

**MEMORANDUM REPORT ON REVIEW OF
PENNSYLVANIA DEPARTMENT OF COMMUNITY
AND ECONOMIC DEVELOPMENT
HARRISBURG, PENNSYLVANIA**

Consolidated Technical Assistance Program

ARC Grant No: PA-7784-95-C16-302-0630

October 1, 1995 through November 30, 1996

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Report Number: 98-17

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Office of Inspector General (OIG)

FROM: Tichenor & Associates
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REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report No. 98-17

SUBJECT: Memorandum Review Report on Pennsylvania Department of Community
and Economic Development, Harrisburg, Pennsylvania. Grant No: PA-
7784-95-C16-302-0630, ARC Contract No. 95-122.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Pennsylvania Department of Community and Economic Development (PDCED), for the Consolidated Technical Assistance Grant program 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-7784-95-C16-302-0630 to PDCED for the period October 1, 1995 through November 30, 1996. Total grant funding was for an amount not to exceed \$350,000, or 42.4 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$476,126, or 57.6 percent in cash, contributed services, and in-kind contributions, as approved by ARC. ARC made one progress payment to PDCED totaling \$291,060.

The funds from this grant were to provide assistance for the continuation of the Consolidated Technical Assistance Program. The specific tasks of the grant were:

A. Pennsylvania Dept. of Commerce, Office of Small Business, Small Business Resource Center and the Entrepreneurial Assistance Office: Support of eight staff persons in the Office of Small Business and the Bureau of Small Business and Appalachian Development who are responsible for daily operations of the Appalachian program in Pennsylvania; operational expenses of the Appalachian Office, including travel, printing and postage, furniture and equipment, and travel by the State Tourism Director when participating in ARC programs; and specific research and technical assistance initiatives.

B. Research/Technical Assistance: There are five initiatives in these areas:

Small Business Assistance Fairs: Continue a demonstration project to sponsor small business assistance fairs in Appalachian Pennsylvania. These fairs, developed and supported by local interest, LDDs, SBDCs and others, will bring together state government, local and regional organizations and small business at several rural locations to discuss assistance services available. Publications, forms, applications and other information will also be available for distribution.

Women's Business Development Program: Continue a program designed to bridge the information gap between economic development professionals and their clients. Specifically the program has five elements:

- a. conduct women's business training conferences as lead or co-sponsor;
- b. participate as sponsor, facilitator, or exhibitor in "Womanpower 95", (Pittsburgh, PA) and "Women's Business Day" (Harrisburg, PA);
- c. provide grants to Appalachian area local women's business councils organizations for start-up costs;
- d. publish the Women's Business Resource Directory, a Directory of Women Business Owners, and a Quarterly Calendar of Events; and,
- e. conduct a survey focusing on the economic impact of women-owned businesses in Appalachian Pennsylvania.

Shop With a Future: Grantee shall arrange, through The Shop With a Future, for on-site demonstrations of affordable, off-the-shelf technologies, principally using computer programs, to small and medium size manufacturers in Appalachian Pennsylvania.

Technical Assistance Training: Provide training activities to improve the capabilities of staff to address and respond to the various economic development needs in the Appalachian Region. Grantee shall submit to the ARC Project Coordinator, for prior approval, a specific scope of work for activities to be conducted under this Section.

Craft Arts Industry Development in Pennsylvania: Establish temporary headquarters in Old Bedford Village, hire staff, open a crafts center at the Zelienople Service Plaza on the Pennsylvania Turnpike, complete and distribute a brochure, conduct focus group sessions, complete fall training program curricula and schedule and obtain funding and begin feasibility study for a crafts production incubator.

SCOPE: We performed a program 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. 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 PDCED had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with PDCED personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at PDCED offices, in Harrisburg, Pennsylvania on December 15 through 18, 1997.

A. Incurred Costs

PDCED incurred total program costs of \$780,493, of which they claimed direct reimbursable costs from October 1, 1995 through November 30, 1996 of \$291,060, and in-kind costs of \$489,433. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported.

We initially determined that \$76,095 of in-kind costs and \$11,741 of the direct reimbursable costs could not be supported in accordance with the terms of the grant and applicable OMB Circulars. However, in response to the draft report PDCED supplied additional documentation which we reviewed. Our revised finding resulted in \$26,171 of unsupported in-kind costs, and \$1,687 of direct reimbursable costs which could not be supported.

