
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD
Northwest Pennsylvania Regional Planning
and Development Commission
Oil City, Pennsylvania**

**Final Report Number: 14-30
Project Number: PA-708A-C42
July 2014**

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



**LEON SNEAD
& COMPANY, P.C.**

Certified Public Accountants
& Management Consultants

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July 29, 2014

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

Leon Snead & Company, P.C. completed an audit of grant number PA-708A-C42 awarded by the Appalachian Regional Commission (ARC) to the Northwest Pennsylvania Regional Planning and Development Commission (NWPAC). The audit was performed to assist the Office of Inspector General in carrying out its oversight of ARC grant activities.

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.

Overall, NWPAC's administrative procedures were adequate to manage the grant and funds reviewed. The costs tested were supported and considered reasonable, except for indirect costs. We questioned the \$21,497 in indirect costs charged to the grant due to inadequate supporting documentation. We found that NWPAC had an adequate process in place for obtaining and recording data related to the goals of the grant. In addition, the records indicated that the tasks required by the grant agreement were accomplished.

The issue relating to indirect costs noted during the audit and our recommended corrective actions are discussed in detail in the Findings and Recommendations section of the report. A draft report was provided to NWPAC on June 24, 2014, for comments. NWPAC provided a response to the report on July 24, 2014. Their comments are included in its entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the NWPAC and ARC staff during the audit.

Sincerely,


Leon Snead & Company, P. C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number PA-708A-C42 awarded by the Appalachian Regional Commission (ARC) to the Northwest Pennsylvania Regional Planning and Development Commission (NWPAC). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of ARC grant funds.

NWPAC is a public, non-profit corporation established in 1967 under the Pennsylvania Non-Profit Corporation Law and is one of seven Local Development Districts (LDD) established within Pennsylvania. It provides services, training, and assistance to eight northwestern counties of Clarion, Crawford, Erie, Forest, Lawrence, Mercer, Venango, and Warren. The major activities supported by the ARC funding include grant development and administration, technical and financial 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 board of directors comprised of public and private citizens representing the eight member counties and its executive committee, oversee the administrative duties, responsibilities, and goals of the entire board, including NWPAC programs and operations. Day-to-day NWPAC operations and programs are carried out by an executive director and support staff members from offices located in Oil City, Pennsylvania. NWPAC receives a significant amount of funding for its operations and programs from Federal and State agencies, local sources and contributions.

ARC grant PA-708A-C42 was initially awarded to cover the period January 1, 2013 through June 30, 2013; however, the grant agreement was amended to extend the grant performance period through December 31, 2013 and to provide for additional funds. The grant provided \$98,013 in ARC funds and required \$29,404 in non-ARC matching funds. This grant is awarded annually to provide continuing funding to assist NWPAC in administering its LDD program for establishing and expanding economic development services within its geographic area. The majority of the approved total budget was for staff salaries and benefits and indirect costs, but there were also some amounts budgeted for travel, supplies, and other costs. The grant had ended, but had not been closed out administratively by ARC at the time of the audit. The total project cost reported under the grant was \$140,267.

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 NWPAC personnel to obtain an overall understanding of the grant activities, the accounting system, and the operating procedures. We reviewed NWPAC'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 grant. Of the \$98,013 in expenditures charged to the grant and claimed for reimbursement through December 31, 2013, we selected a sample of \$25,236 in expenditures for testing to determine whether the charges were properly supported and allowable.

The primary criteria used in performing the audit were the provisions of the ARC grant agreement, applicable Office of Management and Budget (OMB) 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 May 6-15, 2014, including on-site work at NWPAC's office in Oil City, Pennsylvania. The audit results were discussed with the NWPAC representatives at the conclusion of the on-site visit.

Summary of Audit Results

Overall, NWPAC's administrative procedures were adequate to manage the grant and funds reviewed. The costs tested were supported and considered reasonable, except for indirect costs. We questioned the \$21,497 in indirect costs charged to the grant due to inadequate supporting documentation. We found that NWPAC had an adequate process in place for obtaining and recording data related to the goals of the grant. In addition, the records indicated that the tasks required by the grant agreement were accomplished.

