
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

Morehead State University
Morehead, Kentucky

Final Report Number: 17-09
Project Number: KY-17608
March 2017

Prepared by:

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Leon Sned & Company, P.C. completed an audit of grant number KY-17608 awarded by the Appalachian Regional Commission (ARC) to Morehead State University (MSU). 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.

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, MSU's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. The ARC costs sampled and tested were supported and considered reasonable. However, we identified three areas that require management attention. We could not fully verify that the non-ARC recipient matching funds claimed and reported to ARC were properly valued and allowable because MSU did not have the required supporting documentation in its records. As a result, we questioned the entire amount of \$329,235 in non-ARC recipient matching funds that had been reported to ARC. The interim project progress reports and other data MSU provided reflected some positive results under the grant. However, we were unable to fully evaluate project performance and conclude whether there was satisfactory progress in meeting grant goals because specific outputs and outcomes had not been established and reported in accordance with ARC policies. The grantee was not consistently submitting project progress and financial reports to ARC in a timely fashion. The issues identified, questioned costs, and recommended corrective actions are discussed in the Findings and Recommendations section of this report.

A draft report was provided to MSU on January 31, 2017, for comments. MSU provided a response to the report on March 2, 2017. These comments are included in their entirety in Appendix I. Leon Sned & Company appreciates the cooperation and assistance received from the MSU and ARC staffs during the audit.

Sincerely,

Leon Sned & Company, P.C.
Leon Sned & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number KY-17608 awarded by the Appalachian Regional Commission (ARC) to Morehead State University (MSU). 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 awarded the grant to provide MSU funding support to continue operating the Kentucky Appalachian Higher Education Center (AHED) and offering financial and technical assistance to high schools with the goal of increasing the number of students entering postsecondary education immediately after graduating. The grant was administered by the AHED Director at MSU, who used ARC funds to reimburse some of the costs to 26 high schools that participated in the program. Also, reimbursement went to six Community Colleges and Technical Schools that provided technical services and support to the high schools and students.

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 KY-17608 covered the period September 1, 2013 to August 31, 2014 and provided \$249,996 in ARC funds and required \$120,391 in non-ARC recipient matching funds. Revision KY-17608-R1 extended the completion date of the grant to August 31, 2015 and provided \$200,000 in ARC funds and required \$81,705 in non-ARC recipient matching funds. Revision KY-17608-R2 extended the completion date to August 31, 2016 and provided \$300,000 in ARC funds and required \$127,139 in non-ARC recipient matching funds. The grant completion date was subsequently extended to August 31, 2017 via amendment. Overall estimated project costs for the grant are \$1,079,231, which consists of \$749,996 in ARC funds and \$329,235 in non-ARC recipient matching funds. The percentage break-out of ARC to non-ARC funding for the overall project is 69% ARC funds and 31% non-ARC recipient matching funds.

A total of \$646,586 in grant funds was expended and reimbursed by ARC, and \$329,235 was provided in non-ARC recipient matching funds as of August 31, 2016. Also as of August 31, 2016, there was a balance of \$103,410 in ARC funds remaining on the grant. Of the expenditures charged to the grant and claimed for reimbursement, we selected a sample of \$377,134 for testing to determine whether the charges were properly supported and allowable. We tested matching costs in the amount of \$329,235 to determine whether the charges were properly supported and allowable.

We reviewed documentation provided by MSU, including information submitted by the participating colleges and high schools, and interviewed MSU personnel to obtain an overall

understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed project progress and financial reports to determine if they were submitted to ARC in accordance with requirements. We reviewed the most recent financial statements and A-133 report to identify any issues significantly impacting the ARC grant and audit.

The on-site fieldwork was performed at MSU campus offices during January 9-13, 2017. The preliminary results were discussed with MSU staff at the conclusion of the on-site visit and they were in general agreement with most of the issues and recommended actions.

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

Summary of Audit Results

Overall, MSU's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. The ARC costs sampled and tested were supported and considered reasonable. However, we identified three areas that require management attention.

We could not fully verify that the non-ARC recipient matching funds claimed and reported to ARC were properly valued and allowable because MSU did not have the required supporting documentation in its records. As a result, we questioned the entire amount of \$329,235 in non-ARC recipient matching funds that had been reported to ARC.

The interim project progress reports and other data MSU provided reflected some positive results under the grant. However, we were unable to fully evaluate project performance and conclude whether there was satisfactory progress in meeting grant goals because specific outputs and outcomes had not been established and reported in accordance with ARC policies.

