
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**North Carolina Department of Commerce
Raleigh, North Carolina**

**Final Report No. 16-25
Project Number: NC-7780-C35 & C36
August 2016**

Prepared by:

Leon Snead & Company, P.C.



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August 8, 2016

Appalachian Regional Commission
Office of the Inspector General
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Leon Snead & Company, P.C. completed an audit of grant numbers NC-7780-C35 and NC-7780-C36 awarded by the Appalachian Regional Commission (ARC) to the North Carolina Department of Commerce (NCDOC). The audit was performed to assist the Office of the 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, NCDOC's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grants audited. The costs tested were supported and considered reasonable. The overall grant performance measures, with respect to anticipated outputs and outcomes, were met. However, we identified two areas that required management attention. The grantee was not consistently preparing and submitting progress and financial reports to ARC in a timely fashion. In addition, ARC and NCDOC did not consistently report performance results on the grant. These issues and corresponding recommended corrective actions are discussed in the Findings and Recommendations section of this report.

A draft report was provided to NCDOC on July 5, 2016, for comments. NCDOC provided a response to the report on August 5, 2016. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the NCDOC 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 numbers NC-7780-C35 and NC-7780-C36 awarded by the Appalachian Regional Commission (ARC) to the North Carolina Department of Commerce (NCDOC). 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 provides grants annually to State ARC offices for consolidated technical assistance programs. These grants are for support of staff with responsibilities for grant administration, program development, coordination of ARC program activities with other state and Federal agencies and Local Development Districts (LDDs), and identification of and reporting on performance measures.

NCDOC is the state's lead agency for economic, community, and workforce development. The department works with local, regional, national, and international organizations to fulfill its mission to improve the economic well-being and quality of life for all North Carolinians. The consolidated technical assistance grant provided NCDOC with funds to continue to implement the ARC program in North Carolina.

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.

Grant NC-7780-C35 covered the period October 1, 2014 to September 30, 2015 and provided \$514,504 in ARC funds and required \$515,310 in non-ARC recipient match funding. The majority of the funding was for personnel and benefits expenses; ARC-related travel by the NCDOC staff; and contractual services in support of the local development districts. These cost breakdowns were consistent among both grant years audited. The grant had been completed and closed by ARC at the time of the audit, with a total of \$426,422 in ARC funds reported as expended and reimbursed.

Of the \$426,422 in expenditures charged to grant NC-7780-C35 and claimed for reimbursement through September 30, 2015, we selected \$108,203 in expenditures for testing to determine whether the charges were properly supported and allowable. We also reviewed the support for matching costs to determine whether the charges were properly supported and allowable.

Grant NC-7780-C36 covers the period October 1, 2015 to September 30, 2016 and provides \$504,339 in ARC funds and requires \$511,772 in non-ARC recipient match funding. The grant was still on-going at the time of the audit.

Of the \$359,297 that had been incurred on NC-7780-C36 by the time of the audit, we selected \$136,146 for testing to determine whether the charges were properly supported and allowable. The funds reviewed exceeded the amount drawn down, \$116,080, because the grantee had incurred expenditures that had not yet been claimed for reimbursement. We also reviewed the support for matching costs to determine whether the charges were properly supported and allowable.

We reviewed documentation provided by NCDOC and interviewed personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed financial and project progress reports to determine if they were submitted in accordance with requirements. We also reviewed the most recent financial statement, A-133, and ARC audit reports to identify any issues that significantly impacted the ARC grant and grant audit.

The on-site fieldwork was performed at the NCDOC offices in Raleigh, NC during June 13-16, 2016. The preliminary results were discussed with the NCDOC staff at the conclusion of the on-site visit. NCDOC was in general agreement with the preliminary results.

The primary criteria used in performing the audit were the grant agreement; applicable Office of Management and Budget Circulars; and the ARC Code. The audit was performed in accordance with *Government Auditing Standards*.

Summary of Audit Results

Overall, NCDOC's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grants audited. The costs tested were supported and considered reasonable. The overall grant performance measures, with respect to anticipated outputs and outcomes, were met.

