
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Marshall University Research Corporation
Appalachian Diabetes Control and Translation Project
Huntington, West Virginia**

**Final Report Number: 12-21
Project Number: CO-13956
September 2012**

**Prepared by
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Leon Snead & Company, P.C. has completed an audit of grant number CO-13956 awarded by the Appalachian Regional Commission (ARC) to the Marshall University Research Corporation (MURC). 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, MURC's financial and administrative procedures and related internal controls were adequate to manage the grant and funds reviewed. Our review of reported accomplishments by both MURC and the coalitions indicated that MURC's planned activities for providing funding, training, and technical assistance to the coalitions were being accomplished and that the coalitions were establishing programs aimed at controlling and preventing diabetes in their communities. The expenditures sampled and tested were generally reasonable and adequately documented. However, we identified one issue relating to sub-awards that needs to be addressed to improve the financial management of the grant. A detailed discussion of the issue is presented in the "Results of Audit" section of the report.

A draft report was provided to MURC on September 12, 2012, for comments. MURC provided a response to the report on September 24, 2012, addressing our audit recommendation. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the MURC and ARC 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 an audit of grant number CO-13956 awarded by the Appalachian Regional Commission (ARC) to the Marshall University Research Corporation (MURC). 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.

The ARC grant is a multi-year annual grant made to provide funding for the Appalachian Diabetes Control and Translation Project, which is a partnership among the Robert C. Byrd Center for Rural Health at Marshall University (MU), the Center for Disease Control (CDC), and ARC. The purpose of the project is to reduce the impact of diabetes on the people who live in high-risk or distressed counties in the Appalachian Region of the United States. Over the past 11 years, the project has provided technical assistance, training, and limited funding through sub-grants to facilitate the development of coalitions of non-profit and volunteer organizations to plan and implement community-based diabetes prevention and control programs.

The project is jointly funded by ARC and CDC. CDC transfers its share of funds to ARC, which is responsible for awarding and administering the grants. Over the past 11 years, ARC has awarded grants totaling about \$2.3 million, of which about 38 percent has been funded by ARC and 62 percent by CDC.

MURC is a non-profit state entity created by the West Virginia Legislature to further research and economic development activities within the state of West Virginia and is a component unit of MU. Both MURC and MU are located in Huntington, West Virginia.

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 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 grantee personnel to obtain an overall understanding of the grant activities, the accounting system, and the general operating procedures. We reviewed financial and project progress reports to determine whether they were submitted in accordance with the requirements. We reviewed a sample of \$294,965 in costs charged to the project to determine whether the charges were properly supported and allowable. In that regard, we focused the testing on expenditures for the period June 30, 2010 through June 29, 2012. We reviewed MURC's administrative procedures and related internal controls to determine whether they were adequate to administer the grant and funds. In addition, we reviewed the most recent financial statements audit report (including the related report on internal controls) to identify any issues that significantly impacted the ARC grant.

As a basis for determining whether the costs charged to the grant were allowable and whether MURC had complied with the applicable Federal requirements, we used the provisions of the grant agreement, 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 at MURC's office in Huntington, West Virginia during the period of August 8-15, 2012. The audit results were discussed with the MURC staff at the conclusion of the on-site visit.

We also reviewed the actions taken by MURC to address the recommendations contained in the study entitled, "Evaluation Report for Appalachian Diabetes Control and Translation Project," issued in October 2011 by the Prevention Research Center of Washington University. The study was performed under a \$143,000 contract awarded by MURC and funded by the ARC grant. MURC's principal investigator (PI) for the project agreed with 19 of the 20 recommendations, but disagreed with the recommendation to provide monetary incentives to coalition members to attend meetings. The actions taken or planned to address the recommendations appear to be adequate and appropriate.

