

**APPALACHIAN REGIONAL COMMISSION
WASHINGTON, DC**

**REPORT ON APPLYING AGREED-UPON
PROCEDURES TO
THE ECONOMIC PLANNING AND DEVELOPMENT COUNCIL OF PENNSYLVANIA
GRANT No. PA-12312-96
GRANT PERIOD: JANUARY 1, 1996 THROUGH DECEMBER 31, 1997**

OIG Report 98-33 (H)
March 17, 1998

Caution: Certain information contained herein is subject to disclosure restrictions under the Freedom of Information Act, 5 USC 5222 9(b)(4). Distribution of this report should be limited to the Appalachian Regional Commission and other pertinent parties.

Mr. Hubert Sparks
Inspector General
Appalachian Regional Commission
Washington, DC

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures described below, which were agreed-to by the Appalachian Regional Commission's Office of Inspector General, with respect to the Appalachian Regional Commission's (ARC) Grant No. PA-12312-96 to the Economic Planning and Development Council of Pennsylvania (EPDC) for the period January 1, 1996 through December 31, 1997, solely to assist you in determining the allowability of costs incurred, whether grant objectives were met, and the current status of the project. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Appalachian Regional Commission's Office of Inspector General. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The following procedures were performed to determine the grantee's compliance with OMB Circulars, provisions of the grant agreement, and the ARC code:

- Held an entrance conference with the grantee.
- Reviewed the grant agreements and any modifications.
- Compared total grant costs by budget category as claimed to ARC to the books of account maintained by the grantee.
- Reviewed the final cost reports submitted by the seven subgrantees.
- Tested the allowability and supporting documentation of a sample of three payroll (consisting of 36 timesheets) and seven non-payroll subgrantee expenses.
- Reviewed 13 of 14 Independent Auditor's Reports for the seven subgrantees for FY 1996 and FY 1997, as well as the FY 1997 EPDC Independent Auditor's Report.
- Reviewed the OIG Survey Questionnaire completed by the grantee.
- Determined if specific grant objectives were achieved.
- Determined if matching/non-federal contribution requirements were met, based on certifications from subgrantees on cost reports.
- Reviewed the support for the matching for one of the subgrantees.
- Held an exit conference with the grantee.

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The results of the procedures are discussed in the **RESULTS OF APPLYING AGREED-UPON PROCEDURES** section of this report.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on payments received and costs incurred under this grant. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Appalachian Regional Commission and the management of the Economic Planning and Development Council of Pennsylvania and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Upon acceptance, however, this report is a matter of public record.

M. D. Oppenheim & Company, P.C.

Fairfax, Virginia
March 17, 1998

**REPORT ON APPLYING AGREED-UPON PROCEDURES TO
THE ECONOMIC PLANNING AND DEVELOPMENT COUNCIL OF PENNSYLVANIA
ALTOONA, PENNSYLVANIA**

GRANT No. PA-12312-96

GRANT PERIOD: JANUARY 1, 1996 THROUGH DECEMBER 31, 1997

PURPOSE

The purpose of our application of agreed-upon procedures was to determine (1) the allowability of costs claimed, under the Appalachian Regional Commission (ARC) Grant No. PA-12312-96 to the Economic Planning and Development Council of Pennsylvania, (2) if the grant objectives had been met, (3) the grantee's compliance with OMB Circulars, provisions of the grant agreement, and the ARC code, and (4) the current status of the project.

SCOPE

The primary purpose of the grant was to provide funds to initiate a unified and pro-active approach by each of the seven Pennsylvania local development districts (LDDs) to achieve a more responsive involvement of small and medium size enterprises (SMEs) and to increase the likelihood of their success in international marketing of their products and services. We tested a judgmental sample of 10 cost transactions incurred and claimed for reimbursement under ARC Contract No. PA-12312-96. Under the terms of this grant, the Commission shall reimburse the grantee for the actual, reasonable and eligible costs of the project, as determined and approved by ARC, provided total cost reimbursement payments shall not exceed \$649,950 or 50% of project costs. The grantee shall pay (or cause to be paid) the non-federal share of \$649,950 or 50% in cash, contributed services, or in-kind contributions, for a total project cost of \$1,299,900.

