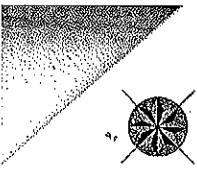

**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Southern Tier East Regional Planning Development Board
Binghamton, New York**

**Final Report Number: 13-30
Project Number: NY-2324-C41
August 2013**

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



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August 16, 2013

Appalachian Regional Commission
Office of the Inspector General
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Leon Snead & Company, P.C. has completed an audit of grant number NY-2324-C41 awarded by the Appalachian Regional Commission (ARC) to the Southern Tier East Regional Planning Development Board (STE). 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 whether: (1) program funds were managed in accordance with the ARC and federal grant terms and requirements; (2) internal grant guidelines and best practices, including program (internal) controls, were appropriate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) the matching requirements and the goals and objectives of the grant were met.

We identified a weakness in the procedures used to record employee time charges and salary costs to the grant. As a result, we identified \$209,834 charged to the grant that was not adequately supported. We could not accurately assess the overall grant achievements because the reported performance results contained inaccurate and inconsistent data, and in some instances did not have adequate documented support. These issues and our recommended corrective actions are discussed in detail in the Findings and Recommendations section of the report.

A draft report was provided to STE on June 28, 2013, for comments. STE provided a response to the report on August 5, 2013, addressing our audit recommendations. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the STE and ARC staffs during the audit.

Sincerely,

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

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Background

Leon Snead & Company, P.C. completed an audit of grant number NY-2324-C41 awarded by the Appalachian Regional Commission (ARC) to the Southern Tier East Regional Planning Development Board (STE). 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.

STE is a special purpose unit of government, created under New York State laws, to serve as a Local Development District (LDD) for coordinating the Appalachian Region Program in eight New York counties. The LDD is part of a Federal-State-Local partnership that provides comprehensive regional strategies for community and economic development by leveraging resources to meet the needs of the region. It operates under a joint resolution of the eight member counties. The board members of the LDD are appointed by the respective county legislatures. Operational and program activities are performed by a board staff of eight employees managed by a director from the main office located in Binghamton, New York. The majority of funding for operations comes from Federal and State sources, with a smaller amount from the member counties. The LDD also receives support through in-kind services from its member counties and other groups such as universities.

Grant NY-2324-C41 covered the period January 1 through December 31, 2012, provided \$378,000 in ARC funds and required \$234,000 in non-ARC match funding. The ARC funds were primarily for salary costs for the staff to manage the LDD-related activities, but also included some travel, rent, and other costs. The grant also included funding for continuing a Roads Inventory Project that was previously funded as a separate ARC grant. The grant had been completed and the final reports submitted, but the grant had not been closed at the time of the audit. The total project cost reported under the grant was \$759,324.

Objectives, Scope, and Methodology

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and federal grant requirements; (2) internal grant guidelines, including program (internal) controls, were adequate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) the matching requirements and the goals and objectives of the grant were met.

We reviewed the documentation provided and interviewed the LDD staff to obtain an overall understanding of the grant activities, the accounting system, and the operating procedures. We selected for testing a sample of \$99,378 in expenditures from the total of \$378,000 reimbursed by ARC during the grant period to determine whether the charges were properly supported and allowable. We reviewed the LDD'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 determine whether there were any issues that 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 May 20-29, 2013, including on-site work at the LDD office in Binghamton, New York. The audit results were discussed with the LDD representatives at the conclusion of the on-site visit.

Summary of Audit Results

We identified a weakness in the procedures used to record employee time charges and salary costs to the grant. As a result, we identified \$209,834 charged to the grant that was not adequately supported. We could not accurately assess the overall grant achievements because the reported performance results contained inaccurate and inconsistent data, and in some instances did not have adequate documented support. These issues and our recommended corrective actions are discussed in detail in the Findings and Recommendations section of the report. An additional observation concerning the LDD accounting system, for which formal recommendations are not being made, is presented in the report under General Comments for management consideration.

Findings and Recommendations

A. Support Documentation for Salary Costs

The personnel time records used to calculate salary costs charged to the grant did not meet the federal requirements. As a result, \$209,834 in salary costs charged to the grant lacked adequate supporting documentation.

The Cost Principles applicable to the LDD contained in the Office of Management and Budget Circular (OMB) A-87 require salary costs to be supported by personnel activity reports when the employee's salary costs are charged for work on more than one project or activity. The activity reports must meet several standards, including documenting the total time, be an after-the-fact distribution of the actual activities of the employee, and signed by the employee. All of the employees, whose salary costs were charged to the ARC grant, typically worked on more than one project or activity.

