
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Northeastern PA Alliance
Partnerships for Regional Economic Performance (PREP)
Pittston, Pennsylvania**

**Final Report Number: 18-22
Grant Numbers: PA-8291-C34 & C36
May 2018**

Prepared by:

Leon Snead & Company, P.C.



**LEON SNEAD
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May 23, 2018

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, N.W.
Washington, DC 20009

Lon Snead & Company, P.C. completed an audit of grants PA-8291-C34 and PA-8291-C36 awarded by the Appalachian Regional Commission (ARC) to the Northeastern Pennsylvania Alliance (NEPA). The audit was conducted at the request of the ARC Office of Inspector General to assist the office in its oversight of ARC grant funds.

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate 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 matching requirements and the goals and objectives of the grant were met.

Grant funds were administered in accordance with the budget and other applicable requirements. Except for \$178,221 of indirect costs which we questioned, the remaining costs tested were considered reasonable and allowable. The policies and procedural controls followed to administer the PREP grants were adequate. Grant matching fund requirements were fully met. The grant performance goals on the completed grant appeared to have been met. Financial and project reports were submitted to ARC timely and accurately. The questioned costs and recommended corrective actions are discussed in the Finding and Recommendations section of this report.

A draft report was provided to NEPA on April 12, 2018, for comments. NEPA provided a response to the report on May 17, 2018. These comments are included in their entirety in Appendix I.

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

Sincerely,


Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grants PA-8291-C34 and PA-8291-C36 awarded by the Appalachian Regional Commission (ARC) to the Northeastern Pennsylvania Alliance (NEPA). The audit was conducted at the request of the ARC Office of Inspector General to assist the office in its oversight of ARC grant funds.

The grant supports the Partnerships for Regional Economic Performance (PREP) Program, which is designed to promote economic development in Northeast Pennsylvania. Major components of the PREP Program include research and information, business finance assistance, market development, export marketing assistance, government procurement assistance, and transportation planning services.

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) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate 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 matching requirements and the goals and objectives of the grant were met.

ARC grant PA-8291-C34 was awarded to cover the period July 1, 2015 through June 30, 2016. It provided \$400,000 in ARC funds and required \$400,000 in non-ARC recipient matching funds. The majority of the approved budget was for staff salaries, benefits, and indirect costs. There were also amounts included for travel, supplies, and other costs. The grant had ended and was closed out administratively by ARC with all of the approved ARC funding expended to meet the total project costs of \$800,000.

ARC grant PA-8291-C36 provides \$400,000 in ARC funds and requires \$400,000 in non-ARC recipient matching funds for NEPA to continue to carry out its planned PREP activities during the period July 1, 2017 through June 30, 2018. Grant activities were on-going and about three months remained on the planned 12-month grant period. Approximately \$199,000 of the total \$400,000 approved ARC funds were reported as expended as of December 31, 2017.

We tested \$270,104 of the \$599,406 of ARC expenditures charged to the two grants to determine whether the costs were adequately supported and allowable.

We reviewed documentation and interviewed grantee personnel to obtain an understanding of the project and NEPA's financial and operating procedures. We reviewed financial and project reports submitted to ARC to determine if they were properly supported and compliant with requirements. We reviewed applicable NEPA written procedures and internal controls to determine if they were adequate to administer the grant. The most recent Single Audit report was reviewed to identify any issues that impacted the ARC grants. We reviewed supporting documentation for required non-ARC matching funds to determine if grant requirements were

met. We evaluated the planned grant goals and actual results discussed in the final project report to determine if the planned performance goals and objectives were met.

The fieldwork was performed during the period of March 16-28, 2018, including on-site work at NEPA's office in Pittston, Pennsylvania. The audit results were discussed with NEPA representatives at the conclusion of the on-site visit. The grantee was in general agreement with the preliminary audit results.

The primary criteria used in performing the audit were 2 CFR 200, the ARC Code and the grant agreements. The audit was performed in accordance with the *Government Auditing Standards*.

