



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

August 14, 2018

Howard Zemsky
Commissioner
New York State Department of Economic Development
633 3rd Avenue, 37th Floor
New York, NY 10017

Re: Report 2015-BSE4-001

Dear Commissioner Zemsky:

As part of our audit of state payments, we examined¹ claims for grant funds totaling \$338,596, made by the Center for Economic Growth, Inc. (CEG) under contract C110087 (the Contract) with the Department of Economic Development (DED). The claims were for CEG's activities under the Hollings Manufacturing Extension Partnership (MEP) program that occurred during the period July 1, 2014 through December 31, 2014. Under the Contract, CEG was required to provide services to small- and medium-sized manufacturers, science and technology based businesses, and start-ups in need of business advice, new technologies, and methods to modernize their operations.

We also examined the expenditure of \$310,570 in CEG's matching expenses and \$142,529 in MEP program revenue CEG reported to DED during this time period, as well as \$99,479 in additional MEP program revenue CEG earned but did not report to DED. The objective of our examination was to determine if CEG's claims for grant funds and associated matching expenses, reporting of revenue, and procurements complied with the terms and conditions of the Contract.

A. Results of Examination

We found DED's oversight practices were inadequate, thus resulting in CEG receiving reimbursement for: ineligible expenses; expenses not substantiated with sufficient documentation; expenses that may not have been reasonably priced; and improperly reported expenses. DED officials told our auditors CEG would not have met the Contract's matching requirements if the items identified in this report were disallowed. As such, it is critical that DED review the ineligible, unsupported, and improperly reported expenses identified in this report and recover any inappropriate reimbursements.

¹We performed our examination in accordance with the State Comptroller's authority set forth in Article V, Section 1 of the State Constitution, as well as Article II, Section 8(1) and (7), and Article VII, Section 111 of the State Finance Law.

DED also failed to implement sufficient controls to recognize that CEG improperly reported revenue it earned from the MEP program. Without a system in place to account for MEP program income, DED does not have reasonable assurance that CEG met its requirement to spend MEP program revenues on program related activities.

We shared a draft report with DED officials and considered their comments (Attachment A) in preparing this final report. The comments of the State Comptroller's Office on DED's response are included in Attachment B. DED officials generally disagreed with our findings. DED's comments demonstrate that the agency's oversight repeatedly relied on federal approval of reimbursement requests and an audit performed by CEG's independent private auditor. However, it is the responsibility of DED in the first instance to ensure that CEG payment requests were appropriate and supported by sufficient information to justify the payment.

In regard to our recommendations, DED did report taking prompt action during the course of our examination to improve its monitoring of: revenues earned and expenses incurred under the Contract; accounting practices for monies associated with the Contract; and reports submitted to DED to support claims for payment under the Contract.

B. Background and Methodology

The MEP program is a federal program providing financial and technical assistance to create and support Regional Centers for the Transfer of Manufacturing Technology (Regional Centers). DED, the Regional Center for New York State, entered into a \$2.9 million contract with CEG in October 2011 to provide MEP program services, most often consisting of training classes, to manufacturers in the Capital Region.

To accomplish our examination objective, we: (i) analyzed the terms and conditions of the Contract, the federal award, and related federal regulations; (ii) interviewed DED and CEG officials; and (iii) reviewed vouchers and other pertinent documentation, including CEG's accounting records and invoices issued and received by CEG.

We note that this examination was initially intended to provide straightforward, pre- and post-payment assurance that claims for grant funds and associated matching expenses complied with the Contract. However, our testing identified critical issues that required us to expand our examination to include CEG's accounting practices, revenue reporting, and procurements related to the Contract.

Accordingly, our examination spanned a significant period of time due to the extra tests necessary to accomplish our increased objectives. In addition, we encountered delays in receiving DED's complete response to our preliminary findings. Finally, because DED had not obtained

information and documents from CEG supporting the payments, our auditors were required to obtain necessary information directly from CEG. Despite the delays in issuing this report, the recommendations remain relevant because CEG continues to provide MEP program services under a \$2.9 million contract with DED that covers the period January 1, 2016 through December 31, 2020.

