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**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD
Mayland Community College
Spruce Pine, North Carolina**

**Final Report Number: 19-02
Grant Number: NC-18321
October 2018**

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



LEON SNEAD
& COMPANY, P.C.

Certified Public Accountants
& Management Consultants

416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
fax: 301-738-8210
leonsnead.companypc@erols.com

October 16, 2018

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, N.W.
Washington, DC 20009

Leon Snead & Company, P.C. completed an audit of grant number NC-18321 awarded by the Appalachian Regional Commission (ARC) to Mayland Community College (MCC). 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 established performance measures were met or likely to be met.

Overall, MCC's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. Internal controls and processes relating to equipment purchased with grant funds were in place and functioning properly. The ARC and non-ARC matching funds, claimed and reported as direct costs of the training programs, contained an obligation which occurred prior to the beginning of Grant NC-18321-15's period of performance. As a result, we questioned the entire amount of \$21,549 as prior period costs (\$8,742 in ARC funds and \$12,807 in non-ARC matching funds) that were reported to the ARC. Another cost reported to the ARC was supported by a vendor's invoice that contained double charges for sales tax (\$26,063). When a refund of the duplicate sales tax charge was received from the vendor, MCC did not report the refund to the ARC, nor did it record any portion of it as an ARC grant-related refund. As a result, we calculated and questioned the ARC grant portion of the refund (\$10,574) as an overstated equipment cost. The issues identified, questioned costs, and recommended corrective actions are discussed in the Finding and Recommendations section of this report.

Leon Snead & Company appreciates the cooperation and assistance received from the MCC 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 NC-18321 awarded by the Appalachian Regional Commission (ARC) to Mayland Community College (MCC). 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 MCC funding support for its mechatronics and robotics training programs at its Yancey County Campus (YCC). The funding provided additional equipment at the YCC upon which student training can take place. With the new equipment, MCC is able to provide state of the art equipment in its mechatronics and robotics programs. The Director of Resource Development and the Office of Administrative Service's staff administered the grant for MCC at its Spruce Pine 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 established performance measures were met or likely to be met.

Grant NC-18321 originally covered the period October 1, 2015 to April 30, 2016, but was subsequently modified to end April 20, 2017. Overall project costs were budgeted at \$608,533, which consisted of \$250,000 in ARC grant funds and \$358,533 in non-ARC matching funds. The percentage breakout of ARC to non-ARC funding for the overall project was 41% ARC funds and 59% non-ARC matching funds.

A total of \$249,499 in grant funds was expended and reimbursed by ARC, and \$365,504 was reported in non-ARC matching funds as of April 20, 2017. As of October 23, 2017, all funds had been expended for the grant. Of the expenditures charged to the grant and claimed for reimbursement, we tested all amounts to determine whether the charges were properly supported and allowable. We also tested all matching costs reported to determine whether the charges were properly supported and allowable. Because it was not readily apparent from the Reimbursement Requests (SF-270s) what costs were claimed, we tested all equipment expenses recorded by MCC during the period of performance of the grant, resulting in \$648,191, more expenses tested than were claimed. Total audit coverage was 100 percent of total equipment costs claimed.

We reviewed documentation provided by MCC, visited the YCC campus to inspect the use and condition of equipment, and interviewed MCC 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 most recent annual financial statement audit report, which included nearly 10 months of the nearly 17-month period of grant performance, to identify any issues significantly impacting the ARC grant and audit. The financial statements for

the first period of performance were not audited. We reviewed matching funds documentation to determine if requirements were met. We evaluated grant results discussed in the final project progress report to determine if the planned performance measures and goals and objectives were met.

The on-site fieldwork was performed at MCC's Spruce Pine Campus offices and Yancey County Campus facilities during August 20-23, 2018. The preliminary results were discussed with MCC staff and officers during and at the conclusion of the on-site visit. They understood the issues and actions recommended regarding questioning certain claimed costs.

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

Summary of Audit Results

Overall, MCC's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. Internal controls and processes relating to equipment purchased with grant funds were in place and functioning properly.