The issue relating to indirect costs noted during the audit and our recommended corrective actions are discussed in detail in the Findings and Recommendations section of the report.

Findings and Recommendations

Indirect Costs

NWPAC charged indirect costs to its ARC grant, and obtained reimbursement for those costs, without having an approved indirect cost rate for the cost period covered. As a result, we have questioned the \$21,497 in indirect costs claimed for reimbursement during the grant period of January 1, 2013 through December 31, 2013.

To claim indirect costs under Federal awards, grantees must prepare an indirect cost rate proposal and related documentation to support those costs. The requirements applicable to NWPAC for indirect cost rate proposals are contained in OMB Circular A-87. OMB periodically publishes lists identifying the appropriate Federal cognizant agencies. A grantee for which a cognizant agency assignment has been specifically designated must submit its indirect cost rate proposal to its cognizant agency. The cognizant agency for grantees not identified by OMB will be determined based on the Federal agency providing the largest amount of Federal funds. Such grantees are not required to submit an indirect cost rate proposal unless specifically requested to do so by the cognizant agency, but must develop and maintain a proposal and related supporting documentation for audit.

OMB Circular A-87 also provides that indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the grantee.

NWPAC did not have any documentation to show the costs had been independently verified. The auditors who performed the recent A-133 audit told us that they discussed the indirect allocation process with the NWPAC staff, but did not structure their testing to specifically verify the overall indirect cost pools and resulting allocations. Without evidence of such verification, and not having used a properly approved rate, we do not consider the indirect costs charged to the ARC grant to be adequately supported. As a result, we have questioned the \$21,497 in indirect costs claimed for reimbursement.

The issue of insufficient supporting documentation for the indirect costs claimed was discussed with the NWPAC representatives at the conclusion of the on-site visit. The representatives were particularly concerned about the possibility of being required to refund the questioned amount, but did not express any disagreement with the finding.

Recommendations

NWPAC should:

1. Obtain appropriate documentation to support the \$21,497 in questioned indirect costs charged to the grant and submit it to ARC for consideration. If documentation cannot be fully obtained, refund the unsupported amount to ARC.

2. Submit a revised SF-270 report to ARC to adjust for any changes or refunds that are made.
3. Implement procedures to comply with the federal requirements for charging indirect costs to ARC grants by either (a) submitting the required cost proposal and certification to ARC or appropriate cognizant agency and obtain and use the approved rate, or (b) obtaining formal guidance from ARC on the proper, acceptable basis or rate to use in charging and claiming indirect costs.

Grantee Response

NWPAC provided documentation with its response to show that it had an approved cost allocation plan for the period covered by the audit. Although the proposal submitted to DOD in 2011 to obtain the indirect cost rates did not meet the requirements of OMB Circular A-87 because the proposal did not include the required certification statement, the certification document was subsequently submitted to DOD. The document was not available to the auditor at the time of the on site visit.

NWPAC stated that it submitted to the cognizant agency a request for approval of the indirect cost rates for federal fiscal year 2014 on August 13, 2013. NWPAC provided documentation to show that on May 12, 2014, it received an approval letter from the cognizant agency. NWPAC also stated that, as in past years, they did not receive a timely response and made several inquiries as to its progress.

In addition, NWPAC stated in its response that it engaged an auditing firm to verify its overall cost pools and resulting allocations. The report's findings were as follows:

- The total amount of indirect costs charged to the Appalachian Regional Commission Grant Contract #PA-708A-C42 agreed to the related internal general ledger account systems.
- There were no variances in the calculations of the monthly worksheets prepared by management of the Commission and those charged to the Appalachian Regional Commission.
- Each timesheet selected for testing matched the costs attributed to the indirect cost allocation calculation with no variances noted.
- All items selected for testing were properly included as indirect costs and no direct costs were noted.

Reviewer's Comments

The three recommendations should remain open and ARC will determine whether the actions identified in the grantee's response are adequate to resolve the recommendations or whether additional information or actions are needed.

