
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Auburn University Montgomery
Montgomery, Alabama**

**Final Report No. 18-01
Project Number: AL-18053
October 2017**

Prepared by:

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Leon Snead & Company, P.C. completed an audit of grant number AL-18053 awarded by the Appalachian Regional Commission (ARC) to Auburn University at Montgomery (AUM). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

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 funds were generally managed and expended in accordance with the budget and other applicable requirements, and the amounts sampled and tested were adequately supported except for some indirect costs and costs for contracted professional services. Indirect costs of \$10,855 reimbursed by ARC were questioned because the federally approved indirect rate plan was not used to calculate the costs. Contract costs of \$185,000 paid for professional services and reimbursed by ARC were questioned because there was inadequate supporting documentation to justify the sole source award and verify the costs paid were fair and reasonable. The required non-federal match funding amounts were met and adequately supported. The performance measures and actual results discussed in the final project report reflected some positive results under the grant. However, we were unable to fully evaluate overall grant performance and determine if the grant goals were fully met because of problems with how the metrics were initially established, inconsistencies between the project plan and final report, and questions about the accuracy of quantitative results reported. We included this item in the audit report as an observation for management attention. The questioned costs and recommended corrective actions are discussed in the Findings and Recommendations section of this report.

A draft report was provided to AUM on September 8, 2017, for comments. AUM provided a response to the report on October 6, 2017. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the AUM 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 AL-18053 awarded by the Appalachian Regional Commission (ARC) to Auburn University Montgomery (AUM) in Montgomery, Alabama. 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 provided ARC funding to support a project to develop an entry-level Forestry Worker Certification program. Certification included developing and providing training in a number of areas like landscaping, pesticide use, and urban forestry to those seeking employment in the industry, current employees, and teachers. The training would include both live instruction in industry meetings and high school classes throughout the Alabama Appalachian region, and through web-based educational materials placed on the Green Industry Web Portal through the Green Industry Training Initiative. Other partners with AUM on the project included the Alabama Forestry Association, Alabama Department of Education, and Alabama Forestry Commission. AUM staff administered the overall grant and project, including overseeing contractors and AUM technical staff who were performing tasks, such as designing and implementing web-based training, and providing user support.

The grant was awarded in September 2015, covering the period February 1, 2015 to July 31, 2016, extended to January 31, 2017. It provided \$297,000 in ARC funding and required \$297,000 in non-ARC funding match from AUM. The ARC funding was primarily intended for paying AUM salary and fringe, contractual costs, and indirect costs. Non-ARC match funding was planned to be obtained from cash contributions and also in-kind contributions including free training to participants. The grant had ended and was administratively closed out by ARC at the time of the audit. AUM had been reimbursed by ARC for \$296,692 in total expenditures, and reported that \$297,000 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 and examined supporting documentation on \$270,652 in ARC funds expended, and on \$297,000 of non-ARC matching costs reported, to determine whether the charges were adequately supported and allowable. The on-site fieldwork was performed at AUM campus offices in Montgomery, Alabama during July 31 to August 4, 2017.

We reviewed documentation provided by AUM, including information on AU main campus procedures followed by AUM, and interviewed AUM personnel to obtain an overall understanding of the grant activities, accounting system, and general operating procedures and controls applicable to the grant scope. We reviewed financial and project progress reports to

determine if they were submitted to ARC in accordance with requirements. We reviewed the most recent A-133 audit reports 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 terms, 2 CFR Section 200 and the ARC Code. We also considered Alabama State procurement requirements that were applicable to AUM and the grant. The audit was performed in accordance with *Government Auditing Standards*.

Summary of Audit Results

Grant funds were generally managed and expended in accordance with the budget and other applicable requirements, and the amounts sampled and tested were adequately supported except for some indirect costs and costs for contracted professional services. Indirect costs of \$10,855 reimbursed by ARC were questioned because the federally approved indirect rate plan was not used to calculate the costs. Contract costs of \$185,000 paid for professional services and reimbursed by ARC were questioned because there was inadequate supporting documentation to justify the sole source award and verify the costs paid were fair and reasonable. The required non-federal match funding amounts were met and adequately supported.

The performance measures and actual results discussed in the final project report reflected some positive results under the grant. However, we were unable to fully evaluate overall grant performance and determine if the grant goals were fully met because of problems with how the metrics were initially established, inconsistencies between the project plan and final report, and questions about the accuracy of quantitative results reported. We included this item in the audit report as an observation for management attention.

