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

**Northeastern Pennsylvania Alliance
Pittston, Pennsylvania**

**Final Report Number: 15-04
Project Number: PA-8291- C31 & C32
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Leon Snead & Company, P.C. completed an audit of grant numbers PA-8291-C31 and PA-8291-C32 awarded by the Appalachian Regional Commission (ARC) to the Northeastern Pennsylvania Alliance (NEPA). 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) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate 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.

Overall, NEPA's administrative procedures were adequate to manage the grant and funds reviewed. The costs tested were supported and considered reasonable. We found that NEPA had an adequate process in place for obtaining and recording data related to the goals of the grant. In addition, the records and reports indicated that the tasks required by the grant agreement were accomplished. The overall grant performance measures, with respect to anticipated outputs and outcomes, were mostly met. However, there were several individual performance outputs and outcomes that were not met that were not adequately explained in NEPA's final report to ARC.

The issues on performance reporting and the corresponding recommended corrective actions are discussed in the Findings and Recommendation section of this report. A draft report was provided to NEPA on December 30, 2014 for comments. NEPA provided a response to the report on January 28, 2015 which indicated concurrence with the finding and recommendation. Their comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the NEPA 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 numbers PA-8291-C31 and PA-8291-C32 awarded by the Appalachian Regional Commission (ARC) to the Northeastern Pennsylvania Alliance (NEPA). 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.

ARC grant PA-8291-C31 was awarded to cover the period July 1, 2012 through June 30, 2013. It provided \$400,000 in ARC funds and required \$400,000 in non-ARC funds for the grantee to provide support for the Partnerships for Regional Economic Performance (PREP) program, which is designed to provide for economic development in Northeast Pennsylvania. The services provided were designed to give enterprise development assistance that will expand and diversify markets to help increase sales and job growth. Major components of the PREP program included research and information, business finance assistance, market development, export marketing assistance, government procurement assistance, and transportation planning services. The majority of the approved budget was for staff salaries and benefits and indirect costs, but there were also some amounts for travel, supplies, and other costs. The grant had ended and was closed out administratively by ARC. The total project cost reported under the grant was \$800,000.

ARC grant number PA-8291-C32 provided \$400,000 in ARC funds and required \$400,000 in non-ARC funds for NEPA to continue to carry out its planned PREP activities during the period July 1, 2013 through June 30, 2014. The grant had also been completed and was administratively closed by ARC. The total project cost reported under the grant was \$804,260.

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) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate 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 reviewed the documentation provided and interviewed NEPA personnel to obtain an overall understanding of the grant activities, the accounting system, and operating procedures. We reviewed NEPA'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 \$400,000 in expenditures charged to grant PA-8291-C31 and claimed for reimbursement through June 30, 2013, we selected a sample of \$95,357 in expenditures for testing to determine whether the charges were properly supported and allowable. Of the \$400,000 in expenditures

charged to grant PA-8291-C32 and claimed for reimbursement through June 30, 2014, we selected a sample of \$96,509 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 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 November 10-26, 2014, including on-site work at NEPA's office in Pittston, Pennsylvania. The audit results were discussed with the NEPA representatives at the conclusion of the on-site visit.

Summary of Audit Results

Overall, NEPA's administrative procedures were adequate to manage the grant and funds reviewed. The costs tested were supported and considered reasonable. We found that NEPA had an adequate process in place for obtaining and recording data related to the goals of the grant. In addition, the records and reports indicated that the tasks required by the grant agreement were accomplished. The overall grant performance measures, with respect to anticipated outputs and outcomes, were mostly met. However, there were several individual performance outputs and outcomes that were not met that were not adequately explained in NEPA's final report to ARC. The issues on performance reporting and the corresponding recommended corrective actions are discussed in the Finding and Recommendation section of this report.

Finding and Recommendation

Performance Reporting

The actual results on grant PA-8291-C32 contained in the final report to ARC showed that five of the total 36 planned performance outputs and outcomes were significantly below expected levels. We considered significant underachievement to be less than 60% of what was planned. The areas significantly underachieved included dollar amount of planned loans to be made, planned number of client enrollments in the program, jobs created, and dollar amount of sales expected to result from assistance provided. One metric particularly stood out regarding the degree to which the planned goal was not met. The estimated goal in "Total International Sales" within the Export Marketing Assistance area was \$55,000,000 for PA-8291-C32. The actual reported total was \$14,178,452, resulting in an underperformance of \$40,821,548. The prior year PREP award, PA-8291-C31, also had an estimated goal of \$55,000,000. The actual reported total was \$50,990,508, resulting in an underperformance of \$4,009,492 for the year.