We originally determined duplicate printing costs totaling \$2,687 were charged to the grant, and \$3,899 of direct costs should have been offset by program income. In response to our report, PDCED agreed with our finding of duplicate printing costs. However, as a result of revised allowable in-kind costs and direct reimbursable costs, we determined that all of the program income in the amount of \$38,198, should be used to offset these costs. The initial findings as well as the revised findings are discussed below:

1. In-Kind Matching Costs Not Supported

During our field work, in-kind costs totaling \$76,095 claimed by PDCED could not be supported. PDCED, in conjunction with Central Penn Business Journal, held Pennsylvania's Best In Business, A Conference for Women Business Leaders, in March 1996. This one-day conference was held to recognize women business owners who had made contributions to the Commonwealth as part of the Shining Stars Program. Central Penn Business Journal originally detailed the following expenditures for coordinating Pennsylvania's 1996 Best Women in Business conference and awards program:

<u>Category</u>	<u>Amount</u>
Salaries/Commissions	\$ 26,000
Printing	23,900
Postage	5,300
Awards	5,000
JPL Productions	4,936
Design	2,500
Free-lance writers	900
Booth Rental	858
Audio/Visual	600
Less ARC Direct	<u>(3,899)</u>
Total	<u>\$66,095</u>

During our field work, PDCED did not provide documentation to support the fact that these costs had been incurred by Central Penn Business Journal.

In addition, PDCED contracted with Duquesne University to conduct a series of focus groups for the Women Business Owners Survey. Duquesne University was paid \$10,000, for a series of such groups, and the costs were claimed as in-kind match. The costs consisted of the following:

<u>Category</u>	<u>Amount</u>
Personnel	\$ 7,179
Subcontractors	2,400
Indirect/Overhead	<u>421</u>
Total	<u>\$10,000</u>

Again, PDCED did not provide documentation during our fieldwork to support that these costs had been incurred by Duquesne University.

OMB Circular A-102, Subpart C, Post Award Requirements .24 (6), Record, states:

“Costs and third party in-kind contributions counting toward satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantees or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived.”

GRANTEE’S RESPONSE

The Grantee agreed that at the time of the review they did not have complete documentation to support the match claimed for Central Penn Business Journal and Duquesne University. However, they did obtain documentation and provide it to us in response to the draft report.

AUDITOR’S COMMENTS

We reviewed the support PDCED provided in response to the draft report for the \$66,095 in costs incurred by the Central Penn Business Journal for the Women Business Leaders Conference. The detailed amounts were revised by the Grantee from those originally provided us as follows:

	<u>Original</u>	<u>Revised</u>
Salaries/commissions	\$26,000.00	\$18,570.82
Printing	23,900.00	18,048.46
Postage	5,300.00	9,373.79
Awards	5,000.00	5,702.50
JPL Productions	4,936.00	6,335.83
Design	2,500.00	5,113.71
Freelance writers	900.00	900.00
Booth rental	858.00	869.20
Audio/Visual	600.00	1,181.00
Less ARC Direct	<u>(3,899.00)</u>	<u>-</u>
Total	<u>\$66,095.00</u>	<u>\$66,095.36</u>

The documentation submitted for the revised costs is adequate except for the salaries and commissions claimed. These costs were supported only by a statement from the Central Penn Business Journal that the costs consist of commissions paid on sponsorship packages and salaries allocated to the Best Women in Business Program. In addition, we noted that \$1,687 of the costs included under "awards" was also claimed as a direct cost by PDCED and included in the \$3,899 of direct costs claimed. The \$1,687 will be questioned as part of the direct costs claimed.

We originally questioned \$66,095 in total as unsupported. Based on the documentation provided, our finding is revised to accept \$47,524 in costs from the Central Penn Business Journal, used by PDCED as matching costs and to question \$18,571 for unsupported salaries and commissions. ($\$66,095 - \$18,571 = \$47,524$)

PDCED provided documentation to support \$2,400 as an in-kind contribution from subcontractors included in Duquesne University's \$10,000 in costs incurred in running the focus groups for the Women Business Owners Survey. However, PDCED did not provide support for the remaining \$7,600 in personnel and indirect costs claimed for Duquesne University. We originally questioned \$10,000 in total as unsupported. Based on the documentation provided, our finding is revised to accept \$2,400 in costs incurred by Duquesne University and used by PDCED as matching costs, and to question \$7,600 as unsupported.

2. Direct Costs Unsupported

Duquesne University

As discussed above, PDCED contracted with Duquesne University to conduct a series of focus groups for the Women Business Owners Survey. PDCED claimed as direct costs, an additional

\$10,000 for costs paid to Duquesne University for a second series of focus groups. These services were claimed as follows:

<u>Category</u>	<u>Amount</u>
Personnel	\$ 2,382
Fringe Benefits	551
Travel	779
Supplies	178
Outside Consultants	4,800
Other	401
Indirect Costs	909
Total	<u>\$10,000</u>

No documentation was provided during field work to support the costs claimed by Duquesne University and charged to the grant by PDCED.

GRANTEE'S RESPONSE

PDCED provided supporting documentation for the \$10,000 in ARC costs for Duquesne University.

AUDITOR'S COMMENTS

We reviewed the documentation provided by PDCED to support the \$10,000 in direct costs claimed for Duquesne University and revised our finding to allow these costs.

