

PERFORMANCE AUDIT
OF THE

**South Carolina Export
Consortium**

**New Market Exports for SC
SMEs**

Grant: SC-16988

OIG Report Number: 14-38

GRANT PERIOD: OCTOBER 2011 – SEPTEMBER 2014

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Mr. Hubert N. Sparks
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Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the South Carolina Export Consortium New Market Exports for South Carolina Small and Medium-Sized Entities (SC SMEs) grant. The report is in response to Contract No. BPA 11-01-B.



Tysons, Virginia
August 21, 2014

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Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state and local governments. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair who is appointed by the President. Local participation is provided through multi-county local development districts (LDDs). Each year, ARC provides funding for several hundred projects in the Appalachian Region, in areas such as business development, education and job training, telecommunications, infrastructure, community development, housing and transportation. These projects help create new jobs; improve local water and sewer systems; increase school readiness; expand access to health care; assist local communities with strategic planning; and provide technical and managerial assistance to emerging businesses.

The South Carolina Export Consortium (Grantee), an affiliate of the South Carolina Chamber of Commerce, helps South Carolina small and medium-sized entities (SMEs) identify and enter new overseas markets for their products. The Grantee also works with governmental and non-governmental organizations to provide technical assistance to SMEs in the area of exports. The Grantee provides SMEs with research reports detailing barriers to entry, status of the market, growth potential, competitors, potential trade shows to attend and other critical information for their company and/or product. The Grantee also provides contacts within governmental or non-governmental organizations to get further information or assistance.

On August 8, 2011, ARC approved the New Market Exports for SC SMEs grant, number SC-16988 (Grant), in the amount of \$300,000 to South Carolina Export Consortium for the period October 1, 2011 to September 30, 2014. Matching funds from other sources were to total \$300,000, for a total funding amount of \$600,000. The sources of funding and amounts noted in the ARC Grant approval memo are shown in Table 1 below:

Table 1: Analysis of Budgeted Project Funding Sources

Funding Source	Amount	Percentage
Appalachian Regional Commission (ARC)	\$300,000	50%
South Carolina Export Consortium	\$300,000	50%
Total	\$600,000	100%

Executive Summary

Grant funds were used to cover employee salary and benefits, contractual costs for graduate intern researchers, travel costs, and other administrative costs for the Grantee. The Grant was still in process at the time of the audit, with the performance period scheduled to run through September 30, 2014. As of the most recent interim report submitted by the Grantee, covering the period through May 31, 2014, ARC reimbursed \$217,201 of expenses and reported matching funds were \$218,674, for a total of \$435,875. While it appears that the Grant expenditures will be significantly lower than the original budget at the end of the performance period, the proportion of ARC to matching funds is consistent with the requirements of the Grant agreement.

Expenses reviewed during the audit appeared valid and properly supported. A finding was noted related to the tracking, monitoring and reporting of performance against the anticipated outputs and outcomes for the Grant.

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Objective

Watkins Meegan LLC was engaged to conduct a performance audit of the South Carolina Export Consortium New Market for SC SMEs Grant for the period October 1, 2011 to September 30, 2014. The purpose of our performance audit was to determine the following:

- Funds expended and claimed for reimbursement from ARC and matching funds reported to ARC were valid program expenses and in accordance with the ARC Grant requirements;
- Internal controls were in place to ensure compliance with the Grant requirements; and
- Goals and objectives of the Grant had been, or would be, achieved.

Scope

We completed a performance audit of the Grant, including fieldwork at the Grantee offices in the South Carolina Chamber of Commerce from July 22-24, 2014, as described under this section and under the audit methodology section. Our audit was based on the terms of the Grant agreement and on the application of procedures in the modified ARC Audit Program.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Methodology

Our procedures were based on the Audit Program guidelines provided by the ARC Office of the Inspector General and included suggested procedures over the Grantee's accounting and internal control systems affecting the Grant. We met with the President and other Grantee staff members to discuss the overall structure and processes around Grant administration and monitoring.

Our review of background material included the Grant application, agreement and related documentation, information from ARC's grant management system, and the financial audit of the South Carolina Chamber of Commerce and Affiliates for the fiscal years ended September 30, 2012 and 2013.

