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**APPALACHIAN REGIONAL COMMISSION  
OFFICE OF INSPECTOR GENERAL**

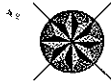
**AUDIT OF GRANT AWARD**

**New York State Department of State (DOS)  
Albany, New York**

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**Final Report Number: 13-34  
Project Number: NY-7776-C31 & C32  
August 2013**

**Prepared by  
Leon Snead & Company, P.C.**



**LEON SNEAD  
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August 16, 2013

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

Leon Snead & Company, P.C. has completed an audit of grant numbers NY-7776-C31 and C32 awarded by the Appalachian Regional Commission (ARC) to the New York State Department of State (DOS). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

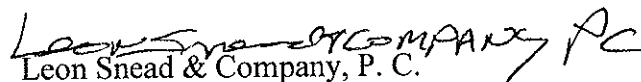
The primary objectives of the audit were to determine whether: (1) program funds were managed in accordance with the ARC and federal grant terms and requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines and best practices, including program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

DOS' financial and administrative procedures and related internal controls were generally adequate to manage the grants and funds reviewed. However, we determined that the grantee did not submit the required interim project reports, was routinely late in submitting both the final project reports and the final financial reports. In addition, DOS did not utilize a significant amount of its obligated funds during the past several years. We also identified an area relating to the performance measurement process that needs to be addressed by the grantee. These issues are discussed in more detail in the Findings and Recommendations section of the report.

A draft report was provided to DOS on July 16, 2013, for comments. DOS provided a response to the report on August 12, 2013, addressing our audit recommendations. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the DOS 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 grant numbers NY-7776-C31 and C32 awarded by the Appalachian Regional Commission (ARC) to the New York State Department of State (DOS). The audit was conducted at the request of the ARC, Office of the Inspector General, to assist that office in its oversight of ARC grant funds.

DOS is the official agent of the State of New York for coordinating with the ARC in administering the State's Appalachian Regional Development Program. The program is coordinated by DOS in partnership with the region's Local Development Districts (LDDs), regional development agencies, and local governments. DOS provides guidance and coordinates with the LDDs in working with local communities and participants to identify regional needs, develop plans, and solicit ARC funding for local development projects. Within the DOS organization, the ARC program is managed by a program manager in the Division of Local Government Services with the support of two employees.

ARC grant number NY-7776-C31 covered the period October 1, 2010 through September 30, 2011. It provided \$258,285 in ARC funds and required \$262,719 in non-federal match funding for the grantee to provide technical assistance for project development, planning, monitoring and program development for New York's ARC program. Program activities supported by this grant included: the overall administration of the ARC program in Appalachian New York; development of the annual Strategy Statement and revisions; preparation of the annual Investment Package; program development and oversight of all ARC programs, including those sub-contracted through the three LDDs; and implementing a system of reporting and monitoring using the performance measures. The grant had been completed and closed by ARC at the time of the audit.

ARC grant number NY-7776-C32 provided \$266,034 in ARC funds and required \$270,601 in non-federal match funding for DOS to continue to carry out its planned technical assistance support activities during the period October 1, 2011 through September 30, 2012. The grant had been completed, but had not been closed by ARC at the time of the audit.

## **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) internal grant guidelines, including program (internal) controls, were appropriate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) the matching requirements and the goals and objectives of the grant were met.

We reviewed the documentation provided and interviewed DOS personnel to obtain an overall understanding of the grant activities, the accounting system, and the operating procedures. We reviewed DOS' administrative procedures and related internal controls to determine if they were adequate to administer the grant funds. We reviewed the most recent Single Audit report to determine whether there were any issues that impacted the ARC grants.

In addition, we selected for testing a sample of \$126,350 in expenditures charged to the two grants (\$104,440 for NY-7776-C31 and \$21,910 for NY-7776-C32) to determine whether the charges were properly supported and allowable. We focused the testing on expenditures charged to the grants during the period October 1, 2010 through September 30, 2012. However, we were unable to determine the exact amount of total grant expenditures for the period because DOS personnel were still making adjustments to the financial report submitted for grant NY-7776-C31 and had not finalized the financial report for grant NY-7776-C32 at the time of our on-site visit.

