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

Spartanburg Community College
Spartanburg, South Carolina

**Final Report Number: 18-33
Grant Number: SC-18251
September 2018**

Prepared by:

Leon Snead & Company, P.C.



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September 12, 2018

Appalachian Regional Commission
Office of the Inspector General
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Leon Snead & Company, P.C. completed an audit of grant number SC-18251 awarded by the Appalachian Regional Commission (ARC) to Spartanburg Community College (SCC). 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 (6) the goals and objectives of the grant were met based on the established performance measures.

Overall, SCC's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant. The ARC and non ARC costs sampled and tested were supported and considered reasonable except for the indirect costs claimed. The ARC and non-ARC recipient matching Funds claimed and reported as indirect costs were not supported by the approved indirect cost rate that limited indirect costs to direct salaries and wages. Thus, the \$64,250 claimed for indirect costs was questioned. Although we identified a performance measurement issue that requires management's attention. The interim and final project and financial reports reflected some positive results under the grant. SCC provided to us the performance information through the spring semester of 2018. We verified the accuracy of the performance information and included it in the report at Appendix I. The issues identified, questioned costs, and recommended corrective actions are discussed in the Findings and Recommendations section of the report.

Leon Snead & Company appreciates the cooperation and assistance received from the SCC and ARC staffs during the audit.

Sincerely,


Leon Snead & Company, P.C.

TABLE OF CONTENTS

	<i><u>Page</u></i>
Background	1
Objective, Scope, and Methodology.....	1
Summary of Audit Results	2
Findings and Recommendations.....	3
A. Indirect Costs.....	3
B. Performance Measures	6
Appendix I – Summary of Program Performance	7
Appendix II - Grantee’s Response to Draft Report	

Background

Leon Snead & Company, P.C. completed an audit of grant number SC-18251 awarded by the Appalachian Regional Commission (ARC) to Spartanburg Community College (SCC). 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 SCC funding support to expand its industrial technology and automotive (the Advanced Manufacturing and Automotive Technology) training programs to its new Cherokee County Campus (CCC). The funding was provided to outfit the CCC Center for Advanced Manufacturing and Industrial Technology with the necessary equipment upon which student training can take place. With the new equipment, SCC is able to replicate several degree programs offered at the main campus. The Director of Grants and the administrative services staff administered the grant for SCC at its Spartanburg campus.

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 (6) the goals and objectives of the grant were met based on the established performance measures.

Grant SC-18251 originally covered the period August 1, 2015 to March 31, 2016, but was subsequently modified to June 30, 2016. Overall project costs were \$803,120, which consisted of \$642,496 in ARC grant funds and \$160,624 in non-ARC recipient matching funds. The percentage breakout of ARC to non-ARC funding for the overall project was 80% ARC funds and 20% non-ARC recipient matching funds.

The total of \$642,496 in grant funds was expended and reimbursed by ARC, and \$160,624 was provided in non-ARC recipient matching funds as of June 30, 2016. Of the expenditures charged to the grant and claimed for reimbursement, we selected a sample of \$616,262 for testing to determine whether the charges were properly supported and allowable. We also tested matching costs in the amount of \$154,066 to determine whether the charges were properly supported and allowable.

We reviewed documentation provided by SCC, visited the CCC in order to inspect the use and condition of equipment, and interviewed SCC 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 two most recent annual financial statement audit reports which included the period of grant performance to identify any issues significantly impacting the ARC grant and audit.

The on-site fieldwork was performed at SCC and Cherokee County Campus offices and facilities during July 16-20, 2018. The preliminary results were discussed with SCC staff and officers during and at the conclusion of the on-site visit. Although they understood the issues and recommended actions, they did not agree with questioning indirect costs.

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, SCC's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. The ARC and non-ARC costs sampled and tested were supported and considered reasonable except for the indirect costs claimed. In addition, we identified a performance measurement issue that requires management's attention.

The ARC and non-ARC recipient matching Funds claimed and reported as indirect costs were not supported by the approved indirect cost rate that limited indirect costs to direct salaries and wages. Thus, the \$64,250 claimed for indirect costs was questioned.

The interim and final project progress and financial reports reflected some positive results under the grant. However, SCC was unable to replicate and support reported project performance at the time of our visit because SCC's system did not retain the data as of any date, including the dates that the reports were prepared. Instead, SCC provided the performance information through the spring semester of 2018. We have included the performance information that we were provided and for which we verified the accuracy by audit in this report.