The board's policies required employees to maintain bi-weekly timesheets to document their hours for which they were paid. Prior to September 2011, the board used a timesheet format that fully met the A-87 standards and provided excellent support for the amounts charged to ARC. The employee was required to record both the total hours worked and a distribution of time on each project or activity, and to sign the timesheet certifying that the hours claimed and their assignment to the projects were correct. In addition, a supervisor had to sign the timesheet approving it. However, the policy and the timesheet format were changed in September 2011 to require the employee only to enter the total number of hours worked without having to show any distribution of the total to any specific projects or activities. The employee still had to sign the timesheet and certify to the total hours claimed. The allocation of the total hours to individual projects was done by the LDD fiscal officer, who entered the charges into the accounting records. All of the timesheets in our sample of 2012 salary costs charged to the grant were in the new format and only documented the total hours.

We were provided a report from the financial system for the 2012 time periods and amounts we were testing that showed how the total hours were allocated to various projects. Sometimes the total salary amount (related to the total hours shown on the timesheet) was charged to the ARC grant; sometimes the total salary amount was charged to several projects including the ARC grant. This allocation (the percentage used) was being decided by the fiscal officer at the time of entering salary costs into their accounting records. The fiscal officer told us that it was primarily based on her knowledge of what activities the employees worked on and that the actual breakout was not routinely shown to or discussed with the employees for them to verify. We did not have an adequate basis to evaluate or question the level of knowledge of the fiscal officer about employee actual work efforts, or the accuracy of the actual distribution recorded. However, we do not consider the allocation process and timesheet format used to be in compliance with the federal requirements. Our review of salary costs charged to grant NY-2324-C41 indicated that \$85,919 did not have adequate supporting documentation. Since the same timekeeping format was used for the entire grant period, we concluded that the total \$209,834 charged to the grant was not adequately supported.

Recommendations

The LDD should:

1. Adopt a time keeping system that requires the employee to show a distribution of time charges by grant or project number.
2. Adjust the amounts in the accounting records charged to the grant as necessary and refund any amounts due to ARC (with a corrected SF-269).
3. Ensure that all salary costs charged to the current grant (NY-2324-C42) for 2013 are supported and properly allocated.

Grantee Response

The LDD stated in its response that all personnel time records for the period in question were re-certified by personnel to meet the federal guidelines and provide adequate supporting documentation as detailed in OMB Circular A-87. The LDD also stated that based upon its review there were no changes to the hours worked/billed per program and that all timesheets currently meet the recommended guidelines for providing adequate documentation. In addition, the LDD stated in its response that it would gladly provide any supporting material requested.

Reviewer's Comments

The response provided by the grantee is sufficient to close out the three recommendations.

B. Grant Performance Measure Reporting

Although the grantee established numerous goals and objectives (performance measures), the grant performance results reported in the final project report contained inaccurate data and inconsistencies, and in some instances did not have adequate supporting documentation. This was due to several factors including misunderstanding the reporting requirements, errors, and lacking procedures to collect and verify the data necessary to fully and accurately report the results. The reported results did not provide a basis to accurately assess overall grant achievements.

The approved LDD work-plan that was incorporated into the grant award contained many individual goals and objectives, which related to the ARC goals for LDDs. Each of these broader goals had several subtasks and related work elements. The submitted work-plan described the LDD's planned actions and activities regarding these tasks and work elements.

In relation to performance measurements, the ARC provided a format for specific information to be submitted. There were two specific "measures" listed for reporting results: (a) showing the anticipated sources of the LDD funds and related amounts and (b) listing the various anticipated funding sources with related numbers of projects and amounts and showing anticipated project outcomes such as numbers of jobs created or retained, employability (workforce training), amount of infrastructure development, and amount of private sector investment.

For the anticipated results, they expected to have six funding sources for a total \$1,174,000 to support the LDD administrative operations and 12 projects totaling \$9,703,409 for non-ARC grants. The LDD also estimated that 586 jobs would be created or retained, 64 participants would complete workforce training, 26,000 feet of water and wastewater lines would be installed and \$42,750,000 in private sector investment would be obtained.

We identified several problems with the information reported to ARC on the results of established performance measures. There were errors in the data reported, which resulted in the report being inaccurate and misleading. For example, the report submitted to ARC showed four EDA projects with a total of \$82,000,000. The data in supporting documents provided to us showed a total of \$68,241,562 for these four projects. Also, the reported jobs created or retained showed 480 created and 970 retained but the supporting data showed 480 created and 1,450 retained. In discussing the supporting information, we were told the data for some measures had been updated after the final report was submitted to ARC (in preparing for our visit and review) and some numbers changed because the analyst had re-interpreted ARC guidance and decided it was appropriate to include anticipated future results on some projects (for example, new or retained jobs).

Also, there were a number of non-ARC activities that did not have any reported results - i.e., reported as zero. In discussing these, the LDD analyst preparing the data and report indicated there might have been results from some of the projects but the data was not readily available. This was primarily because no actions had been taken by the LDD staff at the beginning of the grant period to identify the exact data needed to satisfy the final reporting requirements and to establish methods for collecting and verifying that data.

In our opinion, the number and nature of issues identified raises questions about the accuracy and usefulness of the final report, especially regarding the reported results on performance measures.

