
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**West Virginia Development Office
Charleston, West Virginia**

**Final Report Number: 12-23
Project Number: WV-7762
September 2012**

**Prepared by
Leon Snead & Company, P.C.**



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September 25, 2012

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Leon Snead & Company, P.C. has completed an audit of grant number WV-7762 awarded by the Appalachian Regional Commission (ARC) to the West Virginia Development Office (WVDO). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

The primary objectives of the audit were to determine if program funds were managed in accordance with the ARC and federal terms and requirements; grant funds were expended as provided for in the ARC approved budget; internal grant guidelines and internal controls were operating effectively; accounting and reporting requirements were implemented in accordance with generally accepted accounting principles and the goals and objectives of the grant were met.

Overall, the WVDO financial and administrative procedures and related internal controls were adequate to manage the grant and funds reviewed. The expenditures tested were reasonable and adequately documented. However, WVDO budgeting process needs improvement to ensure that the dollars requested are more in line with its requirements. WVDO utilized considerably less than the obligated funds during the past several years. In addition, some performance benchmarks were not met or could not be verified as being achieved. A detailed discussion of the issues is presented in the "Results of Audit" section of the report.

A draft report was provided to WVDO on September 4, 2012, for comments. The Director of Community Development provided a response to the report on September 14, 2012, addressing our audit recommendations. These comments were sufficient to resolve the recommendations and close findings B & C. Finding remains open for further review of ARC program officials. The comments are included in their entirety in Appendix II.

Leon Snead & Company appreciates the cooperation and assistance received from the WVDO and ARC staff during the audit.

Sincerely,

Leon Snead & Company, P.C.
Leon Snead & Company, P. C

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Background

Leon Snead & Company, P.C. completed an audit of grant number WV-7762 awarded by the Appalachian Regional Commission (ARC) to the West Virginia Development Office (WVDO). The audit was made at the request of the ARC, Office of the Inspector General, to assist the office in its oversight of ARC grant funds.

WVDO is a state agency with offices in Charleston, West Virginia and is comprised of five divisions - the International, Administration, Business and Industrial Development, Small Business and Entrepreneurship, and Community Development Divisions. WVDO is responsible for conducting activities to achieve the State strategies and related ARC goals for community development within West Virginia. There has been a focus in recent years on programs and activities for Area Development, Distressed Counties, At-Risk Counties, and the Access Road Program.

The ARC grant is a multi-year annual grant to provide continuing support to WVDO in performing its activities. Grant funds support both the ARC Technical Assistance and the Local Capacity Development (LCD) offices, which are located within the Community Development Division, in assisting local community development efforts by providing technical and financial assistance. The types of local communities served include regional planning and development councils, local economic development organizations, main street communities, enhanced distressed counties, local citizen groups, and non-profit organizations. The ARC technical assistance activities are carried out by an ARC program manager, without any additional staff. A manager and five full-time staff members carry out the LCD activities.

For each of the most recent three years, the annual grant award provided \$350,000 in ARC funds and required \$350,000 of non-federal match funding to carry out the planned technical assistance support activities estimated to cost a total \$700,000. The most recent award, WV-7762-C29, covered the period July 1, 2011 to June 30, 2012 and had been completed, but had not been closed out at the time of our audit. The grant awards for the prior two years, WV-7762-C27 and WV-7762-C28 had been completed and financially closed out.

Objectives, Scope, and Methodology

The review objectives were to determine whether: (1) program funds were managed in accordance with the ARC and federal grant terms and requirements; (2) grant funds were expended as provided for in the approved budget; (3) internal grant guidelines and best practices, including program (internal) controls, were appropriate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the goals and objectives of the grant were met.

We reviewed the documentation provided and interviewed grantee personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures. We reviewed financial and project progress reports to determine if they were submitted in accordance with the requirements. We reviewed a sample of costs charged to the project to determine whether the charges were properly supported and allowable. In that regard, we

focused the testing on expenditures for the period July 1, 2011 through June 30, 2012. The total reported grant expenditures for that period were \$123,838. We reviewed WVDO's administrative procedures and related internal controls to determine if they were adequate to administer the grant funds. In addition, we reviewed the most recent Single Audit report to identify any issues that significantly impacted the ARC grant.