The grantee was not consistently submitting project progress and financial reports to ARC in a timely fashion.

The issues identified, questioned costs, and recommended corrective actions are discussed in the Findings and Recommendations section of this report.

Findings and Recommendations

A. Matching Funds

We questioned \$329,235 in matching funds because MSU did not have the supporting documentation required under the grant terms necessary to verify that the matching fund amounts claimed as of August 31, 2016 were accurate and allowable. This was because MSU did not require the program participants (colleges, technical schools, and high schools) to submit the types of documentation needed.

The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR, Part 200), Section 200.306(b)(1) state that any shared cost or matching funds are allowed if they are verifiable from the recipient's records. In addition, Section 200.306(j) states that for third-party in-kind contributions, the fair market value of goods and services must be documented and, to the extent feasible, supported by the same methods used internally by the non-Federal entity. Additionally, the ARC Grant Agreement General Provisions, Attachment II to the grant award, Article 14 requires MSU to maintain custody of time records, payrolls, and other data as appropriate to substantiate all services reported as contributed services (i.e. match funding) under the grant agreement.

The ARC grant required the grantee to share in the total project costs by providing match funding in the form of cash, contributed services, or in-kind contributions. The approved grant budget included planned in-kind match contributions by MSU as well as match amounts to be provided by the colleges, technical schools and high schools that were performing activities under the grant. The MSU match was identified as 5% of the salary, fringe, and related administrative costs for the MSU Assistant Vice President for Adult Education, who oversees the AHED program manager and the grant. We verified supporting documentation for the MSU match amount that had been claimed and reported to ARC as of August 31, 2016.

The match amounts of the other participants reported to ARC included two groups: (a) in-kind costs reported by the six colleges and technical schools, such as salaries and wages for employees assisting the high schools and students, providing supplies, and other similar costs; and (b) in-kind costs from the 26 participating high schools, including employee salary costs, printing, travel and food for students, supplies, etc. MSU provided reports submitted by the colleges that summarized categories of costs (salary amount, cost of a seminar, etc.), but the information submitted did not include supporting documentation for those costs, such as employee time records and receipts, as required under 2 CFR, Part 200 and the terms of the grant. The high schools provided summarized costs (salaries, costs of workshops, bus transportation, postage, etc.) but did not include supporting documentation for those costs such as employee time records, receipts, etc. that are required.

In discussing this area, MSU staff noted that the reports from the colleges and high schools contained a statement that the college or high school representative certified that the information was correct to the best of their knowledge. They offered these as evidence that the costs were allowable and accurate. Although the certifications add a degree of validity to the reports and data, we do not consider the summary reports--even if certified--to be the kind of supporting

documentation required by 2 CFR, Part 200 and the terms of the grant. The total match amount MSU reported to ARC for the colleges and high schools in the financial report ended August 31, 2016 was \$396,641. Because MSU did not have supporting documentation meeting federal requirements and necessary to reasonably verify the amounts submitted by the schools, we questioned the required match amount of \$329,235 claimed and reported.

Recommendation

MSU should obtain supporting documentation for the required match fund amount (\$329,235) before the end of the grant at August 31, 2017 to ensure that the final amounts reported to ARC are accurate and allowable and that the grantee is in compliance with all applicable Federal requirements.

Grantee Response

Morehead State University is in the process of obtaining the required supporting documentation for the required match fund amount (\$329,235).

Auditor's Comments

ARC will determine whether the actions proposed by the grantee are adequate to resolve the finding and close the recommendation.

B. Performance Measures

Grant documentation and the related project progress reports lacked sufficient detail in terms of specific outputs and outcomes and narrative to fully present progress in meeting the grant objectives. This was primarily due to not properly establishing and presenting the planned outputs and outcomes in the grant application project plan.

Guidelines in the ARC Grant Administration Manual state that every project must have at least one specific planned output and outcome for measuring grant performance and results and that the output(s) and outcome(s) must be selected from the list of many such metrics that are included in ARC Guidance On Performance Measures available on its website.