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

Findings and Recommendations

A. Indirect Costs

We questioned \$51,400 in ARC funds (and \$12,850 in matching funds, \$64,250 in total program costs) because SCC did not have the supporting documentation necessary to verify that the indirect cost amounts claimed were accurate, allowable, and reasonable. This was because SCC believed that the approved budget line item for grant administration and later changed to indirect costs of \$64,250 or ten percent of the ARC grant amount, gave them approval to charge the program that amount. Note that SCC allocated the approved budget line item 80 percent to ARC grant funds and 20 percent to matching funds instead of claiming the entire amount of indirect costs as a ARC grant cost. This resulted in SCC charging the ARC grant 8 percent of the ARC grant equipment costs, or \$51,400 for indirect costs instead of the budgeted 10 percent amount.

The SCC provided us its negotiated indirect cost rates for use on grants, contracts, and other agreements with the Federal Government Agencies negotiated with the U.S. Department of Health and Human Services for the grant period as support for its indirect charges. The agreement contained rates of 34.5 percent on campus and 25 percent off campus, applicable to a base of direct salaries and wages, including all fringe benefits. Because this grant provided funding for the equipment used in the automotive program at the Cherokee County Campus, no direct salaries were proposed, budgeted, included in the grant agreement, claimed, or included in the performance reports. Therefore, in accordance with the indirect cost agreement, we questioned all indirect costs claimed.

SCC's accounting system, which is a part of the Colleague system by Ellucian, an Enterprise Resource Planning system, did not identify the time and related costs spent working on individual grants and other projects associated with the Director of Grants and SCC's administrative staff. Thus, time spent by SCC's administrative or executive staff working on this grant could not be identified.

The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR, Part 200), Section 200.400(d) state that any cost "...must provide for adequate documentation to support costs charged to the Federal award." Further, Section 200.414(c)(1) and Section 200.414(c)(3) state that:

"The negotiated rates must be accepted by all Federal awarding agencies. A Federal awarding agency may use a rate different from the negotiated rate for a class of Federal awards or a single Federal award only when required by Federal statute or regulation, or when approved by a Federal awarding agency head or delegate based on documented justification as described in paragraph (c)(3) of this section.

(c)(3) The Federal awarding agency must implement, and make publicly available, the policies, procedures and general decision making criteria, that their programs will follow to seek and justify deviations from negotiated rates."

We could not find the required justification for using an indirect cost rate other than the one that SCC had negotiated with the Department of Health and Human Services.

We did consider the de minimis clause of the Federal Acquisition Regulation at 2 CFR 200.414(f), that provides for an exception where many non-Federal entities that have never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10 percent of modified total direct costs. We concluded that this de minimis clause could not apply to SCC's ARC grant because it had previously negotiated an indirect cost rate with the Federal Government.

SCC's Director of Grants stated that the budget item for indirect costs was intended to partially offset the costs associated with administering this grant, procuring the equipment, and providing the administrative staff to account for recording the receipt and expenditure of funds associated with the grant. She added that the budgeted amount did not fully cover SCC's costs of administering, procuring, accounting for, and reporting on the ARC grant. The reason she gave was that costs associated with the procurement department processing the equipment in Spartanburg and then shipping the equipment from Spartanburg to the CCC were not included in this budget item.

The Director of Grants explained that the salaries of administrative staff that worked on the ARC grant were salaried employees who did not keep or report hours worked by grant or by other project. The staff was assigned tasks based on their position title and description, such as accounting staff working on accounting for the purchase of equipment and procurement staff working on the acquisition of equipment. These tasks included advertising the need for equipment, obtaining cost quotations, the initiation of purchase orders, receiving the equipment, preparing and recording receiving reports and invoices, matching purchase orders to receiving reports and invoices, approving and recording invoices for payment, recording checks issued to vendors, and crediting and reconciling the cash assets for cancelled checks deposited by vendors to the cash accounts. Similarly, the President, Vice President for Business Affairs, and the Director of Grants were also salaried employees and they did not keep track of the hours they worked on each grant or other project. In addition, the cost of staff providing assistance in the form of documents and explanations to the auditor of this grant and the use of facilities to provide space to the auditor as well as its accounting, procurement, and executive staff was not anticipated, but nevertheless occurred. She added that her understanding of the grant agreement and the approval of the budget, which included the \$64,250 indirect costs line item, were tacit approval to charge up to \$64,250 to the grant without having to support the costs as direct costs.