Summary of Audit Results

Grant funds were administered in accordance with the budget and other applicable requirements. Except for \$178,221 of indirect costs which we questioned, the remaining costs tested were considered reasonable and allowable. The policies and procedural controls followed to administer the PREP grants were adequate. Grant matching fund requirements were fully met. The grant performance goals on the completed grant appeared to have been met. Financial and project reports were submitted to ARC timely and accurately.

The questioned indirect costs and recommended corrective actions are discussed in the Finding and Recommendations section of this report.

Finding and Recommendations

A. Indirect Costs

NEPA charged \$178,221 in indirect costs to ARC grants PA-8291-C34 and PA-8291-C36 and obtained reimbursement for those costs without having a federal approved indirect cost rate. We questioned the \$178,221 in indirect costs as not being adequately supported under federal cost principles.

The cost principles applicable to the grants and NEPA in 2 CFR 200, Appendix IV to Part 200 – Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organization, state that "a nonprofit organization which has not previously established an indirect cost rate with a Federal agency must submit its initial indirect cost proposal immediately after the organization is advised that a Federal award will be made and, in no event, later than three months after the effective date of the Federal award."

Audit testing determined that \$109,901 in indirect costs had been drawn down from grant PA-8291-C34 and \$68,320 in indirect costs had been drawn down from grant PA-8291-C36. The total indirect costs drawn down from grants PA-8291-C34 and PA-8291-C36 was \$178,221.

NEPA informed us that in recent years, they been submitting an annual cost rate proposal to the Pennsylvania Department of Transportation (PennDot) and had obtained a PennDot approved rate to use in calculating and charging indirect costs to ARC grants. However, PennDot is a state agency, not federal. The last approved indirect rate received by NEPA was in 2014 covering costs for its fiscal year ended June 30, 2015. The reason given by NEPA staff for not having an approved rate since 2014 was that PennDot officials were re-examining their policies regarding indirect cost rates and planned to discuss this subject with NEPA in an upcoming meeting in May 2018. NEPA had continued to develop an annual indirect cost rate plan, and its estimated rate, even after PennDot no longer reviewed the costs and provided an approved rate. This estimated rate was the one being used to calculate and charge indirect costs to the two grants audited.

In discussing this matter, NEPA staff thought ARC staff had agreed with using PennDot as the cognizant agency several years ago, but could not provide any documentation to show what the discussions were, who was involved, or if ARC formally approved the process. If indirect costs are charged to ARC grants, NEPA needs to comply with the federal cost principles and obtain a federal approved indirect rate.

Lacking an approved rate from a cognizant agency as required in 2 CFR 200, we do not consider the amounts claimed and reimbursed for indirect costs to be adequately supported under the federal cost principles. Therefore, we question the \$178,221 in indirect costs claimed and reimbursed under grants PA-8291-C34 and PA-8291-C36.

Recommendations

1. Obtain a federal approved indirect cost rate from the cognizant agency.

2. Upon the approval of an indirect cost rate, submit revised SF-270 financial reports for grants PA-8291-C34 and PA-8291-C36 to ARC to adjust indirect costs to the approved and supported amount.
3. If no indirect rate is obtained from the cognizant agency by the end of the grant on June 30, 2018, refund the \$178,221 in unsupported indirect costs to ARC.
4. If a federal approved indirect cost rate is obtained, and the indirect cost rate applied to the grant exceeds the approved rate, refund any unsupported indirect cost overages charged to the grant to ARC.

Grantee's Response

Since Leon Snead & Company performed the audit, NEPA has written a policy regarding the indirect approval process by a cognizant agent. NEPA has contacted ARC for further guidance and to ascertain if ARC can be NEPA's cognizant agent. ARC verbally informed NEPA that it is very unlikely that they could be the cognizant agent since they are a commission as opposed to an agency. ARC is sending a written notice to NEPA explaining their position. To date, NEPA has not received a written response but will continue to follow up with ARC until a written response is received. NEPA will forward the response to Leon Snead upon receipt from ARC.

