
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Mississippi State University
Mississippi State, Mississippi**

**Final Report Number: 13-03
Project Number: MS-16115
December 2012**

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



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December 14, 2012

Appalachian Regional Commission
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Leon Sned & Company, P.C. has completed an audit of grant number MS-16115 awarded by the Appalachian Regional Commission (ARC) to Mississippi State University (MSU). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

The primary objectives of the audit were to determine if program funds were managed in accordance with the ARC and federal terms and requirements; grant funds were expended as provided for in the ARC approved budget; internal grant guidelines and internal controls were operating effectively; accounting and reporting requirements were implemented in accordance with generally accepted accounting principles and the goals and objectives of the grant were met.

Overall, the MSU financial management and administrative procedures and related internal controls were adequate to manage the ARC grant and funds reviewed. Most of the costs reviewed were reasonable and adequately documented; however, we questioned \$25,613 in grant costs due to the type of contracts MSU used to award sub-grants and questioned \$20,062 in third-party cost-share costs due to inadequate supporting documentation. We did not identify any significant issues with the overall project results. A detailed discussion of the issues is presented in the "Results of Audit" section of the report.

A draft report was provided to MSU on November 26, 2012, for comments. MSU provided a response to the report on December 5, 2012, addressing our audit recommendations, which is sufficient to closeout two of the six recommendations. (see Grantees Response at Appendix II)

Leon Sned & Company appreciates the cooperation and assistance received from the MSU and ARC staff during the audit.

Sincerely,

LEON SNEAD & COMPANY, P.C.
Leon Sned & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number MS-16115 awarded by the Appalachian Regional Commission (ARC) to Mississippi State University (MSU). The audit was made at the request of the ARC, Office of the Inspector General, to assist that office in its oversight of ARC grant funds.

ARC awarded the grant to support MSU's Accessing Higher Education Initiative (MS-AHEI). The MS-AHEI is part of a broader Appalachian Higher Education Network, which has an overall goal of improving education access and attainment through programs operated within local communities and schools. The MSU efforts were intended to build and expand community relationships by collaborating with community economic development agencies within the Mississippi Appalachian region and helping them establish effective community-school partnerships for encouraging students to continue their education.

The initial grant provided \$339,000 in ARC funds and required \$473,073 in MSU cost-share/match through cash, contributed services, or in-kind contributions. The period of performance was October 1, 2008 through July 31, 2011. The project plan included awarding sub-grants to local communities and schools using ARC funds and requiring the sub-grantees to help fund the activities through their own cost-share and contributions. A revision in February 2009 added \$10,000 in ARC funding for one of the communities participating in the project to provide grief counseling for students affected by a school bus accident.

In August 2009, the grant was revised again to provide funding for additional sub-grant awards and related activities bringing the total ARC funding to \$440,200 and the total MSU cost-share to \$491,073. The project experienced significant turnover in key MSU staff, particularly in the grant principal investigator position, due to resignations and reassignments. Those staff changes, as well as other factors, delayed the planned work so the grant period was later extended to July 31, 2012. The grant had been completed and closed out at the time of our audit.

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) internal grant guidelines, including program (internal) controls, were appropriate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) the goals and objectives of the grant were met.

We reviewed the documentation provided and interviewed grantee personnel to obtain an overall understanding of the project, the accounting system, and operating procedures. We reviewed financial and other required reports to determine whether they were properly supported and submitted in accordance with the requirements. We reviewed a sample of costs charged to the project to determine whether the charges were properly supported and allowable. We reviewed

the MSU administrative procedures and related internal controls to ensure they were adequate to administer the grant and funds. We also reviewed the most recent Single Audit report to determine whether there were any issues that impacted the ARC grant.

The primary criteria used in performing the audit were the specific grant terms and requirements, applicable Office of Management and Budget Circulars, and relevant parts of the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of October 1-12, 2012, including on-site work at the MSU offices in Mississippi State, Mississippi. The audit results were discussed with the MSU staff at the conclusion of the on-site visit.

Overall, the MSU financial management and administrative procedures and related internal controls reviewed were adequate to manage the ARC grant and funds reviewed. Most of the costs reviewed were reasonable and adequately documented; however, we questioned \$25,613 in grant costs due to the type of contracts MSU used to award sub-grants and questioned \$20,062 in third-party cost-share costs due to inadequate supporting documentation. We did not identify any significant issues with the overall project results. The areas needing improvement, the questioned costs, and our recommended corrective actions are discussed in the Results of Audit section of the report.

