
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Northern Tier Career Center
Towanda, Pennsylvania**

**Final Report Number: 14-07
Project Number: PA-16273-09
January 2014**

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



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January 31, 2014

Appalachian Regional Commission
Office of the Inspector General
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Leon Snead & Company, P.C. has completed an audit of grant number PA-16273-09 awarded by the Appalachian Regional Commission (ARC) to the Northern Tier Career Center (NTCC). 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.

We identified weaknesses in the procedures used to charge costs to the grant. As a result, we questioned \$20,909 in costs claimed for reimbursement and questioned \$133,026 in costs used as matching costs for lack of adequate supporting documentation. Also, we identified several weaknesses in NTCC's overall financial management system.

Based on the results reported in the final project report and the supporting documents provided during the audit, we concluded that the goal of establishing a welding technology program was achieved. The overall results of the project and use of ARC's funding were not determinable because appropriate metrics were not established and data was not collected for some of the key benefits described in the project proposal.

NTCC's response to the draft report dated January 23, 2014, indicated that corrective actions were in process for findings A, B & D. NTCC did not comment on finding C in the report. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the NTCC and ARC staffs 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 PA-16273-09 awarded by the Appalachian Regional Commission (ARC) to the Northern Tier Career Center (NTCC). 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.

NTCC is a municipal corporation, operated as a joint venture between eight member school districts located in the northeastern area of Bradford and Sullivan counties, Pennsylvania. It was organized for the purpose of providing a program of vocational and technical education to students, out-of-school youth and adults residing within the participating school districts. NTCC is governed by a Joint Operating Committee comprised of school directors elected by the participating school districts. The day-to-day operations and programs are managed by a director selected by the committee.

ARC Grant PA-16273-09 covered the period October 1, 2009 through September 30, 2012, provided \$300,000 in ARC funds and required \$488,130 in non-ARC match funding. The grant was awarded to provide funding for NTCC to establish a high-tech Welding Technology Program. The first year of the program was to focus on adult-only students, and high school students would be phased in during the second year. The ARC funds were to be used for start-up operating costs for the welding program, including welding equipment and supplies, textbooks, and professional development. The grant had been completed and was closed by ARC in March 2013. The total project cost reported under the grant was \$970,011.

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 NTCC personnel to obtain an overall understanding of the grant activities, the accounting system, and the operating procedures. We reviewed NTCC's administrative procedures and related internal controls to determine if they were adequate to administer the grant funds. We reviewed financial and other required reports to determine whether they were properly supported and submitted in accordance with the requirements. We also reviewed the most recent Single Audit report to determine whether there were any issues that impacted the ARC grant.

Of the \$299,916 in expenditures charged to the grant and claimed for reimbursement during the grant period, we selected a sample of \$111,673 in expenditures charged to the grant for testing to determine whether the charges were properly supported and allowable. In addition, we selected a sample of \$136,767 in expenditures for testing that were charged to the grant and used for matching costs.

The primary criteria used in performing the audit were the provisions of the grant agreements, applicable Office of Management and Budget Circulars, and relevant parts of the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of September 27-30, 2013, including on-site work at NTCC's office in Towanda, Pennsylvania. The audit results were discussed with the NTCC representatives at the conclusion of the on-site visit.

Summary of Audit Results

We identified weaknesses in the procedures used to charge costs to the grant. As a result, we questioned \$20,909 in costs claimed for reimbursement and questioned \$133,026 in costs used as matching costs for lack of adequate supporting documentation. We also identified issues that raised concerns about the adequacy of NTCC's overall financial management system.

Based on the results reported in the final project report and the supporting documents provided during the audit, we concluded that the goal of establishing a welding technology program was achieved. However, only 26 adults and high school students completed the program during the grant period. The overall results of the project and use of ARC's funding were not determinable because appropriate metrics were not established and data was not collected for some of the key benefits described in the project proposal.

Our findings and recommended corrective actions are discussed in detail in the Findings and Recommendations section of the report. An additional observation concerning the inventory of equipment is presented in the report under General Comments for management consideration.

Findings and Recommendations

A. Direct and Indirect Costs

We have questioned \$20,909 of direct and indirect costs, charged to federal funds, because the amounts claimed and reimbursed were not adequately supported. NTCC claimed reimbursement for some direct costs based on planned expenditures, rather than actual costs. NTCC also claimed reimbursement for indirect costs without an approved indirect cost rate or a documented indirect cost allocation plan.