MCC accounts for its financial activities utilizing the cash basis of accounting during its fiscal year and then prepares annual financial statements on an accrual basis, which does not provide for recognizing obligations associated with the procurement of equipment when they first arise. Instead, MCC must adjust accounting records to accommodate the requirements for reporting Federal grant activities. As a result, the ARC and non-ARC costs sampled and tested were supported, but the reporting of these costs to the ARC contained errors and omissions. For example, the costs claimed were not specifically identified with costs recorded which caused the accounting office at MCC to provide us with six vendors' invoices for equipment purchases, two of which were not claimed on the Requests for Reimbursement (SF-270s) and the supporting Reimbursement Request Worksheets.

The ARC and non-ARC matching funds, claimed and reported as direct costs of the training programs contained one cost, the obligation which occurred prior to the beginning of Grant NC-18321-15's period of performance. As a result, we questioned the entire amount of \$21,549 as prior period costs (\$8,742 in ARC funds and \$12,807 in non-ARC matching funds) that were reported to the ARC.

Another cost reported to the ARC was supported by a vendor's invoice that contained double charges for sales tax (\$26,063). When a refund of the duplicate sales tax charge was received from the vendor, MCC did not report the refund to the ARC, nor did it record any portion of it as an ARC grant-related refund. As a result, we calculated and questioned the ARC grant portion of the refund (\$10,574) as an overstated equipment cost.

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

Findings and Recommendations

A. Questioned Costs

1. Costs Incurred Before Grant Award

We questioned the use of \$8,742 in ARC funds because supporting documentation disclosed that MCC placed an order for the equipment costing \$21,549 on March 23, 2015, over six months prior to the beginning of the ARC grant's period of performance. The period of performance is defined as the time during which the non-Federal entity may incur new obligations to carry out the work authorized under the Federal award (2 CFR 200.77). Obligations are orders placed for property and services, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period (2 CFR 200.71).

Although MCC placed the order on March 23, 2015, it paid for the equipment on November 18, 2015, which was within the period of performance of this grant. The reason this item was included in MCC's financial report and Request for Reimbursement was that it maintained its accounting system on a cash basis and the obligation, which would be recorded in an accrual based accounting system, was not recorded in its accounting system. Only the cash disbursement to the vendor was recorded, and that entry was dated November 18, 2015.

The cash basis of accounting instead of the accrual basis of accounting is used for Community Colleges in North Carolina. The financial statements are revised at yearend to reflect the accrual method of accounting, which adjusts purchases to reflect them as an accounts payable as of June 30, 2015, the end of MCC's fiscal year, if they are not yet paid. Accrual accounting was not used for preparing the Requests for Reimbursement (SF-270s) and the supporting Reimbursement Request Worksheets during the period of performance of the grant (October 1, 2015 through April 20, 2017) until MCC submitted its last Reimbursement Request.

By adjusting its cash basis accounting records to the accrual basis of accounting at year end, MCC could produce financial statements that comport to the requirements of Generally Accepted Accounting Principles (GAAP) and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200).

The Office of the State Auditor of North Carolina audited the financial statements of MCC for the Fiscal Year ended June 30, 2017. North Carolina only requires audits of community college financial statements every two years (biennially), and then the State Auditor's Office only audits the most recent fiscal year of the two-year period. This requirement does not meet the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200.504 which requires that if biennial audits are required by State constitution or statute, then the biennial audit must cover both years within the biennial period. North Carolina's State Auditor did not audit fiscal year 2016 in its biennial audit for fiscal year 2017. If it had, this error may have been found and MCC could have corrected its reporting to the ARC sooner. We concluded that MCC was not in compliance with the 2 CFR 200.504 that applies to the ARC grant awarded to it.

2. Sales Taxes Claimed Twice

MCC reported that the robotic arm and assembly tables/conveyor belt cost \$412,186. The support was a vendor's invoice for that amount dated March 8, 2017. However, on April 12, 2017, MCC received a refund of \$26,063 for sales taxes. It was noted that sales tax of 6.75% had been included in the \$386,123 vendor's bid for the equipment and then applied again to the bid amount of \$386,123 on its invoice, which totaled \$412,186. When MCC received the refund, it recorded the amount as a credit to the matching part of the program costs. MCC did not allocate and record a portion of the credit to its ARC grant accounts and to any of its financial reports to the ARC. Accordingly, we calculated the ARC portion of the refund to be 40.57% of the total refund, or \$10,574. The questioned costs are listed in the table below.