C. Details of Findings

We found unsupported, ineligible, and improperly reported expenses; improperly reported revenue; and CEG procurements not in compliance with the terms of the Contract. DED did not adequately review payment requests submitted by CEG, and failed to monitor CEG's accounting and reporting practices that impact the MEP program. This allowed the improprieties identified in this report to occur undetected.

1. DED's Monitoring of CEG

The federal awards under the MEP program require DED to monitor the activities of CEG to ensure CEG uses the federal award for authorized purposes and complies with federal statutes, regulations, and the terms and conditions of the Contract. We found DED officials did not adequately monitor CEG during our examination period, which allowed improper practices to occur, including those described in the sections below.

In response to our preliminary findings, DED officials reported that they implemented new procedures during the course of our examination that addressed several of the recommendations in our preliminary findings. For example, DED reported CEG:

- Implemented an electronic time recording system to address the \$225,781 in unsupported salary and fringe benefit expenses;
- Established a methodology to allocate organization-wide costs to address the \$28,661 in organization-wide costs that should not have been allocated to the Contract;
- Adopted a policy requiring three quotes for procurements under \$50,000 to address the \$218,009 in non-compliant procurements; and
- Created a separate account for Contract funds to address the intermingling of Contract and non-Contract funds.

While the reported actions described above indicate DED officials agreed with our findings regarding certain monitoring practices, DED officials generally disagreed with our findings and recommendations concerning reviewing and recovering ineligible and unsupported expenses,

and recovering unexpended program revenues. DED claimed the MEP program expenses and revenues were appropriate in part because the reimbursement requests were approved by the federal government and this Office, and because an independent private auditor found CEG's financial statements were proper and found no deficiencies in CEG's internal controls.

However, New York Codes, Rules, and Regulations, Title 2, Chapter 1, Section 6.4 requires agencies to review claims prior to payment to determine if the claims are due and payable, in whole or in part, under the applicable statute, appropriation, contract, or purchase order. Therefore, it is DED's responsibility to independently ensure claims are appropriate prior to submitting reimbursement requests to our Office or the federal government.

2. Expenses

The Contract requires CEG to use DED funds and CEG's matching funds to pay for eligible program expenses. Matching funds represent the portion of the project funded by CEG and reflects its commitment to the program. To be considered eligible, expenses must be program-related, actually incurred, reasonably priced, necessary, and supported by detailed records. The Contract also requires CEG to report expenses to DED during the period in which the expenses were incurred. We found:

- \$225,781 in salary and fringe benefit expenses and \$375 in information technology services that were not supported by detailed records. In lieu of maintaining detailed time records, a CEG executive used his judgment to estimate the portion of employees' salaries to charge to the Contract. The Contract states that detailed records are required for all expenditures charged to the Contract. Detailed records include time cards or another generally accepted auditable system to record time allocated by individuals. CEG officials had discretion in determining how to meet this Contract requirement. However, CEG's methodology for allocating personal service costs at the time our examination began was not adequately supported and, as DED stated in its response to our draft report, the methodology proved to be inaccurate.
- \$34,303 in ineligible expenses, including administrative costs that CEG improperly allocated to the Contract and expenses for employees who did not work on the Contract during the examination period.
- \$46,541 in program expenses CEG claimed in the 2014-15 Contract year that were actually incurred in other years.

CEG must meet matching fund requirements annually to receive full reimbursement from DED for Contract expenses up to the maximum annual Contract value. Because our examination covered

a six month period, not a full contract year, DED should evaluate the findings in this report in conjunction with the reimbursements and matching expenses it approved for the final six months of the Contract year and recover any overpayments.

