
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**North Georgia College and State University
Georgia Appalachian Center for Higher Education Project
Dahlonega, Georgia**

**Project Number: GA-15187
July 2012**

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



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July 2, 2012

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

Leon Snead & Company, P.C. has completed an audit of grant number GA-15187 awarded by the Appalachian Regional Commission (ARC) to the North Georgia College and State University (NGCSU). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

The primary objective of the audit was 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.

The audit identified \$788,726 in unsupported matching costs and a weakness in reporting requirement that need to be addressed to improve the financial management of the ARC grant. In addition, the audit determined that NGCSU was making progress on achieving the goals of the project. A detailed discussion of the issues is presented in the "Results of Audit" section of the report.

A draft report was provided to NGCSU on May 24, 2012. NGCSU provided a response to the report on June 25, 2012, addressing the audit recommendations. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the NGCSU staff during the audit.

Sincerely,

Leon Snead & Company, P.C.
Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed a review of grant GA-15187 awarded by the Appalachian Regional Commission (ARC) to the North Georgia College and State University (NGCSU). The review was made at the request of the ARC, Office of the Inspector General, to assist the office in its oversight of ARC grant funds.

The grant was awarded in September 2005, to provide funding for the Georgia Appalachian Center for Higher Education (GACHE) project designed to increase the number of students from Appalachian Georgia that attend college after high school. The initial grant award was \$85,000, and subsequent amendments increased the ARC funding to \$1,548,880. As of January 31, 2012, incurred expenditures were \$1,328,035. The grant requires matching funds of \$1,662,551.

Objectives, Scope, and Methodology

The review objectives were to determine whether: (1) program funds were managed in accordance with the ARC and federal grant terms and requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines and best practices, including program (internal) controls, were appropriate 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 goals and objectives of the grant were met.

We reviewed the documentation provided and interviewed NGCSU's staff to obtain an overall understanding of the project, the accounting process, and operating procedures. We reviewed the Requests for Advance or Reimbursement (SF-270) submitted to ARC and tested a sample of costs charged to the project to determine whether the charges were adequately supported and allowable. In that regard, we focused our testing on expenditures for the period March 1, 2010 through January 31, 2012. For that period, the total reported grant expenditures were \$651,479 and the reported matching costs were \$788,726. We also reviewed the most recent Single Audit report to determine whether there were any issues that affected the ARC grant.

As a basis for determining whether the costs charged to the grant were allowable and whether NGCSU had complied with the applicable Federal requirements, we used the provisions of the grant agreement, applicable Office of Management and Budget (OMB) Circulars, and the relevant parts of the ARC Code. The review was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed at NGCSU's offices in Dahlonega, Georgia, during the period of March 19-21, 2012.

Although our review disclosed that non-matching direct costs were adequately supported, we identified \$788,726 in unsupported matching costs and a weakness in reporting requirement that need to be addressed to improve the financial management of the ARC grant. These areas and our recommended corrective actions are discussed in the Results of Review section of the report.

The goals of the Program are to increase high school graduation rates and post secondary school enrollment rates in Appalachian Georgia. Overall, we found that NGCSU had an adequate

process for obtaining and recording data related to those goals. While there are no specific numeric goals for the Program, the data provided by NGCSU indicated that progress is being made to increase high school graduation and post secondary school enrollment rates.

RESULTS OF REVIEW

A. Questioned Matching Costs

The OMB cost principles (2 CFR, Part 215.23) state that all contributions, including cash and third party in-kind, used to meet the matching requirements must be verifiable from the recipient's records. We questioned the entire \$788,726 reported as matching costs for the period March 1, 2010 through January 31, 2012, because the costs were not based on actual costs and could not be verified from NGCSU's records. Furthermore, NGCSU did not have an approved indirect cost rate to support the indirect costs used as matching costs for the period beginning July 2010.

We questioned matching costs totaling \$788,726 that were included in the six most recent SF-270s, as summarized below.

