

PERFORMANCE AUDIT
OF THE

**Northwest Georgia Regional
Commission**

LDD Administrative Grant

Grant: GA-701G-C1 and C1-R1

OIG Report Number: 13-13A

GRANT PERIOD: JANUARY – DECEMBER 2011

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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Northwest Georgia Regional Commission LDD Administrative Grant GA-701G-C1 and C1-R1. The report is in response to Contract No. BPA 11-01-B.

Watkins Meegan LLC

Tysons, Virginia
April 25, 2013

Northwest Georgia Regional Commission LDD Administrative Grant

GA-701G-C1 and C1-R1

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state, and local government. 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 create thousands of 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.

In July 2009, the Coosa Valley Regional Development Center and the North Georgia Regional Development Center were merged, creating the Northwest Georgia Regional Commission. The overall objective of this LDD is to bring the population of the Georgia Appalachian Region to a competitive level with the remainder of the nation in areas of education, standard of living, community development, and economic development. The Northwest Georgia Regional Commission administers a variety of state, federal, and locally funded programs designed to improve communities throughout the state of Georgia. Among those programs are the grants awarded by ARC specifically focused on fostering growth and economic development within the Appalachian counties in Georgia.

ARC awarded the LDD Administrative Grant, project number GA-701G-C1, to Northwest Georgia Regional Commission (NWGA Regional Commission or the Grantee) in two parts with total ARC funding of \$210,808. Grant terms required an equal amount of matching, non-federal funds. The initial grant award was for \$105,404 for the period from January 1 to June 30, 2011. The grant was amended (GA-701G-C1-R1) to include additional funding and extend the period of performance to December 31, 2011. Total funding, including federal (ARC) and non-federal was \$421,616. ARC funds were to be used to support the employment of NWGA Regional Commission staff at varying levels of dedicated time to help administer the ARC program. Funding was provided for personnel costs, related fringe benefits, travel and other indirect charges,

The NWGA Regional Commission's program is specifically designed to enhance the quality of economic development activities in the region and strengthen relationships among the various units of local government. Responsibilities of the staff include coordinating the goals, objectives, and programs of the NWGA Regional Commission. The staff also works within the local community in support of community development activities and provide administrative support (application writing, review).

Objective

Watkins Meegan LLC was engaged to conduct a performance audit on the Northwest Georgia Regional Commission LDD Administrative Grant for the period from January 1, 2011 to December 31, 2011. 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.

Northwest Georgia Regional Commission LDD Administrative Grant

GA-701G-C1 and C1-R1

Executive Summary

Grant funds were used to fund the payroll and benefits of 14 staff members who assisted with the administration and support of the NWGA Regional Commission ARC program, and to pay administrative program expenses. Staffing included an Executive Director, Director of Community and Economic Development, Director of Regional Planning, and various field personnel. The staff supported the program in various areas including supporting grant applications, coordination of resources across counties, management and oversight processes, attending regional meetings, and working with LDDs and community agencies to improve visibility and support development in the region.

The Grantee was reimbursed for \$210,808 in expenses and reported an equal amount in matching expenses.

The 2009 merger of the Coosa Valley Regional Development Center and the North Georgia Regional Development Center into the NWGA Regional Commission resulted in an inordinate amount of work for the combined administrative services/fiscal staff including the transition of two different accounting software systems into an entirely new accounting system. During this process, covering about 18 months, the former controller retired. The new controller fired all financial staff after an accounting system crash. The Board subsequently terminated the new controller and the executive director retired.

In a letter to ARC, dated Jan 13, 2012, the then executive director indicated the first financial statement audit of the new, combined organization for the fiscal year ended June 30, 2010 identified a lack of some internal controls and fiscal processing issues. The financial statement audit for the year ended June 30, 2011 noted significant deficiencies in internal controls including the reconciliation of grant submissions to the general ledger. At the time of our audit, we identified similar issues.

Implementation of the new accounting software and the integration of new accounting staff were still in transition. New finance and accounting personnel are currently developing policies and procedures as well as internal control documentation for managing the accounting functions. We were unable to obtain sufficient documentation to fully support amounts charged to the Grant and internal controls were not operating effectively to accurately report Grant costs.

Management believes the financial reporting issues did not affect the operational staff. Overall, based on our review of timesheets and interviews with personnel, the performance objectives of the grant appear to have been met.

Scope

We performed a program review of the LDD Administrative Grant GA-701G-C1 and GA-701G-C1-R1 at the NWGA Regional Commission offices in Rome, GA from February 20, 2013 through February 22, 2013, as described under this section and under the audit methodology section. Our review was based on the terms of the grant agreement and on the application of procedures compiled 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 ARC Office of the Inspector General (OIG) and included suggested procedures over the Grantee's accounting and internal control systems affecting the Grant. We met with the Interim Comptroller, Director of Community and Economic Development, and Director of Accounting to discuss the overall organizational structure and processes around grant administration and monitoring. We also discussed and reviewed other financial and operational elements related to the conduct of the project.