RESULTS OF AUDIT

A. Contracting with Sub-grantees

MSU awarded 13 sub-grants using a contract type and terms that did not provide adequate assurance that the project goals would be achieved to the fullest extent possible and that ARC funds would be used in the most cost-effective manner. Most of the sub-grantees either did not provide the required final reports or provided incomplete reports, which were needed by the grantee to evaluate and report the overall project results. Furthermore, the fixed amount paid to the sub-grantees exceeded the costs of activities performed in some cases resulting in unspent ARC funds that were not recovered and used to improve the project results or for other purposes. As a result, we questioned \$25,613 in costs charged to ARC funds, but not expended on the project.

OMB Circular A-110, section 45(c), allows MSU, as the primary grant recipient, to determine the type of procurement instrument to be used for procurements or sub-awards. However, the type used must be appropriate for the particular procurement and for promoting the best interest of the project or program. Part II of the ARC grant agreement requires primary recipients to assure that all contracting shall be at prices and on terms most advantageous to the grantee and project. A grant recipient's fiduciary responsibilities include ensuring that federal funds are properly and effectively used to promote the grant's objectives to the fullest extent possible.

The MSU Sponsored Programs Office, which approved the awards to the 13 sub-grantees, routinely used a fixed-price type of contracting arrangement for awarding work to non-university recipients such as local organizations and schools in this case. Under the fixed-price arrangement, MSU pays a pre-determined fixed amount for work specified in the contract terms. In awarding similar work to other universities, we were told MSU uses a reimbursable contract or agreement whereby the university (sub-grantee) is paid after the fact based on actual, documented costs.

The approved MSU project proposal included awarding some two-year sub-grants to communities, on a competitive selection basis, to assist them in performing activities to improve the college-going rate of traditionally underserved populations. This was a major focus and goal of the ARC grant. The selection process intended to give preference to the most distressed Mississippi counties and to projects where the lead fiscal and team leader for the project was a community-based organization such as economic development agency, local government, or chamber of commerce rather than a school. During the grant period, MSU awarded these sub-grants (technically referred to as "subcontracts") to 13 recipients involving activities at 14 high schools. In most of the awards, MSU provided \$10,000 in funding per year, with \$8,000 being paid to the sub-grantee at the time the subcontracts were signed and \$2,000 at the end when the reporting requirements had been met.

Our audit included evaluating the procurement actions and payments regarding these subcontracts. The scope of work section in the 13 subcontracts reviewed was the same and was very general. It did not mention any specific actions or deliverables expected for the fixed-price

that was established, but stated simply that "...the subcontractor agrees to provide it best efforts in performing the work set forth herein...and will assist the University in the conduct of programs and projects of the Sponsor (ARC) in accordance with Appendix B (the ARC-MSU grant agreement) which is incorporated by reference..." The proposal of each of the sub-grantee was attached to the subcontract as Appendix A, entitled "Research Award Sub-agreement, Scope of Work." However, it was not cited in the scope of work section or elsewhere in the subcontract body of terms to clearly show it was incorporated by reference or was otherwise a formal part of the scope of work. Thus, it appeared from the contract language that the activities and actions proposed by the sub-grantees were not a formal requirement to get paid the full amount and the only specific deliverable products or services that the sub-grantees had to provide were final Technical Reports and final Financial Reports as cited in section 7 of the terms and conditions.

We identified two problems that resulted from the use of the fixed-price subcontracts. They involved inadequate reporting and/or unspent funds as shown in Appendix I of the report. Ten of the 13 sub-grantees, involving activities at 12 high schools, did not fully meet the reporting requirements in the subcontracts. Four of them that were paid \$52,556 by MSU did not submit the required final reports. Six others that were paid \$87,200 submitted final reports, but omitted key information such as how many college visits were made, student feedback on the activities, and financial information on expenditures and cost-share.

The MSU project staff acknowledged problems in getting information from sub-grantees and that this impacted their ability to evaluate the project results. We were told that additional time and effort was spent trying to get data to evaluate the project results and prepare the final report for ARC. In some cases, the grantee was unable to obtain the data needed even with the additional effort and it was noted as missing from the results reported to ARC. The staff mentioned the fixed-price arrangement and terms as a factor in their feeling that they did not have much leverage over the sub-grantees to get better cooperation. The failure to comply with the reporting requirement and MSU inability to better enforce it not only impacted the ability to evaluate and document project success, it unnecessarily increased the project time and costs.

The four sub-grantees that reported financial information about their activities had \$25,613 in unspent funds (40%) of the total \$65,000 they were paid by MSU to perform their work. As shown in Appendix I, very few of the sub-grantees reported financial information so we could not determine what the actual unspent total was on all the subcontracts; however, we have questioned the \$25,613 in reported unspent funds that were charged to the ARC grant and not used to further the objective of the project.

