

MEMORANDUM REPORT ON THE REVIEW OF

**SOUTHERN TIER WEST
REGIONAL PLANNING AND DEVELOPMENT BOARD**

SALAMANCA, NEW YORK

RAIL LINE PRESERVATION

ARC GRANT NO: NY-11474-94-I-302-1221

ARC CONTRACT NO: 94-35

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Report Number: 97-11 (H)

Date: October 18, 1996

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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 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. 97-11 (H)

SUBJECT TO: Memorandum Review Report on Southern Tier West Regional Planning
and Development Board, Rail Line Preservation, Salamanca, New York.
Grant No: NY-11474-94-I-302-1221, ARC Contract No. 94-35.

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

BACKGROUND: ARC awarded rail line preservation grant number NY-11474-94-I-302-1221, with ARC funding of \$50,000 to the Grantee for the period February 22, 1994; through December 31, 1995. ARC required that the ARC grant funding be matched with Grantee cash and in-kind of at least \$50,500. ARC made total payments of \$50,000.

The purpose of the grant was to assist the Grantee in its program of preserving rail service along the Southern Tier Railroad Line running from Hornell, New York to Corry, Pennsylvania. The specific tasks of the grant program were to:

- Establish a regional organizational entity for ownership of the rail line, and begin management;

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- Select a rail service operator;
- Complete rail track inspection;
- Complete negotiations with CONRAIL and preparation of an interchange agreement acceptable to CONRAIL and rail operator;
- Acquire exemptions/approvals from ICC (Interstate Commerce Commission);
- Complete all legal requirements for acquisition and conveyance of rail line property;
- Prepare and execute rail operator agreement;
- Provide technical assistance to regional organizational entity and rail operator in transition start-up phase; and,
- Provide marketing assistance to rail service operator to increase traffic.

SCOPE: We performed a financial and compliance 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 specific tasks of the grant had been met, 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. 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 Salamanca, New York on May 2, 1996.

A. Incurred Costs

The Grantee claimed total reimbursable costs from February 22, 1994 through May 31, 1995 of \$50,000. We reviewed the costs claimed for reimbursement and determined that, in general the funds had been expended as reported. However, we noted several conditions that affect the allowability of some of the claimed costs.

Unsupported Costs

The Grantee claimed consulting fees and travel costs which were not supported by source documentation as follows:

Consulting Fees	\$ 2,500
Travel	<u>169</u>
	<u>\$2,669</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."

The Grantee stated the consulting fees were for Road/Rail Management Associates, Inc. who was negotiating with CONRAIL on the Grantee's behalf.

B. Internal Controls

We found weaknesses in internal controls stemming from the Grantee's lack of formal accounting policies. 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 which exceeded the guidelines established by the Federal Travel Regulations. The portion of travel which exceeds these guidelines is unallowable per the ARC agreement. We recognize there is some confusion as to applicable travel regulations but pending changes in ARC guidance, we understand the FTRs are applicable.

2. Matching Costs Based on Grant Requirements

The approved budget required \$15,500 of in-kind match. The Grantee's methodology for accounting for in-kind was to determine how much match was required and then request that contributors submit documents sufficient to cover the grant requirement. The documents consisted of one voucher per contributor for the fourteen month period and reflected estimated costs for labor hours and travel. These documents should have been prepared currently rather than historically; and should have been based on actual time and travel contributed as required by OMB A-110.

C. Program Results

During the grant period of February 22, 1994 through December 31, 1995, only the first three specific tasks were achieved by the Grantee. Negotiations with CONRAIL to purchase the section of rail line from Corry, PA to Hornell, NY stalled. Consequently, the remaining grant objectives have not been achieved.

RECOMMENDATIONS:

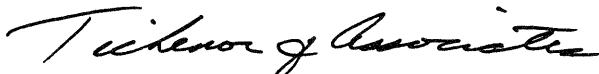
We recommend the Grantee implement formal accounting procedures, in coordination with officials at ARC, and its external auditors to encompass applicable internal control functions. We also recommend that ARC determine the eligibility of questioned costs identified in the Incurred Costs section of this report. The Grantee should continue efforts to achieve grant objectives.

DISCUSSION:

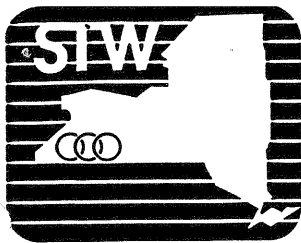
We discussed our results with the Grantee, who noted that the negotiation process with CONRAIL has come to a complete halt.

GRANTEE'S RESPONSE TO DRAFT REPORT:

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.

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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.

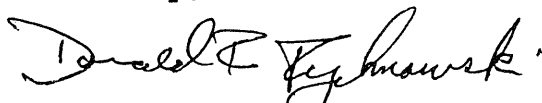
The second grant that was reviewed was the Rail Line Preservation Program, number NY-11474-94-I-302-1221. The findings of this grant are identical to the ones of the prior one discussed above. Costs were not properly documented and internal controls need to be reviewed and enforced more rigorously. I 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