

MEMORANDUM REPORT ON REVIEW OF THE
ECONOMIC PLANNING AND DEVELOPMENT
COUNCIL OF PENNSYLVANIA

HARRISBURG, PENNSYLVANIA

Statewide Manufacturing Marketing Network Program

ARC Grant Nos: PA-11568-94-I-302-0426
and PA-11568-95-CI-302-0427

October 1, 1994 through September 30, 1996

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Report Number: 97-22(H)

Date: September 23, 1997

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

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report No. 97-22(H)

SUBJECT: Memorandum Review Report on Economic Planning and Development Council of Pennsylvania (EPDC), Statewide Manufacturing Network Program, Harrisburg, Pennsylvania. Grant No. PA-11568-94-I-302-0426, ARC Contract No. 94-151; and Grant No. PA-11568-95-CI-302-0427; ARC Contract No. 95-127

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Economic Planning and Development Council (EPDC) on behalf of itself and the participating local development districts (LDDs) for the Statewide Manufacturing Marketing Network Program (M-Net), 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 were met.

BACKGROUND: ARC awarded Grant Number PA-11568-94-I-302-0426 to EPDC for the period October 1, 1994 through September 30, 1995. Total grant funding was for an amount not to exceed \$250,000 of the actual, reasonable and eligible project costs. ARC required that the grant be matched with a \$5,000 cash contribution from EPDC and \$245,000 of cash and in-kind contributions. ARC made one advance and three progress payments to EPDC totaling \$205,647. ARC deobligated the remaining \$44,353 of funding at the end of the grant period.

The funds from this grant were to provide funding for the on-going development of the M-Net Program. The M-Net is a computer based system designed to match buyers with potential suppliers of products and services. The M-Net project enables the following: manufacturers to have quicker access to a data base of virtually all manufactured products; data collected to make the system function makes it possible to target industry sectors; analyses to identify product needs not currently being satisfied; and potential businesses to identify the best locations for new start-up manufacturing firms.

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The concept and development of the M-Net began in the SEDA-Council of Governments (SEDA-COG) LDD and has been an active initiative for that LDD for five years. SEDA-COG encouraged six other LDDs to request ARC financial support to expand the system to their districts and thus create a system operating as a network in all Appalachian Pennsylvania counties.

The specific tasks of the grant program were to provide the following:

EPDC Tasks

- Coordinate and administer the M-Net system
- Monitor statewide implementation process
- Complete periodic reports specific to the results of the project

SEDA-COG Tasks (LDD)

- Provide software installation
- Provide regional training and technical assistance support to each of the other districts
- Enroll companies and manage the data base
- Develop and enhance M-Net software

Regional Site Tasks (LDDs)

- Start up systems in their district
- Interview, evaluate and enroll 150-200 companies
- Develop a regional marketing strategy and promotional plan
- Coordinate regional efforts for proactive participation in statewide system development and monitoring

ARC awarded Grant Number PA-11568-95-CI-302-0427, a continuation grant, to EPDC for the period October 1, 1995 through September 30, 1996. Total grant funding was for an amount not to exceed \$308,000 of the actual, reasonable and eligible project costs. ARC required that the grant be matched with \$308,000 in cash and in-kind contributions. ARC made four progress payments to EPDC totaling \$268,120. ARC deobligated the remaining \$39,880 of funding at the end of the grant period.

The funds from this grant were to provide funding for the on-going development and maintenance of the M-Net Program at EPDC and the various LDDs. Specific tasks of the grant program were to provide the following:

EPDC Tasks

- Continue coordinating statewide M-Net meetings
- Complete all ARC reporting requirements

SEDA-COG Tasks (LDD)

- Procure additional hardware and software to support M-Net
- Direct and assist regional sites in M-Net activities including on-site training
- Continue process of capability building as related to statewide data processing; research into on-line INTERNET applications
- Provide ongoing support to other LDD's including training and telephone support
- Manage local M-Net operations; interview and enroll approximately 50 additional companies

Regional Site Tasks (LDDs)

- Participate in training and other startup activities
- Continue to expand and maintain regional databases; interviewing and enrolling 125 to 150 additional companies
- Expand regional marketing activities

SCOPE: We performed a program results review of the grants as described in the Purpose, above. 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. Specifically, we determined if the tasks listed above had been performed, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if EPDC, as well as selected LDDs, had complied with the requirements of the grant agreements. In addition, we discussed the program objectives and performance with EPDC and the LDD personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results of the M-Net program were based on our review performed at EPDC in their offices in Ridgway, Pennsylvania, Southern Alleghenies Planning and Development Commission (LDD) in Altoona, Pennsylvania, and North Central Pennsylvania Regional Planning and Development Commission, Ridgway, Pennsylvania on March 31 through April 2, 1997. In addition, we reviewed records at SEDA-COG (LDD) in their offices in Lewisburg, Pennsylvania on June 24 through June 27, 1997.