The grant is administered by the Southern Alleghenies Planning and Development Commission (SAPDC) in Altoona, PA. The SAPDC is also a subgrantee under this contract.

The period of performance for this grant, as amended, was January 1, 1996 to December 31, 1997. The Appalachian Regional Commission obligated \$649,950 in April 1996. The grantee received eight payments totaling \$607,462. (See Exhibit A.) The remaining balance of \$42,488 was deobligated.

We reviewed reports prepared by the grantee, evaluated project records, held discussions with the SAPDC Controller and the Marketing Director during the period of March 16 and 17, 1998. As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreement, Office of Management

and Budget (OMB) Circular A-87, the "Common Rule" and the Appalachian Regional Commission Code.

BACKGROUND

The primary purpose of this grant was to initiate a unified and pro-active approach by each of the seven Pennsylvania local development districts (LDDs) to achieve a more responsive involvement of small and medium size enterprises (SMEs) and to increase the likelihood of their success in international marketing of their products and services. Under this grant agreement, the Grantee was to perform the following specific tasks:

- ◆ Identify 10 firms per LDD with the greatest export potential (70 total);
- ◆ Provide full, in-depth and comprehensive assistance to the 70 firms selected, taking each firm from initial interest through a completed sale;
- ◆ Identify in each LDD an industry cluster;
- ◆ Develop the capacity to deliver in-depth services beyond services currently provided;
- ◆ Identify opportunities and challenges for each cluster;
- ◆ Produce a cluster export marketing guide for each of the clusters, and develop and initiate a strategy to reach firms with the guide; and
- ◆ Develop two brochures per district regarding successes as a promotional tool for international trade assistance.

RESULTS OF APPLYING AGREED-UPON PROCEDURES

PROGRAMMATIC ACTIVITIES

With the help of the Appalachian Regional Commission's funding, as well as the matching support provided by the Economic Planning and Development Council of Pennsylvania (EPDC) and the subgrantees, the EPDC has accomplished the following, which appear to satisfy the specific tasks outlined in the grant agreement, with the exceptions noted below:

- Provided \$605,452 in funds to seven subgrantees (the subgrantees contributed \$653,208 in matching funds).
- Assisted 70 companies with various aspects of international marketing.
- Produced six export marketing guides. One guide is still in production (See **OBSERVATION 1**).
- The grantee has not completed the brochures detailing the success stories (See **OBSERVATION 1**).

FINANCIAL REPORTING

We have reviewed the final cost reports certified by the seven subgrantees under ARC Grant No. PA-12312-96 for the period January 1, 1996 through December 31, 1997. These reports were agreed to the final report submitted to ARC by EPDC. The results of applying agreed-upon procedures are discussed in the **OBSERVATIONS AND RECOMMENDATIONS** section and in **EXHIBIT A** of this report. Contract No. PA-12312-96 established an ARC obligation of \$649,950. The grantee requested and received \$607,462. The balance of \$42,488 was deobligated.

We have tested a sample of three payroll (consisting of 36 timesheets) and seven non-payroll costs incurred by the subgrantee, the Southern Alleghenies Planning and Development Commission (SAPDC). Our procedures disclosed the following observations:

- Observation 1 – Timesheet not mathematically correct.

In their response to the draft report, the grantee acknowledged the timesheet error and stated they will be more careful. They indicated that this type of error has not occurred in a long time. We believe the grantee has adequately addressed this observation.

- Observation 2 – Specific tasks not completed.

The grantee also stated they have since completed Task No. 6. In addition, the grantee stated that Task No. 7 has been extended until December 31, 1998, although the grant has not been modified to reflect this. The project has been extended under a new grant for 1998, according to the grantee. However, we were provided with no documentation that this grant has been extended. Therefore, our recommendation remains as stated.

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION 1 – TIMESHEET NOT MATHEMATICALLY CORRECT

One of the 36 timesheets (3%) we tested was not mathematically correct, resulting in one half hour extra being charged to this grant. While the amount is immaterial, the lack of adequate controls to ensure timesheets are accurate could result in more substantial problems. Although this timesheet was signed by both the employee and a supervisor, it appears it was not reviewed for mathematical accuracy.