The report submitted to ARC did not contain any explanation of these five performance categories, especially the one with the extreme deviation, to help the reader understand the numbers being reported and reasons for the significant underperformance. ARC guidance in its Grant Management Handbook on project reporting does not explicitly state what information should be reported regarding individual performance goals. However, it does in our opinion generally encourage or expect information that helps document outputs and outcomes and discuss problems encountered.

We discussed the five metrics in question with NEPA staff to understand the basis for the numbers and determine the reasons. We were told that the one extreme case related to international sales goals was due primarily to some large program participants failing to submit survey information that would normally provide the data on sales needed for the ARC report. In addition, the non-submission was likely either because the participants did not wish to continue participation in the program, did not want to spend the time needed, or simply forgot to submit the survey data to NEPA. The underachievement in the other areas also seemed to relate to difficulty NEPA had in obtaining the planned level of re-enrollment of participants in the programs. Staff explained that they felt they were making reasonable efforts to promote the programs and encourage continued participation, and were following up to try to get the needed survey information, but the economy and other factors were making it difficult to obtain continued participation and re-enrollments.

The explanations provided for the underperformance appeared reasonable. We have no basis to comment on what actions might be taken to improve re-enrollments and survey submission. However, we believe that the value and usefulness of NEPA project reports to ARC, particularly the final report, would be greatly improved by fully discussing the goals that are significantly underachieved, including details on: what the numbers are reflecting; reasons for the underperformance; and what actions, if any, were taken or might be considered to better achieve the planned goal. Management attention is needed to ensure this is done.

Recommendation

NEPA should establish procedures for preparing ARC PREP grant project reports, both interim and final, that ensure any individual performance goals (outputs and outcomes) where there is significant lack of progress or final achievement are fully explained. This would include discussing the reason(s) for underperformance, the actions that are being taken or could be taken to improve achievement, and any other information needed for a reader of the report to fully understand the reported performance and numbers.

Grantee Response

NEPA stated in its response that it is in agreement with the finding and will take actions to address this issue. NEPA will perform the following activities:

1. Continue to conduct quarterly meetings between Senior Management & Program staff to review the progress and accomplishments, as identified in the ARC PREP report.
2. NEPA management and staff will routinely review the performance progress achieved by holding discussions with staff on a monthly basis or at regular intervals. This will supplement the quarterly meetings.
3. NEPA will provide a narrative in its reports (primarily the final report) that fully outlines activities that are being undertaken to address goals not being substantially satisfied.

NEPA agrees that the recommendation in the draft report correctly identifies the reasons why significant progress on performance goals was not met and provided the following additional information:

1. The year-end ARC PREP narrative report does include information relating to difficulties being experienced in the operations of this program, albeit not at the level recommended in the audit report.
2. NEPA concurs with the recommendation that the value and usefulness of its ARC reports would be improved "by fully discussing the goals that are significantly underachieved." (page 3, paragraph 4 of the audit report)

Reviewer's Comments

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

The Northeastern Pennsylvania Alliance (NEPA) appreciates the opportunity to respond to the Draft Audit Findings of the Appalachian Regional Commission Office of Inspector General on ARC Project # PA-8291-C32 as issued by Leon Snead and Company in December 2014. These findings relate to the NEPA ARC Partnerships for Regional Economic Performance (PREP) Program.

Essentially; NEPA concurs that the Audit findings related to not achieving certain performance goals are accurate. Comments made by NEPA Staff in regard to this situation and performance are accurate and reflect some of the operational difficulties being experienced in securing Re-Enrollment Forms which in turn drives performance measures.

NEPA wishes to provide additional information in support of the explanations previously provided and recited in the Draft Report.

- 1) The Year-End ARC PREP Narrative Report does include information relating to difficulties being experienced in the operations of this Program, albeit not at the level being recommended.
- 2) NEPA does concur with the recommendations that the value and usefulness of its ARC reports would be improved “by fully discussing the goals that are significantly underachieved.”

Going forward; NEPA will incorporate the recommendations as outlined in the Draft Report as to fully presenting the reasons behind any lack of significant progress. NEPA will further outline actions that can be taken to address these matters. NEPA will perform the following activities:

- 1) Continue to conduct quarterly meetings between Senior Management & Program staff to review the progress and accomplishments, as identified in the ARC PREP report.
- 2) NEPA management and staff will routinely review the performance progress achieved by holding discussions with staff on a monthly basis or at regular intervals. This will supplement the quarterly meetings.
- 3) NEPA will provide a narrative in its reports (primarily the Final Report) as to fully outlining activities that are being undertaken to address goals not being substantially satisfied. We believe that is in the best interests of ARC as well as NEPA.

Again, thank-you for the opportunity to respond to the Draft Audit Report.