However, we identified two areas that require management attention. The grantee was not consistently preparing and submitting progress and financial reports to ARC in a timely fashion. In addition, ARC and NCDOC did not consistently report performance results on the grant.

These issues and corresponding recommended corrective actions are discussed in the Findings and Recommendations section of this report.

Findings and Recommendations

A. Reporting Requirements

NCDOC did not timely prepare and submit the required project reports and financial reports to ARC. As a result, NCDOC was not fully complying with the grant requirements and was affecting ARC's ability to monitor the project and to close out the grant in a timely manner.

Grant agreements NC-7780-C35 and C36 both required a six-month interim progress report and a final report. All reports, interim and final, were due within 30 days after the end of their respective reporting periods. We reviewed all of the reports that had been submitted by NCDOC at the time of the audit. We determined that the final progress and financial reports were submitted about three months late. The issue with the reports is detailed below.

NC-7780-C35

Final Report: Was due 10/31/15

Performance Report submitted 2/08/16

Financial Report submitted 2/08/16

The grantee explained that the delay was caused by challenges in collecting the information needed to complete the report. The grantee mentioned that they communicated with the ARC project coordinator to keep ARC informed of the circumstances surrounding the delay. However, the grantee provided no documentation of an approval offered by ARC to extend the due date of the reports.

Recommendation

NCDOC should implement procedures to ensure that progress and financial reports required under grant agreements are timely submitted.

Grantee Response

In the ARC grant agreement, it is stated that the final report and close out documentation is due to ARC within 30 days of the end of the grant. We typically do not meet this deadline due to the process that is used to close out the grant. All seven subcontracts must be closed before the entire technical assistance grant can be closed at ARC. The subcontractors (LDDs and WNCHP) are given until the first of November to send their final reports and payment request to the NC ARC office. Once those are received and processed, the ARC program office must then work with Commerce Fiscal to complete the close out process. The final report and payment request is typically sent to DC no later than December 31. The NC ARC Program Manager stated she communicates with ARC staff throughout the closeout process and they are always aware of when the NCDOC report will be submitted.

For the C35 year, the report was not submitted to DC until the start of February and this was due to delays with Commerce Fiscal not being able to pull the necessary budget reports to close out the ARC grant year. Staff are now aware of the reports that need to be pulled for the NC ARC

office to properly close out the program year. Every attempt will be made to close out the C36 and subsequent years in a more timely manner.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.

B. Grant Performance Results

ARC and NCDOC did not consistently report performance results on the grant. Consequently, actual performance results are unclear and there remains a risk of misreporting performance results at the end of the current grant cycle.

NCDOC developed the NC ARC Emerging Opportunities (EO) Grant Program during grant NC-7780-C35 (C35), which provides funding and technical assistance for projects that address community and economic development needs in North Carolina's ARC region. The final closeout summary for C35 in ARC's grants management system, ARC.net, indicated that five projects from the EO grant program were included in the total projects reported for the year. However, NCDOC clarified that the correct number of projects is 15, not five.

The difference indicates that actual performance outcomes exceed those reported. It also highlights a risk that the projects counted as part of the C35 total may be counted again as part of the C36 total. Upon completion of audit testing, all 15 of the EO projects were listed under C36, including the five that were a part of the total for C35. To correctly account for both years' performance outcomes, clarification is needed as to which of the 15 EO grants have already been counted in C35 and which will be counted towards the C36 total.

Recommendation

ARC and NCDOC should reconcile any differences in their reports so that performance measures are reported consistently. Corrections made should be reflected in ARC.net.

Grantee Response

In the final close out report on ARC.net, ARC staff noted that 40 communities were served; instead of deriving that number from the information included in this response (See Appendix I). The determined final performance measures were 40 communities were served by saying that NC submitted 22 Area Development projects, seven for Distressed County projects, six LDD projects and that five Emerging Opportunity projects were under development.

In the future, NC ARC staff will work more closely with the ARC staff in DC to ensure that the information listed on ARC.net at close out is accurate.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.