Direct Cost

NTCC was reimbursed \$44,604 for the cost of supplies based on its reimbursement request dated January 31, 2010. Our review of the accounting records and payment invoices for supplies disclosed that the requested total was based on the purchase order (PO) amount for various supply orders during the period rather than the actual paid invoice amounts. The direct costs claimed for reimbursement should include the actual costs incurred rather than the expected or planned costs that were reflected on a purchase order.

We determined that the actual paid amount for the purchases was \$41,394, rather than \$44,604. Therefore, NTCC was reimbursed \$3,210 more than allowed based on the supporting documentation. One example of the incorrect amounts contributing to the over-claim amount was PO 90303. The PO total was for \$5,119 (the amount claimed), but the invoice amount was \$3,896, resulting in over-reimbursement of \$1,223. Another example was PO 90329, which was for \$6,521 (the amount claimed) and the paid invoice amount was \$4,908 for a difference of \$1,613.

The federal cost principles applicable to NTCC require that all costs must be adequately documented in the grantee's files to support the amounts claimed for reimbursement. Although NTCC had written procedures covering some areas of financial management such as payment of bills and payroll, we did not see written policies or procedures describing the reimbursement process, types of data to use, etc. No one currently at NTCC had sufficient knowledge of the process to be able to explain why the incorrect amounts were claimed.

Indirect Cost

The federal cost principles require grantees to support indirect costs charged to grants by submitting a proposed indirect cost rate to its cognizant federal agency for approval. If it does not have a cognizant agency, the grantee must develop and maintain a cost allocation plan that documents the costs recorded as indirect costs and how the costs are allocated.

The approved grant budget included \$17,060 for indirect costs, which was based on a six percent rate and an estimated total of \$282,940 in direct costs (Federal share). The NTCC personnel that prepared the grant budget were no longer employed at NTCC, so we could not discuss the proposed rate. The current NTCC staff did not know the basis for the six percent rate. They stated that, to their knowledge, NTCC was not requested to submit a cost proposal to ARC to

have the six percent rate formally approved. In reviewing the NTCC written procedures, we did not identify any policies or procedures that addressed the inclusion of indirect costs in federal grants or discussed what the requirements were if they were included.

The current director stated that they consider the six percent rate to be formally approved since it was included in the proposed budget. We maintain that by approving the grant and proposed budget, ARC did not explicitly approve the six percent rate. Rather it was only approving the estimated costs and permitting indirect costs to be included. All of the costs in the budget are estimated and only the actual costs that meet the applicable federal requirement are allowable.

We could not identify any basis to reasonably support the six percent indirect cost rate that NTCC included in its proposed budget and used to claim reimbursement. As a result, we have questioned the entire \$17,699 in indirect costs that was claimed.

At the exit conference, the NTCC representatives stated that they understood the reasons for the exceptions taken on the direct and indirect costs, but they hoped that they would not be required to return any of the funds.

Recommendations

NTCC should:

1. Refund to ARC the \$3,210 claimed for supplies that was identified as questioned costs.
2. Submit to ARC an indirect rate plan or other documentation to support the types of cost considered indirect that is included in the six percent rate used to claim reimbursement for indirect costs, or refund the \$17,699 in questioned indirect costs that was claimed.
3. Submit a revised final SF-270 report to ARC to adjust for any refunds that are made.
4. Prior to applying for any future ARC grants, revise the NTCC written policies and procedures to ensure they address and implement the applicable federal requirements governing direct and indirect costs.

Grantee Response

NTCC stated in its response that:

1. It is in agreement with the finding and will be sending a reimbursement of \$3,210 to the Appalachian Regional Commission.
2. It does not have an indirect cost plan in place at this time and the indirect costs claimed cannot specifically be identified at this time. NTCC stated that its Business Manager contributed approximately 10 percent of her time in grant reports, budgets, etc. In addition, NTCC stated that the \$17,699 in questioned indirect costs represents approximately 10 percent of her salary over the course of the grant years. NTCC believes

that the indirect costs assigned and applied to the grant illustrate a portion of the Business Manager's salary and stated that documentation of the Business Manager's salary will be sent to the Appalachian Regional Commission for consideration.

3. It will be filing a revised final SF-270 report with the Appalachian Regional Commission to reflect the amount reimbursed for questioned costs of \$3,210.
4. It will be revising its finance procedures for succession planning in key positions to ensure the accuracy and consistency of financial reporting as recommended in the Single Audit report issued by its Independent Auditors.

Reviewer's Comments

ARC will determine whether the corrective actions proposed by the grantee are adequate to resolve the recommendations or whether additional information or actions are needed.