Recommendation

Because 1) SCC's negotiated and Federally approved indirect cost rate agreement for the period of performance of this Grant stated that the indirect cost rate should be applied to "Direct salaries and wages including all fringe benefits", and 2) the Grant did not provide any funding for salaries and wages, we recommend that SCC repay ARC \$51,400 in indirect costs claimed under this Grant.

Grantee's Response

Regarding the finding for indirect costs, the grantee stated that in the ARC project application, dated August 4, 2015, and in subsequent budgets and reports, this budget line item is listed as "Grant administration of 10%". This amount was approved by ARC at the award of the grant

and approval of the budget; this was not a fee added after the grant award nor was it an indirect cost request using the college's negotiated rate with the U.S. Department of Health and Human Services (34.5% on salaries and wages).

Current grant and finance staff could not find evidence of documentation of specific grant administration documentation for SC-18251 by past staff; however, the grantee said they understand the auditor found their financial management and administrative procedures and related internal controls otherwise adequate to manage the ARC grant. As noted in the report, a number of staff were involved in the management of SC-18251, including the President, Vice President for Business Affairs, Director of Grants, procurement, and finance staff. The College managed the project and charged administrative fees to grant SC-18251 with the understanding that the approval of the indirect fee for the College was adequate documentation to claim the administrative fee; therefore, the College did not maintain time and effort records for College staff involved in the purchase, delivery, and installation of the purchased equipment. Further, SCC stated they found the auditor's recommendation to be factual. In the future, they said they will maintain time and effort documentation for all ARC grants that include administrative costs.

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. Performance Measures

SCC reported on progress made toward project outcomes in its interim and final project narrative reports. We verified the existence and use of the purchased equipment at the Cherokee County Campus as described in the reports, but we were not able to verify the accuracy of the “Summary of Outputs and Outcomes to Date” schedule the reports contained because the system from which the data on students and workers served and improved was generated from an automated system that updates data continuously based on new input about students each semester. Accordingly, we requested current data on students served and improved and then verified the accuracy of that data. This new data shows that 145 students enrolled in several training programs offered at CCC and 25 earned associate degrees. (See Appendix I for details.)

Recommendation

The SCC should submit a revised final project report to ARC that incorporates the performance measures and outcomes contained in Appendix I.

Grantee’s Response

The grantee stated that at the time of the final payment summary, outcomes were reported using student data from the Department of Institutional Research, with the note that “While 57 of SCC’s students and some faculty benefited from the equipment during Spring 2016, the majority of students will benefit beginning in Fall 2016 classes. Outputs and outcomes will not be measurable for two years.” Final, frozen data was not available at the time of the report (June 30, 2016); therefore, current headcount data was utilized. These outcomes were accepted by the ARC Program Manager, Division Director, Assistant General Counsel, and Finance. The performance measures in the report reflect updated data from our Management Information System (MIS) to demonstrate the successful impact of the grant to date. SCC further stated they found the auditor’s recommendation to be factual and will submit the updated data to ARC through ARC.Net.

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.

