APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL

AUDIT OF GRANT AWARD

Mississippi State University
Mississippi State, Mississippi

Final Report Number: 13-04
Project Number: MS-16778
December 2012

Prepared by
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December 14, 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 MS-16778 awarded by the Appalachian Regional Commission (ARC) to Mississippi State University (MSU). 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, the MSU financial management and administrative procedures and related internal controls were adequate to manage the ARC grant and funds reviewed. We identified some procurement-related issues that need to be corrected to fully comply with the federal requirements. Most of the costs reviewed were reasonable and adequately documented; however, we questioned $61,671 in grant costs due to the procurement-related issues and questioned $31,520 in third-party cost-share costs due to inadequate supporting documentation. The grant had only recently ended so some performance data was still being collected. However, in reviewing the available data, no significant matters were identified with the overall grant performance metrics and results. A detailed discussion of the issues is presented in the "Results of Audit" section of the report.

A draft report was provided to MSU on November 26, 2012, for comments. MSU provided a response to the report on December 5, 2012, addressing our audit recommendations, which was sufficient to closeout five of the eight recommendations. (see Grantee Response at Appendix I)

Leon Snead & Company appreciates the cooperation and assistance received from the MSU and ARC staff 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 MS-16778 awarded by the Appalachian Regional Commission (ARC) to Mississippi State University (MSU). 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.

ARC awarded the grant to support MSU efforts on Project Navigator, which was intended to work with families with newborns and small children to help improve the children's lives. The project focused on the most distressed counties within the Mississippi Appalachian Region and included providing hospitals with DVD training materials and take-home kits for families with a newborn child. It also involved the use of "Community Coaches" to foster community involvement and "navigators" to provide in-home support to parents of small children including helping them develop parenting skills and obtaining needed social services or other assistance.

The approved grant was for a total estimated cost of $750,081, including $600,000 in ARC funds, $76,364 in non-federal funding provided by MSU, and $73,717 in non-federal funding from third-party contributions. The original period of performance was from October 1, 2010 to September 30, 2011; however, it was extended to September 30, 2012, due to delays resulting from extreme weather in the areas where grant activities were occurring and related staff disruptions. The grant work was completed at the time of our audit and MSU was beginning to document the results and prepare for closing the grant.

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) internal grant guidelines, including program (internal) controls, were appropriate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) 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 project, the accounting system, and operating procedures. We reviewed financial and other required reports to determine whether they were properly supported and submitted in accordance with the requirements. We reviewed a sample of 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 1, 2011 through May 31, 2012. The total reported grant expenditures for that period were $405,703. We reviewed the MSU administrative procedures and related internal controls to ensure they were adequate to administer the grant and funds. We also reviewed the most recent Single Audit report to determine whether there were any issues that impacted the ARC grant.

The primary criteria used in performing the audit were the specific grant terms and requirements, 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 during the period of October 1-12, 2012, including on-site work at the MSU offices in Mississippi State, Mississippi. The audit results were discussed with the MSU staff at the conclusion of the on-site visit.

Overall, the MSU financial management and administrative procedures and related internal controls reviewed were adequate to manage the ARC grant and funds reviewed. We identified some procurement-related issues that need to be corrected to fully comply with the federal requirements. Most of the costs reviewed were reasonable and adequately documented; however, we questioned $61,671 in grant costs due to the procurement-related issues and questioned $31,520 in third-party cost-share costs due to inadequate supporting documentation. The grant had only recently ended so some performance data was still being collected. However, in reviewing the available data, no significant matters were identified with the overall grant performance metrics and results. The areas needing improvement, the questioned costs, and our recommended corrective actions are discussed in the Results of Audit section of the report.

RESULTS OF AUDIT

A. Procurement Standards

The MSU written policies did not fully comply with the procurement requirements in OMB Circular A-110, sections 40 through 48. OMB Circular A-110 allows grantees to follow its procurement system and policies in making acquisitions under federal grants as long as the system and policies meet certain standards. These include: ensuring that all procurement transactions are conducted in a manner to provide to the maximum extent practicable open and free competition; requiring that a cost or price analysis is performed and documented on every procurement; and requiring contract records to be established that include the basis for contractor selection, justification for lack of competition, and basis for the award cost or price.

