
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Georgia Northwestern Technical College
Rome, Georgia**

**Final Report No.: 17-22
Project Number: GA-18268
August 2017**

**Prepared by:
Leon Snead & Company, P.C.**



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August 23, 2017

Appalachian Regional Commission
Office of the Inspector General
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Leon Snead & Company, P.C. completed an audit of grant number GA-18268 awarded by the Appalachian Regional Commission (ARC) to Georgia Northwestern Technical College (GNTC). 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.

The policies and procedural controls followed by GNTC to administer the grant and funds were adequate and reasonably consistent with accounting and reporting requirements. GNTC was doing an excellent job in providing timely and informative financial and project reports to ARC. We verified that the \$36,611 match funding reported to ARC was adequately supported and allowable. During our test of grant expenditures, we could not determine if the prices paid were fair and reasonable for several items purchased because GNTC's procurement procedures did not require documentation to support a price determination for certain items. We questioned several purchases valued at about \$402,000 due to inadequate support for the price paid.

The grant activities were still in progress, so there were no final results to evaluate and determine if goals were met. However, based on our analysis of available data and discussions with grantee officials, we concluded that the interim results were acceptable.

A draft report was provided to GNTC on August 1, 2017, for comments. GNTC provided a response to the report on August 22, 2017. The comments are included in Appendix I. Leon Snead & Company appreciates the cooperation and assistance received from the GNTC and ARC staffs during the audit.

Sincerely,


Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number GA-18268 awarded by the Appalachian Regional Commission (ARC) to Georgia Northwestern Technical College (GNTC) in Rome, Georgia. 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 grant purpose was to provide technical training courses to students at two high schools in Chattooga County that would allow them to obtain technical certificates of credit which they could use to continue their education at GNTC or other schools. The courses related to programmable controllers and industrial motor controls that would help address demand for technical skills in the automotive and local manufacturing industries. The ARC funding was provided to purchase training equipment and supplies needed for the courses. GNTC was the primary grantee, and administered all aspects of the project but did so under the auspices of the Technical College System of Georgia (TCSG). TCSG is a unit of the State of Georgia and is comprised of the State's 22 Technical Colleges--including GNTC. TCSG provides both funding and oversight to the 22 Technical Colleges.

The grant award period covered January 1, 2016 to May 31, 2018 and provided \$407,350 in ARC funding and required \$102,000 in non-ARC funding match. Since grant activities involved high schools in a distressed ARC county, the grantee's required match level was 20% of the total grant. The salaries of the instructors teaching the training courses in the two schools were planned to be used to meet the match funding requirements. The grant was still active and had not been amended at the time of the audit. As of April 30, 2017, GNTC reported that all of the \$366,615 in federal funds that ARC had advanced for equipment and supplies had been expended, and \$36,611 in non-ARC match funds had been expended.

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 tested \$366,615 in ARC funds expended, and \$36,611 of non-ARC matching costs reported to determine whether the charges were properly supported and allowable. The on-site fieldwork was performed at GNTC campus offices during June 19-23, 2017.

We reviewed documentation provided by GNTC, including information on TCSG and its oversight of GNTC, and interviewed GNTC 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 to ARC in accordance with requirements. We reviewed the most recent financial statements and A-133

report to identify any issues impacting the ARC grant and requiring additional attention during the audit.

The primary criteria used in performing the audit were the grant agreement, 2 CFR Part 200, ARC Code and the Georgia Code Annotated 50-5. The audit was performed in accordance with *Government Auditing Standards*.

The preliminary results were discussed with GNTC staff at the conclusion of the on-site visit and they were in general agreement with exceptions taken and related recommended actions.

Summary of Audit Results

In testing and verifying that the amounts expended were adequately supported, we determined that the procurement procedures followed in purchasing the items did not result in documentation supporting the price paid as fair and reasonable. We therefore considered the \$401,853 to be inadequately supported and questioned the amount as being allowable under federal cost principles.