As a basis for determining whether the costs charged to the grants were allowable and whether DOS had complied with the applicable Federal requirements, we used the provisions of the grant agreements, applicable Office of Management and Budget Circulars, and the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of June 3-11, 2013, including on-site work at DOS' office in Albany, New York. The audit results were discussed with the DOS representatives at the conclusion of the on-site visit.

### **Summary of Audit Results**

DOS' financial and administrative procedures and related internal controls were generally adequate to manage the grants and funds reviewed. However, we determined that the grantee did not submit the required interim project reports, was routinely late in submitting both the final project reports and the final financial reports. In addition, DOS did not utilize a significant amount of its obligated funds during the past several years. We also identified an area relating to the performance measurement process that needs to be addressed by the grantee. These issues are discussed in more detail in the Findings and Recommendations section of the report.

Based on the final project reports, it appears that DOS had achieved the overall grant goals and objectives. Following are some of the accomplishments DOS highlighted in its final project reports for the two grants.

#### Under grant NY-7776-C31

- Provided technical assistance to ARC applicants and LDDs and held periodic meetings and conference calls with the state LDDs.
- Reviewed all LDD-submitted FY 2011 ARC applications and coordinated with LDDs and basic federal agencies to submit and gain approval of DOS-recommended ARC grant applications.
- Prepared an annual New York Appalachian Regional Package with recommendations for project priorities based upon established state and regional priorities.
- Submitted 31 full applications to the ARC - 29 were approved by the ARC's Federal Co-Chair (totaling \$3,701,508 in ARC funding).
- Closed out 33 projects from the state (totaling \$4,458,538) in FFY 2011.
- Monitored technical assistance, planning, project development, and program development activities of the LDDs supported by augmented administrative grants.

Under grant NY-7776-C32

- In coordination with the LDDs, the staffs were proactive in carrying out the tasks relating to the ARC's Area Development Grant Program by responding to written, telephone, and e-mail inquiries regarding the State's Appalachian Region Development Program and by providing direct technical assistance to local project sponsors on the development of applications.
- Reviewed all proposed ARC area development project applications provided by LDDs for funding in FFY 2012, scored and ranked all proposed projects and prepared the State's FFY 2012 Package for review and submission to the ARC.
- Monitored the rate of completion of projects that had been funded by the ARC. In FFY 2012, 24 projects (totaling \$2,497,176 in ARC grants) were closed out.
- Ensured that the LDDs were acquainted with co-funding initiatives, and that the State's ARC Program was involved in several co-funding opportunities planned for the Southern Tier. As part of this process, the staff participated in monthly conferences call meetings with state and federal infrastructure funders to discuss new and existing projects.
- Completed the drafting of the 2011-2014 New York State Development Plan for Appalachia and the FFY 2013 Strategy Statement.
- Conducted 12 training sessions in the state to enhance community capacity - trained over 2,000 local government officials.

## Findings and Recommendations

### A. Grant Reporting

DOS did not submit its interim six-month project reports as required by the grant terms. In addition, DOS was routinely late in submitting both the final project reports and the final financial reports (SF-270). As a result, DOS was not fully complying with the grant terms and was preventing ARC from effectively meeting its responsibilities for monitoring its projects and maintaining effective control over the grant funds.

The terms of the grant agreements required DOS to submit both project and financial reports to ARC. An interim six-month project report was required to be submitted within 30 days after the end of the reporting period. A final project report was due within 30 days after the end of the grant period. ARC procedures involve obtaining both the final project reports and final SF-270 financial reports in order to close out the project and related funds.

Project Reports - Both of the grants reviewed had been completed so both the interim six-month and final project reports should have been submitted. We requested the reports submitted for both grants. DOS stated in its response to the draft report that the interim six-month reports were not completed due to competing priorities and limited staff.

Both of the final project reports that were provided to us were submitted late. The report for grant NY-7776-C31 was due October 31, 2011, but was not submitted until March 6, 2012, over four months late. The report for grant NY-7776-C32 was due October 31, 2012, but was not submitted until February 21, 2013, over three months late. The main reasons given for the final report delays were (a) not making the report a high priority item and (b) the considerable amount of time needed for collecting the various data and information required for evaluating results and preparing the report. In discussing the latter factor, we determined that the DOS ARC office did not have an established method or system for collecting the data and information during the grant period. Therefore, the staff had to devote considerable time and effort after the grant ended gathering the data and preparing the report.