Appendix I
Grantee Response

Northwest

C O M M I S S I O N

Serving the counties of Clarion, Crawford, Erie, Forest, Lawrence, Mercer, Venango, and Warren

Mr. Leon Snead
Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, Maryland 20850

Mr. Snead,

As requested of the email of June 24, 2014, please find management's response and supporting documentation to the findings of the audit conducted by your firm on behalf of the Office of the Inspector General of ARC Projects PA-8285-C31 and PA-708-C42. As recommended in the report, the Northwest Commission contracted with a third party auditing firm to independently verify the overall indirect cost pools and the resulting allocations. Copies of their reports can be found in Attachment E of each response.

If you require clarification or additional information, please contact me at any time by phone 814-229-6004 or email at jillf@northwestpa.org.

Sincerely,



Jill Foys
Executive Director

Response to findings and recommendations of the draft report of Project:

PA-708A-C42 submitted to the

Appalachian Regional Commission

The draft report's findings indicate that the Northwest Commission did not have a current approved indirect cost rate consistent with OMB Circular A-87 from U.S. Department of Defense, our cognizant agency. Understanding that the Appalachian Regional Commission is our largest federal funding source, we have utilized US DOD as our cognizant agency for the past several years. Although we have no documentation, it is understood by management that conversations with ARC led us to seek another agency and DOD was our next largest funding source and therefore became our cognizant agency. At the suggestion of this report's author, we will once again petition the Appalachian Regional Commission to serve as our cognizant agency.

Our request for approval of our indirect rate has not been always been met with an expeditious response from our cognizant agency. However, in 2011, we received a response to our request dated October 25, 2011. (Attachment A) This letter's language approved the overhead and fringe benefit rate for fiscal year 2011 and "until further notice" The letter was attached to an email reiterating the until further notice language. (Attachment B) We interpreted this as confirmation of the current indirect rate not limited to a finite period of time and would be in effect until another letter was received with a new approved rate.

The audit indicates that the proposal submitted to US Department of Defense did not include the required certification statement. We agree that a certification statement was not submitted with the proposal. However, after receiving a request from our Grants Officer to submit the certification document, we did so with a letter dated September 25th, 2012. (Attachment C) This document was located during the preparation of this response and therefore, was not available to the auditor at the time of his visit. In future proposal submissions, we will include a certification statement at the time of our request for approval of the indirect rate.

The Northwest Commission did submit a request for approval of the indirect rate for federal FY2014 on August 13, 2013. As in past years, we did not receive a timely response and made several inquiries as to its progress. We received, via email, an approval letter from our cognizant agency on May 12, 2014. (Attachment D) The audit indicates that the DOD approval letter did not clearly indicate if the rate was a provisional or predetermined rate. We concur that our cognizant agency did not provide such language. In the future, if not specified, we will request clarification and proper documentation of the rate.

The audit indicates that the Commission does not use a consistent rate for calculating and posting indirect charges to grant. The Commission allocates indirect costs based on salary and fringe benefits. Because the agency administers several state and federal grants with differing fiscal years, it is our practice to reconcile our indirect costs monthly. Although the rate is not a constant rate, it never exceeds the approved rate. The Northwest Commission accepts and agrees with the recommendation of this draft report to have our indirect allocation process tested to specifically verify the overall indirect

cost pools and resulting allocations. To that end, we engaged the auditing firm of Maloney, Reed, Scarpitti and Co. LLP to complete said testing. (Attachment E) This report's findings were as follows:

- The total amount of indirect costs charged to the Appalachian Regional Commission Grant Contract #PA-708A-C42 agreed to the related internal general ledger account systems
- There were no variances in the calculations of the monthly worksheets prepared by management of the Commission and those charged to the Appalachian regional Commission
- Each timesheet selected for testing matched the costs attributed to the indirect cost allocation calculation with no variances noted
- All items selected for testing were properly included as indirect costs and no direct costs were noted

Finally, management had daily conversations with the auditor concerning the indirect cost rate methodology, the difficulty obtaining a timely indirect rate from our current cognizant agency and the monthly reconciliation of those costs. As a result, management was comfortable that we had shared all of the documentation and rationalization on the subject. Therefore, our lack of disagreement during the exit interview should not have been interpreted as acceptance of process deficiencies.