3. Revenue

We found CEG did not report to DED \$99,479 in MEP program revenue it earned during our examination period. Since CEG did not report this revenue to DED, and DED did not have a process in place to identify any unreported revenues during the Contract period, DED does not have assurance CEG spent this revenue on MEP program related activities. We also found \$34,520 in revenue CEG reported as earned during the 2014-15 Contract year that was actually earned in other reporting periods. The Contract required CEG to maintain its records in accordance with Generally Accepted Accounting Principles, which requires revenues to be accounted for when earned. CEG earned revenue under the Contract when training was provided. We did not examine whether CEG reported its proper use of the \$34,520 in the other reporting periods.

If CEG earns revenue from the MEP program which it does not spend on program related activities, CEG must return the unexpended amount to DED at the end of the Contract year. DED may submit a request to the federal government to carry forward unexpended program revenue to a subsequent contract year. DED should review the revenue CEG earned during the 2014-15 Contract year to ensure CEG spent this revenue on MEP program activities during the Contract period.

4. Procurements

The Contract requires CEG to comply with federal procurement regulations when purchasing goods and services under the Contract. The requirements for procuring goods and services with public funds are more rigorous than the requirements for procuring solely with CEG's matching funds. For example, CEG must maintain procurement records and prequalified lists of vendors that it uses to acquire goods and services when procuring with public funds. In addition, when procuring goods and services with either public or CEG's matching funds, CEG must maintain documentary evidence that prices are reasonable.

We examined \$218,009 in funds spent on procurements and found that none of these procurements complied with federal regulations. DED officials did not request, and CEG officials did not maintain, procurement records or prequalified lists for the \$122,660 in publicly funded procurements we examined. Moreover, DED could not demonstrate that the prices were reasonable. DED was also unable to demonstrate prices were reasonable for the \$95,349 in matching funds procurements we examined. Furthermore, we found evidence CEG favors its

members, and vendors that plan to become members, when awarding matching funds procurements.

Recommendations

- 1) *Continue to use the monitoring procedures reported to our Office in response to our preliminary audit findings and subsequent inquiries to oversee CEG, and periodically reassess the need to amend the procedures.*
- 2) *Ensure CEG provides sufficient, appropriate evidence for expenses incurred and revenues earned under the Contract, and recover unsupported expenses, ineligible expenses, and unexpended revenues accordingly.*

We would appreciate your response to this report by September 14, 2018, indicating any actions planned to address the recommendations in this report. We thank the management and staff of the Department of Economic Development for the courtesies and cooperation extended to our auditors.

Sincerely,

Bernard J. McHugh
Director of State Expenditures

Encl. Attachment A
Attachment B

cc: Benson Martin, DED Director of Compliance, Legal Department
Matthew Watson, DED Director of the Division of Science, Technology, and Innovation



June 18, 2017

Mr. Bernard J. McHugh
Director of State Expenditures
Office of the State Comptroller
Division of Contracts and Expenditures
110 State Street, 10th Floor
Albany, New York 12236

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Comment 1

RE: Response to OSC's Final Draft Audit Report 2015-BSE4-001 Regarding the Examination of Claims for Grant Funds Made by the Center for Economic Growth, Inc.

Dear Mr. McHugh:

We received your May 17, 2017 e-mail and Final Draft Audit Report ("Final Draft Report") regarding the Department of Economic Development's ("DED") Division of Science, Technology and Innovation's ("NYSTAR") monitoring of claims for grant payment to the Center for Economic Growth, Inc. ("CEG"). DED disagrees with OSC's findings in two key respects: first, DED properly reviewed CEG's payment requests and monitored CEG's MEP accounting and reporting practices; and second, CEG's procurements complied with the MEP program contract. This letter briefly summarizes OSC's audit history of DED's contract with CEG and provides responses to the Final Draft Report's two recommendations.

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Comment 1

I. Background

In 2015, OSC commenced an audit to determine whether DED properly monitors CEG's claims for payment in the Manufacturing Extension Partnership ("MEP") grant program. Based on its auditors' fieldwork, OSC issued its Final Draft Report, which recommended that DED: "1) continue to use the monitoring procedures reported to [OSC] in response to OSC's preliminary audit findings and subsequent inquiries to oversee CEG, and periodically reassess the need to amend the procedures; and 2) ensure that CEG provides sufficient, appropriate evidence for expenses incurred and revenues earned under the contract, and recover unsupported expenses, ineligible expenses, and unexpended revenues accordingly."