SF-270 Reports - We requested the final SF-270 financial reports submitted to ARC for both grants. The final reports were due 30 days after the end of the grant period. A final report should have been submitted for grant NY-7776-C31 by October 31, 2011, but was not submitted until February 17, 2012, over three months late. The report for grant NY-7776-C32 was due October 31, 2012, but had not been submitted to ARC at the time of our audit, which was over eight months late at the time. Although we were not specifically reviewing grants NY-7776-C29 and C30, we also noted that the final reports for these grants were not submitted to ARC until February 17, 2012 (the same time as for grant NY-7776-C31), which was over two years and one year late, respectively. The financial office staff preparing the SF-270 reports told us that the primary reason for the delays was the difficulty in obtaining timely and accurate accounting system reports needed to prepare the final reports.

DOS' late submission of its financial reports has affected ARC's ability to effectively meet its obligations in managing the grants in recent years. For example, ARC obligated funds for grant

NY-7776-C29 on September 30, 2008, and it was not until March 6, 2012 (more than three years late) that \$69,441 could be de-obligated by ARC and used for other purposes due to DOS submitting a late SF-270 report. Similarly, \$33,533 and \$91,679 on grants NY-7776-C30 and C31, respectively, were left obligated by ARC for long periods because of late reporting.

At the exit conference, the grantee representatives did not express any disagreement with the finding and recommendations and indicated that improvement is needed in this area.

## **Recommendations**

DOS should:

1. Establish a system for identifying the type of data and information needed to prepare the final project report and begin collecting that information on a routine basis to reduce the time needed to do so at grant completion.
2. Make grant reports a high priority and establish a means of ensuring they are submitted on time or formal approval by ARC is obtained to allow them to be submitted late.

## **Grantee Response**

DOS indicated agreement with the finding and provided the following comments in response to the two recommendations.

1. While DOS ARC program is aware that data needs to be collected, in certain cases, the data comes from other Department programs and takes time to collect. We will increase the focus on collecting this data and establishing a process for collecting information on a quarterly basis. With respect to financial reporting, DOS Fiscal notes that there is some inherent lag in obtaining quarterly fringe and indirect cost invoices from the Office of the State Comptroller, and in collecting time distribution data to accurately move personal service charges that will create fringe and indirect charges/credits for the following quarter. DOS Fiscal will work to best address the delays in an accurate, consistent manner that will allow for prompt reporting.
2. As stated above, the submission of reports will remain a priority of the Department, and the establishment of better data collection processes will enable reports to be submitted in a timely manner. While we appreciate the ability to request extensions to submit reports, our goal will be to submit reports on time without needing to obtain extension approval from ARC staff.

## **Reviewer's Comments**

*The response provided by the grantee is sufficient to close out the two recommendations.*



## **B. Utilizing Grant Funds**

DOS has consistently reported final expenditures on the technical assistance grants that were substantially less than the amount of Federal funding requested and approved by ARC.

We noted that only 66 percent of the obligated Federal funds were expended on grant NY-7776-C29, 83 percent on NY-7776-C30, and around 64 percent on NY-7776-C31 for 2010-2011. The final SF-270 report for grant NY-7776-C32 was still being prepared so we were unable to determine the percentage of funds used for that grant. Minimizing the amount of unused funds on a grant not only requires developing accurate and supported estimates, but also effective monitoring of expenditures during the grant period and either taking actions to ensure the funds are still needed or taking timely action to de-obligate the unneeded funds. Additionally, having to consistently de-obligate unused funds at the end of a grant period result in the lost opportunity for ARC to utilize those funds during the grant period for other projects.

We discussed the unused fund issue with the DOS ARC staff. The primary reason given for not using all of the obligated funds was not having sufficient match amounts to claim the entire ARC amount. This was attributed to budget limitations and cost-cutting measures within the state and the Local Government Services Division (LGSD), rather than having less ARC-related projects than planned. One example cited was reduced travel budgets for LGSD programs that limited the number and type of visits initially planned. As a result, some activities were not being done that may have supported the ARC projects and would have been allowable match costs.

