

PERFORMANCE AUDIT
OF THE

Morehead State University

**Appalachian Rural Dental
Education Program Plan**

Grant: KY-17066

OIG Report Number: 14-02

GRANT PERIOD: SEPTEMBER 2011 – JUNE 2013

WATKINS MEEGAN

Appalachian Regional Commission
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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Morehead State University Appalachian Rural Dental Education Program Plan grant, KY-17066. The report is in response to Contract No. BPA 11-01-B.

A handwritten signature in black ink that reads "Watkins Meegan LLC". The script is cursive and fluid, with the letters "W", "M", and "L" being particularly prominent.

Tysons, Virginia
December 11, 2013

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Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state and local governments. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair, who is appointed by the President. Local participation is provided through multi-county local development districts (LDDs). Each year, ARC provides funding for several hundred projects in the Appalachian Region, in areas such as business development, education and job training, telecommunications, infrastructure, community development, housing and transportation. These projects help create new jobs; improve local water and sewer systems; increase school readiness; expand access to health care; assist local communities with strategic planning; and provide technical and managerial assistance to emerging businesses.

Morehead State University (MSU, or Grantee) is a public university located in the foothills of the Daniel Boone National Forest in Rowan County, Kentucky. MSU currently offers nearly 143 undergraduate degree programs, including associate and baccalaureate degrees, 70 graduate degree programs and five education specialist programs (Ed.S.) in five specialty areas, as well as Doctor of Education (Ed.D.) programs. Classes are offered on campus, at regional campus centers in Ashland, Jackson, Mount Sterling, Prestonsburg and West Liberty, and several other locations in East Kentucky and online.

MSU developed a collaborative partnership with the University of Kentucky's College of Dentistry and the University of Pikeville to establish the Appalachian Rural Dental Education Partnership Program (ARDEP). ARDEP is focused on increasing awareness and support for dental careers among K-12 students in Eastern Kentucky and establishing a new undergraduate pre-dental curriculum at MSU with links to the University of Kentucky's College of Dentistry.

On September 13, 2011, ARC approved the Appalachian Rural Dentistry Education Program Plan Grant, number KY-17066 (the Grant), in the amount of \$400,000 to Morehead State University for the period September 1, 2011 to August 31, 2012. The Grant required matching (non-federal) funds of \$257,201. Through a total of three approved amendments, the ARC funding amount increased by \$100,000 to \$500,000, the match requirement increased to \$389,632 and the Grant period of performance was extended to June 30, 2013. The amendments also included budget modifications and reallocations in response to the University of Pikeville opting to leave the partnership to pursue other academic priorities. As a result, MSU and University of Kentucky reallocated the ARC Grant funds between categories and increased their respective matching fund contributions to replace the matching funds previously anticipated from University of Pikeville.

The Grant was awarded to provide funding to plan and design the ARDEP program for Appalachian Kentucky through a partnership between the participating universities. Once implemented, the program would seek to recruit more dental students from Eastern Kentucky, educate them in the region and employ them in Kentucky's Appalachian counties.

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Objective

Watkins Meegan LLC was engaged to conduct a performance audit of the Morehead State University Appalachian Rural Development Education Program Plan Grant for the period September 1, 2011 to December 31, 2012. We reviewed certain information for the Grant period from January 1 to June 30, 2013 provided after fieldwork to obtain additional support for our results. The purpose of our performance audit was to determine the following:

- Funds expended and claimed for reimbursement from ARC were valid program expenses and in accordance with the ARC Grant requirements;
- Internal controls were in place to ensure compliance with the Grant requirements; and
- The extent to which goals and objectives of the Grant had been, or were expected to be, achieved.

Executive Summary

The funds made available through the ARC Grant were used to fulfill the goals and objectives of the ARDEP Plan by supporting various studies and analyses around the four performance areas of the Grant: Comprehensive Needs Analysis, Education Program Design, Financial Feasibility Plan, and University and Community Partnership Plan.

ARC reimbursed \$369,904 of expenses for the period September 1, 2011 to December 31, 2012, representing approximately 74 percent of the ARC Grant of \$500,000 (as amended) with six months remaining in the revised period of performance. The Grantee reported funds provided from non-federal sources were \$351,726 through December 31, 2012, approximately 90 percent of required match. Combined total expenditures were \$721,630 through December 31, 2012.

With the exception of the issues noted below relating to the reporting of matching costs and a duplicate personnel cost entry, it appears that expenses reviewed during the audit were valid and properly supported and also were in direct relation to supporting the Grant and its objectives. In addition, we validated that most of the stated performance objectives of the Grant were met or were expected to be met by the conclusion of the period of performance.

Scope

We performed a performance audit of the ARDEP Plan Grant KY-17066 at the Morehead State University campus from June 4-6, 2013, as described under this section and under the audit methodology section. Our review was based on the terms of the Grant agreement and on the application of procedures in the modified ARC Audit Program.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Audit Methodology

Our procedures were based on the Audit Program guidelines provided by the ARC Office of the Inspector General and included suggested procedures over the Grantee's accounting and internal control systems affecting the Grant. We met with the primary participants in the Grant-supported program activities and members of the MSU finance department to discuss the overall program structure and processes around Grant administration and monitoring. We also discussed and reviewed other financial and operational elements related to the conduct of the program.