Date of SF-270	Period Covered	Direct Costs	Indirect Costs	Total
06/15/10	03/01/10 - 05/31/10	\$108,953	\$18,630	\$127,583
10/18/10	06/01/10 - 09/30/10	108,953	23,650	132,603
02/22/11	10/01/10 - 01/31/11	108,953	23,650	132,603
06/15/11	02/01/11 - 05/31/11	108,953	23,650	132,603
10/31/11	06/01/11 - 09/30/11	108,334	23,333	131,667
02/24/12	10/01/11 - 01/31/12	108,334	23,333	131,667
	Totals	<u>\$652,480</u>	<u>\$136,246</u>	<u>\$788,726</u>

The reported matching costs were based on the amounts included in the respective annual grant budgets, and not on actual expenditures. Specifically, the amount reported for each period was one-third of the matching costs included in the annual grant budget, which covered that period. For example, the matching costs of \$132,603 for the four-month period ending January 31, 2011, were one-third of the matching cost budget of \$397,810 for July 1, 2010 through June 30, 2011. The budget for the period included direct costs of \$326,860 and indirect costs of \$70,950. There was no documentation supporting the reported matching costs, as discussed below.

Direct Costs - The matching direct costs of \$326,860 included in the grant budget and reported as matching costs, consisted of the following:

1. Personnel and Fringe Benefits - The budget indicated that \$225,750 was for: (a) five percent of the salaries of the GACHE Project Manager and Webmaster and related fixed charges and (b) four Regional Educational Service Agency (RESA) employees "...dedicated to GACHE..." The RESA amounts were based on commitment letters that included a lump sum amount for salaries, space for meetings, and overhead costs. There was no documentation showing the actual time spent by the GACHE staff on the project and the related salary costs or the costs incurred by the RESA staff related to the project.
2. Travel - The budget indicated that \$17,000 was for attendance at regional meetings and conferences; visits to area schools, colleges, technical schools; and local travel. There

was no documentation, such as travel vouchers and trip reports showing the actual costs incurred for these activities. Furthermore, the description of the matching travel costs was basically the same as the budget description for the travel costs to be funded by the ARC grant.

3. Supplies - The budget indicated that \$16,110 was for printing large clearing-house style specialty checks for presentation to each of the schools at the Check Presentation Ceremony when grants are awarded. There was no documentation showing the actual costs incurred.
4. Contractual - The budget indicated that \$53,000 was for matching contributions, which represented the required 20 percent match from each funded school. There was no documentation showing the actual contributions from each school.
5. Other - The budget indicated that \$15,000 was for trained community and campus volunteers to attend and assist with reading and scoring proposals from schools; attendance at regular Advisory Board meetings; travel to and from workshops and conferences; speakers for the Grant Presentation Ceremony; and travel by school teams to GACHE programs, meetings, and grant-writing workshops. There was no documentation showing the actual costs incurred on these activities.

Indirect Costs - The grant budget included indirect costs of \$70,950, which according to the budget narrative were based on the Federal negotiated rate of 42 percent for waived salaries and fringes. The costs were also included in the matching costs reported by NGCSU. There was no documentation showing the computation (the rate used and the bases to which the rate was applied) of the actual indirect costs for this period.

Furthermore, NGCSU did not have a current indirect cost rate agreement with its cognizant Federal agency. NGCSU's Indirect Cost Rate Agreement with the Department of Health and Human Services (HHS), dated October 23, 2006, established a predetermined rate of 43 percent for on-campus programs and 14 percent for off-campus programs for the period July 1, 2006 through June 30, 2010. The agreement allowed NGCSU to continue using those rates as provisional rates until the agreement is amended. Although NGCSU was required to submit a new indirect cost proposal by December 31, 2009, the proposal had not been submitted. We were told that NGCSU is in the process of preparing the required proposal.

Recommendations

NGCSU should:

1. Provide documentation supporting the amounts reported for the review period (March 1, 2010 through January 31, 2012) as matching direct costs and submit that documentation to ARC for review and approval.
2. Prepare and submit an indirect cost rate proposal to HHS for the period starting July 1, 2010.

3. Re-compute the matching indirect costs for the review period using the applicable rates for the period, and submit those computations to ARC for review and approval.
4. Ensure that the next Request for Advance or Reimbursement (SF-270) submitted to ARC reflects the adjusted matching cost amounts.