DED works to promote New York State's economic development while complying with all applicable laws, regulations and rules. Therefore, if DED can reasonably and legally interpret statutes, regulations, contracts, policies and procedures to achieve this goal, we do so. OSC's Final Draft Report takes a restrictive and punitive interpretation of DED and CEG's contract and relevant law – one that would allow DED to look for any arguable reason not to fulfill its obligations.

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Comment 2

II. DED Properly Monitored CEG's Claims For Payment

OSC first recommendation states that DED continue to use its monitoring procedures as reported in response to OSC's preliminary audit findings. DED partially disagrees with this recommendation in that it suggests that DED's monitoring process was deficient in some manner.

DED's monitoring of CEG was already compliant with all relevant statutes, regulations, contracts, policies and procedures prior to OSC's audit. DED monitored CEG's claim for grant funds by:

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Comment 3

- Conducting reviews and selectively collecting all backup documentation to what is being charged to both the federal and state funding levels for a specific expense upon receipt of the quarterly financials. Specifically, DED:
 - Reviews the supporting paperwork (invoices, payroll runs, check stubs, etc.) to ensure that a corresponding invoice/proof of payment exists for all expenses;
 - Reviews supporting paperwork to ensure that there is a record (i.e. check, bank statement) to monitor program income;
 - Reviews supporting paperwork to ensure that there is documentation for any funds being used at match;
 - Reviews paperwork to make sure that any expense falls within the MEP mission;
 - Attends CEG board meetings, workshops, and/or events to track alignment with the program; and
 - Monitors client surveys to track customer engagement, project type and quality of work.
- Rejecting expenses that do not comply with the MEP mission.
- Asking CEG for a thorough explanation when needed.

The Final Draft Report inaccurately asserts that DED has weak internal controls because it approved ineligible CEG expenses. DED disagrees with this assertion.

During the audit, OSC insisted that DED require CEG to implement an electronic time recording system to substantiate claimed employee expenses. To address OSC's concerns, we requested that CEG track employees' time for the MEP program and CEG complied with this request. As a result of CEG's new time tracking system, CEG's salary and fringe benefit costs have actually increased for roughly the same work output. Apparently, prior to this audit, CEG allocated too low a percentage of its employees' time.

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Comment 4

Additionally, OSC requested that: 1) DED establish a methodology to allocate organization costs; 2) adopt a policy requiring three quotes for procurements under \$50,000; and 3) create a separate account for contract funds. DED complied with all of these requests.

However, we disagree with OSC's finding that DED believed that CEG's expenses and revenues were appropriate simply because the OSC and the federal government approved them. DED's payments were supported by the findings of an independent private auditor who found that CEG's financial statements were proper and that there were no deficiencies with CEG's internal controls. In addition to the above-mentioned monitoring process, DED also conducted spot audits to verify CEG's reimbursement claims.

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Comment 5

III. DED Properly Monitors CEG Expenses And Revenues And Compliance With Federal Procurement Laws

OSC's second recommendation suggested that DED ensure that CEG provides sufficient evidence for expenses incurred and revenues earned under the contract. DED also partially disagrees with this recommendation in that it again suggests that DED's monitoring of CEG was deficient.

a. CEG's Reimbursements And Matching Expenses Were Appropriate

The Final Draft Report alleges: \$225,781 in salary and fringe benefit expenses and \$375 in information technology services were not supported by detailed records; \$34,303 were ineligible expenses, including improperly allocated administrative costs; CEG improperly claimed \$46,541 in program expenses in the 2014-15 contract year that were incurred in other periods. These findings, however, are incorrect.