Our review and discussion of the written policies within the MSU Procurement Office and Sponsored Programs Office disclosed that all of the standards are not specifically addressed or required. For example, competition is not always required. We were told that MSU follows the state's policies for competition on commodity purchases, but it is exempt from the state's requirements for competition in procuring professional and consultant services. Therefore, it does not have a written policy that requires or encourages competitive methods for procuring services, regardless of the dollar threshold or other circumstances. OMB Circular A-110, section 43, states that all procurements shall be conducted to provide competition to the maximum extent possible. Although competitive methods were used for some services on the ARC grant, we believe MSU needs to establish a formal policy to ensure that it is done consistently to be in full compliance with the federal requirements.

Similarly, the MSU written procurement policies we reviewed did not discuss or require either cost or price analysis to be performed and documented as required under OMB Circular A-110, section 45. We did not identify any significant issues on the ARC grant regarding lack of price analysis or procurement records, mainly because they were lower value procurements, under $25,000. However, we believe that MSU needs to establish written policies and procedures to specifically address price analysis and competition in accordance with the A-110 procurement standards.

At the exit conference, the director of sponsored programs was in general agreement with the finding as presented, but did not indicate what action would be taken to address the issue.

Recommendation

MSU should coordinate with its Federal cognizant audit agency to ensure that its policies and procedures adequately cover the requirements in OMB Circular A-110, sections 40-48.

Grantee Response

MSU stated in its response that it will include language in its procurement manual to be in compliance with OMB Circular A-110, sections 40-48.

Auditor's Comments

This recommendation should remain open until the grantee provides evidence to ARC that its procurement manual has been revised to include the above referenced changes.

B. Formal Contracts

MSU did not provide documentation to show that written contracts were awarded for work performed by four consultants under grant MS-16778. As a result, we have questioned the allowability of $61,671 in costs claimed by the grantee.

In performing the grant work, MSU planned to award consultant contracts to have "coaches" in the five highest risk distressed counties in which grant work was planned. These coaches were to work with community groups to help them develop and stay focused on activities to learn about poverty and discuss solutions. The MSU proposal and grant-approved budget included $62,400 for two consultants based on an estimated cost of $50 per hour, 12 hours per week for 52 weeks. MSU subsequently decided to use four coaches and selected one individual in each of four counties from the five highest-risk counties they had identified.

Under MSU policies and procedures, the grant project office (in this case the MSU Extension School of Human Sciences) should have obtained internal approval and signatures for the contracts using established forms and submitted the approved forms and the completed proposed contracts (using a standard services contract) to the Sponsored Programs Office (SPO). For the types of services to be acquired in this case, a standard formal contract document had been developed that included the terms and conditions both required by federal regulations and deemed appropriate by MSU. The SPO is responsible for approving and signing the contract(s) and mailing them to the contractors for signature and the project office (the principal investigator) is required to maintain the original copy of the executed contract for use in processing payments.

We requested a copy of each contract awarded so we could review them. Neither the project office nor the SPO staff was able to find and provide copies of the written contracts during our visit. Because MSU was unable to provide copies of the written contracts to formally establish what work was to be performed and at what costs, we question the allowability of the $61,671 for the coaching costs charged to the grant and reimbursed by ARC as of May 31, 2012.

At the exit conference, the director of sponsored programs agreed that formal contracts should have been used, but disagreed with the related questioned costs. The director stated that they had other means to validate the costs on the work performed by the coaches, but did not provide that information since the key staff who had that information was not at the exit conference.

Recommendations

MSU should:

1. Implement internal controls to ensure that written contracts are prepared for future services when required.

2. In the future, follow the established policy and procedures in place to prepare and award contracts consistent with the federal requirements.