1	Costs incurred prior to the Grant's Period of Performance	\$21,548.56	\$ 8,742
2	Costs due to unreported vendor's refund of sales tax	\$26,063.28	\$10,574
	Total ARC Grant Portion that MCC should refund (40.57%)		\$19,316*

*Total ARC-funded share of Questioned Costs

Recommendations

1. MCC should repay the ARC for 1) equipment purchased prior to the beginning of the grant period, and 2) for failure to allocate a portion of a vendor's refund of sales tax as a credit to the ARC Grant.
2. MCC should also notify the State Auditor of North Carolina and the ARC Project Director that it was in noncompliance with 2 CFR 200.504 during the period of performance of this grant. This noncompliance with the applicable Federal regulations may make MCC ineligible to accept any Federal grant funding for fiscal year 2016 unless it obtains a financial statement audit for fiscal year 2016.

Grantee's Response

The grantee responded that while they concur with recommendation number one, they do not concur with recommendation number two. They included an email from the State Auditor that indicated that all North Carolina community colleges are covered annually by the statewide single audit regardless if audit work was performed in regard to federal compliance. The grantee also included links to the North Carolina Office of the State Auditor's website, which included copies of the 2016 and 2017 statewide single audit reports. The State Auditor pointed out that MCC is included in the Schedule of Expenditure of Federal Awards for both years. Lastly, the State Auditor noted that the biannual financial statement audit is completed to ensure compliance with the state general statute regarding the financial statement audit.

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.

Leon Snead Company

From: McDaniel, Lexie L [lmcDaniel@mayland.edu]
Sent: Wednesday, October 10, 2018 2:07 PM
To: Leon Snead & Company
Cc: Boyd, John; Greene, Timothy W
Subject: RE: Draft Report - Audit of ARC Grant No. NC-18321

The President and the Vice President of Administrative Services have reviewed the draft report and have the following comments:

Regarding Recommendation #1: We concur

Regarding Recommendation #2: We do not concur, per statement from auditor below.

Please advise if further information/input is required.

Thank you,
Lexie McDaniel
Director of Resource Development
Mayland Community College

From: David Ehricht <David_Ehricht@ncauditor.net>
Sent: Monday, October 8, 2018 11:34 AM
To: Greene, Timothy W <tgreene@mayland.edu>
Subject: RE: Audit

Tim,
This requirement is for the College's single audit over compliance with federal programs. All NC community colleges are covered annually by the statewide single audit regardless if audit work was performed at the college in regards to federal compliance.

See below for links to our website with the 2016 and 2017 statewide single audit reports. If you search on these documents you will note that Mayland is included in the Schedule of Expenditure of Federal Awards.

<http://www.ncauditor.net/EPSTWeb/Reports/Financial/FSA-2017-8730.pdf>

<http://www.ncauditor.net/EPSTWeb/Reports/Financial/FSA-2016-8730.pdf>

You biannual financial statement audit is completed to ensure compliance with state general statute regarding the financial statement audit.

Let me know if you have any further questions.

Thanks

David Ehricht, CPA
Assistant State Auditor - Supervisor
Office of the State Auditor - Asheville
31 College Pl.

Doppler Building, Suite 304
Asheville, NC 28801
Office 828-251-6234 or 828-251-6115
david_ehricht@ncauditor.net

From: Leon Snead & Company <leonsnead.companypc@erols.com>
Sent: Friday, September 14, 2018 11:41 AM
To: McDaniel, Lexie L <lmcdaniel@mayland.edu>
Subject: Draft Report - Audit of ARC Grant No. NC-18321

Good Morning Ms. McDaniel,

Attached is a copy of the draft report on the above referenced audit for your review and comments. Please provide your comments by October 12, 2018. 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
(301) 738-8190

