
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

**AUDIT OF GRANT AWARD
Isothermal Community College
Spindale, North Carolina**

**Final Report Number: 19-31
Grant Number: NC-18643**

June 2019

Prepared by:

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June 25, 2019

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Leon Snead & Company, P.C. completed an audit of grant number NC-18643 awarded by the Appalachian Regional Commission (ARC) to Isothermal Community College (ICC). 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.

ICC's administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant. Grant matching requirements were fully met. Direct costs charged to ARC funds were properly supported and allowable. However, we questioned \$39,911 of indirect costs reimbursed to ICC because the method used to calculate these costs was not in compliance 2 CFR 200 requirements and resulted in excess claims. Planned performance measures related to improving participating organizations and implementing enhanced training programs were fully met. Progress on two measures related to students served and improved was less than planned due to unexpected early project delays, but project staff expected them to be met by the completion of the grant. ICC had an adequate process in place for obtaining and recording data related to the overall goals of the grant. However, ICC needs to improve on how this data is reported to the ARC. The issues identified and questioned costs are discussed in the Findings and Recommendations section of the report.

A draft report was provided to ICC on May 21, 2019, for comments. ICC provided a response to the report on June 13, 2019, which is included in this report as an Appendix.

Leon Snead & Company appreciates the cooperation and assistance received from the ICC 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-18643 awarded by the Appalachian Regional Commission (ARC) to Isothermal Community College (ICC). 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 \$987,940 to ICC and required \$250,000 in match for a total estimated project cost of \$1,237,940. The period of performance is from October 1, 2016 to September 30, 2019, and the project was still active at the time of the audit. As of January 31, 2019, ICC reported total project expenditures of \$893,896.

The project is part of a region-wide effort to re-brand manufacturing to newer developing industries, such as automotive and aerospace, that would provide new career opportunities and jobs for the area. The ARC grant provides funding to improve these efforts by enhancing the manufacturing curriculum and equipment available at the high school and college levels and by increasing community awareness and changing perceptions about manufacturing jobs.

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.

We reviewed \$445,015 of the total \$643,896 expenditures charged to ARC funds to determine whether they were properly supported and allowable. ICC's total reported matching costs were \$250,000. We reviewed all \$250,000 of these matching costs to determine whether they were properly supported and allowable.

We reviewed documentation provided by ICC and interviewed personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed written policies and administrative procedures applicable to the grant to determine if they complied with federal requirements and were adequate to administer the grant. We reviewed financial and project performance reports to determine if they were submitted in accordance with requirements. We evaluated grant results discussed in interim project reports to determine if the planned performance goals and objectives were being met.

The on-site fieldwork was performed at ICC's Spindale, North Carolina campus during the period of April 22-26, 2019. The preliminary audit results were discussed with ICC officials at the conclusion of the on-site visit. The grantee was in general agreement with the preliminary audit results but did not fully agree with all aspects of the issue regarding indirect 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

ICC's administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant. Grant matching requirements were fully met. Financial and project performance reports were submitted to ARC timely.

Direct costs charged to ARC funds tested were properly supported and allowable. However, we questioned \$39,911 of indirect costs reimbursed to ICC because the method used to calculate these costs was not in compliance 2 CFR 200 requirements and resulted in excess claims.

We determined ICC had a generally adequate process in place for obtaining and recording data related to the overall goals of the grant. However, we noted one area that needs to be improved regarding how the data is being reported to ARC.

Planned performance measures related to improving participating organizations and implementing enhanced training programs were fully met. Progress on two measures related to students served and improved was less than planned due to unexpected early project delays, but project staff expected them to be met by the completion of the grant. Specifically, as of January 31, 2019, grantee outputs showed 256 students served out of a projected 300 and three of three organizations served. Grantee outcomes were 62 students improved out of a projected 160; three of three organizations improved; and four of four programs improved.

The majority of ARC funds awarded to the grantee was for purchasing equipment needed to implement the enhanced training curricula established under the grant. We determined that the items purchased were in place at ICC's main campus and being used in accordance with the grant agreement. The grantee's related purchasing policies and procedures were generally adequate for use on this grant.

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

Findings and Recommendations

A. Indirect Costs

ICC elected to charge indirect costs to federal grants using the 10% de minimis rate. This policy was reflected in section V of their Grants Office Manual. However, the written policy did not establish what cost base the 10% rate should be applied to when calculating indirect costs. We were told that ICC applies the 10% rate to “total direct costs” for the particular project, not to modified total direct costs (MTDC) as required under 2 CFR 200. The estimated budget prepared by ICC in applying for the ARC grant audited included \$112,540 for indirect costs. This amount reflected 10% of the total project direct costs of \$1,125,400, which included \$250,000 of required matching costs. As of the most recent SF-270 financial report for the period ended January 31, 2019, ICC had requested and been reimbursed a total of \$81,263 for indirect costs, which were calculated based on total incurred direct costs of \$812,633.

