Office of Inspector General

Inspection Report on the Appalachian Regional Commission's Grants to the Southern Tier Central Regional Planning and Development Board January 2009 through September 2011

The Appalachian Regional Commission

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Report 12-07

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Background

The Southern Tier Central Regional Planning and Development Board (STC) located in Corning, New York, is one of 73 Local Development Districts (LDDs) funded by the Appalachian Regional Commission (ARC). LDD's provide a mechanism to promote region-wide planning and development. STC serves three counties in New York, 76 governmental entities, and several other types of organizations. The total service population of the LDD area is slightly more than 200,000.

Typical grant objectives include:

Planning, such as development of a comprehensive economic strategy for a multi- county area, and providing feedback information for state planning.

Community and Economic Development Activities, providing staff to support local government efforts to obtain grants and build and market the area's economy.

Infrastructure Development, through improved communication and coordination with local governments, utilizing the services of developers and through land use planning and development activities.

Technical Assistance, used to assist local governments and other entities with training, surveys, access to geographical information systems, land use, policy development, data analysis, and shared services, etc…

ARC and other entities have provided funding to the STC for many years. Over the last three fiscal years, 2009, through 2011, ARC grants for LDD activities and general area development totaled $650,500.

Executive Summary

ARC funded grants to the Southern Tier Central Regional Planning and Development Board (STC) for the fiscal years 2009 through 2011 in the amount of $650,500, excluding a small grant to study the impact of Marcellus Shale Drilling on tourism. We examined receipts, disbursements, fund controls, and program activity to determine the appropriateness of expenditures and the results of activities.

Overall, we found STC programs to be well accounted for and the programs completed or proceeding as expected. We had only one finding and recommendation concerning internal controls over cash receipts.

Discussion of Results

The receipts and disbursement activities of the Southern Tier Central Regional Planning and Development Board (STC) appear to be well accounted for and program activity seems to be progressing at a suitable pace.

We did identify some internal control weaknesses in the area of cash receipts. The same individual is involved in the process of collecting, depositing, posting, and reconciling of cash receipts* (mostly checks). A 1999 GAO report entitled, *Standards for Internal Control in the Federal Government* states,

> Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Attached in Appendix B is an excerpt from Syracuse University's office of Audit and Management Advisory Services that provide instructions for establishing best practices for internal controls over cash receipts.

Aside from the internal control concern over cash receipts, we did find one unusual practice; the reliance on Steuben County, one of STC's 3 constituent counties, for its banking services, where funds are deposited into a bank account controlled by the County. However, the posting of deposits, withdrawals and reconciliation of the banking activity was done by both STC and the County. In addition, the unusual arrangement is somewhat explainable as STC utilizes the payroll services of the county.

Overall, except for the finding noted above, we found STC programs to be well accounted for and the programs completed or proceeding as expected.

* However, as described elsewhere, Steuben County performs, for their own purposes, a separate reconciliation of the bank account.

Recommendation:

We recommend that STC's Executive Director implement controls over cash receipts to ensure proper segregation of duties as described in Appendix B.

Management Response:

The grantee agreed to review their internal controls over cash receipts and initiate actions to improve segregation of duties to the extent possible.

Auditors Comment:

We consider management's statements responsive to addressing our recommendation and we consider the recommendation closed.

Appendix A

Objectives, Scope and Methodology

The objectives of the inspection were to determine that program funds were managed in accordance with ARC and federal grant terms and requirements, that grant funds were expended as provided for in the ARC approved budget and in accordance with other contract documents, and to determine that internal grant guidelines and best practices, including program (and internal) controls, were appropriate and operating effectively. Lastly, one of our goals was to determine that accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements). Overall, a determination was made as to whether the goals and objective of the grant were being met.

We conducted our inspection in accordance with the *Quality Standards for Inspection and Evaluation,* issued by Council of Inspectors General on Integrity and Efficiency in January 2011. Our inspection was conducted at the offices of the Southern Tier Central Regional Planning and Development Board (STC) in Corning, New York, during the period November 15 through November 17, 2011. Our inspection encompassed activity from January 2009 through September 2011. Our work was concluded on February 9, 2011 at ARC offices with the initial draft report completed that day.

We performed preliminary background work by consulting with ARC program management, reviewing ARC's project files, and discussing issues with STC officials.

We met and interviewed STC's Executive Director and STC's Accountant to gain an understanding of the work performed as part of the grant and what records were kept. We also reviewed files and obtained copies of records to document our review.

We continued our review of the records at our offices in Washington, DC, so that we could: detail our understanding of the grantee's operations, more fully document our work, perform research into the rules and regulations governing the project, and prepare this report. The initial draft report was provided to STC for their comments and for corrections. The final report was issued to STC and a copy provided to ARC.

Appendix B

Internal Controls for Cash Receipt and Revenue

CASH RECEIPTS

Basic Principle: No one person should be allowed to collect, handle or transport and deposit checks/currency without some additional control feature to ensure that all funds are accounted for. Examples of such controls are as follows:

- Maintain a log of all monies received. The log can be in manual or electronic format and should contain the amount received, the name of the payer, purpose of the payment and its form (cash or check).
- Provide a receipt. Ideally receipts should be pre-numbered and two-part. One copy should be provided to the payer while the other copy is kept on file. Total deposits can be verified independently by another person by accounting for each sequentially numbered receipt.
- If cash or checks are received regularly in the mail, two persons should be present when the mail is opened. One person should total the remittances and the other, the payments. The totals should then be agreed and the remittances forwarded to the appropriate area for data entry. A deposit slip should be prepared and forwarded with the cash/checks to Cash Operations. The deposit slips should be reconciled by a third person to the general ledger.
- Keep transfers of cash from person to person to a minimum. Accountability is lost when several people handle cash before it is deposited. If transfers must take place be sure to document it. If you are the transferor you should get a receipt, if you are the transferee you should verify what you are told you are receiving is actually what you are receiving before you provide a receipt. Use of a drop-off/pick-up log can be beneficial when transporting deposits.
- Restrictively endorse checks immediately upon receipt with a stamp stating “For Deposit Only - Syracuse University”.
- Keep cash/checks in a locked and secure area until they can be deposited. Access to the area should be restricted to only 2 people, one serving as a backup. If a person with custody responsibilities leaves their position, any keys should be collected or combinations changed. Remember that while cash or checks are in your custody you are responsible for it.
- Make timely deposits. The sooner you deposit cash/checks the less exposure to theft or loss of funds. Ideally deposits should be made within 24 hours. If amounts are insignificant (less than $100) then deposits can be made weekly.
- Verify the deposit by agreeing Cash Operations deposit slip to the general ledger on a monthly basis.
- Duties should be segregated, meaning that the person recording the receipt should not be the same as that making the deposit. Additionally, a person independent of recorder and depositor responsibilities should reconcile the deposit to the general ledger. If there are only 2 people in the department, the reconciliation should be performed by the person collecting the receipts.
- Cash registers and credit card machines should be balanced daily. Over/short amounts should be monitored.
- If gifts are received, they should be forwarded to the Development Office immediately for processing.
- Personal checks should not be cashed.