The Common Rule, Subpart C - Post Award Requirements, Section 20 b (6) states:

Source Documentation. Accounting records must be supported by such source documentation as . . . time and attendance records.

RECOMMENDATION

We recommend that the grantee implement procedures to ensure that timesheets are mathematically accurate. The grantee acknowledged that this was due to human error. The grantee should consider preparing timesheets electronically to minimize the chance of mathematical error. Because this amount is immaterial, we are not questioning any costs.

GRANTEE'S RESPONSE

Southern Alleghenies acknowledges that a mathematical error occurred on one of the timesheets selected for testing. We do not believe this to be a pervasive problem. Southern Alleghenies is routinely monitored by at least five Federal and State agency representatives, as well as annually by independent auditors. This is the first time, in at least the last eight years, that such a finding has occurred. This has, of course, increased our awareness that human error can always occur and greater care will be taken in the future.

ACCOUNTANT'S CONCLUSION

The grantee should ensure its policies include a review of timesheets for mathematical accuracy before payment.

OBSERVATION 2 – SPECIFIC TASKS NOT COMPLETE

As of the date of our report, the grantee had not completed two tasks outlined in the grant agreement. The grant expired December 31, 1997. The grantee has received final payment and the grant has been closed out.

Task No. 6 requires the grantee to produce a cluster export marketing guide for each of the clusters. As of the date of this report, the grantee had produced six of the seven

marketing guides. The final guide was in printing. The grantee stated they will submit all seven to ARC as soon as the final one is completed.

Task No. 7 requires the grantee to develop two brochures for each LDD regarding success stories. The grantee has not done much work on this, and acknowledged that they will perform this during the current year under their new grant. The grantee stated they will complete this during 1998.

RECOMMENDATION

We recommend that changes to the specific tasks or other aspects of the grant agreement be in writing and signed by both the grantee and ARC. In addition, the grantee should complete the required tasks and submit them to ARC upon completion.

GRANTEE'S RESPONSE

Task No. 6 - The seven cluster export marketing guides are completed and printed. The set of seven has been sent to David Hughes at ARC.

Task. No. 7 - The task actually requires that one brochure will be developed that will contain two success stories from each of the Local Development Districts (LDDs). This task was not completed because the project was extended an additional year to be completed by December 31, 1998. The brochure will be developed at the completion of the project as was intended.

ACCOUNTANT'S CONCLUSION

As it relates to Task No. 6, we recommend that the project manager at ARC review the deliverables before closing this observation.

In regard to Task No. 7, we disagree with the grantee. The contract requires two brochures per LDD be developed. Article 2-2 states:

7. *Develop two brochures per District regarding successes*

We were not provided with any documentation of any modifications made to this requirement. In addition, although the grantee states that the project is being extended another year, our understanding is that it is being done so under a new grant, rather than a modification to the one under review. Therefore, this original grant would still need to be amended to reflect the removal of Task No. 7. Our recommendation remains the same in regard to Task No. 7.

**THE ECONOMIC PLANNING AND DEVELOPMENT COUNCIL OF
PENNSYLVANIA
ALTOONA, PA**

GRANT No. PA-12312-96

GRANT PERIOD: JANUARY 1, 1996 THROUGH DECEMBER 31, 1997

SCHEDULE OF CASH PAYMENTS

(UNAUDITED)

DATE	PAYMENT	AMOUNT
5/6/96	Progress	\$ 17,028
8/7/96	Progress	60,473
11/19/96	Progress	102,029
2/18/97	Progress	67,921
6/13/97	Progress	65,191
8/1/97	Progress	118,425
11/10/97	Progress	72,798
1/28/98	Final	103,597
Total Paid		607,462
Total Award		649,950
Balance		42,488
Less: Deobligation		(42,488)
Revised Balance		\$ -0-

**THE ECONOMIC PLANNING AND DEVELOPMENT COUNCIL OF
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SCHEDULE OF CLAIMED EXPENSES

(UNAUDITED)

Total Project Costs	\$ 1,262,681
Less: Non-Federal Share	<u>(655,219)</u>
ARC Share	<u>\$ 607,462</u>
Percentage ARC of Total	<u>48%</u>