallowable cost. We also feel that no action needs to be taken to rectify this error. Since we overcharged the grant by over \$3,300.00 and that specific expense category by over \$250.00, the \$150.00 could arguably have been paid for by Southern Tier West monies and not the Appalachia Regional Commission.

In response to the internal controls of our organization, we agree that there are improvements that must be made. We are now in the process of implementing all the suggestions outlined in the audit plus a few additional controls that were lacking. The lack of internal controls is not an excuse for poor documentation but the cause of it. The accountant that was in charge during this grant period has been replaced. The new accountant is in the process of reviewing our internal controls and is working with our auditors to insure that the proper controls are implemented.

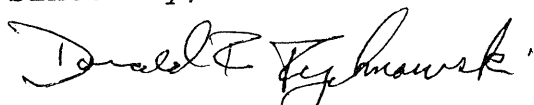
The second grant that was reviewed was the Rail Line Preservation Program, number NY-11474-94-I-302-1221. The findings of this grant are identical to the ones of the prior one discussed above. Costs were not properly documented and internal controls need to be reviewed and enforced more rigorously. I once again state that both of these are internal control issues which are being revised with the help of our independent auditors.

The third program reviewed was the Regional Housing Assessment and Development Strategy Program, number Ny-8907A-86-Y2-302-0222. There were no results from the audit of this program to respond to.

As stated above, we have not yet received the results of the Municipal Partnership Program that was audited.

If you have any questions concerning the above response, please feel free to contact me at your convenience.

Sincerely,



DONALD R. RYCHNOWSKI  
Executive Director