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

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

Findings and Recommendations

A. Calculating Allowable Indirect Costs

The grantee charged \$26,998 as indirect cost based on an unsubstantiated indirect cost rate which provided more funds to the grantee than by using the Federal rate. A portion of which, exceeded the allowable amount under the grant. This occurred because an incorrect method for calculating indirect costs was used to prepare the grant budget and the budget amount was used to determine the amount of costs to request for reimbursement. Using the correct basis for determining the costs would have resulted in \$16,143 of allowable costs. AUM charged the grant, and was reimbursed by ARC, for \$26,998 of indirect costs. As a result, \$10,855 of indirect costs reimbursed to AUM is questioned and should be refunded to the ARC.

AUM had an approved indirect cost plan and rate from its cognizant agency (HHS) at the time the grant application and budget was submitted and the grant was awarded by ARC. The approved plan allowed AUM to calculate indirect costs by applying a rate of 30% (for off-campus programs such as the grant project) to a cost base of total direct salaries (excluding fringe costs). In reviewing indirect costs charged to the grant, we determined AUM calculated estimated indirect costs for the proposed grant budget using a 10% rate and applying it to estimated total direct costs including salaries, fringe, and contractual. This resulted in estimated indirect costs of \$27,000. The ARC approved grant stated that costs would be determined in general accord with the budget submitted on 8/13/2015 subject to terms of the agreement and pertinent ARC Code provisions. The final total amount of indirect costs billed by AUM, and reimbursed by ARC, was \$26,998 which was consistent with the budget methodology of applying 10% to total direct costs including salaries, fringe, and contractual.

Discussions were held with AUM staff to determine why an indirect rate and cost base, different than the approved federal rate and base, was used to prepare the budget and charge costs. They thought, but were not certain, that it might have been based on guidance from ARC, perhaps in the Request for Proposal (RFP) for the grant. According to an ARC official, the indirect cost rate was not discussed. Despite lacking the supporting documentation, staff considered ARC's approval of the budget as being an approval to use the different rate and base.

In accordance with 2 CFR 200.403 costs must be consistent with policies and procedures that apply uniformly to both federal and non-federal activities and costs must be accorded consistent treatment in order to be considered allowable.

Recommendation

AUM should:

1. Recalculate the indirect costs using the HHS approved rate and base costs and refund the \$10,855 to ARC that was over billed under the grant or justify to ARC the use of the rate included in the grant award.

Grantee's Response

AUM stated in its response that the justification for the indirect rate used for the ARC agreement is based on the amount of salaries included in the budget. They indicated the indirect that would have been applied to the limited salaries included in this agreement did not reflect the administrative burden required to carry out the work. Using a lower rate (10%) than the federally approved rate (30%), but applying it to all direct costs, more comprehensively covered the administrative burden required to do this work. This was the rate in the proposal and invoices submitted to and paid by ARC. However, AUM concurs that other than the awarded proposal and paid invoices, no documentation has been provided that specifically acknowledges agreement of or approval for use of an indirect rate other than the federally approved rate. Thus, AUM is prepared to repay the \$10,855 to ARC if requested.

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. Supporting Grant Procurements and Costs

AUM awarded a \$185,000 contract for professional services non-competitively without any written evidence that the price was fair and reasonable. This occurred because AUM considered the type of services involved to be exempt from competitive bidding requirement under its procurement policies and from requirements for sole source justification. As a result, AUM did not have any supporting documentation, either in the form of competitive bids, a written sole source justification, or some type of price or cost analysis to support the contract price as being fair and reasonable. Therefore, the \$185,000 charged to the grant and reimbursed by ARC is questioned as allowable costs under the grant.

The procurement standards applicable to the states for federal funds are provided in 2 CFR 200.317. These standards state that “when procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal Funds.

The Alabama code section 41-16-20 (a) states that, “with the exception of contracts for public works whose competitive bidding requirements are governed exclusively by Title 39, all contracts of whatever nature for labor, services, work, or for the purchase or lease of materials, equipment, supplies, other personal property or other nonprofessional services, involving \$15,000 or more, made by or on behalf of any state department, board, bureau, commission, institution or office shall, except as otherwise provided in this article, be let by free and open competitive bidding, on sealed bids, to the lowest responsible bidder. The procurement procedures of AUM states that” Alabama law mandates that there be public competition for purchases involving \$15,000 or more. Therefore, competitive, sealed bids are required if the item needed is not already covered on an existing University contract.”