3. Obtain and provide the documentation needed to determine the allowable costs for the four coaching contracts.

4. If necessary, make appropriate adjustments to the amounts previously paid and adjust the accounting records accordingly. If overpayments occurred, recover the funds and obtain ARC approval as to how to handle the use of the funds recovered.

Grantee Response

MSU stated in its response that:

1. It has implemented policy 65.04, Securing and Paying Honorarium, Speakers, Consultants and Independent Contractors. MSU also stated that this policy should improve the internal controls to ensure written contracts are prepared for future services when required.

2. It will follow its established policy and procedures to prepare and award contracts consistent with the federal requirements.

3. The notebooks kept by the four coaches were made available to the auditor to demonstrate their work. MSU stated that this documentation can be provided again, if needed.

4. At this point, there will be no adjustment to the amounts previously paid.

Auditor's Comments

The response provided by the grantee is sufficient to close out recommendations 1 and 2. Recommendations 3 and 4 should remain open and ARC will determine whether the proposed actions identified in the grantee's response are adequate to resolve the recommendations or whether additional information or actions are needed. We noted that the grantee provided the notebooks in lieu of written contracts, which are recommended.

C. Third-Party Cost-Share

MSU did not have documentation in its records to verify the total third-party cost share that was reported to ARC as being achieved on the grant. As a result, we consider the $31,520 reported to ARC at the time of the review to be unsupported due to inadequate and incomplete documentation.

Section 23 of OMB Circular A-110 requires all contributions, including third party in-kind costs, to be documented and verifiable in the grantee's records in order to be allowable. The ARC Grant Administration Manual states that grantee's must maintain documentation on third party or in-kind contributions used for match requirements including at least a listing of sources, how contributions were valued, and invoices to support services and other expenditures. Neither A-110 nor the ARC Manual specifically state at what point this documentation must exist; i.e., whether when the match amounts are reported to ARC or simply at the end of the grant when the final billing is submitted for grant closeout. In our opinion, based on effective accounting and financial procedures, all amounts recorded by the grantee and reported to the sponsoring agency as cost-share or match should have the required support in the grantee's files at the time they are reported. If the match amount is recorded and reported on an interim basis, it should be documented as required at that time. If the amount is only reported at the closeout stage in the final bill, it should be documented at that time as required.

The MSU Assistant Comptroller for Sponsored Programs Accounting office (SPA), which handles financial reporting and other aspects of sponsored grants, had written procedures covering cost-share or match. They included having the project office obtain documentation from third parties on match funding as requested by the SPA. The procedures provided that at project completion, the SPA would ensure that all third party cost share had been documented and reported to the sponsor.

The approved budget for grant MS-16778 included $73,717 in third-party in-kind contributions involving three community colleges. MSU had obtained commitment letters for contributions on the project from the colleges as follows: East Mississippi Community College for an estimated $37,984 in personnel and space costs; Itawamba Community College for an estimated $30,733 in personnel, space, furnishings, and technical support costs; and Northeast Mississippi Community College for an estimated $950 per month in space, telephone and internet, and related costs. We were told that these facilities and other support would be utilized by the project staff in performing work in the communities. We determined that the SPA office, in preparing the interim quarterly SF-270 reports being submitted to ARC, was including amounts for cost-share, including third-party amounts and had reported a total of $31,520 as of January 31, 2012. The purpose of the reports to ARC are to document progress on the project and including the amount in the report implied that the third-party organizations had provided some support and had incurred the related costs. We requested the supporting documentation for the amount claimed and were told it was calculated using a pro-rated portion of the amount promised by each college in its commitment letter. There was no documentation in MSU's records to show what actual services, space, or other support had actually been provided to date and what the actual costs were. The only support provided to us was the commitment letters from the colleges.

The MSU staff began contacting the third parties to obtain this type of information during our on-site visit. Therefore, adequate supporting documentation may be available to support the amounts included in the final SF-270 and billing. However, we consider the $31,520 previously reported to ARC to be unsupported until appropriate documentation is provided and accepted as allowable.