At the exit conference, the director of sponsored programs was in general agreement with the finding as presented, but did not indicate what action would be taken to address the issue.

Recommendations

MSU should:

1. In the future, use reimbursable procurement procedures and ensure that they are in compliance with the federal requirements, including a requirement that the sub-grantees submit accurate and timely performance and financial reports.
2. Follow-up to obtain documentation for all funds awarded to the sub-grantees, and if unsuccessful, explore avenues available, with the assistance of ARC, to recover or use the unspent funds for other eligible purposes.
3. Follow-up to obtain documentation to support the program results and if unsuccessful, determine in conjunction with ARC the appropriate action to take.
4. If necessary, revise the final financial report and return any unused funds to ARC.

Grantee Response

MSU stated in its response that:

1. In the future, it will use reimbursable procurement procedures and ensure that they are in compliance with the federal requirements, including a requirement that sub-grantees submit accurate and timely performance and financial reports.
2. The principal investigator has discussed the sub-grantee issue with ARC. It was decided that MSU would request a no-cost extension through June 30 2013, to allow time for MSU to obtain the necessary documentation from its sub-grantees.
3. The extension will allow MSU to obtain the documentation to support the program results.
4. Since MSU is requesting a no-cost extension, it will not revise the final financial report at this time.

Auditor's Comments

The response provided by the grantee is sufficient to close out recommendation number one. Since corrective actions have not been completed for recommendations 2-4, they should remain open and ARC will determine whether the proposed actions identified in the grantee's response are adequate to resolve the recommendations or whether additional actions are needed.

B. Documenting Third-Party Cost-Share

MSU did not have documentation in its records to verify and support the total third-party cost share amount reported to ARC on grant MS-16115. Some of the cost reported was based on estimates provided by third parties because MSU had not obtained reports from those organizations to accurately document the amounts. As a result, we consider \$20,062 of the total \$31,914 reported as third-party cost share to be unallowable due to inadequate support.

Section 23 of OMB Circular A-110 requires all contributions, including third party in-kind costs, to be documented and verifiable in the grantee's records in order to be allowable. The ARC Grant Administration Manual states that grantees must maintain documentation on third party or in-kind contributions used for match requirements, including at least a listing of sources, how contributions were valued, and invoices to support services and other expenditures.

The MSU Assistant Comptroller for Sponsored Programs Accounting (SPA) was responsible for preparing and submitting financial information to ARC, including amounts required to meet the grant cost-share requirements. Their written procedures for reporting of cost-share amounts stated that the SPA would ensure that all third party cost-share amounts were documented and reported to the sponsor. The MSU procedures did not require that the cost-share documentation reflect the actual services or support contributed and that the related actual costs or values to be established in accordance with the OMB Circular A-110 requirements. In addition, the procedures did not require the documentation to be verified and placed in the MSU files prior to reporting the amounts to ARC.

The revised grant budget included \$491,073 in required cost-share from MSU or other non-federal sources. At the time of our on-site visit, the grant had been completed and closed. The final financial information submitted to ARC reflected \$385,176 in total cost-share, which included \$31,914 in third-party, in-kind contributions. The third-party cost-share involved planned contributions by the sub-grantees, including costs for providing bus drivers for college visits, substitute teachers, space, internet service, and other support. The supporting documentation for this amount provided by the SPA were copies of several project progress reports submitted to ARC by the principal investigator. We reviewed the reports and found that the amounts were described as "estimates" provided to the principal investigator by the sub-grantees and were not based on reports or documentation from the sub-grantees.

Based on the guidance provided in the ARC manual and OMB Circular A-110, acceptable documentation would include data submitted by the sub-grantees that would allow independent verification of the amount for services or other contributions that were actually provided, not just planned, and that the related costs were reasonable. Using the few reports submitted by the sub-grantees that contained financial information, we were able to verify \$11,852 as being reasonable and allowable as noted below.

Sub-Grantees

**Verified Match Costs Reported
To ARC**

Kemper County	\$ 762
Columbus Public Schools	3,644
Project Attention	7,446
Total	\$11,852

Since most sub-grantees did not submit documentation to show its actual costs, we have questioned \$20,062 of the \$31,914 in costs reported to ARC as third-party cost-share.

At the exit conference, the director of sponsored programs stated that he understood the issue, but wanted to discuss it with the accounting and program staff to see what documents were available before making a final decision on the matter.

Recommendations

MSU should:

1. Revise its written procedures regarding cost-share or match to ensure that (a) the documentation reflects the actual services or support contributed and the related actual costs or values are established in accordance with the OMB Circular A-110 requirements and (b) the documentation has been verified and placed in the MSU files prior to reporting the amount to ARC.
2. Either obtain proper documentation to support the \$20,062 considered unallowable or adjust the final report amount on the grant and refund to ARC any funds not properly supported in accordance with the A-110 and ARC requirements.