The applicable policies and procedural controls being followed to administer the grant and funds were adequate and reasonably consistent with relevant accounting and reporting requirements. GNTC was doing an excellent job in providing timely and informative financial and project reports to ARC. GNTC was not fully meeting the match requirements at the time of the audit, due to the need for advance funding and the timing of the salary costs being used for match. The ARC project coordinator was aware of this and approved the grantee to lag the total amount required where it was justified. We verified that the \$36,611 match funding reported to ARC was adequately supported and allowable.

The grant activities were still in progress so there were no final results to evaluate and determine if goals were met. In reviewing progress to date on the first year of the project, the actual results were below what was planned. The grantee had reasonable explanations for not fully meeting the first year planned goals and was optimistic the second year would show improvement. Considering this information, we deemed the interim results to be acceptable. However, we suggested that GNTC officials determine if some actions could be taken in the remaining grant time to help ensure the final, overall grant goals are met, and that they discuss those steps in the remaining project reports to ARC. They agreed to do so.

The procurement amount questioned and recommended corrective actions are discussed in the Finding and Recommendations section of this report.

Finding and Recommendations

A. Support Documentation for Procurement Costs

Equipment and supplies totaling \$401,853 were procured under the grant from a single source supplier, without competitive or sole source procedures being followed, and \$366,615 was charged to ARC funds without documenting any type of formal analysis to verify the item prices were fair and reasonable. This occurred because procurement procedures followed by the grantee allowed certain items and categories to be exempt from both competitive and sole source procedures. The equipment and supplies purchased for the grant were classified as exempt by the grantee. There was no evidence that a price or cost analysis had been performed or other documentation to verify the prices paid for the items were fair and reasonable. As a result, we questioned the total amount as being allowable costs under federal cost principles and the state code.

The federal procurement requirements applicable to this grant are contained primarily in 2 CFR 200.317 since NGTC, and its parent organization TCSG, considered themselves Georgia State entities and followed State procurement policies. The requirements in 200.317 provide that a State must follow the same procurement procedures for federal-funded projects as are used for non-federal procurements. The State's procurement policies are established in the Georgia State Code (50-5) and implemented in the Georgia Procurement Manual (GPM), and TCSG has established some purchasing procedures that reflect the State requirements. In reviewing the procurement procedures relevant to the audit, it appeared there were reasonable requirements for promoting competitive purchases, justifying sole brand and source purchases, and generally documenting these actions.

The State procedures also allowed certain items or situations to be considered waived or exempt from both open competition and sole brand/source procedures. This included items on a formal NIGP Code list and items considered "technical instruments and supplies." In briefly reviewing State and TCSG procedures, we did not see any specific requirements detailing how these exempt purchases must be processed, such as how they must be documented and justified and what actions must be taken to verify the price(s) to be paid from the vendor was fair and reasonable. TCSG purchasing employees also were not aware of any requirement to perform and document a cost or price analysis in that situation. Thus, it appeared that the State and TCSG policies allowed exempt items to be purchased from any vendor or supplier, and pay that vendor whatever price they charged, without having to do anything to verify the price was fair and reasonable or document that decision.

In addition to the requirement to have an effective procurement process to promote best use of federal funding, all grantees--including States--are subject to the federal cost principals in 2 CFR 200.475, which establish what costs are allowable as charges to federal funding. Included in the considerations for determining an allowable cost are that the cost must be reasonable and adequately documented. Factors for determining whether a cost is reasonable include evaluating what market prices are for comparable goods or services (a type of price analysis).