At the exit conference, the director of sponsored programs stated that he understood the issue, but wanted to discuss it with the accounting and program staff to see what documents were available before making a final decision on the matter.

Recommendations

MSU should:

1. Revise its written procedures regarding cost-share or match to ensure that (a) the documentation reflects the actual services or support contributed and the related actual costs or values are established in accordance with the OMB Circular A-110 requirements and (b) the documentation has been verified and placed in the MSU files prior to reporting the amount to ARC.

2. Include in the final report for closing out grant MS-16778 only the amount of third-party match funding that is based on documentation that meets the established requirements.

3. Make any adjustments to costs claimed against ARC funds in the final billing that are necessary if the full amount of cost-share in the approved budget cannot be properly supported and coordinate with ARC the disposition of the funds that are not supported.

Grantee Response

MSU stated in its response that:

1. Its operating procedures regarding cost-share and match have been revised to ensure that (a) the documentation reflects the actual services or support contributed and the related actual costs or values are established in accordance with the OMB Circular A-110 requirements and (b) the documentation has been verified and placed in the MSU files prior to reporting the amount to the sponsor.

2. The final report to the sponsor only included the third-party match that was documented and filed in the MSU folder.

3. No adjustments were necessary.

Auditor's Comments

The response provided by the grantee is sufficient to close out all three recommendations.

Appendix I

Grantee Response

Leon Snead _Company

From: Jennifer Easley [JEasley@spa.msstate.edu]
Sent: Wednesday, December 05, 2012 5:02 PM
To: Leon Snead & Company; Richard Swann
Cc: Denise Peeples; Matthew E. Capella
Subject: Re: ARC Audit Reports for Mississippi State University - Grant Numbers 16778 and 16115
Attachments: ARC 342848 Response to Draft Dec 12_2.doc; ARC 363938 Response to Draft Dec 12_1.doc

Leon,

I've recently moved into Richard Swann's position at Mississippi State University, so he forwarded your email to me in order to respond. Please see attached for MSU's response to your recommendations and let me know if you need more information or a more formal response (i.e., signed on letterhead).

Best Regards,
Jennifer

Jennifer Easley, CMA
Director
Sponsored Programs Administration
Mississippi State University
662.325.3751

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http://www.surveymonkey.com/s/DMC9SFQ

>>> "Leon Snead & Company" <leonsnead.companypc@erols.com> 11/26/2012 11:20 AM >>>
Mr. Swann:

Attached are two draft reports that we completed on Grant Numbers 16778 and 16115 awarded by ARC to the Mississippi State University, Sponsored Programs Administration for your review and comments. Please review the findings and recommendations and provide your response to the recommendations by December 10, 2012. Thanks very much for your assistance with the review. If you have any questions, please e-mail or call me.

Leon Snead
(301) 738-8190

Response to Draft Report
Project Number MS-16778
MSU Fund 342848

RESULTS OF AUDIT

Procurement Standards

Mississippi State University will include language in our procurement manual to be in compliance with OMB Circular A-110, sections 40-48.

Formal Contracts

1. Mississippi State University has implemented policy 65.04 Securing and Paying Honorarium, Speakers, Consultants and Independent Contractors. This policy should improve the internal controls to ensure written contracts are prepared for future services when required.
2. Mississippi State University will follow our established policy and procedures to prepare and award contracts consistent with the federal requirements.
3. Mississippi State University provided documentation for the four coaches to the auditor during the review. He also visited the department and reviewed the notebooks the coaches were keeping to demonstrate their work. If we need to provide this documentation again, please let us know.
4. At this point, there will be no adjustments to the amounts previously paid.

Third-Party Cost Share

1. The operating procedures regarding cost share and match have been revised to ensure that (a) the documentation reflects the actual services or support contributed and the related costs or values are established in accordance with the OMB Circular A-110 requirements and (b) the documentation has been verified and placed in the MSU files prior to reporting the amount to the sponsor.
2. The final report to the sponsor only included the third-party match that was documented and filed in the MSU folder.
3. No adjustments were necessary.