We recognize the difficulty in developing accurate budget estimates and predicting factors such as cutbacks and austerity measures. However, there should be adequate attention given to this area to ensure the planned or budgeted amount of match funding is reasonably accurate and likely going to be attainable and that the expenditure rate during the grant period is consistent with the approved amount. When it is not, prompt action should be taken, including de-obligating funds.

At the exit conference, the grantee representatives did not express any disagreement with the finding and recommendations.

### **Recommendations**

DOS should:

1. Establish a system to better estimate the amount of funding needed to carry out the planned activities based on reasonable projections and factors such as available match funds.
2. Establish a process to routinely monitor the rate of all funds being expended during the grant period.
3. When it is anticipated that not all of the budgeted Federal funds will be used, submit a revised budget to ARC so consideration can be given to de-obligating the funds.

## **Grantee Response**

DOS indicated agreement with the finding and provided the following comments in response to the three recommendations.

1. Prior to being notified of this audit, DOS Fiscal began working with the DOS ARC program staff to strengthen the lines of communication. At a minimum, DOS stated that quarterly meetings will be scheduled to work on budgets and projections, track spending rates, and review matching spending levels and opportunities.
2. Quarterly meetings (at a minimum) of the DOS Fiscal and DOS ARC program staff will facilitate more routine monitoring of spending levels.
3. Increased, scheduled communications between the DOS Fiscal and DOS ARC program staff will allow for the development and submission of timely budget revisions as necessary.

## **Reviewer's Comments**

*The response provided by the grantee is sufficient to close out the three recommendations.*

### **C. Performance Measurements**

The DOS work-plans that we reviewed contained sub-objectives and tasks that were described only in broad terms. There were no quantified, specific performance measures that could be compared to the actual grant results reported to evaluate how successful the grant was. The work-plans would be a better basis for evaluating grant performance if they included more specific metrics to clearly reflect what activities were planned. For example, the work-plans could include with the planned objective or sub-objective some specific, quantified measures such as numbers of projects expected to be approved, number of field visits planned to coordinate with the LDDs or regional boards, and number of projects planned to be monitored and completed. This would provide a clear description of what is expected to be achieved, and when compared to the reported results, would provide an objective basis for evaluation and conclusion of how successful the grant was and if it was a good use of the Federal funds.

At the exit conference, the grantee representatives did not express any disagreement with the finding and recommendations.

### **Recommendations**

DOS should:

1. Include specific, quantified metrics with the planned objectives and activities described in the grant application work-plan.
2. Establish a means to collect the necessary data to report on the quantified metrics agreed to and included in the plan.

### **Grantee Response**

DOS indicated agreement with the finding and provided the following comments in response to the two recommendations.

1. In prior years, the Department's technical assistance application submitted to ARC has listed specific objectives to be accomplished and general activities to support the completion of the objectives. The measurement of the success of each objective would be increased if each planned activity was supported directly by a specific measure. In the next Consolidated Technical Assistance application work-plan, DOS will include measureable activity metrics for each activity.
2. Program staff will develop a more specific internal process to gather necessary data on a quarterly basis. DOS also stated that it has already instituted a policy that calls for regularly scheduled quarterly meetings between the DOS Fiscal and DOS ARC program staff, which will involve assessing the progress of activities moving toward meeting NYS' grant plans.

### **Reviewer's Comments**

*The response provided by the grantee is sufficient to close out the two recommendations.*

**Appendix I**  
**Grantee Response**



STATE OF NEW YORK  
**DEPARTMENT OF STATE**  
ONE COMMERCE PLAZA  
99 WASHINGTON AVENUE  
ALBANY, NY 12231-0001

ANDREW M. CUOMO  
GOVERNOR

CESAR A. PERALES  
SECRETARY OF STATE

August 9, 2013

Mr. Leon Snead  
President  
Louis Snead and Company, PC  
416 Hungerford Drive, Suite 400  
Rockville, Maryland 20850

RE: Draft Report - Audit of the New York State Department of State Consolidated Technical Assistance Grant – Project Numbers NY-7776-C31 & C32

This is in response to the July 2013 Draft Report of a recent audit of the above-identified grants awarded by the Appalachian Regional Commission (ARC) to the New York State Department of State. The audit examined the Department of State (DOS)'s administration and implementation of the ARC-supported technical assistance program in Appalachian New York State (NYS). The audit is intended to assist ARC in overseeing DOS administration of ARC grant funds.