Recommendation

The LDD should establish procedures to ensure that the final project report is accurate and consistent with the reporting requirements, including: (a) ensuring that the staff preparing the report fully understand the requirements; (b) obtaining ARC guidance or clarification as needed; (c) identifying the specific data needed to properly report actual results on each performance measure; (d) establishing the methods and agreements necessary to obtain and verify the required data; and (e) reviewing the report prior to submission to ensure it is complete, accurate, and in the proper format.

Grantee Response

The LDD stated in its response that all documentation provided in reference to grant performance reporting was accurate at the time of submission. The LDD also stated that as with many projects and proposals, they make best estimates based on information available at the given time. However, the LDD stated that there are improvements that it can and are making in accordance with the audit recommendations. Those include: dedicated staffing to familiarize themselves with the reporting requirements and supporting documentation of the grant; working closely with both State and Federal ARC offices to obtain any needed guidance, understand and identify performance measures and supporting data needed; establish sound outcome measurements; and ensuring reports follow contractual agreement formats. In addition, the LDD stated in its response that it would gladly provide any supporting material requested.

Reviewer's Comments

The response provided by the grantee is sufficient to close out the recommendation.

General Comments

The current accounting system used by the LDD to record, process, and report financial transactions on the ARC grant and other activities is essentially a very old (15-20 years) set of EXCEL spreadsheets with equally old formulas for allocating and recording costs. We were told that there have been changes to them over the years, but these changes are not very well documented. In addition, the only staff person that routinely maintains and seems to understand the system, spreadsheets, formulas, and other financial records is the fiscal officer. We requested several financial reports on grant expenditures to perform our review and testing procedures. We were eventually given some reports and data; however, the formats and content were not readily useful and required considerable time and effort for both the staff to produce them and us to use and understand them.

Although the system used to record and administer the grant funds meets what would be considered the minimum requirements for an acceptable system and process, we believe it would greatly improve the LDD's financial processes and reliability of the records and data if a more standard and widely accepted financial accounting software, such as QuickBooks, was used. Accordingly, we suggest that the director explore the options and costs, including determining what other LDDs use, and seek the board's approval to implement a cost-effective system. We also suggest that the written policies be reviewed and updated to reflect any new or changed requirements resulting from any system or software changes that are implemented.

The LDD stated in its written response that its accounting system was being migrated into QuickBooks and procedures were being implemented to cross train the staff on the new system.

Appendix I
Grantee Response



**Southern Tier East
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**Management Response to the
Southern Tier East Regional Planning Development Board
Local Development Districts Administrative Grant Audit**

**In reference to: Draft Report
Project Number: NY-2324-C41
Prepared By: Leon Snead & Company, P.C. July 2013**

I would like to take this opportunity to thank ARC, Office of Inspector General and auditor Leon Snead and Company in performing a thorough audit, providing a straight forward approach, continuous open communication and most importantly performing the review with minimal disturbance to the operations of our local development district.

In response to the ARC Audit of NY-2324-C41, preliminary audit results were discussed with the Southern Tier East Regional Planning Development Board at the conclusion of the on-site visit. Overall it was acknowledged by the auditing firm that we have performed per our contract- providing deliverables as outlined in our grants (albeit, clarifications and minor changes in existing and future reporting and process were warranted). Through the audit process, identified concerns were acknowledged and immediate steps were taken to address all perceived weakness in operations/ procedures.

Regarding the specific findings and recommendations of this report we offer the following clarifications and procedural improvements to better operate as a local development district in the Appalachian Region.

A. Support Documentation for Salary Costs

All personnel time records for the period in question were re-certified by personnel to meet the federal guidelines and provide adequate supporting documentation as detailed in OMB Circ. A-87. Upon review by personnel, there were no changes to hours worked/billed per program. All timesheets currently meet recommended guidelines providing adequate documentation.

B. Grant Performance Measure Reporting

All documentation provided in reference to grant performance reporting was accurate at the time of submission. As with many projects and proposals we make best estimates on information available at the given time. Grants from any source routinely get partially funded, new grantors identified, projects costs rise over time, and impacts increase and or decrease. Direct and indirect

impacts are always a moving target and by analyzing impacts out three years from project completion we get the best understanding of the efforts made.

Understanding the limitations of previous data collected, there are improvements that we can and are making at this time in accordance with the auditors recommendations. Those include: dedicated staffing to familiarize themselves with the reporting requirements and supporting documentation of the grant; working closely with both State and Federal ARC offices to obtain any needed guidance, understand and identify performance measures and supporting data needed; establish sound outcome measurements, and ensuring reports follow contractual agreement formats.

There was one additional general comment identified that we were aware of and working on prior to the audit. The accounting system, albeit functional is crude and inefficient as identified in the program audit. Working with a consultant, our accounting system is being migrated into QuickBooks and procedures are being implemented to cross train staff on the new system.

Again, overall the audit has been a great tool to better enable us to increase our efficiency, provide clearer meaningful reporting metrics, and assess our health as an organization.

We would gladly provide any supporting materials as requested. Please don't hesitate to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read 'Erik Miller', written over a horizontal line.

Erik Miller, Director.