For the \$225,781 in salary and fringe benefit expenses, CEG determined the amount of a staff member's salary to be reimbursed by the MEP program based upon the percentage of time that the staff member worked on MEP-related work. OSC finds this expense improper but points to no specific law, regulation or section of CEG's contract that clearly states that such expense and reimbursement is impermissible. For the \$34,303 in expenses, which included administrative costs, CEG used staff members to do both MEP-related and non-MEP-related work. OSC found this method improper because it used a percentage allocation instead of a tracking method. Again, OSC cannot point to a specific section in the contract that clearly states that the method used was impermissible. And with regard to the \$46,541 in program expenses that CEG claimed in the 2014-15 contract year that were occurred in other periods, when CEG did not meet its match requirements in a given quarter, DED reduced CEG's reimbursement for that quarter. CEG, however, still had until the end of the contract term to recoup what was reduced. For example, if CEG was below its matching requirement by \$10,000 in one quarter but above its matching requirement by \$10,000 in a later quarter during the contract term, DED would consider the later "overmatch expenses" to satisfy the previous "undermatch expenses." Again, nothing in the contract prohibits this reimbursement method. Rather, this audit finding demonstrates that OSC is searching for any interpretation to prevent DED from reimbursing CEG. However, each approach is unsupported by law, policy, or the contract; CEG completed the work it agreed to under the terms of the contract, is entitled to payment and promptly because it is a small business that relies on the MEP-related reimbursements to meet payroll.

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Comment 6

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Comment 7

b. CEG Properly Reported All Revenue

The Final Draft Report asserts that if DED had properly monitored CEG, DED could have identified unreported revenues in the amount of \$99,479 and thus has no assurances that these expenditures resulted from MEP program related activities. The \$99,479 that OSC is referring to is categorized as revenue and was not related to MEP program activities or was reported in a different period. Under the contract, non-MEP related revenue generated by CEG

can be considered for matching funds. Also, CEG was not seeking reimbursement for any portion of the \$99,479.

A breakdown of our review of the \$99,479 is as follows:

- \$15,967 - Training and consulting services that CEG earned during our examination period but reported in the prior contract year. This revenue was reported in an earlier reporting cycle, but is included in the \$99,479 of underreported revenue.
- \$57,662 – Business Opportunities to Success Summit is an event organized by one of DED’s Centers for Advanced Technologies at Rensselaer Polytechnic Institute. CEG handled the registration fees for RPI and sent all the revenue to RPI. CEG did not earn revenue from this event, so no revenue should have been reported.
- \$19,740 – CEG earned revenue from Tech Valley Website for leading an effort to create a website for GlobalFoundries. This effort is outside the scope of the program and should not have been reported.
- \$5,391 – The revenue from Regional Outreach Coordinator involved a NYSERDA program that helped increase energy efficiency in manufacturing facilities.

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Comment 8

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Comment 9

Of this \$99,479, the Final Draft Report notes that \$34,520 in revenue that CEG reported was not earned in the 2014-15 contract year and therefore should not have been considered as matching funds. First, as stated above, nothing in the contract prohibits this determination. Second, there are simple accounting reasons why such reporting occurs. Here, services were paid for by clients and reported by CEG in specific periods even though it provided the services during the next reporting period. Also, clients occasionally invoiced CEG late.

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Comment 10

The Final Draft Report also incorrectly states that DED did not have a process in place to identify unreported revenue; however, DED does, in fact, have a robust internal control system. DED reviews backup documentation, rejects improper expenses and revenue, and requires follow-up explanations, when appropriate, for expenses and revenue. Moreover, the MEP Audit & Compliance Guide requires independent auditors to “[p]erform an audit of the financial statement(s) for the Federal program. . . .”; “[o]btain an understanding of internal control and perform tests of internal control over the Federal program consistent with the requirements for

a major program”; and “[p]erform procedures to determine whether the auditee has complied with laws, regulations, and the provision of contracts or grant agreements that could have a direct and material effect on the Federal program consistent with the requirements for a major program.” An independent auditor has audited CEG annually and has never found any issue with its financial statements, internal controls, or compliance with laws, regulations, and provisions of contracts.