Central Penn Business Journal

As previously discussed, PDCED in conjunction with Central Penn Business Journal held Pennsylvania's Best In Business, A Conference for Women Business Leaders in March, 1996. PDCED charged \$3,899 to the grant for travel costs for speakers, flowers, binders and videotapes. During our fieldwork, documentation maintained by PDCED supported only \$2,158 paid to Central Penn Business Journal. The remaining \$1,741 was unsupported.

GRANTEE'S RESPONSE

PDCED stated that they were not sure about the questioned costs for ARC charges paid to Central Penn Business Journal. However, they provided additional backup to support all the costs billed by Central Penn Business Journal.

AUDITOR'S COMMENTS

We reviewed the additional documentation which PDCED provided in support of the \$3,899 in direct costs of the Central Penn Business Journal claimed for the Women in Business Conference. We determined all costs to be supported. However, as discussed above, PDCED included \$1,687 for services of Creative Promotions Plus in both the costs incurred by Central Penn Business and claimed as match, and the costs claimed as direct. Therefore, we revised our finding to allow \$2,212 of direct costs claimed, and to question the \$1,687 ($\$3,899 - 1,687 = \$2,212$).

3. Duplicate costs claimed

We found that PDCED overcharged \$2,687 in printing costs to the grant. The state printing office submitted duplicate invoices for print jobs that were never cross-checked against the print orders. This internal control weakness resulted in a duplication of charges to the grant.

ARC Grant Administration Provisions, Article A10, Records Requirements, paragraph (1), General, 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. The documentation in support of each action in the accounting records shall be filed in such a manner that it can be readily located.”

GRANTEE'S RESPONSE

PDCED agreed that they overcharged \$2,687 for printing. PDCED indicated these funds will be returned to ARC. The Department has a new system of recording print jobs for the print shop that should eliminate any possibility of a duplicate ordering being billed.

AUDITOR'S COMMENTS

None.

4. Program Income Not Used to Offset Costs

We estimate that PDCED received \$38,198 in program income associated with the Pennsylvania's Best In Business Conference. All registrants were to send their registration fee to PDCED by check made payable to "Friends of the Commission". We calculated that

approximately \$38,198 from 463 registrants should have been received by PDCED. No documentation was made available by PDCED to determine how the income was used or its ultimate disposition. We originally determined that the direct reimbursable costs claimed for this project in the amount of \$3,899 should have been offset by the income received by PDCED.

OMB A-102, Subpart C, Post Award Requirements .21 (f), Effect of program income, refunds and audit recoveries on payment, (2), states:

“Except as provided in paragraph (f)(1) of this section, grantees and subgrantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments.”

GRANTEE’S RESPONSE

PDCED did not agree with the program income finding. First, the funds did not come to the Department. They were paid to a non-profit organization, “Friends of the Commission.” These funds were used to cover meal costs that are not chargeable to ARC or allowed for match. Since they are not part of the ARC approved plan, PDCED does not see how they be counted as program income.

AUDITOR’S COMMENTS

PDCED’s total costs for the Women’s Business Development project and the revised findings based on our review are as follows:

	<u>Direct Costs</u>	<u>Match</u>	<u>Total</u>
Total Costs Claimed	\$ 15,141	\$ 77,992	\$ 93,133
Less Costs Questioned by Review:			
Central Penn Business	(1,687)	(18,571)	(20,250)
Duquesne University	<u>-</u>	<u>(7,600)</u>	<u>(7,600)</u>
Net Allowable Costs	\$ 13,454	\$ 49,924	\$ 63,378
Program Income	<u>(13,454)</u>	<u>(24,744)</u>	<u>(38,198)</u>
Net Costs	-	<u>\$ 25,180</u>	<u>\$ 25,180</u>

As a result of our revised findings, PDCED has otherwise allowable costs in excess of the program income. ARC General Contract Provisions, Article G4, Contract-Related Income states:

“All contract-related income shall be reported to ARC in the progress and final payment reports required by this contract. Pursuant to Section 18-7.3 of the ARC Code, contract-related income must be used to reduce the ARC grant amount, unless the ARC, pursuant to procedures of Section 303 of the Appalachian Regional Development Act, specifically approves the expenditure of such contract-related income to expand project services.”

In accordance with ARC regulations, program expenses should be offset by program income unless otherwise approved by ARC.

REVISED RECOMMENDATIONS BASED ON GRANTEE’S RESPONSE TO DRAFT:

We recommend that PDCED provide ARC with documentation supporting the salaries and commissions incurred by Central Penn Business and the costs of Duquesne University claimed as in-kind matching costs. We also recommend that PDCED discuss appropriate disposition of the program income identified during our review and make any adjustments necessary. Finally, we recommend PDCED reduce their program costs by the \$2,687 over claim for printing costs.