On the recommendation of PennDot, NEPA's Chief Fiscal Officer attended a U.S. Department of Transportation Grant Management/Super Circular training session on May 14-15 in Harrisburg in order to obtain clarity regarding NEPA's cognizant agent. The U.S. Department of Transportation presented the information at the training session. The Department of Transportation stated that PennDot has the authority, acting on behalf of FHWA, to be NEPA's cognizant agent. The U.S. Department of Transportation also stated that the CFR indicated that organizations that receive federal funding less than 35 million are not required to submit their indirect cost allocation plan to a cognizant agency. The Department of Transportation is willing to contact ARC, if needed, to discuss PennDot, acting on behalf of FHWA, being NEPA's cognizant agent.

Based on the information received at the training session, NEPA will immediately submit their indirect cost allocation plan and supporting documentation to PennDot for their approval. NEPA will continue to comply with federal cost principles and obtain a federal approved indirect rate annually from PennDot (FHWA) unless we are notified otherwise by ARC.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendations related to the compliance issue and the questioned costs.

Leon Snead Company

From: Wendi Holena [wholena@nepa-alliance.org]
Sent: Thursday, May 17, 2018 4:32 PM
To: 'Leon Snead & Company'
Subject: RE: Audit of Grant Numbers PA-708D and PA-8291
Attachments: ARC Response.pdf

Good Afternoon Mr. Snead,

Attached is NEPA's response to the draft report. If you have any questions, or need any additional information, please let me know.

Thank you.

Wendi

Wendi J. Holena
Vice President/Chief Financial Officer



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Tel: 570-655-5581 Ext. 225 • Fax: 570-654-5137
email: wholena@nepa-alliance.org web: www.nepa-alliance.org



From: Leon Snead & Company [<mailto:leonsnead.companypc@erols.com>]
Sent: Wednesday, May 16, 2018 3:29 PM
To: 'Wendi Holena'
Subject: RE: Audit of Grant Numbers PA-708D and PA-8291

Good Afternoon Wendi,

Thank you for the update. We'll look forward to receiving your response tomorrow.

Leon Snead
(301) 738-8190

From: Wendi Holena [<mailto:wholena@nepa-alliance.org>]
Sent: Wednesday, May 16, 2018 3:12 PM
To: 'Leon Snead & Company'
Subject: RE: Audit of Grant Numbers PA-708D and PA-8291

Hi Mr. Snead,

I apologize for the delay in submitting our response to the draft reports. I attended a PENNDOT workshop yesterday and Monday that discussed in length indirect and cognizant agents. I wanted to incorporate the information from the workshop into NEPA's response. I will send my response tomorrow.

Thank you for your patience and sorry for the delay.

The Northeastern Pennsylvania Alliance (NEPA) appreciates the opportunity to respond to the Draft Audit Findings of the Appalachian Regional Commission Office of Inspector General on ARC Projects PA-708 D-C43 & C46 and PA-8291-C34 & C36 as issued by Leon Snead and Company in April 2018.

The findings relate to indirect cost rates and their approval by a cognizant agency. The U.S. Department of Commerce previously acted as NEPA's cognizant agent and reviewed and approved our indirect cost plan even though it was not required. (See attached letter from the Department of Commerce). The U.S. Department of Commerce then informed NEPA that they were unable to act as NEPA's cognizant agent since they did not provide NEPA with the largest amount of federal funds. At that time, NEPA contacted ARC asking if they could be the cognizant agent since they provided the most federal funds. ARC informed NEPA that they could not act as the cognizant agency since they were a commission rather than an agency.

NEPA contacted several sister LDD agencies to ascertain who their cognizant agent was and learned that PennDot, acting on behalf of the Federal Highway Administration (FHWA), was their cognizant agent. NEPA then contacted PennDot who agreed they were the cognizant agent. NEPA proceeded to submit their indirect cost allocation plan and backup documentation to PennDot for approval.