Our review of background material included ARC's Grant Agreement and related documentation, information from ARC's Grant management system, other Grant requirements and the Morehead State University single audit reports for the fiscal years ended June 30, 2011 and 2012.

We reviewed controls in place for recording, accumulating and reporting costs under the Grant and evaluated the process for compliance with applicable Grant requirements and regulations. We examined payroll and expense documentation supporting costs incurred and reviewed support for matching funds reported to ARC. We also reviewed progress reports and made inquiries regarding whether the goals and objectives of the project funded with ARC monies had been met or were anticipated to be met by the conclusion of the Grant period of performance.

Results

Compliance with Grant Provisions

Fieldwork for this performance audit was conducted before the final reporting had been completed. As a result, we focused the scope of the audit on the period from September 1, 2011 to December 31, 2012, using the reimbursement requests and interim performance reports submitted by the Grantee during that period as the basis for audit testing and other inquiries related to financial aspects of the Grant. We also discussed progress made subsequent to December 31, 2012 during fieldwork and reporting phases and reviewed the final reports submitted by the Grantee covering the Grant period of performance at June 30, 2013.

The funds made available through the ARC Grant were used to fulfill the goals and objectives of the ARDEP Plan by supporting various studies and analyses around the four performance areas of the Grant: Comprehensive Needs Analysis, Education Program Design, Financial Feasibility Plan, and University and Community Partnership Plan.

ARC reimbursed \$369,904 of expenses for the period September 1, 2011 to December 31, 2012, representing approximately 74 percent of the ARC Grant of \$500,000 (as amended) with six months remaining in the revised period of performance. The Grantee reported funds provided from non-federal sources were \$351,726 through December 31, 2012, approximately 90 percent of required match. Combined total expenditures were \$721,630 through December 31, 2012. We were unable to fully reconcile reported match funds to supporting documentation.

Compliance with Grant Provisions (Continued)

We examined supporting documentation for a sample of the personnel and other costs incurred against the Grant through December 31, 2012. Our review of support for matching funds identified an issue with the reporting of the matching funds amounts in the reimbursement requests submitted to ARC. An additional finding was noted regarding an incorrect personnel expense entry that was included in reimbursement requests submitted to ARC. Additional details relating to these finding are noted below. Other than these issues, we determined that, in general, the funds had been expended in compliance with the Grant agreement.

It was noted through our review of Grant-related reports that the Grantee provided ARC timely progress reports throughout the full period of performance. The interim and final progress reports submitted by the Grantee were comprehensive and provided detailed descriptions of the various analyses and studies completed, the outputs from which were often included as appendices to the reports. Through review of these materials and inquiry with the Grantee, we validated that most of the stated performance objectives of the Grant were met and that Grant funds were used to fulfill the goals and objectives of the ARDEP Plan by supporting various studies and analysis activities around the four performance areas of the Grant: Comprehensive Needs Analysis, Education Program Design, Financial Feasibility Plan, and University and Community Partnership Plan.

At the conclusion of the audit, we noted and discussed the following items with Management, who generally agreed with the findings and recommendations as described below:

Finding – Matching Cost Reporting

Reimbursement requests submitted to ARC should be accurate and appropriately supported, as inaccurate or incomplete reporting of costs may result in unallowable reimbursement or incorrect reporting of matching contributions.

Through our review of reimbursement requests submitted to ARC, we noted that the Grantee had incorrectly reported the cumulative matching costs. The cumulative matching funds amount on the August 31, 2012 reimbursement request were approximately \$156,000 greater than the corresponding sum of the amounts as reported in prior requests. In addition, we were unable to fully reconcile match funding reported on the reimbursement requests to supporting documentation for the period tested (September 2011 to December 2012). We also noted that a similar error in reporting cumulative costs was identified by ARC, related to the Grantee's initial submission of its Final Request for Reimbursement at the end of the Grant period of performance.

It appears that several offices are involved in maintaining accounting and grant records and submitting reimbursement requests. Detailed supporting schedules are not maintained allowing finance or others to easily reconcile costs reported to ARC.

Recommendation:

Procedures should be implemented to validate reimbursement requests for mathematical accuracy, including verifying that roll-forward or cumulative amounts are correct. Reimbursement requests should be supported by schedules or other detail that is readily traceable to original documents. The requests should be reviewed and approved by someone knowledgeable of the Grant activity prior to submission.

Recommendation (Continued):

The Grantee should provide ARC with a schedule detailing the sources of matching funds claimed on the final Reimbursement Request with supporting documentation.

Finding – Incorrect Personnel Costs

Grant costs submitted to ARC for reimbursement should reflect actual expenses to prevent duplicate or unallowable costs being reimbursed. Through our audit of payroll expenses charged to the Grant we noted personnel costs and related benefits for one staff member were recorded in error for the pay period ending June 30, 2012, resulting in incorrect costs of approximately \$5,400 for salary and fringe benefit costs being included in the corresponding reimbursement request to ARC. As noted above, detailed schedules are not maintained to support reimbursement requests. Review of the support schedules prior to submission of reimbursement requests will assist in identifying incorrect or duplicate charges.

Recommendation:

The error was identified through our audit procedures and subsequently corrected by the Grantee prior to submission of the final reimbursement request at completion of the Grant period. Going forward, the Grantee should ensure that reimbursement requests are reviewed against supporting documentation by someone knowledgeable of Grant activity prior to submission to ARC.