B. Documenting Matching Costs

NTCC did not have adequate documentation in its records to support \$133,026 in costs charged as matching costs. We were told that an outside organization was used to process and pay some of the expenses used as matching costs and that NTCC had not made arrangements to maintain documentation in their records. The federal cost principles applicable to NTCC require that all costs, including amounts claimed as match, must be adequately documented in the grantee's files to support the amounts reported.

Our sample included \$136,767 in matching costs reported in the reimbursement request dated January 31, 2010. NTCC provided adequate documentation to support only \$41,671 of that total. The unverifiable amount related mostly to equipment costs for items purchased for the welding program that were paid for from funds derived from bonds issued by NTCC. These funds were maintained in a Capital Funds account administered by a local bank, which processed and paid invoices for the equipment and other expenditures incurred by NTCC. Rather than process and pay these bills directly, the NTCC staff forwarded the invoices or other bills to the bank for processing. We were told that the records on these transactions, including the invoices and checks issued, were kept in the banks records.

During our on-site visit, we were also informed that a NTCC representative had contacted the bank for it to attempt to retrieve the supporting documentation. Since NTCC was unable to provide documentation to support the \$95,096 in costs reported as matching costs, we have questioned these costs and all of the \$37,930 in unsupported indirect costs charged as matching costs for a total of \$133,026.

At the exit conference, the NTCC representatives stated that there is a good likelihood that their bank will provide the necessary documentation to support the questioned matching costs.

Recommendations

NTCC should:

1. Promptly obtain documentation to support the \$133,026 in questioned matching costs and submit the documentation to ARC for consideration.
2. If the necessary documentation cannot be provided, notify ARC of that fact and request guidance on what further actions are necessary.
3. Prior to applying for any future ARC grants, revise the NTCC written policies and procedures to include guidance and requirements for claiming and documenting match costs.

Grantee Response

NTCC stated in its response that:

1. It has begun pulling the supporting documentation for the matching costs and will be sending it to the Appalachian Regional Commission as soon as all information is available. NTCC stated that these costs were handled by a local financial institution and that it is working with the financial institution in order to locate the proper supporting documentation.
2. If supporting documentation cannot be located, NTCC will immediately notify the Appalachian Regional Commission.
3. It will be revising its finance procedures for succession planning in key positions to ensure the accuracy and consistency of financial reporting as recommended in the Single Audit report issued by its Independent Auditors.

Reviewer's Comments

ARC will determine whether the corrective actions proposed by the grantee are adequate to resolve the recommendations or whether additional information or actions are needed.

C. Grant Results

Based on the results reported in the final project report and the supporting documents provided during the audit, we concluded that the goal of establishing a welding technology program was achieved. However, only 26 adults and high school students completed the program during the grant period. The overall results of the project and use of ARC's funding were not determinable because metrics were not established and data was not collected for some of the key benefits described in the project proposal.

The only specific metrics for the results established in the grant work-plan, and subsequently included in the final project report, were on planned outputs showing the number of adults and (high-school) students expected to be enrolled and graduating from the program. The planned numbers of enrollees and graduates cited in the project proposal covering the three-year grant period were:

- Day welding program: 50 graduates and 50 routinely enrolled. This course was available to adults only for year one and to both adults and high school students thereafter.
- Update/Refresher program: 60 graduates and 20 routinely enrolled. The refresher program was available to adults only.

NTCC's final project report dated September 30, 2012, showed the actual results at the end of the grant period as:

- 26 adults and high school students graduated
- 6 adults participated in an introduction course
- 32 adults and high school students currently enrolled

It appeared the planned metric was significantly underachieved based on the plan for 180 students to complete the program compared to the actual output of 64 students. The narrative notes on performance on ARC's system discussed several reasons why the actual outputs and outcomes fell short of what was planned. We noted several factors that led us to conclude that the final reported metrics were somewhat misleading and thus not useful.

First, the current NTCC staff stated that the planned 50 graduates and 50 enrollees in the daily welding program were unrealistic--especially the number of enrollees--considering the size of the welding program space, available equipment, and having only one instructor. They stated that about 30-32 was about the maximum number of students that could be enrolled at any given time to allow safe and proper instruction with the current space and equipment. They did not know the basis for the estimated numbers put in the project proposal, since the individuals that developed the estimates were no longer employed by NTCC.

Second, the adult training portion of the program appeared to be significantly underperforming compared to the planned metrics. Training adults or refreshing their welding skills were

important elements cited in justifying the project since it would help them improve their skills and get higher paying jobs or allow them to re-train and obtain employment.

