
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD**

**Southern Tier West Regional Planning and Development Board
Salamanca, New York**

**Final Report Number: 14-27
Project Number: NY-2329-C39 & C40
May 2014**

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



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May 12, 2014

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-2329-C39 and C40 awarded by the Appalachian Regional Commission (ARC) to the Southern Tier West Regional Planning and Development Board (STW). 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 budgets; (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 grants were met.

Overall, STW's administrative procedures were adequate to manage the grants and funds reviewed. The expenditures sampled and tested were reasonable and adequately documented; however, the STW financial management system did not provide for sufficient separation of duties over critical financial transactions necessary to provide an acceptable level of internal control and to comply with the Federal financial system requirements. In addition, STW did not submit the final project and financial reports timely. These issues and our recommended corrective actions are discussed in detail in the Findings and Recommendations section of the report.

A draft report was provided to STW on April 11, 2014, for comments. STW provided a response to the report on May 8, 2014, stating that the board did not have any comments at this time. Their response is included in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the STW 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 numbers NY-2329-C39 and C40 awarded by the Appalachian Regional Commission (ARC) to the Southern Tier West Regional Planning and Development Board (STW). The audit was conducted at the request of the ARC, Office of the Inspector General, to assist the office in its oversight of ARC grant funds.

STW serves as a Local Development District (LDD) responsible for coordinating the Appalachian Region Program in three western New York counties. The funds provided by ARC support the LDD activities, which includes grant development and administration, technical assistance to businesses and local organizations, community capacity building, infrastructure development, and coordination of ARC programs and interests with other Federal and State organizations.

A 16-member board of directors, comprised of five members from each of the three counties and one representative from the Seneca Indian Nation, oversees the STW programs and operations. The day-to-day operations are carried out by an executive director and nine other professional staff members. The majority of funds for the operations and programs come from Federal and State sources. STW also receives funds through county and local contributions, investment income, and other sources. For the fiscal year ended June 30, 2013, STW reported total income of \$1.75 million with \$600,709 from Federal and \$897,562 from State sources.

Grant NY-2329-C39 covered the period January 1 through December 31, 2012, provided \$318,000 in ARC funds and required \$159,000 in non-ARC match funds. The ARC funds were primarily for salary costs for the staff to manage the LDD-related activities, but also included some amounts for fringe benefits, travel, supplies, and indirect costs. The grant activities had been completed and the final reports had been submitted to the ARC; however, the grant had not been administratively closed by ARC at the time of the audit. The total project cost reported under the grant was \$636,000.

Grant NY-2329-C40 covered the period January 1 to December 31, 2013, provided \$312,893 in ARC funds and required \$312,893 in non-ARC match funds. The levels and types of costs in the total budget were similar to the previous grant, with salaries and fringe benefits being the major categories. The grant activities had been completed and the final reports had been submitted to the ARC; however, the grant had not been administratively closed by ARC at the time of the audit. The total project cost reported under the grant was \$625,786.

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 adequate 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 STW personnel to obtain an overall understanding of the grant activities, the accounting system, and the operating procedures. We reviewed STW's administrative procedures and related internal controls to determine whether 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 grants.

Of the \$630,893 in expenditures charged to the two grants and claimed for reimbursement (\$318,000 to NY-2329-C39 and \$312,893 to NY-2329-C39) during the period of January 1, 2012 through December 31, 2013, we selected a sample of \$376,235 in expenditures charged to the grants for testing to determine whether the charges were properly supported and allowable. In that regard, our sample included \$169,035 charged to NY-2329-C39 and \$207,200 charged to NY-2329-C40. In addition, we selected a sample of \$376,235 in expenditures for testing that were charged to the grants and used as matching costs.

The primary criteria used in performing the audit were the provisions of the ARC grant agreements, applicable Office of Management and Budget Circulars (OMB), 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 March 11-20, 2014, including on-site work at STW's office in Salamanca, New York. The audit results were discussed with the STW representatives at the conclusion of the on-site visit.

Summary of Audit Results

Overall, STW's administrative procedures were adequate to manage the grants and funds reviewed. The expenditures sampled and tested were reasonable and adequately documented; however, the STW financial management system did not provide for sufficient separation of duties over critical financial transactions necessary to provide an acceptable level of internal control and to comply with the Federal financial system requirements. In addition, STW did not submit the final project and financial reports timely. These issues and our recommended corrective actions are discussed in the Findings and Recommendations section of the report.

The draft report was issued to STW on April 11, 2014, for comments on the findings and recommendations with a response due by May 2, 2014. Follow-up requests were made and on May 8, 2014, STW provided a response stating that the board did not have any comments at this time. Therefore, the report is issued in final without the STW comments.

Finding and Recommendations

A. Financial Internal Controls

The STW financial management system did not have sufficient separation of duties to ensure adequate internal control over financial transactions or compliance with the Federal requirements.

