

PERFORMANCE AUDIT
OF THE

**North Carolina Department of
Commerce**

**Consolidated Technical
Assistance Grant**

GRANT: NC-7780-C32

OIG REPORT NUMBER: 13-24

GRANT PERIOD: OCTOBER 2011 – SEPTEMBER 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 North Carolina Department of Commerce Consolidated Technical Assistance Grant NC-7780-C32. The report is in response to Contract No. BPA 11-01-B.

Watkins Meegan LLC

Tysons, Virginia
September 30, 2013

North Carolina Department of Commerce

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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 create 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 North Carolina Department of Commerce (NCDC, or the Grantee) is the state's leading economic development agency, working with local, regional, national and international companies. The NCDC's mission is to improve the economic well-being and quality of life for all North Carolinians. The mission is carried out by serving existing business and industry, including providing international trade assistance; recruiting new jobs and domestic and foreign investment; encouraging entrepreneurship and innovation; marketing North Carolina and its brand; supporting workforce development; strengthening communities; and promoting tourism, film and sports development. The NCDC also provides data, statistics, information and reports for state government and agencies which regulate commerce in the state.

On February 14, 2011, ARC awarded the NCDC the Consolidated Technical Assistance Grant (the Grant), project number NC-7780-C32, for the period October 1, 2011 to September 30, 2012. The Grant provided \$515,169 of ARC (federal) funding and required \$530,670 of state and local (non-federal) matching funds for total funding of \$1,045,839. The Grant funds were intended to support a number of technical assistance services and intergovernmental relations activities necessary to coordinate and implement the ARC program in the state of North Carolina. Technical assistance was to be provided to the six LDDs in the state, numerous local governments and agencies within government, non-profit organizations, state and federal agencies, and a number of associations to assist with water and sewer programs, housing programs, telecommunications and energy programs, and entrepreneurship programs. Planning and administrative activities were also to be supported by the Grant.

Objective

Watkins Meegan LLC was engaged to conduct a performance audit of the NCDC Consolidated Technical Assistance Grant for the period October 1, 2011 to September 30, 2012. The purpose of our performance audit was to determine that:

- Funds expended and claimed for reimbursement from ARC and matching requirements 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.

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Executive Summary

Grant funds were used to fund the payroll of NCDC staff who assisted with the administration and support of the NCDC ARC program, and to pay related administrative and program expenses.

ARC reimbursed the Grantee \$476,869 of expenses for the period October 1, 2011 to September 30, 2012. Reported matching funds provided from non-federal sources totaled \$545,075 for the same period. The total expenditures for the performance period were \$1,021,943, approximately 2 percent below the approved budget of \$1,045,839.

In general, based on our review of expenditures recorded against the Grant, it appears that expenses were valid and appropriate under the terms and conditions of the Grant. The NCDC activities supported by the Grant funds were consistent with the intended use as described in the Grant application, Grant agreement and with ARC's own objectives. A finding was noted in relation to the accounting records for the Grant and the need to separate the record keeping for each individual grant awarded to NCDC.

Scope

We performed a performance audit of the North Carolina Consolidated Technical Assistance Grant NC-7780-C32 at the NCDC office from June 17-19, 2013, as described under this section and under the audit methodology section. Our audit was based on the terms of the Grant agreement 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 the Audit Program guidelines provided by the ARC Office of the Inspector General and included suggested procedures over the NCDC's accounting and internal control systems affecting the Grant. We met with the ARC Program Manager to discuss the Department's overall structure and processes around Grant administration and monitoring. We also discussed and reviewed other financial and operational elements related to the conduct of the program.

Our review of background material included ARC's Grant Agreements and related documentation, ARC Grant approvals, the Grant applications and the state of North Carolina's audited Comprehensive Annual Financial Report for the fiscal year ended 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 project funded with ARC monies had been met. This included meeting with the ARC Project Manager to understand how their daily activities and responsibilities supported the administration of NCDC's ARC program. We reviewed representative supporting documentation related to Grant activities for consistency with applicable performance measures.

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Finally, we examined a sample of 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, reports, etc.) regarding the travel, supplies, contractual and other direct costs that were supported by ARC funds to determine whether they were allowable costs and that the expenses supported NCDC staff and project coordination. We evaluated payments, Grant documentation and other records and activities for compliance with applicable Grant requirements and federal regulations.

Results

Compliance with Grant Provisions

ARC reimbursed the Grantee \$476,869 of expenses for the period October 1, 2011 to September 30, 2012. Reported matching funds provided from non-federal sources totaled \$545,075 for the same period. The total expenditures for the performance period were \$1,021,943, approximately 2 percent below the approved budget of \$1,045,839. As a result, ARC de-obligated \$38,300 of federal funds at the conclusion of the performance period. An additional \$26 was returned to ARC by NCDC after an internal review by the Project Manager detected a transposition error in one of the reimbursement requests submitted during the performance period. ARC subsequently de-obligated the refunded amount reducing the final ARC cost to \$476,842.

We examined supporting documentation for a sample of the personnel and other costs incurred against the Grant and determined that, in general, the funds had been expended in compliance with the Grant agreement. Grant funds were used to fund the payroll of NCDC staff who assisted with the administration and support of the NCDC ARC program, and to pay related administrative and program expenses. Staffing included an ARC Program Manager, Assistant ARC Program Manager and an ARC Community Planner. The staff supported the program in various areas, including preparing and reviewing Grant applications; and 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. Non-personnel costs included travel, supplies, contractual and other direct costs. Performance objectives for the Grant were not clearly defined in the application or agreement; however, the progress report and final report submitted by NCDC to ARC provided detailed descriptions of the work performed under and supported by the Grant. Using this information, we were able to validate a selection of the items listed, obtain evidence of completion of the items as described and confirmed that the activities supported by the Grant funds were consistent with ARC's overall goals and objectives.

At the conclusion of the audit, we noted and discussed the following item with Management, who generally agreed with the finding and recommendation as described below:

Finding – Grant Accounting Records

Per the ARC Grant Administration Manual, Section VI: Record Keeping and Audits, if an organization manages several grants, each grant should be accounted for separately, including receipts, expenditures and any matching requirements. During the course of our review, we noted that multiple ARC grants were being accounted for under the same cost center and that the same cost center was utilized for multiple years of the recurring consolidated technical assistance grants from ARC. Note that while the accounting records were comingled with other grants, we were ultimately able to identify and obtain assurance over the transactions specific to the Grant under review.

Recommendation:

Management should segregate the accounting records for each Grant award to ensure that specific accounting records are available for individual Grants.

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