NTCC's proposal projected having 60 graduates and 20 routinely enrolled in the refresher program during the grant period, with 20 enrollments continuing thereafter. There were 12 adults that completed the program during the first year, which was for adults only. During the final two years of the grant, when high school students became eligible, there were only three adults enrolled and two graduated. The reasons for this low performance, and what could be done to improve it, were not adequately discussed in NTCC's final report to ARC.

Third, neither NTCC's final report nor the project remarks on ARC's system discussing performance accurately described why the total numbers for the output metric were so low. NTCC's report discussed problems encountered very generally, citing issues with the equipment, staff turnover, and delays in getting the space operational. There was no mention of the limited space and class size preventing achievement of 50 graduates and enrollees and the metric being over-optimistic. Likewise, ARC described the reasons for under-running the projected output as fluctuations in high school enrollments, dropouts, and adults having full-time jobs hindering attendance. The actual reasons for the under-run, as discussed above, were not cited.

The purpose of the proposed project and ARC funding was to establish the welding program and provide needed training. However, the justification for the program was based on different needs and expected benefits. NTCC's proposal for example stated that welders were on the Northern Tier and Pennsylvania high priority occupation list, and local demand was increasing dramatically due to pipeline and other activities related to the gas exploration activities in the area. The NTCC welding program was described as a way of providing immediate relief by providing trained workers. The benefits of the program included the local economy benefiting from additional jobs due to the NTCC expansion and creating the welding program, and students enjoying increased starting wages due to the training they receive. A major benefit cited was retention of talent within the geographic area and Appalachian region.

An accurate measurement and evaluation of the results of the program should include these factors, since they appeared to have been important factors in the justification of the grant funds. Although the number of students enrolled and graduated is useful information, a more meaningful measure of the overall value of the program and the grant funding would have been to also report the actual outcomes for the above factors. For example, how many of the graduates chose the welding field and got jobs; what were their salary levels and did they increase; how many welding jobs were there in the region and how many of those were filled by NTCC graduates; and how many of the graduates ended up in welding jobs outside the Northern Tier or Appalachian region. The NTCC proposal did not include such metrics and the staff was not collecting data to allow an assessment of these potential outcomes. Therefore, an accurate and complete assessment of the achievements of this program and the grant were not possible.

At the exit conference, the NTCC representatives indicated that they understood the point of including measures in the work-plan to allow measurement of outcomes like jobs, salary levels, etc. They also stated that since ARC had not taken exception to what they did, they did not realize that anything should have been done differently.

Recommendations

Prior to applying for any future ARC grants, NTCC should improve its procedures for tracking performance by ensuring that:

1. Project proposals include outcome metrics for all key benefits cited and steps are taken to collect the data needed to measure actual results.
2. Project progress reports accurately and fully address the planned metrics and reasons for not achieving them.

Reviewer's Comments

The NTCC written response did not contain comments on the actions taken or planned to address the above audit finding and recommendations.

D. Financial Management System

Our review of the 2011 and 2012 Single Audit reports showed that there have been two continuing material weaknesses reported and NTCC had not taken corrective action. One of the material weaknesses related to NTCC's inability to prepare its own financial statements and instead relied on the auditors to both prepare and audit the financial data. We consider this to be a potential conflict of interest and not indicative of an effective financial management system. The other material weakness related to the substantial numbers of errors on the NTCC accounting records requiring correction by the auditors. This raises a question about the accuracy of the NTCC accounting system and records for all of its projects and activities. We also determined in reviewing the audit reports that the ARC grant funds were not even included in the schedule of federal expenditures. Thus, the NTCC data on federal funding activity reported to the national clearinghouse was not accurate.

At the exit conference, the treasurer and director indicated that they plan to address the issue of not being able to prepare their own financial statements. They expect this will be done prior to their next audit.

Recommendations

NTCC should take prompt actions to resolve the material weaknesses and recommended actions in the prior Single Audit reports.

Grantee Response

NTCC stated in its response that it will be revising its finance procedures for succession planning in key positions to ensure the accuracy and consistency of financial reporting as recommended in the Single Audit report issued by its Independent Auditors.

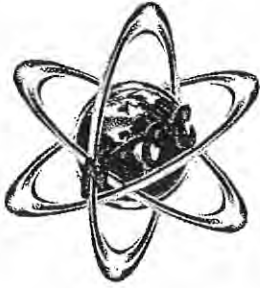
Reviewer's Comments

ARC will determine whether the corrective actions proposed by the grantee are adequate to resolve the recommendations or whether additional information or actions are needed.

