

PERFORMANCE AUDIT
OF THE

**Mississippi Development
Authority**

**Consolidated Technical
Assistance Grant**

GRANT: MS-7763-C31

OIG REPORT NUMBER: 13-26

GRANT PERIOD: JULY 1, 2011 – JUNE 30, 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 Mississippi Development Authority Consolidated Technical Assistance Grant MS-7763-C31. The report is in response to Contract No. BPA 11-01-B.

Watkins Meegan LLC

Tysons, Virginia
August 20, 2013

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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 Mississippi Development Authority (MDA) is the state's economic and community development agency, engaged in providing services to businesses, communities and workers throughout Mississippi. MDA works to recruit new business to the state and retain and expand existing Mississippi industry and business. MDA also provides technical assistance to the state's entrepreneurs and small businessmen and women and oversees programs that support Mississippi's minority and women-owned businesses. In addition, MDA provides Mississippi's corporate citizens with export assistance, manages the state's energy programs and oversees programs that help its communities become more competitive. MDA also works to promote tourism to the state and to develop and support Mississippi's tourism industry.

The Appalachian Regional Office (ARO) of the MDA, located in Tupelo, Mississippi, is charged with nurturing and funding economic and community development initiatives that may have been identified by the Governor, the ARC Alternate, the ARO Program Manager and staff, municipalities and counties and the Local Development Districts across the 24 Mississippi Appalachia Counties. The ARO focuses on providing technical assistance to others by working with communities, organizations and individuals to support their economic and community development activities. With technical assistance efforts provided through the ARC grants, local communities will be able to enhance their community and economic development status.

On March 23, 2011, ARC awarded the MDA the Consolidated Technical Assistance Grant (the Grant), project number MS-7763-C31, for the period July 1, 2011 to June 30, 2012. The Grant provided \$244,538 of ARC (federal) funding and required \$256,037 of state and local (non-federal) matching funds, for total funding of \$500,575. The Grant provided funding to support the work of the ARO and technical assistance projects in Appalachia; link state projects and programs to ARC's goals and objectives; and encourage and promote activities identified by the Governor as special initiatives and projects that address special development opportunities. Funding covered personnel costs, travel, supplies and other indirect costs and up to \$30,000 of mini-grant projects.

Objective

Watkins Meegan LLC was engaged to conduct a performance audit of the MDA Consolidated Technical Assistance Grant for the period July 1, 2011 to June 30, 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;

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- 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 of the ARC Program Manager and ARO staff who assisted with the administration and support of the MDA ARC program, and to pay related administrative and program expenses. Staffing included an Executive Director and Associate Manager. Non-personnel costs included travel, supplies, contractual, 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 \$129,766 of expenses for the period ended June 30, 2012. Matching funds provided from non-federal sources totaled \$167,205 for the same period. The total expenditures for the performance period were \$296,971, approximately 40 percent below the approved budget of \$500,575.

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 MDA activities supported by the Grant funds were consistent with the Mississippi Governor's current Appalachian Development Plan and ARC's own objectives. Findings were noted in relation to the definition of measurable performance objectives in the Grant application, the completeness of the interim and final reporting provided to ARC and the budget development process that resulted in significant under-utilization of obligated funds.

Scope

We performed a performance audit of the Mississippi Consolidated Technical Assistance Grant MS-7763-C31 at the Mississippi Development Authority and Tupelo offices from May 28-31, 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 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 MDA's accounting and internal control systems affecting the Grant. We met with the Executive Director 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.

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Our review of background material included ARC's Grant Agreements and related documentation, ARC Grant approvals, the Grant applications and the State of Mississippi Single Audit 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 Executive Director and Associate Manager to understand how their daily activities and responsibilities supported the administration of MDA's ARC program. We reviewed representative supporting documentation related to Grant activities for consistency with applicable performance measures.

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, cost allocation reports, etc.) regarding the travel, supplies, contractual, 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 ARO staff and project coordination. We evaluated payments, mini-grant documentation and other records and activities for compliance with applicable Grant requirements and federal regulations.

Results

Compliance with Grant Provisions

ARC reimbursed \$129,766 of expenses for the period ended June 30, 2012. Matching funds provided from non-federal sources totaled \$167,205 for the same period. The total expenditures for the performance period were \$296,971, 40 percent below the approved budget of \$500,575. As a result, ARC de-obligated \$114,772 of federal funds at the conclusion of the performance period.

We examined supporting documentation for a sample of the costs incurred, and determined that, in general, the funds had been expended in compliance with the Grant agreement. The Grant expenses included three mini-grant projects: Smithville Town Center Planning (\$1,457 in ARC funds expended), Smithville Storm Disaster Assistance (\$12,168 in ARC funds), and a 2012 UAS Symposium Fielding Technology Conference (\$1,000 in ARC funds). We reviewed the support for each of the mini-grants funded by the Grant and confirmed that each of the mini-grants was approved in advance by the ARC Federal Co-Chair as required under the terms and conditions of the Grant. Performance objectives for the Grant were not clearly defined in the application, progress reports or final report and, as a result, we were unable to conclude on the achievement of specific objectives; however, the MDA activities supported by the Grant funds were consistent with the Mississippi Governor's current Appalachian Development Plan and ARC's own goals and objectives.

At the conclusion of the audit, we noted and discussed the following items with Management, who generally agreed with the findings and recommendations as described below:

Finding – Performance Objectives

Measurable performance objectives for the Grant were not clearly defined in the application, progress reports or final report for the Grant. If the outcomes and outputs from the Grant-supported activities are not established in advance, it is difficult to objectively measure the success of the project in accomplishing goals.

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Recommendation:

For subsequent ARC grant applications, MDA should identify and articulate key outputs and outcomes as part of the application and ensure that performance against those criteria can be measured and reported on in the progress and final reports submitted in support of grant funding.

Finding – Grant Reporting

A review of the submitted progress reports and final report reveal the reports did not follow the requirements and contain the necessary content as outlined in the ARC Grantee Handbook. The narrative reports should include the following sections: Background; Recent/upcoming Activities; Progress Made toward Project Outcomes; Problems Encountered; Outlook for Program Continuation and Sustainability; and, for the final report only, Conclusions and Recommendations. The interim and final reports submitted by MDA did not follow this reporting format and provided only a list of activities completed. The reporting content required by ARC enables appropriate assessment of grant activities, accomplishment of relevant goals and objectives, and provides the means for the grantee to disclose details regarding issues or challenges being faced in the performance of the grant activities. Noncompliance with grant reporting requirements limits the ability of ARC to exercise the appropriate oversight and provide additional support and guidance to grantees when necessary.

Recommendation:

Management should review the content required in the progress reports and final report to ensure they satisfy the ongoing reporting requirements of the Grant. If need be, Management should consult with their ARC coordinator for further instructions or assistance.

Finding – Grant Budgeting

A review of the reimbursement reports revealed the ARC funds expended through the performance period of the Grant were significantly lower than the approved project budget costs. Actual ARC expenses incurred were \$129,766 against a budgeted amount of \$244,538. This resulted in \$114,772 being de-obligated at the conclusion of the performance period of the Grant. These unused funds had been obligated to the Grant when the application was approved and were therefore unavailable for allocation to other projects or applicants. Failure to accurately budget expenditures for grant application funds results in a risk that the ARC is unable to grant funds to other deserving grantees.

Recommendation:

Management should review the budget categories and conduct a thorough review of their needs to allow for a more accurate budget request based on anticipated activities. In addition, MDA should inform ARC at the earliest opportunity if it becomes clear that obligated funds will not be used during the performance period so that those funds can be released and reallocated to other projects or applicants as soon as possible.