2 CFR 200.414(f) provides that non-federal grantees who have never had a negotiated, approved indirect cost rate can charge and be reimbursed for indirect costs based on a de minimis rate of 10% of MTDC. Section 200.68 defines MTDC as all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to \$25,000 of each subaward under the award. It excludes equipment, capital expenditures, rental costs, tuition remission, scholarships and fellowships, participant support costs, and amounts of subawards over \$25,000. By excluding equipment cost of \$705,000 from the budgeted amount, the MTDC would be \$420,400. This amount would be the basis for computing the 10% indirect cost amount recoverable under the grant.

Applying the 10% rate to total project costs rather than to MTDC has resulted in recording, reporting, and being reimbursed for indirect costs that exceed the allowable amounts under the CFR. ICC staff told us that ARC program staff approved charging indirect costs based on 10% of total direct costs, and they provided related email documentation. In reviewing the emails, it appeared that the ARC staff did indicate ICC could request reimbursement for indirect costs based on total direct costs, and that required match funding could be included in that total.

Using ICC's financial information supporting the grant costs, we identified \$679,700 of equipment costs, \$4,951 of participant costs, and \$1,926 in scholarship costs that are not allowable in the cost base for determining indirect costs under requirements in section 200.68. By excluding these costs, we determined the MTDC base as of January 31, 2019 to be \$126,056. By applying the 10% de minimis rate to the modified cost base we determined that the allowable indirect cost was \$12,606. Since ICC had requested and been reimbursed a total of \$81,263 indirect costs, we are questioning \$68,657 of these indirect costs. We did not recommend reimbursement of \$68,657 because \$41,352 of indirect costs is eligible for recovery based on the MTDC. Using this amount, the reimbursement to ARC should be \$39,911 (\$81,263 minus \$41,352).

Recommendations

The ICC Controller should:

1. Reimburse the \$39,911 of questioned costs to ARC and correct the accounting records to reflect the correct amount that should be charged to the grant.
2. Establish written policies and procedures that will ensure indirect costs on ARC grants are calculated consistent with the 2 CFR 200 requirements.

Grantee's Response

ICC responded to the first recommendation: "...Because Isothermal was acting in good faith upon guidance from ARC, we believe the recommended payback penalty should not be assessed. Instead, in light of the fact that the total amount of funds reimbursed to Isothermal as of 1/31/2019 (the end date of the most recent reporting period), including direct and indirect costs, *does not exceed* the total amount awarded by the ARC for this project, we suggest that the ARC allow Isothermal to continue implementing the project as planned, with the guarantee that: a) Isothermal will neither incur nor request reimbursement for expenditures totaling any more than the originally awarded amount of \$987,940, and b) from 2/1/2019 onward, Isothermal will properly charge the de minimis 10% indirect cost rate to the correct cost base of modified total direct costs (MTDC), as required by 2 CFR 200."

In response to the second recommendation to establish written policies and procedures, ICC stated "Isothermal would like to inform the ARC that the college's Controller and Grants Coordinator have updated the Isothermal Grants Office Manual and are working to align other relevant policies and procedures to ensure that indirect costs are calculated properly and in accordance with the 2 CFR 200 requirements on all federal grants, including ARC grants. A copy of the updated Grants Office Manual is enclosed with this correspondence. The relevant section on indirect costs may be found on page twelve."

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.

B. Performance Measures

The overall purpose of the project was to move students from training pathways providing hands-on experience and credentials in advanced manufacturing into high-quality jobs and careers. The approved work plan placed an emphasis on jobs and careers in the automotive and aerospace industries. The two main performance measures established were the planned output of 300 students served and the planned outcome of 160 students improved. The most recent information on actual results showed 256 students served and 62 students improved.

In reviewing and discussing actual results on these two measures, we determined that data was not being reported in a manner that would show how much of the results related to the automotive and aerospace industries. Rather, the data reported to ARC reflected student results only for manufacturing in general. For example, the student was considered improved if they were working in or getting additional training opportunities in a manufacturing company, whether or not it was an automotive or aerospace manufacturer or supplier.

ICC was collecting and reporting results on these two measures consistent with the measures established by the grant. However, considering the emphasis placed on automotive and aerospace manufacturing in the grant documents, we believe reporting actual results on the student measures related to the automotive and aerospace sectors would be more consistent with the rationale and benefits detailed in the grant documents and allow for a more accurate evaluation of grant results.

ICC project staff provided us data showing local companies considered part of the automotive and aerospace industry and students participating in the grant programs who were working for or training under them. Thus, the necessary data needed to better report results on the two focus areas appears to be reasonably available.

Recommendation

The ICC project coordinator should discuss with ARC staff how to best restructure the student-related outputs and outcomes and/or the narrative to better show results for automotive and aerospace manufacturing; and also decide if results on student-related measures should be reported to ARC after the grant ends to more fully document the overall success of the grant project with regard to jobs and careers.