The primary criteria used in performing the audit were the specific grant terms and requirements, applicable Office of Management and Budget Circulars, and relevant parts of the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of July 31 to August 8, 2012, including on-site work at the WVDO offices in Charleston, West Virginia. The audit results were discussed with the WVDO staff at the conclusion of the on-site visit.

Overall, the WVDO financial and administrative procedures and related internal controls were adequate to manage the grant and funds reviewed. The expenditures sampled and tested were reasonable and adequately documented; however, we identified areas that require management attention. The grantee utilized considerably less than the obligated funds during the past several years; some performance benchmarks were not met or could not be confirmed and documented; and some administrative costs documentation could be improved. These issues and our recommended corrective actions are discussed in the Results of Audit section of the report.

RESULTS OF AUDIT

A. Utilization of Grant Funds

WVDO has returned a substantial portion of the total funding provided by ARC during the three most recent years covered by the audit, and even for some prior years. This was primarily due to matching funds not being available as projected in the budgets, not preparing realistic estimates for the proposed budgets by using prior experience, and not revising the budgets when it was apparent the planned activities and costs had changed. Another contributing factor was a WVDO decision to charge some of the ARC program costs to another Federal grant rather than the ARC grant because there was insufficient state match funding to comply with the ARC match requirements. As a result, WVDO was not effectively using the available Federal funds and was not following the Federal cost principles in its financial management.

Federal grantees are expected to have an effective budgeting process that ensures proposed cost estimates are realistic, are based on credible data and assumptions, and are the minimum amount needed. Additionally, the approved budget should be monitored and adjusted as requirements and expenditures change. Under both of the most recent grant years, which had been closed (WV-7762-C27 and WV-7762-C28), WVDO had budgeted for and requested \$350,000 in federal funding support, but only expended a total of \$175,476 and \$127,531, respectively. A similar pattern exists on the current grant (WV-7762-C29), which ended June 30, 2012, but had not been closed out. Based on preliminary figures provided to us on total expenditures, it appears WVDO will only use about \$192,600 of the total \$350,000 in ARC funding requested and approved. The difference between the amounts requested and actual amounts expended represent significant amounts of ARC funds that could have been utilized to fund critical projects and requirements.

The ARC manager, in discussing the pattern of consistently having unused funding, explained that one major reason for this is there are less proposed projects from the communities than planned or hoped for. This is usually due either to the community's inability to obtain adequate funding to meet the match requirements or the proposed project not otherwise meeting WVDO criteria for being a candidate for support. As a result, there are a lower number of projects actually getting recommended by WVDO and approved by the Governor and therefore less projects to monitor and support which reduces overall costs. An effective budgeting process would, in our opinion, consider and factor in this information and experience in order to make the estimates more realistic, rather than continually requesting \$350,000 every year. Recognizing the difficulty in estimating the number and types of projects that will be supported, monitoring the actual expenditures and submitting revised budgets to ARC when it was recognized that all the funding would not be required is a positive action. The ARC program manager stated that he did not routinely monitor expenditures and compare them to the amounts approved. The accounting staff appeared to be monitoring the expenditures, but primarily only to ensure there was enough funding available to pay the invoices and record expenses and not to revise and reduce the budget as needed.

In our review of the problem with unused funding, the accounting staff told us that some of the ARC funds could not be used to pay valid ARC-related costs because there had been insufficient

amounts of state funding each year that could be used for match on the grant. This had been the case for many years due to the economy and limited state resources. Expenditures related to the ARC technical assistance grant activities were charged to the grant and ARC funds used until the available match amount was exhausted, then the remaining amounts were instead charged to another federal technical assistance grant with the Department of Housing and Development (HUD) so that WVDO did not violate the federal match requirements. We were told that the HUD grant did not have any match requirements, which allowed this to be done. There was not any documentation available to show exactly when this decision was made and who approved it, but we were told this practice had been occurring for many years. We were also told that the amount available to use as ARC match had increased recently, but the practice of charging ARC-related costs to another agency Federal grant had continued simply because that was how it had been previously done.