Grantee Response

NGCSU stated in its response:

1. It will provide documentation supporting the amounts reported for the review period (March 1, 2010 through January 31, 2012) to ARC for review and approval.
2. It has contacted HHS regarding its indirect cost rate proposal. NGCSU stated that HHS agreed to let them keep the most recent rate agreement, with the stipulation that once NGCSU merge with Gainesville State College a new rate agreement must be submitted.
3. Because HHS has agreed to let the current rates remain in effect, there will not be any need for NGCSU to recalculate the matching indirect costs.
4. Discussions have recently taken on the specifics of how NGCSU will begin implementing the submission of the SF-270s with the correct matching cost amounts.

Reviewer's Comments

ARC will determine whether the proposed or completed actions identified in the grantee's response are adequate to consider the recommendation resolved and implemented, or whether additional information or actions are needed.

B. Requests for Reimbursement

NGCSU did not have adequate procedures for reviewing SF-270s to ensure that they were accurate and adequately supported.

ARC requires NGCSU to submit an SF-270 every four months. The SF-270s for the ARC grant are prepared by the NGCSU Department of Education (DOE), while the SF-270s for other Federal grants are prepared by the NGCSU Business Office.

We found that the reported ARC grant expenditures were generally accurate and supported. However, the reported matching costs data, which was obtained by DOE from the GACHE Director, was not verified, and as noted in Finding A, the data was unsupported. We also identified a computation error on one SF-270, which resulted in the cumulative matching costs being understated by \$21,000. Specifically, the Reimbursement Request worksheet for the SF-270 dated October 31, 2011, showed year-to-date (YTD) matching indirect costs of \$288,239. The correct amount should have been \$309,239, or \$21,000 more than the amount reported. [YTD Costs from the prior SF-270 (\$285,906) plus Current Period Costs (\$23,333) = \$309,239.]

This error also caused the reported Total Grant Matching Costs and the Total Program Outlays to be overstated by the same amount, and this error carried through to the subsequent SF-270s. The error was not identified because the SF-270s were not reviewed.

Recommendations

NGCSU should:

1. Establish procedures for reviewing the SF-270s to ensure that (a) reported matching costs are supported and (b) all computations are accurate.
2. Consider transferring the responsibility for preparing the SF-270s for the ARC grant to the NGCSU Business Office.

Grantee Response

NGCSU stated in its response that the SF-270s will be submitted by the Program Accounting Specialist in the Business Office from now on. In addition, NGCSU stated that another accountant from the Business Office will also review the SF-270s.

Reviewer's Comments

ARC will determine whether the proposed or completed actions identified in the grantee's response are adequate to consider the recommendation resolved and implemented, or whether additional information or actions are needed.

Appendix I
Grantee Response



NORTH GEORGIA

COLLEGE & STATE UNIVERSITY.

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

Dear Mr. Snead:

We have reviewed the audit of ARC Grant Number GA-15187. We concur with the recommendations and are taking the following steps to comply:

A-1. We will provide documentation supporting the amounts reported for the review period (March 1, 2010 through January 31, 2012) to ARC for review and approval.

A-2. We have contacted the Department of Health & Human Services regarding our indirect cost rate proposal. They have agreed to let us keep our most recent rate agreement, with the stipulation that once we merge with Gainesville State College, a new rate agreement must be submitted.

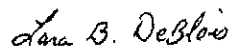
A-3. Because HHS has agreed to let the current rates remain in effect, there won't be any need for us to recalculate the matching indirect costs.

A-4. Kelley Roberts, Shirley Davis, Dana Turner and I met recently on the specifics of how we will begin implementing the submission of the SF-270s with the correct matching cost amounts.

B-1. The SF-270s will be submitted by the Program Accounting Specialist in the Business Office from now on. Another accountant from the Business Office will review as well.

B-2. Same as above.

Respectfully,



Lara B. DeBlois
Program Accounting Specialist
North Georgia College & State University

OFFICE OF THE COMPTROLLER

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