The grant included purchasing technical training equipment and related supplies needed to provide the courses and instruction planned. Although these courses at the high school level were a new endeavor, GNTC determined that it required specialized equipment and supplies the same or similar to those used previously for industrial courses and training it had provided to its students. This decision required purchasing brand-name items either manufactured or supplied by Amatrol Corporation, that were only available from a single authorized distributor for Georgia--Technical Training Aids (TCA) of Birmingham, Alabama. To determine the exact equipment and supplies needed, GNTC discussed with TCA the type of training planned and obtained a list of recommended items from them, representing what was eventually procured. GNTC submitted the procurement documents to TCSG for review and approval, and the purchase was classified and approved as "exempt" from both open competition and sole brand/source procedures based on being considered "technical equipment and supplies." The items were delivered in July 2016 at a total cost of \$410,853, of which \$366,615 was charged to ARC funds that had been advanced to allow the purchase.

In evaluating this procurement, and the unit prices and total cost paid to Amatrol and charged to ARC funding, we were told that neither GNTC nor TCSG had documented any type of formal analysis of the unit prices or total cost to verify that the amounts were fair and reasonable. TCSG purchasing staff told us their office had procured similar technical training equipment and supplies for other schools in the past, and based on that knowledge they felt the prices for the GNTC procurement were considered fair and comparable. Since that was a judgment, and no formal price comparison was done and documented, we had no basis to confirm that conclusion or that the amount charged to ARC funding was fair and reasonable.

Also, it appears that this procurement would be subject to the State Code requirements relating to contracts exceeding \$100K. The items purchased exceeded \$400,000. Georgia Code, section 50-5-67(a) indicates that contracts exceeding \$100,000 must be awarded by competitive sealed bidding or competitive proposals.

Recommendations

GNTC, in coordination with TCSG, should:

1. Provide documentation to ARC to demonstrate that total equipment and supply item amounts paid to the sole source vendor and charged to ARC funds were fair and reasonable and in compliance with established state requirements.
2. Provide assurance to ARC that the procedures used in purchases involving ARC funds are those the state uses in the purchases involving its non-federal funds.

Grantee's Response

1. GNTC will work with the Technical College System of Georgia in documenting compliance with established state requirements demonstrating fair and reasonable pricing.

2. Effective July 1, 2017, the federal purchasing guidelines were revised by the State of Georgia and the Technical College System of Georgia. This documentation will be provided for review.

Auditor's Comments

ARC will determine if the corrective actions taken and planned are adequate to resolve the finding and close the recommendations.

Leon Snead Company

From: Popham, Heidi [hpopham@gntc.edu]
Sent: Monday, August 21, 2017 5:02 PM
To: Leon Snead & Company
Cc: McDonald, Pete; Barnes, Kelly
Subject: RE: Audit of Grant No. GA-18268
Attachments: ARC Draft Report - GA-18268_hp.docx

Good Afternoon Mr. Snead,

Please review the attached draft report, with a couple of edits noted. Georgia Northwestern Technical College concurs with the recommendations stated in the report and provides the following anticipated actions for the items listed.

1. Provide documentation to ARC to demonstrate that total equipment and supply item amounts paid to the sole source vendor and charged to ARC funds were fair and reasonable and in compliance with established state requirements.
GNTC will work with the Technical College System of Georgia in documenting compliance with established state requirements demonstrating fair and reasonable pricing.
2. Provide assurance to ARC that the procedures used in purchases involving ARC funds are those the state uses in the purchases involving its non-federal funds.
Effective July 1, 2017, the federal purchasing guidelines were revised by the State of Georgia and the Technical College System of Georgia. This documentation will be provided for review.

If you need additional information from us at this time, please let me know.

Thank you,
Heidi

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From: Leon Snead & Company [<mailto:leonsnead.companypc@erois.com>]
Sent: Tuesday, August 01, 2017 12:29 PM

To: Popham, Heidi <hpopham@gntc.edu>

Subject: Audit of Grant No. GA-18268

Good Afternoon Ms. Popham,

Attached is a copy of the draft report on the above referenced audit for your review and comments. Please provide your comments by August 31, 2017. Please indicate whether you concur or nonconcur with the recommendations in the report and state what actions have been taken or are contemplated to implement the recommendations. If you have any questions, please call or e-mail me.

Please confirm your receipt of the attached report. Thanks very much for your assistance.

Leon Snead
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