PennDot then informed NEPA that they were unsure if NEPA needs to obtain cognizant agency approval for their indirect cost rate and that due to the OMB Super Circular, PennDot is uncertain how to proceed. NEPA has continued to calculate an annual indirect cost allocation plan every year, using a provisional rate that is adjusted to an actual rate at fiscal year end. However, due to the uncertainty regarding the cognizant agent, the plan was not approved.

Since Leon Snead & Company performed the audit, NEPA has written a policy regarding the indirect approval process by a cognizant agent. NEPA has contacted ARC for further guidance and to ascertain if ARC can be NEPA's cognizant agent. ARC verbally informed NEPA that it is very unlikely that they could be the cognizant agent since they are a commission as opposed to an agency. ARC is sending a written notice to NEPA explaining their position. To date, NEPA has not received a written response but will continue to follow up with ARC until a written response is received. NEPA will forward the response to Leon Snead upon receipt from ARC.

On the recommendation of PennDot, NEPA's Chief Fiscal Officer attended a U.S. Department of Transportation Grant Management/Super Circular training session on May 14-15 in Harrisburg in order to obtain clarity regarding NEPA's cognizant agent. The U.S. Department of Transportation presented the information at the training session. The Department of Transportation stated that PennDot has the authority, acting on behalf of FHWA, to be NEPA's cognizant agent. The U.S. Department of Transportation also stated that the CFR indicated that organizations that receive federal funding less than 35 million are not required to submit their indirect cost allocation plan to a cognizant agency. The Department of Transportation is willing to contact ARC, if needed, to discuss PennDOT, acting on behalf of FHWA, being NEPA's cognizant agent.

Based on the information received at the training session, NEPA will immediately submit their indirect cost allocation plan and supporting documentation to PennDot for their approval. NEPA will continue to comply with federal cost principles and obtain a federal approved indirect rate annually from PennDot (HWFA) unless we are notified otherwise by ARC.



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer
Assistant Secretary for Administration
Washington, D.C. 20230

August 12, 2008

Ms. Karen Ostroskie
Government Procurement Manager
Northeastern Pennsylvania Alliance
1151 Oak Street
Pittston, Pennsylvania 18640-3728

Referenced: Indirect Cost Rate Proposals for State and Local Government Entities

Dear Ms. Ostroskie:

This letter is to confirm that no further action is required under Department of Commerce Financial Assistance Standard Term & Condition A.05, *Indirect Costs*. Pursuant to OMB Circular A-87, Cost Principles for State, Local, and Federally-recognized Tribal Governments, your organization is not required to submit an indirect cost allocation proposal or plan narrative to its cognizant agency. These plans are to be prepared and retained at the local government level. OMB Circular A-87, Attachment E, section D(1)(a) states, in part:

All department or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support the costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

When actual costs are known at the end of your fiscal year, you are required to account for differences between estimated and actual indirect costs by means of either: a) making an adjustment to the next year's indirect cost rate calculation to account for carryforward (the difference between the estimated costs used to establish the rate and the actual costs of the fiscal year covered by the rate); or b) making adjustments to the costs charged to the various programs based on the actual charges calculated. Since OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, requires the independent auditor to determine the allowability of both direct and indirect costs, the organization's indirect cost charges will be subject to audit.

It is important to note that your organization is still required to submit to the U.S. Department of Commerce (DOC) an annual Certificate of Indirect Costs. The DOC acknowledges receipt of your most recent certificate pertaining to your rate for Fiscal Year 2008. The submission of this form is due to our office within six (6) months after the close of your fiscal year. Therefore, your next certification will be due on December 31, 2008.

A copy of this letter will be retained in your official award file. If you have any questions, please email me at GJohnso3@doc.gov or call (202) 482-1679.

Sincerely,

A handwritten signature in black ink that reads "Gary W. Johnson". The signature is written in a cursive style with a large, prominent loop at the beginning of the first name.

Gary W. Johnson
Acting Director, Grants Management Division
Office of Acquisition Management
U.S. Department of Commerce
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