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Comment 5

c. DED Properly Monitors CEG’s Compliance With Federal Procurement Laws

In the Final Draft Report, OSC asserts that CEG failed to comply with relevant federal regulations when purchasing goods and services under the contract in its maintenance of procurement records and prequalified lists or determination of the reasonableness of pricing. OSC reviewed \$218,009 in procurement expenses during this audit. Of this amount, \$40,898 were reimbursable funds and \$177,111 were matching funds. DED re-reviewed these payments and found CEG’s expenses to be fair and reasonable, with a majority of the contracts falling under the bidding threshold of \$50,000. DED will continue to monitor CEG procurement practices and will train contractors to ensure ongoing compliance and prevent even the appearance of improper procurements.

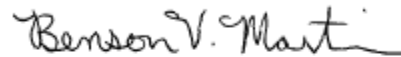
DED respectfully submits that it monitors CEG’s compliance by performing two levels of review on all reporting and payment requests. Specifically, DED reviews documentation, periodically attends client workshops and trainings, visits CEG’s clients, attends board meetings, and reviews client surveys.

We note, however, that CEG must improve its performance in maintaining procurement records and a prequalified list of vendors to acquire goods and services with public funds, and has been directed to do so. Going forward, for procurements under \$50,000, DED will closely monitor CEG and other Regional Technology Development Centers to confirm that they receive three written quotes and maintain records of those quotes on file as appropriate. Furthermore, when procurements are nearing the \$50,000 threshold, a formal procurement process should be implemented.

IV. Conclusion

This Response provides clarifications to OSC's Final Draft Report findings. ESD will continue to follow all applicable statutes, regulations, contract terms, policies and best practices when operating the MEP program.

Sincerely,

A handwritten signature in black ink that reads "Benson V. Martin". The signature is written in a cursive style with a prominent initial "B" and a long, sweeping underline.

Benson V. Martin

Director of Compliance

State Comptroller's Office Comments on Auditee Response

1. Our Office issued the draft report to DED on May 17, 2018. We received DED's response on June 18, 2018.
2. New York Codes, Rules, and Regulations, Title 2, Chapter 1, Section 6.4 requires agencies to review claims prior to payment to determine if the claims are due and payable, in whole or in part, under the applicable statute, appropriation, contract, or purchase order. As such, DED has fiscal responsibility to protect taxpayer funds by ensuring expenses are due and owing to the vendor prior to payment.

The examination applied relevant laws to payments under the Contract in a manner consistent with OSC's well-established, objective procedures to carry out our responsibilities under the State Constitution (Article V, Section 1) and State Finance Law (Article II, Section 8 and Article VII, Section 111) to audit payments.

3. In addition to DED's responsibilities under New York Codes, Rules, and Regulations, Title 2, Chapter 1, Section 6.4 (described in Comment #2 above), Section 6.7 provides that claims must be supported by sufficient original source documentation and agencies must retain such records and promptly provide the records to our Office upon request.

We found DED did not request or receive documentation to support the claims for payment we examined. DED officials told our auditors that twice per year they randomly select a Regional Technology Development Center (RTDC) to provide supporting documentation for expenses in specific budget categories. CEG is one of ten RTDCs that received a contract under the federal award and submitted reimbursement requests to DED. Given the number of RTDCs and the monitoring practices in place when our examination began, DED may not have requested or reviewed supporting documentation for an RTDC for multiple consecutive reporting periods.

When DED requested supporting documentation and conducted a review, we found the review to be flawed for various reasons, including those outlined below in Comment #6. Therefore, we concluded DED did not have adequate oversight practices in place at the time our examination began.

4. Our Office did not insist that DED require CEG to implement an electronic time recording system to substantiate claimed employee expenses. We recommended CEG implement a system of internal control that complied with the Contract

requirements. The Contract states that detailed records are required for all expenditures charged to the Contract. Detailed records include time cards or another generally accepted auditable system to record time allocated by individuals. CEG officials had discretion in determining how to meet the Contract requirements.

5. Our report recognizes DED claimed the MEP program expenses and revenues were appropriate in part because the reimbursement requests were approved by the federal government and this Office, and because an independent private auditor found CEG's financial statements were proper and found no deficiencies with CEG's internal controls.