Summary of Program Performance

ATTENDING AT CCC Students Served (Degree Program Unduplicated Enrollment)	YR1			YR2			YR3			Total	
	FA15	SP16	SU16	FA16	SP17	SU17	FA17	SP18	SU18		
AAS, Automated Manufacturing Technology (AAS.AMT; 6 terms day & evening, any semester start)	1	2	0	4	0	0	0	0		6	
AAS, Automotive Technology (AAS.AUT-G; 6 terms day & evening, any semester start)	10	1	0	8	0	0	0	1		10	
AAS, Automotive Technology - Ford Asset (AAS.AUT; 6 terms day & evening, any semester start)	0	0	0	4	0	0	0	1		5	
AAS, Mechtronics (AAS.MEC; 5 terms, any semester start, day or evening)	8	11	4	40	9	0	23	13		100	
AAS, Machine Tool Technology (AAS.MTT; 5 terms day, FA/SP start only)	2	0	1	6	3	8	6	0		24	
Subtotal	21	14	5	62	12	8	29	15	0	145	
Workers/trainees Served (Certificate Programs unduplicated enrollment)											
Ford Maintenance and Light Repair Certificate (CT.FMLR; 3 terms day, FA only)	0	0	0	0	0	0	0	0		0	
Subtotal	0	0	0	0	0	0	0	0	0	0	
Total	21	14	5	62	12	8	29	15	0	145	
OUTCOMES											
Graduates ⁽¹⁾	I	II	III	IV	V	VI	VII	VIII	IX	Total	
	FA15	SP16	SU16	FA16	SP17	SU17	FA17	SP18	SU18		
AAS, Automated Manufacturing Technology (AAS.AMT; 6 terms evening, any semester start)	1	2	0	2	0	0	0	0		4	
AAS, Automotive Technology (AAS.AUT-G; 6 terms day & evening, any semester start)	5	0	0	0	0	0	0	0		0	
AAS, Automotive Technology - Ford Asset (AAS.AUT; 6 terms day & evening, any semester start)	0	0	0	0	0	0	0	0		0	
AAS, Mechtronics (AAS.MEC; 5 terms, any semester start, day or evening)	2	4	2	5	1	0	0	0		12	
AAS, Machine Tool Technology (AAS.MTT; 5 terms day, FA/SP start only)	1	0	0	2	1	6	0	0		9	
Associate Degree Graduation Rate	9	6	2	9	2	6	0	0	0	25	17.2%
Graduates											
Ford Maintenance and Light Repair Certificate (CT.FMLR; 2 terms day)	0	0	0	0	0	0	0	0		0	
Certificate Graduation Rate		0	0	0	0	0	0	0	0	0	0.0%
Total Graduates / Graduation Rate		6	2	9	2	6	0	0	0	25	17.2%

NOTES: ⁽¹⁾ - Graduates are listed by cohort dates, NOT graduation dates. (Ex.- The 2 students enrolled in AAS.AMT in Sp16 (C7) both graduated from that program, therefore there is a 2 in Sp16 (C21). They did NOT graduate in Spring of 2016, but they did graduate at some point after that term.



HENRY C. GILES, JR.
PRESIDENT

September 5, 2018

Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, MD 20850

RE: Appalachian Regional Commission Grant Audit

Dear Mr. Snead:

The purpose of this letter is to respond to the draft report from Leon Snead & Company, P.C. regarding the performance audit of grant SC-18251. There were two items cited in "Findings and Recommendations".

Recommendation One: Indirect Costs

The first item addresses "Indirect Costs" for grant SC-18251. In the ARC project application form dated August 4, 2015, and in subsequent budgets and reports, this is listed as "Grant administration of 10%". This amount was approved by ARC at the award of the grant and approval of the budget; this was not a fee added after the grant award nor was it an indirect cost request using the college's negotiated rate with the U.S. Department of Health and Human Services (34.5% on salaries and wages).

Current grant and finance staff could not find evidence of documentation of specific grant administration documentation for SC-18251 by past staff; however, we understand the auditor found our financial management and administrative procedures and related internal controls otherwise adequate to manage the ARC grant. As noted in the report, a number of staff were involved in the management of SC-18251, including the President, Vice President for Business Affairs, Director of Grants, procurement and finance staff. The College managed the project and charged administrative fees to grant SC-18251 with the understanding that the approval of the indirect fee for the College was adequate documentation to claim the administrative fee; therefore, the College did not maintain time and effort records for College staff involved in the purchase, delivery and installation of the purchased equipment.

We find the auditor's recommendation to be factual. In the future, we will maintain time and effort documentation for all ARC grants that include administrative costs.



HENRY C. GILES, JR.
PRESIDENT

Recommendation Two: Performance Measures

The second item addresses performance measures. At the time of the final payment summary, outcomes were reported using student data from the Department of Institutional Research, with the note that "While 57 of SCC's students and some faculty benefited from the equipment during Spring 2016, the majority of students will benefit beginning in Fall 2016 classes. Outputs and outcomes will not be measureable for two years." Final, frozen data was not available at the time of the report (June 30, 2016); therefore current headcount data was utilized. These outcomes were accepted by ARC Program Manager, Division Director, Assistant General Counsel, and Finance. The performance measures in the report reflect updated data from our Management Information System (MIS) to demonstrate the successful impact of the grant to date.

We find the auditor's recommendation to be factual. We will submit the updated data to ARC through ARCNET.

We appreciate the time and assistance during the audit. Should you want to discuss this further, please contact me at the number below.

Sincerely,

A handwritten signature in black ink, appearing to read 'Henry C. Giles, Jr.', written in a cursive style.

Henry C. Giles, Jr.
President
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