AUM awarded a \$185,000 contract to Enterprise Technologies, LLC (ET) to perform professional services needed under the grant project. The contract tasks included: reviewing video content, curriculum, and web portal construction requirements; providing system demonstrations, maintenance and support; and providing training. The contract was awarded without competitive procedures and without written justification for a sole source award. One reason given by AUM staff for not competing the contract was that one of the project collaborators, Green Industry Web Portal (GIWP), had previously used ET for similar work.

AUM staff said their use of a Professional Service Contract (PSC) in this case automatically meant that it was unnecessary to follow competitive steps. AU’s Spending Policies and Procedures, Section 7, recognizes that for “certain” services (although no examples are given) an additional, more comprehensive contract is appropriate and in those situations the PSC is simply part of the overall processing for approval, and a separate, detailed contract would be appropriate. We believe the type of services related to the ET contract fit that description and process, so that competitive steps should not have been automatically ruled out.

The award should have been viewed as a professional services contract subject to competitive procedures, or there should have been written documentation to support the decision to award the contract on a sole source basis. Having neither competitive bids to examine, nor a sole source justification to show the basis for the award and reasonableness of the price agreed to, we do not

consider the ET contract costs charged to the grant to be adequately supported. Accordingly, we question the \$185,000 charged to the grant and reimbursed by ARC, and recommend corrective actions.

Recommendations

AUM should:

1. Refund the \$185,000 unless justification can be provided that Enterprise Technology LLC was the only qualified source that could reasonably perform the tasks and services obtained under the contract, and that the contract price agreed to and costs paid were fair and reasonable and consistent with market prices.
2. Ensure professional services that can reasonably be competitively awarded are done so, and that a sole source justification is prepared for professional services when applicable.

Grantee's Response

The grantee provided the following response:

AUM does not concur with the recommendation that a refund of \$185,000 should be made or that the professional services charged to the project should have been competitively awarded or a sole source justification issued. AUM completed the work on the project and provided documentation to the sponsor. AUM agrees that we entered into a professional services contract for \$185,000 provided by Enterprise Technologies, a technology company.

The university followed 2 CFR 200.317 that states "when procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal Funds." The university followed its policy which complies with the state law. Auburn University at Montgomery has its own Board of Directors and is governed by sections 41-16-20 and 41-16-21 of the Alabama Code. Section 41-16-20 provides the general guidance for bid requirements and section 41-16-21 provides exemptions from competitive bidding:

41-16-20 - When required

With the exception of contracts for public works whose competitive bidding requirements are governed exclusively by Title 39, all contracts of whatever nature for labor, services, work, or for the purchase or lease of materials, equipment, supplies, other personal property or other nonprofessional services, involving fifteen thousand dollars (\$15,000) or more, made by or on behalf of any state department, board, bureau, commission, committee, institution, corporation, authority, or office shall, except as otherwise provided in this article, be let by free and open competitive bidding, on sealed bids, to the lowest responsible bidder

41-16-21 Exemptions

Competitive bids shall not be required for utility services where no competition exists or where rates are fixed by law or ordinance, and the competitive bidding requirements of this article

shall not apply to: The purchase of insurance by the state; contracts for the securing of services of attorneys, physicians, architects, teachers, artists, appraisers, engineers, or other individuals possessing a high degree of professional skill where the personality of the individual plays a decisive part;

The services provided by Enterprise Technology meet the definition of 41-16-21 and are exempt from competitive bidding. Enterprise Technology's contribution to the grant required them to have a "high degree of professional skill where the personality of the individual plays a decisive part". As stated in the auditor's report, the company had previous collaborations with AUM and experience related to the tasks for this project. The services were not common ones that could be bid out as the working relationship and abilities of Enterprise Technologies were critical to meeting the objectives of the grant. Following the Code of Alabama and AUM policies, the contract was correctly identified as being exempt from the bid law. Sole source justifications are required when work does not meet the exemption from being competitively bid, and it is determined that only a single vendor can perform the work. Because these services on this project were exempt, they did not require a sole source justification.

The above justification clearly shows that AUM is in compliance with 2 CFR 200.317 and 41-16-21, AUM completed the project to the satisfaction of the awarding agency and should not be asked to return \$185,000 as a result of being in non-compliance.

AUM reviews the awarding of services with a high degree of scrutiny as management is committed to staying in compliance with federal and state law, regulations and other guidance in addition to the policies of the university. We appreciate the feedback provided by Leon Snead & Company, P.C. We will continue to examine our practices for opportunities to strengthen compliance and service.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendations.