Grantee Response

MSU stated in its response that:

1. Its operating procedures regarding cost-share and match have been revised to ensure that (a) the documentation reflects the actual services or support contributed and the related costs or values are established in accordance with the OMB Circular A-110 requirements and (b) the documentation has been verified and placed in the MSU files prior to reporting the amount to ARC.

- 2. During the extension period, it will obtain the proper documentation to support the third-party cost share.

Auditor's Comments

The response provided by the grantee is sufficient to close out recommendation number one. Recommendation number two should remain open until the grantee completes its proposed corrective action and ARC determines whether the actions taken by grantee are adequate to resolve this recommendation.

Appendix I

Schools Submitting Inadequate Reports or Having Unused Funds

Sub-grantees	Schools	Total MSU Payments	Final Report Submitted		Adequate Report Data		Unspent Funds
			Y	N	Y	N	
Kemper County	Kemper High	\$ 20,000	*X	-	X	-	*\$3,083
Project Attention	Corinth High	15,000	X	-	X	-	5,966
Columbus Public Schools	Columbus High	15,000	-	X	-	-	unknown
Mississippi U. for Women	Columbus High	15,000	X	-	X	-	-0-
Noxubee County	Noxubee High	18,000	-	X	-	-	unknown
CREATE Foundation	Starkville High	11,556	-	X	-	-	unknown
Winston County	Louisville High	20,000	X	-	-	X	unknown
Chickasaw County	Houlka High	10,000	X	-	-	X	7,064
City of Houlka	Houlka High	8,000	-	X	-	-	unknown
Choctaw County	Weir High & Ackerman High	20,000	X	-	-	X	9,500
Webster County	Eudora High & East Webster High	20,000	X	-	-	X	unknown
CREATE Foundation	East & West Oktibbeha High	12,000	X	-	-	X	unknown
Okolona School District	Okolona High	5,200	X	-	-	X	unknown
Totals		\$189,756	9	4	3	6	\$25,613

* Report only covered one-year period although obtained funds for two years.



**Appendix II
Grantee Response**

Leon Snead Company

From: Jennifer Easley [JEasley@spa.msstate.edu]
Sent: Wednesday, December 05, 2012 5:02 PM
To: Leon Snead & Company; Richard Swann
Cc: Denise Peoples; Matthew E. Capella
Subject: Re: ARC Audit Reports for Mississippi State University - Grant Numbers 16778 and 16115
Attachments: ARC 342848 Response to Draft Dec 12_2.doc; ARC 363938 Response to Draft Dec 12_1.doc

Leon,

I've recently moved into Richard Swann's position at Mississippi State University, so he forwarded your email to me in order to respond. Please see attached for MSU's response to your recommendations and let me know if you need more information or a more formal response (i.e., signed on letterhead).

Best Regards,
Jennifer

Jennifer Easley, CMA
Director
Sponsored Programs Administration
Mississippi State University
662.325.3751

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>>> "Leon Snead & Company" <leonsnead.companypc@erols.com> 11/26/2012 11:20 AM >>>
Mr. Swann:

Attached are two draft reports that we completed on Grant Numbers 16778 and 16115 awarded by ARC to the Mississippi State University, Sponsored Programs Administration for your review and comments. Please review the findings and recommendations and provide your response to the recommendations by December 10, 2012. Thanks very much for your assistance with the review. If you have any questions, please e-mail or call me.

Leon Snead
(301) 738-8190

**Response to Draft Report
Project Number MS-16115
MSU Fund 363938**

RESULTS OF AUDIT

Contracting with Sub-grantees

1. In the future, we will use reimbursable procurement procedures and ensure that they are in compliance with the federal requirements, including a requirement that the sub-grantees submit accurate and timely performance and financial reports.
2. The principle investigator, Phil Hardwick, has discussed our sub-grantee issue with ARC and we have decided to request a no-cost extension through June 30, 2013. This will allow us to obtain the necessary documentation from our sub-grantees.
3. The extension will allow us to obtain the documentation to support the program results.
4. Since we are requesting a no-cost extension, we will not revise the final financial report at this time.

Processing Third-Party Cost Share

1. The operating procedures regarding cost share and match have been revised to ensure that (a) the documentation reflects the actual services or support contributed and the related costs or values are established in accordance with the OMB Circular A-110 requirements and (b) the documentation has been verified and placed in the MSU files prior to reporting the amount to the sponsor.
2. During the extension period, we will obtain the proper documentation to support the third-party cost share.