The applicable federal regulations (OMB Circular A-110) state that recipients' financial management systems shall provide for "...Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes..." A critical element of an adequate financial system is having adequate internal controls over key financial transactions and processes.

The STW executive director was responsible for determining the sources and prices for products and services, reviewing the invoices upon receipt, deciding the suitability for payment, signing the checks to pay the invoices and recording the transactions in the accounting system. The executive director also maintained the SAGE system generated accounting records and produced the financial reports. In addition, the executive director was responsible for presenting the budget to the board.

At each meeting, the executive director provides the board members an Audit Abstract showing the financial activities during the period. The Abstract is adopted and reflected in the meeting minutes. The executive director cited this process as an example of oversight and separation of control. We acknowledge that this process offers some degree of oversight; however, neither the minutes nor STW's written procedures indicated that an individual board member routinely reviews the financial information to provide reasonable assurance the processes and transactions were proper and accurate.

In both the 2012 and 2013 Single Audit reports, the auditors identified an inadequate level of separation of duties and cited it as a significant weakness requiring corrective action. STW's response did not include any planned, specific corrective action. Rather, it stated adding staff to address the problem was not considered cost effective and that they would stay alert to opportunities for better separation of duties.

At the exit conference, the executive director stated that he understood the issue. He also stated that resolving the matter of inadequate separation of duties would not be a simple matter to resolve, but agreed to pursue it with the board and their auditors.

Recommendation

Prior to requesting further ARC funding, STW should implement the necessary changes in operations to ensure that its financial management system contains sufficient internal controls to account for all funds as required by OMB Circular A-110.

B. Reporting

STW did not submit the final project and SF-270 financial reports for grant numbers NY-2329-C39 and C40 in a timely manner. STW was not required to submit interim reports. Only a final project report and SF-270 financial report were required. The grant agreement required the reports to be submitted to ARC within 30 days after the end of the grant period. The final reports on grant NY-2329-C39 were due to ARC by January 31, 2013. The reports were submitted to ARC on March 8, 2013. The reports for grant NY-2329-C40 were due on January 31, 2014. The reports were submitted to ARC on March 5, 2014.

The primary reason given for the late submission, in both cases, was that extra time was needed to collect the data needed for reporting the matching funds charged to the projects. The amounts recorded as match on the grants included costs incurred by individuals with various organizations, such as local municipalities, state agencies, and companies that were involved in activities and meetings for ARC-related projects, who were providing in-kind contributions for their time and travel. STW uses standard forms to be completed by the individual showing their agency, dates of meetings or activities, and amount contributed. STW did not collect these forms and record the amounts periodically throughout the year as it does with most of the direct ARC funding costs. During the two grant years reviewed, the STW staff waited until the grant ended to contact the individuals and collect the forms. Due to the number of individuals involved, this required considerable time. In addition, STW did not obtain a formal ARC approval for extending the reporting due date on either grant.

At the exit conference, the executive director stated that they had already discussed making changes to help alleviate the need to delay obtaining the in-kind documents, which would help make the reports timelier.

Recommendations

STW should:

1. Implement procedures to ensure that in-kind amounts, other costs and data, and any other supporting documentation needed to prepare the final ARC project and financial reports are identified and collected throughout the grant period.
2. Implement procedures to ensure that final reports are prepared and submitted within the required timeframe or a formal extension is obtained from ARC.

Appendix I
Grantee Response

Leon Snead Company

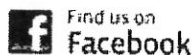
From: Richard Zink [rzink@southerntierwest.org]
Sent: Thursday, May 08, 2014 3:01 PM
To: Leon Snead & Company
Subject: RE: ARC Draft Report - NY-2329-C39 & C40

The board did not have any comments on the letter at this time.

Richard

Southern Tier West RP&DB
4039 Route 219, Suite 200
Salamanca, NY 14779

716-945-5301 x-2203



From: Leon Snead & Company [mailto:leonsnead.companypc@erols.com]
Sent: Thursday, May 08, 2014 2:59 PM
To: Richard Zink
Subject: FW: ARC Draft Report - NY-2329-C39 & C40

Good Afternoon Richard,

This is a follow up on the response to the draft report we provided on April 11. The response was due May 2nd. If we do not receive a response by Monday, May 12th, we will issue the final report without the benefit of your comments.

Thanks for your assistance.

Leon Snead
(301) 738-8109

From: Leon Snead & Company [mailto:leonsnead.companypc@erols.com]
Sent: Friday, April 11, 2014 11:20 AM
To: 'rzink@southerntierwest.org'
Subject: ARC Draft Report - NY-2329-C39 & C40

Richard:

Enclosed is a copy of the draft report for you review and comment. Please provide a response by May 2, 2014. Please indicate in the response your concurrence or nonconcurrence with the recommendation and the action taken or contemplated to implement the recommendation. Thanks very much for your assistance.

Leon Snead