We reviewed controls in place for recording, accumulating and reporting costs under the Grant and observed and made inquiries regarding whether the goals and objectives of the project had been met. For a sample of the salary costs funded by the Grant, we traced the employee annual salaries to personnel records, individual payrolls, and the allocation of payroll to various programs/grants. We traced a sample of other expenses, including contractual, travel, telephone and marketing costs, to supporting documentation to ensure expenses were in support of the Grant. We also evaluated the process for compliance with applicable Grant requirements and regulations.

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Results

Compliance with Grant Provisions

As of the most recent interim report submitted by the Grantee, ARC reimbursed \$217,201 of expenses for the period October 1, 2011 to May 31, 2014, inclusive of \$20,000 in advanced funds for the final reporting period from June 1, 2014 to September 30, 2014. Reported matching funds provided by the Grantee were \$218,674 through May 31, 2014, inclusive of \$14,000 in advanced funds reported for the final reporting period. Assuming the forecasted expenditures used to support the advance request for the final reporting period are accurate, total expenditures for the Grant at the end of the performance period are estimated to be approximately \$436,000. This is significantly lower than the \$600,000 budget for the Grant, primarily due to lower than anticipated volume of activity on Grant-related services performed by the Grantee. However, the proportion of ARC funds to matching contributions is consistent with the requirements of the Grant agreement.

Grant funds were used to cover a portion of the salary and benefit costs for Grantee employees and to cover labor costs to retain interns or graduate students from the University of South Carolina to conduct market research projects for companies within the six Appalachian counties covered by the Grant. Grant funds were also used to cover travel expenses and other administrative costs associated with the Grant project activities. We examined supporting documentation for a sample of the expenses incurred against the Grant and noted that all appeared to be valid, adequately supported and in relation to supporting the Grant and its objectives.

Through inquiry and review, we sought to validate the outputs and outcomes expected from the Grant award as detailed in the Grant application. The primary output included in the Grant application was that the Grantee would "recruit 36 businesses to initiate an export program or expand their existing exports to new markets over a three-year period." Outcomes included a range of items, including increased participation in trade programs, increases in export sales of participating companies after receiving technical support, and the creation and retention of jobs at participating companies.

Through review of the interim performance reports submitted by the Grantee to ARC and through subsequent discussion with key Grantee personnel, we determined that the primary activity of the Grantee is to assist companies by providing detailed research reports, centered on existing or proposed products of the company, to identify new international markets to expand into and make recommendations on which of those markets will be the easiest to penetrate or gain market share. The research reports detail trends in the product marketplace history and forecast, tax barriers that would inhibit the ability of a company to reach or succeed in that market, as well as providing the companies with trade groups they should join, distributors to contact, trade shows to attend, key points of contact, as well as other relevant key information. We reviewed a number of these reports in detail and contacted a number of the companies that received the reports to discuss the perceived value of the service provided by the Grantee. We received responses from two of those companies. The responses were generally positive, with one respondent stating that the Grantee had been instrumental in assisting them with closing a multi-million dollar deal in Ghana.

The Grantee reported in the most recent progress report covering the period through May 31, 2014 that they had provided research reports and other technical assistance to a total of 35 companies over the 32 months from the inception of the Grant period. However, we noted that the Grantee had no mechanisms in place at the time of the audit to relate that activity to the stated outputs and outcomes for the project, making it difficult to determine whether the Grant was successful in meeting the stated goal(s). See the Finding below for additional details. Given the long-term nature of the process to identify and penetrate export markets, we recommend that ARC follow up on the long-term impact of the assistance provided by the Grantee through the ARC validation process.

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

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Finding – Tracking and Reporting of Performance Metrics

The Grant application included an output measure that established a goal for the Grantee to “recruit 36 businesses to initiate an export program or expand their existing exports to new markets over a three-year period.” Through May 31, 2014, the Grantee reported that a total of 35 companies had been provided with market research reports and/or technical assistance including other minor research projects; however, the Grantee has no process in place to follow up with the companies assisted and determine the impact that the assistance had upon the initiation or expansion of exports by the companies. The performance objectives of the Grant may not be achieved without a process in place to monitor, track and report metrics against the anticipated outputs and outcomes.

Recommendation:

The Grantee should implement follow-up procedures with the companies assisted to gauge the extent to which the services provided help the companies initiate and/or expand their export activities. The Grantee should include related metrics in the interim and final reports submitted to ARC in order to demonstrate and monitor progress made toward the performance objectives of the Grant.