Attachment A



DEFENSE CONTRACT MANAGEMENT AGENCY
DEFENSE CONTRACT MANAGEMENT AGENCY TOBYHANNA – PITTSBURGH OFFICE
William S. Moorhead Federal Building
1000 Liberty Avenue, Room 901
Pittsburgh, PA 15222

IN REPLY

REFER TO: DCMAE-MPHAP

October 25, 2011

Ms. Vicky Sabella
Fiscal Controller
Northwest PA Regional Planning and
Development Commission
395 Seneca Street
Oil City, PA 16301

Dear Ms. Sabella:

Reference my October 25, 2011 letter which approved an Overhead rate of 42.76% and a Fringe Benefits rate of 38.03% for billing purposes for fiscal year 2011. These rates shall remain in effect until further notice.

If you have any questions or require additional information, please do not hesitate to contact me. I may be reached by phone at (412) 395-4414, by fax at (412) 395-4507, or by email at Patricia.Kennedy@dema.mil.

Sincerely,

Patricia S. Kennedy
PATRICIA S. KENNEDY

Administrative Grants/Agreements Officer

Attachment B

Ned Goucher

From: Vicky Sabella
Sent: Tuesday, October 25, 2011 1:39 PM
To: Ned Goucher; Janet Anderson; Cris Pierce
Subject: FW: Rate Extension Letter
Attachments: image2011-10-25-133358.pdf

From: Kennedy, Patricia [<mailto:Patricia.Kennedy@dcma.mil>]
Sent: Tuesday, October 25, 2011 1:36 PM
To: Vicky Sabella
Cc: 'Hall, Christopher B DLA CIV SMALL BUSINESS PROGRAMS'
Subject: Rate Extension Letter

Vicky,

The attached letter extends the approval of the Northwest Commission's indirect rates until further notice.

Thanks,

Pat

PATRICIA S. KENNEDY
Administrative Contracting Officer
Administrative Grants/Agreements Officer
DCMA Tobyhanna (Pittsburgh Office)
Ph: (412) 395-4414
Fax: (412) 395-4507

Attachment C



A Pennsylvania Local Development District

September 25, 2012

Mr. Christopher Hall
Grants Officer, Procurement Technical Assistance Program
Defense Logistics Agency
Office of Small Business Programs (DB)
8725 John J. Kingman Road, Suite 1127
Ft. Belvoir, VA 22060-6221

RE: Certification of Indirect Costs

Chris
Dear Mr. Hall,

This letter is in regards to the request for certification that the direct expenses are not being recorded as indirect expenses. Please see below statement.

“Indirect Costs are the expenses associated with overall operation of the Northwest Commission. Included within these costs are expenses for space (building, utilities, maintenance, etc.), the operation of the fiscal department (salary and fringe of staff, office supplies, postage, etc.), general office supplies that cannot be associated with a particular grant program (letterhead, copy paper, toner cartridges, etc.), expenses associated with company cars, and the leasing of office equipment. Expenses directly related to grant programs are recorded as a direct expense under that grant program.”

If any additional information is required, please feel free to contact me at 814-677-4800 ext. 108 or nedg@nwcommission.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Ned", is written over the word "Sincerely,".

Ned Goucher
Senior Director, Organizational Development

Attachment D



DEFENSE CONTRACT MANAGEMENT AGENCY
DEFENSE CONTRACT MANAGEMENT AGENCY PITTSBURGH
WILLIAM S. MOORHEAD FEDERAL BUILDING
1000 LIBERTY AVENUE, ROOM 901
PITTSBURGH, PA 15222

IN REPLY

REFER TO: DCMAE-MPPAA

May 12, 2014

Ms. Vicky Sabella
Fiscal Controller
Northwest PA Regional Planning and
Development Commission
395 Seneca Street
Oil City, PA 16301

Dear Ms. Sabella:

Reference is made to Northwest PA Regional Planning & Development Commission's proposed bidding and billing rates for fiscal year (FY) 2014. You may use the billing rates for FY 2014 as follows:

<u>Category</u>	<u>Fiscal Year 2014 Bidding & Billing Rates</u>
Fringe Benefits	37.66%
Overhead	31.30%

These rates are effective for the period of July 1, 2013 through June 30, 2014.

