
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

Region II Planning and Development Council

Huntington, West Virginia

Final Report Number: 13-14

Project Number: WV-2730

November 2012

**Prepared by
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Leon Snead & Company, P.C. has completed an audit of grant number WV-2730 awarded by the Appalachian Regional Commission (ARC) to the Region II Planning and Development Council (Council). 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 Council's accounting and financial management procedures and related internal controls were adequate to effectively manage the ARC funds for the grant reviewed. However, we identified \$1,388 in questioned travel costs and two other issues that need to be addressed to improve the management of the ARC grant. We determined that the Council was making progress on achieving the goals of the grant, but improvement is needed in reporting program outcomes. These issues and our recommended corrective actions are discussed in the Results of Audit section of the report.

The draft report was provided to the Council on October 11, 2012, for comments on the finding and recommendation with a response due by October 26, 2012. A follow-up request was made to the Council and as of November 5, 2012, we had not received a response to the report. Therefore, the report is issued in final without the comments from the Council.

Leon Snead & Company appreciates the cooperation and assistance received from the Council 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-2730 awarded by the Appalachian Regional Commission (ARC) to the Region II Planning and Development Council (Council). 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.

The Council is located in Huntington, West Virginia and is the council of governments in southwestern West Virginia. Its goal is to achieve optimal administration of planning and development functions in its service area (Cabell, Lincoln, Logan, Mason, Mingo and Wayne Counties). Council members include elected officials and additional appointees representing 31 units of government in the six counties. The Council staff, which consists of an executive director and seven other employees, provides temporary professional services to augment and support planning and program assistance to the area governments.

The ARC grant is made annually to provide support for the Council to perform its activities. The initial Local Development District Administrative Grant was awarded to the Council in 1974. The purpose of the grant is to assist the Council in establishing and expanding economic development services in its service area that are deemed to be useful and pertinent to the accomplishment of the objectives and purposes of Section 302 of the Appalachian Regional Development Act of 1965.

For each of the most recent three years, the annual grant award provided around \$84,000 in ARC funds and required around \$28,000 of non-federal match funding to support the Council in carrying out its planned economic development activities. The most recent award, WV-2730-C38, covers the period January 1, 2012 to December 31, 2012.

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 the Council staff to obtain an overall understanding of the grant activities, the accounting system, and the operating procedures. We reviewed a sample of cost transactions 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 January 1, 2011 through June 30, 2012. The total recorded expenditures for that period were \$167,039. We reviewed the Council'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 financial statements audit report (including the related report on internal controls) to determine whether there were any issues that impacted the ARC grant.

As a basis for determining whether the costs charged to the grant were allowable and whether the Council had complied with the applicable Federal requirements, we used the provisions of the grant agreement, applicable Office of Management and Budget Circulars, and the ARC Code. The review was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of August 6-9, 2012, including on-site work at the Council's office in Huntington, West Virginia. The audit results were discussed with the Council staff at the conclusion of the on-site visit.

Overall, the Council's accounting and financial management procedures and related internal controls were adequate to effectively manage the ARC funds for the grant reviewed. However, we identified \$1,388 in questioned travel costs and two other issues that need to be addressed to improve the management of the ARC grant. We determined that the Council was making progress on achieving the goals of the grant, but improvement is needed in reporting program outcomes. These issues and our recommended corrective actions are discussed in the Results of Audit section of the report.

The draft report was provided to the Council on October 11, 2012, for comments on the finding and recommendation with a response due by October 26, 2012. A follow-up request was made to the Council and as of November 6, 2012, we had not received a response to the report. Therefore, the report is issued in final without comments from the Council.

RESULTS OF AUDIT

A. Travel Costs

We found that the Council did not require formal written approval prior to a trip and did not have adequate procedures for ensuring that requests for reimbursement for travel costs were supported and proper. In addition, we questioned \$1,388 in travel costs because it was not clear that the expenses were justified.

Travel Authorizations - The Council did not require travelers to obtain prior written authorization showing that the trip had been authorized and that the estimated cost had been approved. As such, there were no controls to ensure that the trip was approved and that unnecessary costs would not be incurred (such as car rental in a situation where a car was unnecessary), or that the costs would be charged to the appropriate project.