Although the Appalachian Regional Development Act (ARDA) allows the use of other Federal agency grant funds, we do not believe this is a good practice and that, as a minimum, the agency providing the funds should be notified of the amounts charged to that agency's grant funds.

At the exit conference, the grantee representatives indicated that they understood the issues and agreed that corrective action was needed. Also, they indicated that there had been discussions internally about discontinuing the use of HUD grant funds for matching purpose since the level of state funding had improved.

Recommendations

WVDO should implement policies and procedure to ensure that (a) budget estimates used to obtain ARC funding are realistic, (b) the approved budget is closely monitored and revised whenever actual expenditures vary substantially from the approved levels, and (c) it strive to avoid the use of other agencies funds.

Grantee Response

WVDO stated in its response that:

1. It has implemented measures to ensure that budget estimates are realistic and that its currently submitted Fiscal Year 2012 Consolidated TA Grant to the ARC is a request for \$250,000 instead of \$350,000.
2. It has implemented measures to ensure that the approved budget is closely monitored and revised whenever actual expenditures vary substantially from the approved levels. The program manager will work closely with the financial staff at WVDO to make adjustments as necessary to the TA budget to ensure that actual and approved levels of expenditures are aligned.
3. Although WVDO had conversations concerning the Consolidated TA Grant and use of matching funds for Fiscal Year 2013, the revisions were reflected after the audit due to the payroll closing deadlines.

Reviewer's Comments

ARC will determine whether the proposed or completed actions identified in the grantee's response are adequate to consider the recommendation resolved and implemented, or whether additional information or actions are needed.

B. Grant Performance Goals and Objectives

The grantee had established numerous benchmarks to support the performance goals and had made substantial progress toward implementing the Government Performance and Results Act and ARC initiatives. We noted that 37 of the 54 benchmarks were documented; however, nine of the 54 grant performance goals and objectives (benchmarks) established for the most recently closed grant (WV-7762-C28) were either not met or not fully met. In addition, there were eight benchmarks that we could not reasonably verify as being achieved. This was primarily because either the benchmark was not worded to be clear, realistic and measurable; the results were not described sufficiently to clearly determine whether the benchmark was achieved; and although information was available, explanations were not documented as to why the results were not fully achieved.

In recent years, there has been increased emphasis within the federal government on grant performance and its measurement as a means to increase the effective use of federal funds. Two related initiatives have been the Government Performance and Results Act of 1993 and the 2001 President's Management Agenda. This emphasis has resulted in agencies such as ARC including performance goals and objectives in each grant award to promote achievement of desired outcomes under the grant project and maximize effective use of the public fund provided. The ARC technical assistance grants awarded to WVDO have included a substantial number of performance goal or benchmarks. The WVDO ARC manager told us they were developed by WVDO for the project proposal and accepted by ARC in approving the grant. We reviewed the most recent grant that had a final report describing performance results (WV-7762-C28) that would provide a basis to determine if the grant goals are being met. The approved grant agreement contained a total of 54 described performance goals or benchmarks. In reading the reported results and discussing the data or documentation that WVDO had to support the results, we identified nine that did not appear to have been fully met or even partially met in some cases. Eight others were either not sufficiently worded or supporting data was not available to allow us to verify whether they were met, as shown in Appendix I.

At the exit conference, the program manager had some concerns about the recommendation to coordinate with ARC in developing the goals and benchmarks since WVDO traditionally has developed them and they run the program, but agreed that the recommendations should not be changed.

Recommendations

WVDO should:

1. Coordinate with ARC during future proposal development to establish benchmarks that are clear, measurable, and reasonably achievable.
2. Report performance results in the interim progress reports in a manner that describes the results to date, an assessment of the extent of progress, and what actions are planned to promote full achievement by the end of the grant period.