Rural Economic Development
COMMERCE

PAT MCCRORY
Governor

JOHN E. SKVARLA, III
Secretary

August 5, 2016

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

Dear Mr. Snead:

In your draft report for the NC-7780-C35 and C36 grants, you identified two areas that required management attention: timely submission of progress and financial reports and reporting performance measures.

Timely submission of progress and financial reports – In the ARC grant agreement, it is stated that the final report and close out documentation is due to ARC within 30 days of the end of the grant. We typically do not meet this deadline due to the process that is used to close out the grant. All 7 subcontracts must be closed before the entire TA grant can be closed at ARC. The subcontractors (LDDs and WNCHP) are given until the first of November to send their final reports and payment request to the NC ARC office. Once those are received and processed, the ARC program office must then work with Commerce Fiscal to complete the close out process. The final report and payment request is typically sent to DC no later than December 31. I communicate with ARC staff throughout the closeout process and they are always aware of when our report will be submitted.

For the C35 year, our report was not submitted to DC until the start of February and this was due to delays with Commerce Fiscal not being able to pull the necessary budget reports to close out the ARC grant year. Staff are now aware of the reports that need to be pulled for the NC ARC office to properly close out the program year. Every attempt will be made to close out the C-36 and subsequent years in a more timely manner.

Reporting performance measures – In the proposal for the C35 program year, the NC ARC office stated that the following would be the program outputs:

- *Two local governments will receive assistance with developing plans, studies and/or reports to examine and address economic development, community development, growth management, and/or other planning needs.*
- *Twelve local governments will receive planning services and/or technical assistance to help them develop tools, programs and/or projects to implement existing plans.*
- *Two regional training sessions on community planning topics will be conducted in partnership with the Local Government Training Program at Western Carolina*



University and six training sessions on community planning topics will be conducted for individual local governments.

- *Five small Main Street communities and six Main Street communities will have improved downtown areas.*
- *Submittal of at least 15 fundable ARC projects.*

Based on the information above, ARC program staff in DC noted in the grant agreement that 40 communities would be served.

In the final report, the following were reported as actual outputs:

- *Developed Emerging Opportunities Grant Program in partnership with the LDDs. Received 24 applications requesting funding. Full Applications were received in August of 2015. 16 projects will be recommended in the next program year.*
- *Received and reviewed 46 pre-applications for 2016 Area Development Funds. Invited 27 projects to submit full applications. 21 project were recommended in September of 2015.*

Southwestern Commission

- *Continued to promote, market and manage a revolving loan fund. Combined efforts with WCU's Center for Entrepreneurship and Innovation to complete the formation of an Angel Investment Fund.*
- *Continued to provide specialized GIS services for water/sewer system expansion planning as well as technical assistance regarding state and federal funding sources.*

Land-of-Sky Regional Council

- *Assisted the Town of Mars Hill and Advanced SuperAbrasives in developing and securing a NC Commerce BizConnect grant to run broadband to the town's industrial park.*
- *Provided technical assistance and facilitation to Henderson County and a group of stakeholders working on providing additional river access sites and greenways along the French Broad River.*

Isothermal Planning and Development Commission

- *Provided technical assistance to e-Polk, Inc. to continue the expansion of the PANGAEA network and in ongoing operational activities.*
- *Assisted McDowell County with an ARC grant to extend water to businesses around the I-40 Nebo interchange.*

High Country Council of Governments

- *Assisted 11 communities in applying for economic development grants, eight were awarded.*
- *Developed an Asset Management Plan for the Town of Bakersville.*

Western Piedmont Council of Governments

- *Staff provided home equity conversion mortgage counseling to 70 older adult homeowners.*
- *Assisted local governments in with education materials to assure compliance with watershed regulations.*

Piedmont Triad Regional Council

- *Assisted in the development of a CDBG application to fund a sewer connection to replace failing septic systems in a rural, high poverty section of Yadkin County.*
- *Prepared streetscape assessment plans for two communities.*



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In the future, NC ARC staff will work more closely with ARC staff in DC to ensure that the information listed on ARC.net at close out is accurate.

Please let me know if you have any questions or need additional.

Sincerely,



Olivia Collier
ARC Program Manager