Observation

Measuring and Reporting Grant Performance

There were inconsistencies between the planned performance measures contained in the project plan and the actual results reported to ARC, and some of the quantified measures were not accurate and adequately supported. This occurred because the grantee did not follow ARC guidance on performance measurement and did not fully verify actual results before reporting them to ARC. As a result, planned and actual results could not be accurately compared to determine if the grant goals and objectives were met.

All federal and ARC funded grant projects must have documented output and outcome performance measures to evaluate the project results and justify the expenditures. Grantees are expected to include these measures in the project plan submitted to obtain the grant, and to present and explain the actual results in the interim and final project reports. ARC has established a "Guide to ARC Project Performance Measures (rev. July 2016)" for grantees and program staff to use, which lists and defines the measures that may be used. Every ARC project must have at least one output and one outcome measure from the lists.

The approved project plan for grant AL-18053 cited some general benefits from the project, such as "more forestry-related companies locating in Alabama because of better trained people under the grant," for which there were no formal metrics established. However, there were a number of quantified measures established as outputs and outcomes--such as "750 participants receiving training," and "400 trained participants that being referred to employers"--to demonstrate grant results and benefits. In reviewing actual results presented in the final project report submitted to ARC, several problems were identified making it difficult to compare and verify planned vs. actual results and reach a reasonable conclusion on whether or not the grant goals were met.

In reviewing the numbers for actual results reported to ARC, we could not fully verify the accuracy for most measures, either because the documents provided to us did not support the number(s) reported, AUM did not have or provide supporting documentation, or the report contained percentages rather than the specific number or used imprecise terms like "just over 44%."

Auburn University at Montgomery
Response to Draft September 2017 Report
of
Project No: AL-18053
Forestry Worker Certification Program

Findings and Recommendations

A. Calculating Allowable Indirect Costs

Response to A.1: Auburn University at Montgomery's (AUM) justification for the indirect rate used for the ARC agreement is based on the amount of salaries included in the budget. The indirect that would have been applied to the limited salaries included in this agreement did not reflect the administrative burden required to carry out the work. Using a lower rate (10%) than the federally approved rate (30%), but applying it to all direct costs, more comprehensively covered the administrative burden required to do this work. This was the rate in the proposal and invoices submitted to and paid by ARC. However, AUM concurs that other than the awarded proposal and paid invoices, no documentation has been provided that specifically acknowledges agreement of or approval for use of an indirect rate other than the federally approved rate. Thus, AUM is prepared to repay the \$10,855 to ARC if requested.

B. Supporting Grant Procurements and Costs

Response to B.1 and B.2: Auburn University at Montgomery (AUM) does not concur with the recommendation that a refund of \$185,000 should be made or that the professional services charged to the project should have been competitively awarded or a sole source justification issued. AUM completed the work on the project and provided documentation to the sponsor. AUM agrees that we entered into a professional services contract for \$185,000 provided by Enterprise Technologies, a technology company.

The university followed 2 CFR 200.317 that states "when procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal Funds." The university followed its policy which complies with the state law. Auburn University at Montgomery has its own Board of Directors and is governed by sections 41-16-20 and 41-16-21 of the Alabama Code. Section 41-16-20 provides the general guidance for bid requirements and section 41-16-21 provides exemptions from competitive bidding:

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The services provided by Enterprise Technology meet the definition of 41-16-21 and are exempt from competitive bidding. Enterprise Technology's contribution to the grant required them to have a "high degree of professional skill where the personality of the individual plays a decisive part". As stated in the auditor's report, the company had previous collaborations with AUM and experience related to the tasks for this project. The services were not common ones that could be bid out as the working relationship and abilities of Enterprise Technologies were critical to meeting the objectives of the grant. Following the Code of Alabama and AUM policies, the contract was correctly identified as being exempt from the bid law. Sole source justifications are required when work does not meet the exemption from being competitively bid, and it is determined that only a single vendor can perform the work. Because these services on this project were exempt, they did not require a sole source justification.

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Auburn University at Montgomery reviews the awarding of services with a high degree of scrutiny as management is committed to staying in compliance with federal and state law, regulations and other guidance in addition to the policies of the university. We appreciate the feedback provided by Leon Snead & Company, P.C. We will continue to examine our practices for opportunities to strengthen compliance and service.

Observation

Thank you for your Observation on the final report. We will incorporate suggestions into future projects and reports. We are grateful for your comments and suggestions.