Grantee Response

WVDO stated in its response that it will completely overhaul its current benchmarks and actions that are reported in its Consolidated TA Grant and ensure that all benchmarks are clear, measurable, and reasonably achievable. WVDO also stated that it will submit interim progress reports that more clearly report results to date, assessments of extent of progress, and what actions are planned to promote full achievement by the end of the grant period.

Reviewer's Comments

The responses received are sufficient to resolve the recommendations.

C. Allocation of Administrative Costs

WVDO was charging rent and utility costs to the ARC grant awards by allocating them as direct costs rather than as indirect under a government-approved rate. Our sampling and testing of expenditures charged to the grant included some of these costs. The accounting staff told us they were allocating rent and utilities based on factors such as what grant the employees worked on and how much office space they had. We requested documentation on this process so we could identify what they were and verify that they had a reasonable basis, were properly reviewed and approved, and complied with the federal cost principles. WVDO did not have documentation to support the methods and factors used to allocate some administrative costs such as rent and utilities to the grant awards. Under the applicable federal cost principles (2 CFR 225), administrative costs such as rent and utilities may be charged to a Federal grant either as indirect costs (under a government-approved indirect cost rate) or as direct costs as long as they are related to the grant activities, are allocated in a consistent manner, and are allocated in accordance with relative benefits to that grant.

The staff was able to provide us with a reasonable description of how they were allocating the rent and utility costs, but stated they did not have any formal documentation showing how the rates or factors were developed, how often they were reevaluated or revised, or show they had been officially reviewed and approved. They were also not aware of any written WVDO policy governing how the rates should be established and approved. Using the verbal description provided to us, we confirmed that our sample rent and utility costs were consistent with that description and that the basis appeared reasonable. We believe documentation describing the basis for the rates used to allocate rent and utility costs are important and necessary to fully comply with the federal cost principles.

At the exit conference, the grantee representatives did not express any concerns about the finding and recommendation.

Recommendation

WVDO should establish a written policy and take steps that will ensure the rates used to allocate rent and utility costs to the grant awards are properly documented, including how they were decided upon and that they were approved by ARC.

Grantee Response

WVDO stated in its response that it has submitted a written budget narrative document to ARC for approval, which includes the rate used to bill for rent and total expenditure (rate multiplied by square footage of space occupied by the employees of the Local Capacity Development Unit that are paid from the grant) for the grant period July 1, 2012 to June 30, 2013. WVDO also stated that the only utilities charged to the grant are telephone and cell phone charges for individuals paid by the grant and these too are submitted on the budget narrative. WVDO stated that the cost is estimated based upon Fiscal Year 2012 actual expenses; however, they will be paid based on

actual telephone/cell phone use, and charges and the budget will be adjusted as necessary during the grant period.

Reviewer's Comments

The response submitted is sufficient to resolve the recommendation and close the finding.

General Comments

WVDO did not fully comply with the grant reporting requirements. The technical assistance grant awarded to WVDO covers an annual period and the grant terms each year required a semi-annual interim progress report and a final report after grant completion. We evaluated the reporting on the two most recent grant awards and determined that the reports were not always timely submitted. For example, the final report for WV-7762-C28 was over seven months late.

The ARC manager stated that although he knew that these reports were due and when, other priorities and workload prevented the timely preparation and submission of the reports. Timely reporting is critical for ARC to be able to effectively meet its obligations to monitor the grant performance and use of funds. Timeliness is especially critical for the final report to allow ARC to close out the project to meet its financial deadlines and make any unused funds available for other needs.

Grant Performance Benchmarks Not Fully Met or Not Determinable

Grant Task or Activity	Total Number of Benchmarks	Benchmarks Not Fully Met	Benchmarks Not Determinable
Project Development	2	-0-	#1
Project Monitoring	3	#1, #2, #3	-0-
Regional Coordination	2	-0-	#2
WV Certified Development Community Program	3	#1, #2, #3	-0-
Local Economic Development Grant Program	3	-0-	#2, #3
Main Street Program	9	#7	#4, #5
Main Street Revitalization and Capacity Training	9	#1, #9	#4
Flex-E-Grant Added-Value	2	-0-	#1