Questioned Costs - We questioned costs totaling \$1,388, as follows:

1. We questioned \$193 that was charged to grant award WV-2730-C36 for changing an airline reservation. The reservation was changed the day after the purchase of the original ticket. There was no supporting documentation to justify the change and the traveler could not recall why the change was made.
2. We questioned \$1,195 charged to grant award WV-2730-C36 for airfare (\$667) and lodging (\$528) for a Council board member to attend a conference (Leading the Charge for an Energy Efficient Appalachia) in Arlington, Virginia. There was no documentation showing who authorized the board member to attend the conference or how his attendance benefited the grant. According to the Council staff, the board member may have attended because one of his constituents was to receive an award at the conference.

At the exit conference, the Council staff agreed that there should be a process in place for authorizing Council personnel to incur travel expenses.

Recommendations

The Council should:

1. To improve the internal controls, establish travel procedures that require the preparation and approval of a travel authorization request prior to each trip, which details the estimated cost of the trip (the procedures should specifically address the process for approving board member travel).
2. Provide ARC with the justification for changing the airline reservation at an additional cost of \$193, and reimburse ARC for any amount it determines to be unallowable.
3. Provide ARC with the justification for charging \$1,195 to the ARC grant for a board member to attend the “Leading the Charge for an Energy Efficient Appalachia” conference, and reimburse ARC for any amount it determines to be unallowable.

B. Salary Costs

The Council's process for computing salary charges to the ARC grant did not result in a reasonable distribution of costs. Salary charges were computed by applying an hourly rate to the hours recorded for each activity during the pay period. The rate was computed by dividing the employee's gross pay for the pay period by the total number of hours recorded on the time sheet. The staffs working on the ARC grant also worked on other projects during most pay periods and were salaried-employees whose gross pay was the same for each pay period. However, the total number of hours recorded on the timesheets of some employees varied significantly among pay periods. This occurred because the employees worked additional hours in some pay periods to meet workload demands and then took time off in a subsequent pay period. However, there was no formal reporting of the compensatory time earned or used.

As a result, the hourly rates used to compute salary charges sometimes varied significantly among pay periods. For example, the hourly rate of one employee was about \$109 during one pay period ($\$1,412 \div 13$ hours) and about \$39 in the subsequent pay period ($\$1,412 \div 36.5$ hours). Although there were excessive charges for some pay periods and lower charges in others, the net effect for the periods tested was minor. However, excessive charges could result over the entire grant period if the hours charged to the grant during pay periods in which compensatory time was used were disproportionately higher than in the pay periods in which the compensatory time was earned.

At the exit conference, we were told that the Council staff was in the process of revising the timekeeping procedures to provide for proper tracking and recording of compensatory time.

Recommendation

The Council should ensure the process for computing hourly rates and salary charges to the ARC grant results in a reasonable distribution of those costs.

C. Program Accomplishments

The primary purpose of the grant is to provide funds to assist the Council in establishing and expanding economic development services in its service area. The Council's Annual Performance Progress Reports and our discussions with the Council staff indicated that the Council has provided substantial assistance to local governments and communities. The assistance included technical assistance in project planning (including preparation of project applications), long range planning, and tourism/recreation planning; project administration; attendance at public meetings to assist communities in identifying projects and potential funding sources for those projects; and assistance to communities in the selection of various professional services (engineers, lawyers, and accountants) necessary for project completion. However, we noted in one area that there were substantial variances between the anticipated outcomes (as identified in the work plans) and the actual accomplishments (as reported in the annual progress report), as shown in the table below:

| Performance Measures | Grant Award WV-2730-C37 | |
|----------------------|-------------------------|-----------------|
| | Work Plan | Progress Report |
| * Non-ARC Grants: | | |
| Number of Grants | 19 | 6 |
| Amount (in Millions) | \$42.7 | \$7.6 |
| Persons Served | 12,975 | 2,725 |
| Jobs Created | 250 | ** |

* These are non-ARC grants made to entities within the Region II area that the Council supported with application and technical assistance.

** The progress reports state, "Minimal expected in near term."

The progress reports did not explain why the anticipated outcomes were not achieved or what actions were planned to promote full achievement. At the exit conference, the Council staff did not indicate what action would be taken to address this issue.

Recommendation

In the future, the Council should report performance results in 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.