A. Incurred Costs

We reviewed total costs incurred from October 1, 1994 through September 30, 1996 by EPDC and the LDDs of Southern Alleghenies Planning and Development Commission (Southern Alleghenies), North Central Pennsylvania Regional Planning and Development Commission (NCPRPDC) and SEDA-COG. Total incurred program costs were \$413,352, during the first grant period of which \$205,647 was claimed as reimbursable from ARC and \$536,995, during the second grant period of which \$268,120 was claimed as reimbursable from ARC.

We reviewed the direct costs incurred and determined that the funds had been expended as reported by EPDC and the selected LDD's. We determined that program and matching costs

were allowable and supported in accordance with the terms of the grants and applicable OMB Circulars, except as discussed in Section B, below.

B. Internal Controls

We reviewed the internal controls surrounding the recording, accumulating and reporting of costs under this cost-reimbursable grant as well as the internal controls surrounding the implementation of the program. We determined that the systems of internal controls for the entities sampled and tested were adequate over these areas. However, we determined that SEDA-COG had the following internal control weakness which affected the accountability of costs under the grant. We did not determine the associated costs to be unallowable, but have identified this weakness which could result in unallowable costs.

SEDA-COG did not Identify Specific Matching Costs to the M-Net Project

SEDA-COG received funding from the Commonwealth of Pennsylvania (the State) to support various projects, including the M-Net project. SEDA-COG identified funds from the State Enterprise grant as matching costs for their M-Net project. However, SEDA-COG did not track the specific costs incurred as matching expenses paid for under this grant. SEDA-COG simply recorded a lump-sum amount on the FSR to meet the matching requirement. Therefore, we were not able to review the specific expenditures related to the M-Net project and accordingly determine the allowability of such costs or their relationship to the objectives or specific tasks of the grant.

OMB Circular A-110, *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations*, Attachment E, Cost Sharing and Matching, paragraph 3, subparts a. and b., state, in part:

"General guidelines for computing cost sharing or matching are as follows: a. Cost sharing or matching may consist of: (1) Charges incurred by the recipient as project costs...b. All contributions, both cash and in-kind, shall be accepted as part of the recipient's cost sharing and matching when such contributions meet all of the following criteria: (1) Are verifiable from the recipients records; (2) Are not included as contributions for any other federally-assisted program; (3) Are necessary and reasonable for proper and efficient accomplishment of project objectives..."

ARC Grant Administration Provisions, Article A10, Records of Disbursements, paragraph (3), states:

"All disbursements from the contract account shall be for obligations incurred, after the effective date, in the performance of this contract, and shall be supported by contracts, invoices, vouchers, and other data, as appropriate, evidencing the disbursements."

ARC Grant Administration Provisions, Article A10, Records Requirements, paragraph (1), states:

"Contractor shall establish procedures to ensure that all records pertaining to costs, expenses, and funds related to the contract shall be kept in a manner which is consistent with generally accepted accounting procedures..."

RECOMMENDATIONS:

We recommend that SEDA-COG record the specific costs to be used as matching funds for each project and assure the costs are allocable and not used as match for any other project.

C. Other Related Matters

In conducting our review of the M-Net program, we identified other matters which did not result in questioned costs and were not weaknesses in the established internal control structure, but which could affect the overall implementation of the program and the reporting of both cost and program results to ARC.

1. SEDA-COG Used Identical Matching Costs on Two Separate Grants

As discussed under the Internal Control section above, the matching funds for the SEDA-COG M-Net project were identified as being from a State funded Enterprise grant. The matching costs reported on the M-Net FSR, for the period ending September 30, 1996, was also included in the amount SEDA-COG reported on the FSR for the ARC Enterprise Development Grant (95-91-PA-8290-95-C14-302-0427). SEDA-COG reported matching costs which exceeded the requirement for the ARC Enterprise Development grant. Therefore, we did not determine the amount reported as match for the M-Net project to be unallowable, but have identified the weakness which could result in unallowable costs. The criteria for requiring the tracking of these costs is included in the Internal Control section, above.

2. EPDC Did Not Monitor the LDDs

The specific tasks of the grant during year one, as summarized in the Background section, required EPDC to monitor the statewide implementation of the project by the LDDs. EPDC did not develop any policies or procedures to implement this requirement. EPDC did not perform monitoring of the project except to accumulate the quarterly progress and financial reports from the LDDs and forward the information to ARC for processing. The lack of monitoring could result in the inclusion of unallowable costs in the financial reports and the non-achievement of grant objectives by the LDDs.

RECOMMENDATIONS:

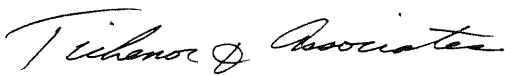
We recommend that SEDA-COG assure matching costs are properly tracked, accumulated and reported as discussed above. In addition, we recommend that EPDC, or the current administrator of the project, design and implement adequate monitoring procedures to assure the reported costs are allowable and the goals of the grant are being accomplished as reported.

D. Program Results

Our review of EPDC's M-NET program indicated all of the objectives and specific tasks identified in the grant, and summarized above, had been achieved.

GRANTEE'S RESPONSE:

EPDC reviewed the draft report and did not provide written comments due to the limited nature of the findings and recommendations.


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