However, DED's responsibilities under New York Codes, Rules, and Regulations, Title 2, Chapter 1, Section 6.5 include independently ensuring claims are just, true and correct, and therefore appropriate to pay, prior to submitting reimbursement requests to our Office. As such, DED has the responsibility to ensure the appropriateness of claims prior to payment, regardless of any further review or audit of claims thereafter.

6. The Contract states Contract funds may only be used to pay for actual expenses incurred in the provision of Contract services. It further states detailed records are required for all expenditures charged to the Contract. Detailed records include time cards or another generally accepted auditable system to record time allocated by individuals.

We found CEG did not maintain detailed records to document the time CEG employees allocated to the MEP program. Instead, the Executive Vice President advised OSC examiners that he used his judgment to determine the allocation percentages to apply to employees' salaries. The allocation percentages were estimates and, thus, may not have represented actual expenses.

Our report questions the appropriateness of \$225,781 in salary and fringe benefit expenses for employees who worked part-time on the contract and two other employees who CEG claims worked exclusively on the MEP program. Without a time recording system that reliably documented employees' actual hours by program, it is not clear how CEG would accurately allocate the hours of employees who worked on more than one program. Further, we found evidence to contradict CEG's claim that the two employees cited above worked exclusively on the MEP program. Specifically, these employees' job descriptions and testimonial evidence from CEG officials indicate they worked on activities other than the MEP program.

- DED officials approved salary and fringe benefit expenses charged to the contract based upon CEG generated reports showing allocations of salary and fringe benefit expenses between programs and their knowledge about CEG employees. DED officials told our auditors they were familiar with the individuals who worked on the contract and are comfortable that the required level of effort for each employee was met over the course of the year. However, corrections made under CEG's newly established time recording system would indicate that the DED procedure to use personal recollection as a basis for approving salary and fringe benefit expenses was unreliable.
7. The Contract states that "each RTDC must meet matching funds requirements to be eligible for reimbursement. For an RTDC to receive its full annual allocation, expenses submitted must demonstrate adequate match and be approved by [DED]." Further, the general terms and conditions for the federal award states "minimum cost share requirements must be met annually; there can be no carryover of excess cost share from one year to the next."
 8. While nothing in the Contract prohibits the reimbursement method DED cited in its response to our draft report, the reimbursement method in the example DED cited is only permissible when "overmatch expenses" satisfy "undermatch expenses" from the same Contract year. OSC did not, as DED states, search for any interpretation to prevent DED from reimbursing CEG. Rather, OSC objectively measured CEG's and DED's compliance with the requirements in the Contract and related legal requirements. DED does not dispute the OSC finding that the "match" periods occurred in different Contract years. Despite repeated requests by our examiners for evidence to demonstrate CEG disbursed to RPI all of the revenues it collected, DED did not provide any evidence that these disbursements took place. Absent evidence of the disbursement, the accounting records we examined indicate CEG earned revenue from the event.
 9. CEG paid a vendor \$8,830 to develop the Tech Valley Connect website and charged the expense to the contract as match. According to a Regional Manager of the National Institute of Standards and Technology, the federal agency that oversees this award, if an award recipient charges an expense to the contract, the associated revenue must also be charged to the contract. If the expense was not associated with the MEP program, it should not have been charged to the Contract as a matching expense. In this case, the matching expense for the third quarter of 2014 may be overstated by \$8,830.

10. The draft report did not state that the \$34,520 in revenue should not have been considered as matching funds. The report indicated that the Contract requires DED account for any unexpended revenue at the conclusion of each Contract year and, if desired, apply to the National Institute of Standards and Technology to carry over the funds to a subsequent Contract year. If the \$34,520 was unexpended at the conclusion of the 2013-14 Contract year, upon receiving approval to do so, DED could have appropriately carried over the revenue to the 2014-15 Contract year and spent the revenue as matching funds. No evidence was provided by DED to demonstrate that such federal approval was either requested or received.