

PERFORMANCE AUDIT
OF THE

**Buckeye Hills-Hocking Valley
Regional Development District**

LDD Administrative Grant

Grant: OH-707-B-C41

OIG Report Number: 13-32

GRANT PERIOD:

JANUARY 1, 2012 – DECEMBER 31, 2012

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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Buckeye Hills-Hocking Valley Regional Development District LDD Administrative Grant OH-707-B-C41. The report is in response to Contract No. BPA 11-01-B.

Watkins Meegan LLC

Tysons, Virginia
August 7, 2013

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state and local governments. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair, who is appointed by the President. Local participation is provided through multi-county local development districts (LDDs). Each year, ARC provides funding for several hundred projects in the Appalachian Region, in areas such as business development, education and job training, telecommunications, infrastructure, community development, housing, and transportation. These projects are intended to create new jobs; improve local water and sewer systems; increase school readiness; expand access to health care; assist local communities with strategic planning; and provide technical and managerial assistance to emerging businesses.

The Buckeye Hills-Hocking Valley Regional Development District (LDD, or the District) was created as an agency established by agreement among its members pursuant to Section 167.01-08 of the Ohio Revised Code. The District is organized as a voluntary organization of local government political subdivisions in Athens, Hocking, Meigs, Monroe, Morgan, Noble, Perry and Washington Counties to foster a cooperative effort in regional planning, programming and implementing regional plans and programs. The District is also organized as a forum for the discussion and study of common problems of a regional nature, and for the development of policy and action recommendations thereto.

ARC awarded the Buckeye Hills-Hocking Valley Regional Development District the LDD Administrative Grant (the Grant), project number OH-707-B-C41, for the period from January 1, 2012 to December 31, 2012. The Grant provided \$217,000 of ARC (federal) funding and required \$72,334 of state (non-federal) matching funds, for total funding of \$289,334.

The Grant provided funding to the LDD to establish and expand economic development services in its service area that are deemed useful and pertinent to the accomplishment of the objectives and purposes of the Appalachian Regional Development Act of 1965 (ARDA). Funding covered personnel costs plus travel, supplies, other direct costs and indirect expenses.

Objective

Watkins Meegan LLC was engaged to conduct a performance audit on the Buckeye Hills-Hocking Valley Regional Development District LDD Administrative Grant for the period from January 1, 2012 to December 31, 2012. The purpose of our performance audit was to determine that:

- Funds expended and claimed for reimbursement from ARC were valid program expenses and in accordance with the ARC Grant requirements;
- Internal controls were in place to ensure compliance with the Grant requirements; and
- Goals and objectives of the Grant had been achieved.

Executive Summary

Grant funds were used to fund the payroll and benefits of seven staff that assisted with the administration and support of the LDD ARC programs, and to pay related administrative and program expenses. Staffing included a Development Director/GIS Manager, two Development Specialists, a Communications Director, Program Assistant/Communications Specialist, Business Development Coordinator and a Secretary/Receptionist. Non-personnel costs included travel, supplies, other direct costs and indirect expenses. The staff supported the program in various areas, including preparing and reviewing grant applications, program oversight including field visits to ARC projects, attending regional meetings, and working with community agencies to expand economic development services in its service area.

ARC reimbursed \$217,000 of expenses for the period ended December 31, 2012 (C-41 Grant). Matching funds provided from non-federal sources totaled \$72,334 for the period ended December 31, 2012. Our review of program expenses identified \$3,347 in expenses that were reclassified to the LDD program from another grant fund, without supporting documentation or independent approval. In general, based on interviews with LDD personnel and review of selected documentation supporting Grant activities, it appears that the performance objectives of the Grant were met.

Scope

We performed a performance audit of the Buckeye Hills-Hocking Valley Regional Development District LDD Administrative Grant OH-707-B-C41 at the LDD office from May 6, 2013 through May 8, 2013, as described below. Our audit was based on the terms of the Grant agreements and on the application of procedures in the modified ARC Audit Program.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Methodology

Our procedures were based on Audit Program guidelines provided by the ARC Office of Inspector General and included suggested procedures over the LDD's accounting and internal control systems affecting the Grant. We met with the Executive Director to discuss the overall structure of the LDD and processes around Grant administration and monitoring. We also discussed and reviewed other financial and operational elements related to the conduct of the projects.

Our review of background material included ARC's Grant agreements and related documentation, ARC Grant approvals, the Grant applications and the Buckeye Hills-Hocking Valley Regional Development District audited financial statements for the fiscal years ended June 30, 2011 and June 30, 2012.

Our procedures included a review of controls in place for recording, accumulating and reporting costs under the Grant. We discussed with Management and certain staff whether the goals and objectives of the projects funded with ARC monies had been met. This included meeting with the Executive Director and other staff to understand how their daily activities and responsibilities supported the administration of the LDD's ARC program. We reviewed representative supporting documentation related to grant activities for consistency with applicable performance measures.

Finally, we examined a sample of timesheets, payroll detail and related records for the staff whose employment was supported by the ARC funds. We also inquired of key staff and reviewed supporting documentation (invoices, vouchers, cost allocation reports, etc.) regarding the travel, supplies, other direct costs and indirect expenses that were paid for by ARC funds to determine whether they were allowable costs and that the expenses supported ARC staff and project coordination. We evaluated payments and other activities for compliance with applicable Grant requirements and federal regulations.

Results

Compliance with Grant Provisions

The ARC (federal) share of actual Grant expenditures reported was \$217,000 and the matching (non-federal) share was \$72,334. The total actual expenditures reported were \$289,334, equal to the total ARC and matching budget. We examined supporting documentation for a sample of the costs incurred, and determined that with the exception of the items noted below, the funds appear to have been expended in compliance with the Grant agreement.

Based on our discussions with LDD personnel and review of documentation supporting the final report, it appears the program objectives were generally achieved. The Grants funded the work of seven LDD personnel supporting Grant activities. Services included preparing and reviewing grant applications, program oversight including field visits to ARC projects, attending regional meetings, and working with community agencies to expand economic development services in its service area.

Finding – Unallowable Expenses

Sample testing of expense transactions charged to the Grant identified journal entries totaling \$3,347 where expenses had been reclassified from other Grant fund accounts. Analysis of the support for these entries did not provide any reasonable justification for the reclassifications leading to the conclusion that these expenses are not allowable under the Grant terms.

Recommendation:

LDD management should provide analysis and support to validate reclassification entries charged to the ARC Grant general ledger. We noted a total of approximately \$7,000 in reclassification transactions. Absent valid justification for the reclassification entries, Management should reimburse ARC for any unallowable expenses previously paid with ARC Grant funds.

Management Response:

Management has reviewed the expense items noted and believes that they are allowable under terms and conditions of the Grant. Management will obtain and provide the appropriate supporting documentation to justify the expenses to their ARC point of contact as soon as possible to allow for final determination.

Finding – Segregation of Duties

It was noted during testing of the reclassification entries identified above that the LDD Director of Fiscal Operations has the capability to prepare and post journal entries without any additional review and approval of the transactions. This presents a segregation of duties issue in that a single user can make entries without adequate oversight and review.

Recommendation:

LDD Management should review system access rights to enforce a separate preparer and reviewer/approver of manual journal entries. To the extent that a system-driven solution is not available, a manual review and approval of journal vouchers and supporting documentation should be implemented.

Management Response:

Management acknowledges the observation and will review system capabilities and manual procedures to determine a cost-effective means to enforce appropriate segregation of duties for journal entries. Any such changes will be implemented as soon as possible and, in any event, no later than August 31, 2013.

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