Grantee's Response

The grantee stated "In response to recommendation number three, Isothermal would like to propose that the Isothermal Project Coordinator provide the following to the ARC:

- a. An overall progress report, covering the entire grant period through 1/31/2019, with the data showing local companies considered part of the automotive and aerospace industry and the students participating in the grant programs who have worked for or trained under them; as stated in the draft report, this data is "reasonably available."
- b. All subsequent progress reports, from 2/1/2019 and on, will follow the format of and include the content in the report described above.

- c. Isothermal plans to request a grant extension through May 31, 2020. If approved, this will give the college more time to "report results on student-related measures" to the ARC within the regular grant period. At the close of the grant, Isothermal will work with the ARC to determine whether outputs and outcomes should continue being reported thereafter."

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.

ISOTHERMAL

COMMUNITY COLLEGE

www.isothermal.edu

Office Of The President

Walter Dalton

June 13, 2019

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

RE: Response to draft audit report for ARC Project No. NC-18643

To Whom It May Concern:

Isothermal Community College appreciates the ARC's support and investment in this project and the professionalism of the auditor from Leon Snead & Company who visited our campus from April 22-26, 2019 to perform a review of ARC project number NC-18643: Perception, Pathways, and Project-Based Learning in Automotive and Aerospace Manufacturing.

We have received the auditor's draft report and would like to address the three recommendations found therein. Please find below Isothermal's response and suggested courses of action to sufficiently address the audit findings and recommendations.

Recommendation 1: "Reimburse the \$39,911 of questioned costs to ARC and correct the accounting records to reflect the correct amount that should be charged to the grant."

- In response to recommendation number one, Isothermal would like to reiterate that "ARC staff did indicate ICC could request reimbursement for indirect costs based on total direct costs, and that required match funding could be included in that total," as evidenced by email conversations between the ARC Program Contact and Isothermal's Grant Coordinator, as well as between other ARC staff. Additionally, these costs were included in the official budget, approved by the ARC at the outset of the project. Because Isothermal was acting in good faith upon guidance from ARC, we believe the recommended payback penalty should not be assessed.
- Instead, in light of the fact that the total amount of funds reimbursed to Isothermal as of 1/31/2019 (the end date of the most recent reporting period), including direct and indirect costs, *does not exceed* the total amount awarded by the ARC for this project, we suggest that the ARC allow Isothermal to continue implementing the project as planned, with the guarantee that:
 - a. Isothermal will neither incur nor request reimbursement for expenditures totaling any more than the originally awarded amount of \$987,940, and

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- b. From 2/1/2019 onward, Isothermal will properly charge the de minimis 10% indirect cost rate to the correct cost base of modified total direct costs (MTDC), as required by 2 CFR 200.

Recommendation 2: “Establish written policies and procedures that will ensure indirect costs on ARC grants are calculated consistent with the 2 CFR 200 requirements.”

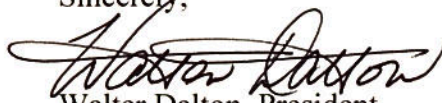
- In response to recommendation number two, Isothermal would like to inform the ARC that the college’s Controller and Grants Coordinator have updated the Isothermal Grants Office Manual and are working to align other relevant policies and procedures to ensure that indirect costs are calculated properly and in accordance with the 2 CFR 200 requirements on all federal grants, including ARC grants. A copy of the updated Grants Office Manual is enclosed with this correspondence. The relevant section on indirect costs may be found on page twelve.

Recommendation 3: “The ICC project coordinator should discuss with ARC staff how to best restructure the student-related outputs and outcomes and/or the narrative to better show results for automotive and aerospace manufacturing; and also decide if results on student-related measures should be reported to ARC after the grant ends to more fully document the overall success of the grant project with regard to jobs and careers.”

- In response to recommendation number three, Isothermal would like to propose that the Isothermal Project Coordinator provide the following to the ARC:
 - a. An overall progress report, covering the entire grant period through 1/31/2019, with the data showing local companies considered part of the automotive and aerospace industry and the students participating in the grant programs who have worked for or trained under them; as stated in the draft report, this data is “reasonably available.”
 - b. All subsequent progress reports, from 2/1/2019 and on, will follow the format of and include the content in the report described above.
 - c. Isothermal plans to request a grant extension through May 31, 2020. If approved, this will give the college more time to “report results on student-related measures” to the ARC within the regular grant period. At the close of the grant, Isothermal will work with the ARC to determine whether outputs and outcomes should continue being reported thereafter.

Thank you for your attention to these matters and your consideration of Isothermal’s responses and suggestions above. We welcome your feedback and look forward to reaching an agreement on the above items. The ARC is a valued college partner, and Isothermal wishes to continue our history of positive collaboration.

Sincerely,


Walter Dalton, President
Isothermal Community College
Spindale, NC