B. Internal Controls

We determined that PDCED had the following internal control weaknesses, which affected the accountability of costs or compliance with terms of the grant. These weaknesses could result in unallowable costs being charged to the grant.

Final Expenditure Report Not Submitted Timely

PDCED did not submit its final request for reimbursement for nine months after the grant period had ended. Amendment No. 2 of the agreement extended the grant period through November 30, 1996. PDCED submitted its only request for payment on August 25, 1997, nine months after the end of the grant period.

ARC Grant Agreement PA-7784-95-C16-302-0630 between ARC and PDCED, 9., Reporting Requirements, states:

“A final expenditure report shall be submitted within 60 days of the end of the grant period containing information to compare expenditures in each budget item incurred in direct performance of the grant with the approved budget categories and amounts. The State Agency Comptroller (or appropriate counterpoint) shall certify in writing that all expenditures incurred by the project are in compliance with the terms and conditions of this Grant Offer.”

RECOMMENDATION:

We recommend that PDCED perform draw downs on a quarterly basis and submit all required reports within the time frames established by the grant agreements.

GRANTEE'S RESPONSE

The Department agrees with the finding that draw downs are late. They are going to use a semi-annual draw down so that it matches their narrative report which is due semi-annually. PDCED also states that the final draw down is going to be a problem. The state accounting system is very slow in clearing all payments through the system. To pay all the bills received and process final draw downs in sixty days is going to be hard to meet.

AUDITOR'S COMMENTS

None

C. Program Results

Our review of PDCED's Consolidated Technical Assistance Program indicated all specific tasks identified in the grant, and summarized above, had been achieved.

D. Follow-Up on Prior Review Findings

1. Improper Allocation of Personnel Costs

In a prior review, PDCED charged all personnel costs to the ARC Consolidated Technical Assistance grant; half as reimbursable costs and half as match. However an audit of the Consolidated Technical Assistance program reported that only 76 percent of the counties in the Commonwealth of Pennsylvania were within the ARC region. Therefore, only 76 percent of the Grantee's personnel costs should be claimed as benefiting the ARC grant.

This review showed that PDCED's policy is to charge only 74 percent of the personnel costs.

2. Total Costs for Minority Manufacturing Strategy - 92-C13

Under grant 92-C13, PDCED subcontracted with a company named COSTAR to complete the Minority Manufacturing Strategy. The approved budget was for \$76,000, 50 percent to be funded by ARC and 50 percent to be paid by the State as matching costs. We determined that the total costs claimed for the work performed by COSTAR were not properly supported.

According to PDCED officials, COSTAR, a not-for-profit organization, is no longer in business. No support was available to document claimed costs were incurred and related to the project.

GRANTEE'S RESPONSE

The Department will meet with ARC to discuss resolution of this project. PDCED knows that the project was done and that funds were spent, but cannot prove the claim with supporting documentation because any records that should be available are gone with the now defunct organization.

AUDITOR'S COMMENTS

None

3. Total Costs Claimed for Reimbursement

In our previous review of grant 93-C14, PDCED requested ARC reimbursement for 50 percent of the total costs claimed. However, ARC participation was limited to 39 percent of the total allowable costs incurred.

During this review we found that PDCED claimed as ARC reimbursable costs, 37 percent of the total costs incurred under the grant, which was less than the ARC participation amount of 42.4 percent.

4. Objectives Not Performed

In prior reviews, we found that PDCED had not performed all of the objectives as proposed in the grant application. During our review of this grant we found that all of the objectives had been completed as proposed.

5. Final Reimbursement Request

In prior reviews we noted that PDCED did not file its final reimbursement request within 60 days after the end of the grant period. During this review we found that PDCED did not submit its final reimbursement request for nine months after the end of the grant period. PDCED officials stated that in the future draw downs would be submitted quarterly and the final expenditure report would be forwarded to ARC within the time frames established under the grant agreement.

6. Accounting System and Documentation

During prior reviews, we noted that PDCED did not maintain adequate source documentation to

support the use of all funds. PDCED's accounting system was also not adequate to properly record, accumulate and report costs under the ARC grant.

Our review of this grant showed that documentation was also not available during field work to support invoices from contractors performing services for PDCED during our current review. However, we did find that the general ledger had been modified and was adequate to record, accumulate and report costs under the ARC grant.

DISCUSSION:

We discussed these issues with PDCED's management during the exit conference held on December 18, 1997. Management responded by stating that they would request supporting documentation for the unsupported matching and direct costs. They agreed that the printing costs were double billed to the grant and the appropriate adjustments would be made. Management stated that the program income was deposited in a not-for-profit organization known as "Friends of the Commission" and the funds had been used to offset the expenses associated with the conference. Management also agreed that they had not made draw downs timely and they would start drawing down on a quarterly basis.

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