General Comments

The federal regulations require that all equipment purchased with federal grant funds must be inventoried and managed, with specific information being maintained, including the value of the equipment, location, condition, and final disposition actions. None of the equipment items charged to the ARC funds under the grant reviewed met the applicable federal threshold of \$5,000 unit value, so we did not fully evaluate this area or test the inventory system. However, in discussing the equipment purchased and attempting to physically locate some of the items to verify they were purchased and used, we identified two items (Dynasty 200 welders) that could not be located. The items were purchased for \$3,518 each and charged to ARC funds. The NTCC records only indicated that the welders had been "upgraded." We could not confirm where the items were presently, if they were traded in as part of purchasing the new items or disposed of in some other manner.

Appendix I
Grantee Response



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January 22, 2014

Leon Snead & Company, P.C.
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Dear Leon Snead:

The Northern Tier Career Center was recently audited by your organization September 23-27, 2013. A draft response has been received, and the following outlines the NTCC response to the findings and recommendation of the audit.

Direct and Indirect Cost

1. The NTCC reviewed the Auditor's recommendation in regards to claimed amounts exceeding actual costs for certain invoices. We are in agreement with the finding and will be sending a reimbursement in the amount of \$3,210 to the Appalachian Regional Commission.
2. We have reviewed the Auditor's recommendation in regards to the Northern Tier Career Center not having an indirect rate plan or proper supporting documentation for indirect costs, despite claiming 6% of total project costs. As stated in the report, the turnover resulted in a communication barrier. Therefore, indirect costs claimed cannot specifically be identified at this time. However, the Business Manager spent a significant amount of administrative time on the grant. Therefore, the NTCC believes that the indirect costs assigned and applied to the grant illustrate a portion of the Business Manager's salary. The Business Manager contributed approximately 10% of her time in grant reports, budgets, etc. The \$17,699 represents approximately 10% of her salary over the course of the grant years. Documentation of the Business Manager's salary will be sent to the Appalachian Regional Commission. Please note attachment A, in which the Business Manager's salary is documented. The current Director was not employed at the NTCC during the time audited. The Indirect Costs should have been allocated in the personnel function instead of indirect costs. The funds were, in fact, used toward personnel. Could you please advise on how to proceed? The NTCC does not have an indirect cost plan in place. Future grants will include an indirect cost plan, if needed.
3. We have reviewed the Auditor's recommendation in regards to refiling a final SF-270 report. We will be filing a revised final SF-270 report with the Appalachian Regional Commission to reflect amounts reimbursed for questioned costs of \$3,210.
4. The NTCC has reviewed the Auditor's recommendation in regards to revising the policies and procedures of the NTCC. The NTCC believes it has the proper policies in place. However, we

will be revising finance procedures for succession planning in key positions. The center will be revising procedures to ensure the accuracy and consistency of financial reporting as recommended in the single audit report issued by the Independent Auditors

Documentation of Matching Costs

1. The NTCC has reviewed the Auditor's recommendation in regards to obtaining support for matching costs claimed. We have begun pulling the supporting documentation for the matching costs and will be sending these to the Appalachian Regional Commission as soon as all information is available. These costs were handled by a local financial institution. The NTCC previously sent requisitions for payment to local financial institution. Due to the turnover, the requisitions cannot be located and we are working with the financial institution in order to locate the proper supporting documentation.
2. We have reviewed the Auditor's recommendation in regards to obtaining support for matching costs claimed. The Northern Tier Career Center has begun pulling the supporting documentation for the matching costs and will be sending these to the Appalachian Regional Commission as soon as all information is available. These costs were handled by a local financial institution. The NTCC previously sent requisitions for payment to a local financial institution. Due to the turnover, the requisitions cannot be located and the NTCC is working with the financial institution in order to locate the proper supporting documentation. If support cannot be located, the NTCC will immediately notify the Appalachian Regional Commission.
3. The NTCC has reviewed the Auditor's recommendation in regards to revising the policies and procedures of the NTCC. The center believes it has the proper policies in place. However, the NTCC will be revising finance procedures for succession planning in key positions. We will be revising procedures to ensure the accuracy and consistency of financial reporting as recommended in the single audit report issued by the Independent Auditors.

Financial Management System

1. We have reviewed the Auditor's recommendation in regards to revising the policies and procedures of the Northern Tier Career Center. The NTCC believes it has the proper policies in place. However, we will be revising finance procedures for succession planning in key positions. The center will be revising procedures to ensure the accuracy and consistency of financial reporting as recommended in the single audit report issued by the Independent Auditors.

If you have any questions, please feel free to contact me.

Thank you,



Elizabeth Frankhouser

NTCC Administrative Director