Overall, MURC's financial and administrative procedures and related internal controls were adequate to manage the grant and funds reviewed. The independent evaluation of the project by the Prevention Research Center of Washington University concluded that the coalitions provide a valued service and promote activities that help manage and prevent diabetes. In addition, our review of reported accomplishments by both MURC and the coalitions indicated that MURC's planned activities for providing funding, training, and technical assistance to the coalitions were being accomplished and that the coalitions were establishing programs aimed at controlling and preventing diabetes in their communities. The expenditures sampled and tested were generally reasonable and adequately documented. However, we identified one issue that needs to be addressed to improve the financial management of the grant. This issue and our recommended corrective action are discussed in the Results of Audit section of the report.

RESULTS OF AUDIT

Sub-awards

An undated paper entitled, "A Regional Model for Facilitating Community-based Diabetes Prevention and Control," which was prepared by the PI, noted a concern that recipients of startup subgrants were not required to account for or report on the use of grant funds. The ARC, Office of the Inspector General, requested that we determine what actions had been taken to address this issue and whether those actions were adequate.

We found that MURC established a new reporting requirement for the \$40,000 sub-awards made in 2012. The sub-award agreements require the recipient to submit quarterly invoice/financial reports that identify current and cumulative expenditures for each object class (e.g. wages, equipment, supplies) included in the budget. The agreement also includes a clause that allows MURC, its agents, and federal auditors/officials to have access to the recipient's financial and other records.

We believe that accountability can be improved by requiring recipients to provide additional information with its quarterly invoice/financial reports. For example, the budget for one of the agreements reviewed included \$20,350 (over 50% of the grant award), for "Other." Requiring the recipient to report only total expenditures for this category does not provide sufficient information to ensure that the funds were spent properly.

The PI indicated that more specific financial reporting was unnecessary because the recipients provide detailed budgets and narratives in their work plans, which are monitored by technical assistance through site visits and narrative reports.

Recommendation

MURC should require recipients to identify the specific charges comprising the expenditures reported on quarterly invoice/financial reports.

Grantee Response

MURC stated in its response that while the sub-award invoices are consistent with the budgets presented in each contractual agreement at the current time, it will now require sub recipients to provide additional detail on expenses reported on invoices, including a delineation of charges made in the "other" object class category. MURC also stated that since the current sub-award agreements on this project have an end date of December 31, 2012, to coincide with the end of the grant cycle, it anticipate implementing this requirement in conjunction with new sub-award agreements on this project beginning on January 1, 2013.

Auditor's Comments

The proposed actions identified in the grantee's response are adequate to resolve and implement the recommendation. The finding should be closed out.

Appendix I
Grantee Response



Marshall University Research Corporation

September 24, 2012

Leon Shead & Company, P.C.

Re: ARC Audit Report Response

To Whom It May Concern:

As the fiscal agent for Dr. Richard Crespo's ARC project grant (CO-13956), we have reviewed the audit report based upon the on-site examination conducted by Mr. Andy Fedak on behalf of the Appalachian Regional Commission. Although we believe that our internal procedures have been adequate to properly monitor subaward agreements issued from the subject award, we take no issue with the recommendations relative to receiving more detailed expenditure information to ensure proper compliance with the terms of the conditions therein.

As Mr. Fedak noted during the exit interview at the completion of his audit, MURC has made recent procedural changes to its compliance processes to more effectively monitor all awards received on behalf of our university research partners. To that end, our subaward agreements specifically include a provision to enable MURC to examine the financial records of its subawardees at any time during the effective dates of the contract period.

While the subaward invoices are consistent with the budgets presented in each contractual agreement at the current time, we will (based upon the report recommendations) now require subrecipients to provide additional detail on expenses reported on invoices, including a delineation of charges made in the "other" object class category.

Since the current subaward agreements on this project have an end date 12/31/2012 to coincide with the end of the grant cycle, we anticipate implementing this requirement in conjunction with new subaward agreements on this project beginning on 1/1/2013.

If this is satisfactory for full compliance with the audit report recommendations, please respond as soon as possible to enable us to promptly revise the subaward agreement form and document the revised process in keeping with our continuous improvement initiative.

Sincerely,

Joe Ciccarello,
Assoc. Executive Director
Director, Grants & Contracts

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