We identified three primary problems that either contributed to not fully achieving the planned results and not being able to verify the actual results or reduced the usefulness of the reported results to ARC or others interested in evaluating overall performance. First, some benchmarks were not clearly worded, either realistic, or reasonably measurable. For example, benchmark #1 for Project Development was "...WVDO will be available to meet with potential grantees. This action will include site visits with potential grantees as well as providing TA with the support of the planning and development councils..." The reported results were "...FY2011 applications were reviewed and recommendations were made. Technical assistance was provided as needed..." We asked for clarification as to which potential grantees were assisted, how many there were during the grant period that could have been assisted or supported, and how many were actually visited or helped. The WVDO ARC manager said there was no clear definition of what a potential grantee was, i.e. whether it was someone who contacted him to discuss possibly submitting an application, someone who actually submitted an application for consideration or just those that submitted an application and were selected for recommendation to the Governor. He explained it could reasonably be any of those, but this issue was not identified or addressed in establishing the benchmark. As a result, this benchmark could not be reasonably measured and accurately reported.

Second, frequently the results as described were not sufficient to clearly determine whether the benchmark was achieved. For example, all eight benchmarks that we could not clearly identify what the results were, and therefore considered inconclusive, had been reported as "activity on-going" rather than providing details on what was actually done or achieved. Generally, this appeared to be due to either not having maintained documentation showing the data needed to accurately measure and report results or not having established a means to collect the needed information.

Appendix II
Grantee Response



WEST VIRGINIA DEVELOPMENT OFFICE

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September 14, 2012

Mr. Leon Snead
President
Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, MD 20850

RE: Response from West Virginia Development Office (WVDO) to Review of ARC Project WV-7762

Dear Mr. Snead:

Thank you for allowing us the opportunity to respond to the review of the West Virginia Consolidated Technical Assistance Grant (WV-7762). Please find our responses to the draft report dated, August 2012, below:

Response to Recommendation (A) Utilization of Grant Funds:

The West Virginia Development Office has implemented measures to ensure that budget estimates are realistic. We have currently submitted our Fiscal Year 2012 Consolidated TA Grant to the Appalachian Regional Commission with a request of \$250,000 instead of \$350,000.

We are implementing measures to ensure that the approved budget is closely monitored and revised whenever actual expenditures vary substantially from the approved levels. The program manager will work closely with the financial staff at WVDO to make adjustments as necessary to the TA budget to ensure that actual and approved levels of expenditures are aligned.

Although WVDO had conversations concerning the Consolidated TA Grant and use of matching funds for Fiscal Year 2013, the revisions were reflected after the review process due to payroll closing deadlines.

Response to Recommendation (B) Grant Performance Goals and Objectives:

WVDO will completely overhaul our current benchmarks and actions that are reported in our Consolidated TA grant and ensure that all benchmarks are clear, measurable, and reasonably achievable. We will also submit interim progress reports that more clearly report results to date, assessments of extent of progress, and what actions are planned to promote full achievement by the end of the grant period.

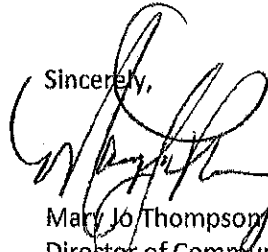
Response to Recommendation (C) Allocation of Administrative Costs:

WVDO has submitted to ARC for approval a written budget narrative document which includes the rate of building rent and total expenditure (rate multiplied by square footage of space occupied by the employees of the Local Capacity Development Unit that are paid from the grant) for the grant period July 1, 2012 to June 30, 2013.

The only utilities charged to the grant are telephone and cell phone charges directly for individuals paid by the grant and these too are submitted on the budget narrative. The cost is estimated based upon FY 2012 actual expenses, however they will be paid based on actual telephone /cell phone use, and charges and the budget will be adjusted as necessary during the grant period.

If you have any questions or concerns, please contact Monica Miller, Manager, Local Capacity Development Unit, at 304-558-2234.

Sincerely,



Mary Jo Thompson
Director of Community Development

cc: Monica Miller, WVDO
James Bush, WVDO
Jeanna G. Bailes, WVDO

MJT:sf