The grant had been extended to end August 31, 2017 so there was no final report to determine if the grant goals had been fully met. We determined there were no specific outputs and outcomes established in the project plan for this grant consistent with ARC guidelines, although there was a general discussion of related areas like how many schools would be allowed to apply for participation and how many students had been impacted by the AHED program in earlier years. There was no specific goal for the planned number of students that would continue their education as a result of this grant and funding. The interim project reports did not contain any tables or narrative showing planned outputs and outcomes and actual results to date as is required. These factors prevented us from determining if the project goals were being met. MSU staff showed us information that indicated some actual measures could likely be established and reasonably tracked and reported.

Recommendation

MSU should coordinate with ARC to identify specific outputs and outcomes for grant KY-17608 that would meet ARC requirements, and include those metrics and the supporting narrative in the remaining interim and final project progress reports due to ARC.

Grantee Response

Morehead State University is coordinating with ARC to identify specific outputs and outcomes for grant KY-17608 to meet ARC requirements. This information will be included in the remaining interim and final project progress reports due to ARC.

Auditor's Comments

ARC will determine whether the actions taken by the grantee are adequate to resolve the finding and close the recommendation.

C. Reporting Requirements

Required project progress and financial reports were not being submitted to ARC in a timely manner. The grant terms required interim project progress and financial reports every 120 days, which were to be submitted within 30 days after the end of the reporting period. MSU had submitted all interim reports that were due at the time of the audit. MSU financial staff prepares the financial reports and submit them to the grant AHED program director. The program director prepares the project progress report and submits both reports to ARC. Based on the date of the reports, three of the nine financial reports were late between 14 and 36 days, and five of the nine project progress reports were late between three and 37 days. The remaining reports were prepared and submitted to ARC either on time or a little early.

ARC routinely sends electronic notices to grantees reminding them when a report is due. ARC's grant management system showed that progress report due notices had been sent out routinely on this grant. Although there were varying reasons for the reports being late that we identified, MSU needs to establish a better process to ensure that it meets the grant requirements and submits all reports timely.

Recommendation

MSU should establish procedures to ensure the remaining project progress and financial reports on KY-17608, and reports on future ARC grant, are submitted timely.

Grantee Response

Morehead State University has coordinated internal processes and will communicate with ARC to ensure the remaining project progress and financial reports on KY-17608, and reports on future grants, are submitted timely.

Auditor's Comments

ARC will determine whether the actions taken by the grantee are adequate to resolve the finding and close the recommendation.

Leon Snead Company

From: Shana Marie SavardHogge [s.savard@moreheadstate.edu]
Sent: Thursday, March 02, 2017 4:31 PM
To: leonsnead.companypc@erols.com
Cc: Michael Chris Henson; Scott Niles; Darlene Allen; K. Joe Hunsucker; Kelli Dawn Owen; Jeremy Don Withrow; Daniel J. Connell; Harold Keith Walker
Subject: KY-17608 Audit Response
Attachments: MSU AUDIT RESPONSE TO ARC AUDIT.docx

Good Afternoon Mr. Snead,

Please find attached a copy of the response to the recommendations in the Audit of Grant No. KY-17608. Morehead State University does concur with the recommendations and has taken actions to implement the recommendations.

Please confirm receipt of the attached response. Thanks for your time.

Shana Savard-Hogge

Senior Accountant (Grants & Contracts)
(606) 783-2132 Phone



Leon Snead & Company, P.C.

Response to Draft Audit Report
Project Numbers: KY-17608
Morehead State University
March 2017

Matching Funds Recommendations

Recommendations:

Morehead State University should obtain supporting documentation for the required match fund amount (\$329,235) before the end of the grant at August 31, 2017 to ensure that the final amounts reported to ARC are accurate and allowable and that the grantee is in compliance with all applicable Federal requirements.

Response:

Morehead State University is in the process of obtaining the required supporting documentation for the required match fund amount (\$329,235).

Performance Measures Recommendation

Recommendation:

The MSU should coordinate with ARC to identify specific outputs and outcomes for grant KY-17608 that would meet ARC requirements, and include those metrics and the supporting narrative in the remaining interim and final project progress reports due to ARC.

Response:

Morehead State University is coordinating with ARC to identify specific outputs and outcomes for grant KY-17608 to meet ARC requirements. This information will be included in the remaining interim and final project progress reports due to ARC.

Reporting Requirements Recommendation

Recommendation:

The MSU should establish procedures to ensure the remaining project progress and financial reports on KY-17608, and reports on future ARC grant, are submitted timely.

Response:

Morehead State University has coordinated internal processes and will communicate with ARC to ensure the remaining project progress and financial reports on KY-17608, and reports on future ARC grants, are submitted timely.