Our review of background material included ARC's Grant Agreement and related documentation, the ARC Grant Approval, the Grant Application and the NWGA Regional Commission's fiscal year 2011 audited financial statements.

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 project funded with ARC monies had been met. This included meeting with the Director of Community and Economic Development and three field staff to understand how their daily activities and responsibilities supported the administration of the Regional Commission's ARC program. We also gained an understanding of the responsibilities of other staff funded by the Grant.

Finally, we examined a sample of timesheets and payroll history reports and related records maintained by the Grantee for the staff whose employment was supported by the ARC funds. We also inquired of key staff and reviewed supporting documentation (invoices, vouchers, etc.) regarding the travel and indirect expenses that were paid for by ARC funds to determine if they were allowable costs, i.e., the expenses supported ARC staff and project coordination. We inquired regarding the methods for allocating indirect costs and assessed the reasonableness of the allocations. We evaluated payments and other activities for compliance with applicable grant requirements and federal regulations.

Results

Compliance with Grant Provisions

The total grant award for the period from January 1 to December 31, 2011 was \$421,616, including \$210,808 of both ARC (federal) and matching (non-federal) funds. Actual expenditures reported were equal to the grant award and included payroll, travel and other expenses, and allocation of fringe benefits and indirect costs. We were unable to obtain sufficient documentation to fully support amounts reported.

The Grant did not provide detailed measures for assessing performance. Based on our discussions with Grant personnel and information provided by the Grantee, it appears the program objectives were generally achieved. Fourteen staff supported the ARC program assisting with grant applications, supporting local, state and regional economic development programs in Appalachian counties in Georgia, and attending workshops, conferences and training.

As noted above, the Grantee experienced significant upheaval in the Finance and Accounting Department in 2011, including complete turnover of personnel. In addition, the new accounting software was implemented during the Grant period with records maintained in two different systems. Our procedures included examining a sample oftimesheets and invoices for expenses charged to the grant and inquiries regarding allocation of fringe and indirect expenses. Time charges could not be reconciled to the general ledger or the program subsidiary ledger and supporting documentation was not always available. Methodologies for calculating fringe and indirect costs

were not documented or maintained when transitioning to the current accounting system. Internal controls were not consistently followed.

Our findings and observations are provided in more detail below:

Findings: Timekeeping and Reconciliation to the General Ledger

Finding: Accurate timekeeping records are required to correctly charge time to program objectives. Four of 20 timesheets tested did not evidence supervisor approval; one timesheet did not have the employee's signature. Not all timesheets were available. Generally, signatures of the employee or the approver were not dated. We were unable to trace timesheet data to the subsidiary schedules and ledgers used to capture Grant costs in the general ledger. Forms W-2 were not available to validate salary payments. Personnel files were not available for many employees to validate employment terms.

Accounting staff turnover and the merger of Coosa Valley Regional Development Center and the North Georgia Regional Development Center into NWGA Regional Commission contributed to timekeeping issues and lack of documentation. Certain personnel records were with the former agencies. Accounting system challenges including lack of controls over the new software implementation and staff training were also factors. Policies and procedures were not adequately documented or followed.

Recommendations: Policies and procedures around timekeeping need to be documented and enforced. Timesheets should be completed timely, signed and dated by the employee and a knowledgeable supervisor. Procedures for recording expenses in the general ledger should include a review process to ensure amounts are supported, accurately recorded and charged to the correct program. Additional training on the new accounting system should be provided to new and current accounting personnel.

Findings: Allocation of Fringe and Indirect Costs

Finding: Methodologies for allocating Fringe and Indirect Costs to programs should be documented, applied consistently and periodically reconciled. Due to changes in personnel and changes in the accounting system, the Grantee was not able to determine how fringe and indirect costs were allocated to the ARC program in the period under review. Fringe and indirect rates reported in the final report approximated the rates included in the grant budget. The Grant period differed from the fiscal year of the Grantee making the calculation more problematic.

Recommendation: Methodologies for calculation of allocated costs in the new accounting system should be documented and understandable by accounting personnel. Actual amounts charged should be validated and supported.

Management Response: *Management generally agrees with the findings. New controls and procedures are being developed to document processes and strengthen internal controls.*

General Recommendations: Procedures for entering expenses in the general ledger should include a review process to ensure amounts are supported, accurately recorded, and charged to the correct program. Grant reports should be reconciled to the general ledger and reviewed by Management prior to submission to ARC. A copy of the final financial statement audit for fiscal year ended June 30, 2012 should be provided to ARC.

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