If you have any questions or require additional information, I may be contacted by phone at (412) 395-4414, by fax at (412) 395-4507, or by email at Patricia.Kennedy@dcma.mil.

Sincerely,

KENNEDY.PATRICIA.S.1229236217
IA.S.1229236217

Digitally signed by
KENNEDY.PATRICIA.S.1229236217
DN: c=US, o=U.S. Government, ou=DoD,
ou=PKI, ou=DCMA,
cn=KENNEDY.PATRICIA.S.1229236217
Date: 2014.05.12 10:16:36 -04'00'

PATRICIA S. KENNEDY
Administrative Grants/Agreements Officer

Vicky Sabella

From: Kennedy, Patricia [Patricia.Kennedy@dcma.mil]
Sent: Monday, May 12, 2014 10:19 AM
To: Vicky Sabella
Subject: Indirect Rates, Fiscal Year 2014
Attachments: NW Indirect Rates.pdf

Vicky,

Attached is my letter authorizing indirect rates for the Northwest Commission PTAC.

Regards,

Pat

PATRICIA S. KENNEDY
Administrative Contracting Officer
Administrative Grants/Agreements Officer
DCMA Philadelphia
DCMA Pittsburgh Office
Ph: (412) 395-4414
Fax: (412) 395-4507

DCMA appreciates your feedback. Please complete a brief survey at <http://pubapp.dcma.mil/CustSat/main.jsp> to help us better support your needs.

Attachment E



MALONEY, REED, SCARPITTI & COMPANY, LLP

Certified Public Accountants and Business Advisors

ERIE • EDINBORO • CORRY

Joseph P. Maloney, CPA, CFE

Michael J. Reed, CPA

James R. Scarpitti, CPA

Rick L. Clayton, CPA

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Management
Northwest Pennsylvania Regional Planning & Development Commission
Oil City, Pennsylvania

We have performed the procedures enumerated below, which were agreed to by the management of the Northwest Pennsylvania Regional Planning & Development Commission, solely to assist in evaluating the indirect costs charged to the Appalachian Regional Commission Grant Contract #PA-708A-C42 for the period of January 1, 2013 to December 31, 2013. Northwest Pennsylvania Regional Planning & Development Commission is responsible for the indirect costs charged to the Appalachian Regional Commission Grant Contract #PA-708A-C42. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of management of the Northwest Pennsylvania Regional Planning & Development Commission. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

1. Compare and reconcile the total amount of indirect costs charged to the Appalachian Regional Commission Grant Contract #PA-708A-C42 with the internal general ledger account systems.

The total amount of indirect costs charged to the Appalachian Regional Commission Grant Contract #PA-708A-C42 agreed to the related internal general ledger accounts.

2. Review each monthly indirect cost allocation worksheet prepared by the management of the Northwest Pennsylvania Regional Planning & Development Commission and perform a recalculation of the monthly indirect costs charged to the Appalachian Regional Commission Grant Contract #PA-708A-C42.

We found no variances in these calculations.

3. Compare a sample of authorized employee timesheets to the indirect cost allocation worksheets prepared by the management of the Northwest Pennsylvania Regional Planning & Development Commission to ensure the payroll and related cost amounts applied in the indirect cost allocation calculation matched their source documents as they related to the Appalachian Regional Commission Grant Contract #PA-708A-C42.

Each timesheet selected for testing matched the costs attributed to the indirect cost allocation calculation with no variances noted.

To the Management
Northwest Pennsylvania Regional Planning & Development Commission
Page 2

4. Select a sample of indirect costs charged to the Appalachian Regional Commission Grant Contract #PA-708A-C42 from other than payroll related expense and review the supporting documentation (i.e. invoices, receipts, etc.) and canceled checks to determine if any direct costs were passed through the indirect cost allocation formulas.

All items selected for testing were properly included as indirect costs and no direct costs were noted.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the indirect costs charged to the Appalachian Regional Commission Grant Contract #PA-708A-C42. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of the Northwest Pennsylvania Regional Planning & Development Commission and is not intended to be and should not be used by anyone other than these specified parties.

Maloney, Reed, Scarpitti & Company, LLP

Edinboro, Pennsylvania
July 23, 2014