In administering the ARC program for Appalachian NYS, DOS ARC program staff collaborates with DOS Bureau of Fiscal Management (Fiscal) staff to track ARC program grants and to process applicable financial reports. We appreciate the "Recommendations" made in the Draft Report; they will assist us in our ongoing continuous efforts to improve our processes. Our comments and responses to the Draft Report follow:

**A. Grant Reporting –**

DOS agrees with the information regarding the processes followed during the two-year reporting period from October 1, 2010 through September 30, 2012. However, we believe it is misleading to simply state that program staff said that some reports were not completed "because they simply did not make them a high priority item." We would prefer this statement to be revised to more accurately reflect that these reports were not completed due to competing priorities and limited staff.

**Recommendation #1**

*Establish a system for identifying the type of data and information needed to prepare the final project report and begin collecting that information on a routine basis to reduce the time needed to do so at grant completion.*

Agree. While DOS ARC program is aware that data needs to be collected, in certain cases, the data comes from other Department programs and takes time to collect. We will increase the focus on collecting this data and establishing a process for collecting information on a quarterly basis. With respect to financial reporting, DOS Fiscal notes that there is some inherent lag in obtaining quarterly fringe and indirect cost invoices from the Office of the State Comptroller, and in collecting time distribution data to accurately move personal service charges that will create fringe and indirect charges/credits for the following quarter. DOS Fiscal will work to best address the delays in an accurate, consistent manner that will allow for prompt reporting.

#### Recommendation #2

*Make grant reports a high priority and establish a means of ensuring they are submitted on time or formal approval by ARC is obtained to allow them to be submitted late.*

Agree. As stated above, the submission of reports will remain a priority of the Department, and the establishment of better data collection processes will enable reports to be submitted in a timely manner. While we appreciate the ability to request extensions to submit reports, our goal will be to submit reports on time without needing to obtain extension approval from ARC staff.

### **B. Utilizing Grant Funds -**

#### Recommendation #1

*Establish a system to better estimate the amount of funding needed to carry out the planned activities based on reasonable projections and factors such as available match funds.*

Agree. Prior to being notified of this audit, DOS Fiscal began working with DOS ARC program staff to strengthen our lines of communication. At a minimum, quarterly meetings will be scheduled to work on budgets and projections, track spending rates, and review matching spending levels and opportunities.

#### Recommendation #2

*Establish a process to routinely monitor the rate of all funds being expended during the grant period.*

Agree. Quarterly meetings (at a minimum) of DOS Fiscal and DOS ARC program staff will facilitate more routine monitoring of spending levels.

#### Recommendation #3

*When it is anticipated that not all of the budgeted Federal funds will be used, submit a revised budget to ARC so consideration can be given to de-obligating the funds.*

Agree. Increased, scheduled communications between DOS Fiscal and DOS ARC program staff will allow for the development and submission of timely budget revisions as necessary.

### **C. Performance Measurements –**

#### Recommendation #1

*Include specific, quantified metrics with the planned objectives and activities described in the grant application work-plan.*

Agree. In prior years, the Department's technical assistance application submitted to ARC has listed specific objectives to be accomplished and general activities to support the completion of the objectives. The measurement of the success of each objective would be increased if each planned activity was supported directly by a specific measure. In the next Consolidated Technical Assistance application work-plan, DOS will include measureable activity metrics for each activity.

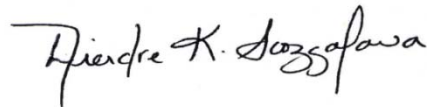
Recommendation #2

*Establish a means to collect the necessary data to report on the quantified metrics agreed to and included in the plan.*

Agree. Program staff will develop a more specific internal process to gather necessary data on a quarterly basis. We have already instituted a policy that calls for regularly-scheduled quarterly meetings between DOS Fiscal and DOS ARC staff, which will involve assessing the progress of activities moving toward meeting NYS's grant plans.

Thank you again for the opportunity to comment on this report.

Sincerely,

A handwritten signature in black ink that reads "Dierdre K. Scozzafava". The signature is written in a cursive style with a large initial 'D' and a long, sweeping underline.

Dierdre K. Scozzafava

New York State ARC Alternate