

PERFORMANCE AUDIT
OF THE

Union College, KY

**Nursing & Health Sciences
Equipment Grant**

Grant: KY-17385

OIG Report Number: 14-31

GRANT PERIOD: SEPTEMBER 2012 – NOVEMBER 2013

WATKINS | MEEGAN

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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Union College Nursing & Health Sciences Equipment Grant KY-17385. The report is in response to Contract No. BPA 11-01-B.



Tysons, Virginia
June 20, 2014

Union College Nursing & Health Sciences Equipment Grant

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Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state and local governments. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair who is appointed by the President. Local participation is provided through multi-county local development districts (LDDs). Each year, ARC provides funding for several hundred projects in the Appalachian Region, in areas such as business development, education and job training, telecommunications, infrastructure, community development, housing and transportation. These projects help create new jobs; improve local water and sewer systems; increase school readiness; expand access to health care; assist local communities with strategic planning; and provide technical and managerial assistance to emerging businesses.

Union College (Grantee), a private liberal arts institution in Barbourville, KY, is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award bachelor- and master-level degrees, by the Kentucky State Department of Education, and approved by the University Senate of the United Methodist Church. Union College has been working over the past few years to create a new Nursing and Health Sciences program for students. The college invested in the renovation and refurbishment of the former Knox County Hospital as a center for academic programs, including classrooms and offices, with rooms available for public use. The facility was also designated as the new home of the Union College School of Nursing and Health Sciences.

On September 5, 2012, ARC approved the Union College Nursing & Health Sciences Equipment Grant, number KY-17385 (Grant) in the amount of \$500,653 for the period from September 1, 2012 to June 30, 2013. The Grant period was subsequently extended through two separate amendments to a final end date of November 30, 2013. Required matching funds from other sources totaled \$229,098, for a total funding amount of \$729,751. Union College invested more than \$9.5 million in public and private resources in the acquisition and renovation of the new academic facilities. Grant funds were to support the purchase of equipment specific to the Nursing Program. The equipment to be purchased addressed both the requirements of the organization that provides accreditation to the Nursing Program and the College's desire to provide its students with the most advanced training tools possible. These advanced tools included several simulation products, advanced physician and medical records control and recording systems, and other nurse-oriented tools utilized in today's hospitals. The sources of funding are shown in Table 1 below:

Table 1: Analysis of Project Funding Sources

Funding Source	Amount	Percentage
Appalachian Regional Commission (ARC)	\$500,653	69%
Local	\$229,098	31%
Total	\$729,751	100%

The Grant is subject to the General Provisions of the Grant Agreement between ARC and Union College.

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Executive Summary

Grant funds were used to purchase equipment, including several simulation products, advanced physician and medical records control and recording systems, and other training tools to support the Grantee's new baccalaureate Nursing Program. ARC reimbursed \$500,653 of expenses for the period September 1, 2012 to November 30, 2013. Reported matching funds provided by the Grantee were \$229,098 for the same period.

Expenses reviewed during the audit appeared valid, properly supported and in direct relation to supporting the Grant and its objectives. One finding was noted related to the need for the Grantee to adequately inventory and monitor the equipment purchased with Grant funds. In addition, through inquiry and observation, we validated that the Grantee had accomplished, or was in progress toward achieving, the stated performance objectives of the Grant.

Objective

Watkins Meegan LLC was engaged to conduct a performance audit of the Union College Nursing & Health Sciences Equipment Program Grant for the period September 1, 2012 to November 30, 2013. The purpose of our performance audit was to determine the following:

- Funds expended and claimed for reimbursement from ARC and matching funds reported to ARC were valid program expenses and in accordance with the ARC Grant requirements;
- Internal controls were in place to ensure compliance with the Grant requirements; and
- Goals and objectives of the Grant had been achieved.

Scope

We completed a performance audit of the Union College Nursing & Health Sciences Equipment Grant KY-17385 as described under this section and under the Audit Methodology section. The audit included on-site fieldwork at the College campus administrative office from April 28-30, 2014. Our audit was based on the terms of the Grant agreement and on the application of procedures in the modified ARC Audit Program.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Methodology

Our procedures were based on the Audit Program guidelines provided by the ARC Office of the Inspector General and included suggested procedures over the Grantee's accounting and internal control systems affecting the Grant. We met with the Director of Foundation Relations and Prospect Research, Chief Financial Officer, and other faculty and staff involved in the administration of the Grant to discuss the overall structure and processes around Grant administration and monitoring. We also discussed and reviewed other financial and operational elements related to the conduct of the program.

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Audit Methodology (Continued)

Our review of background material included ARC's Grant Agreement, the Grant application and other related documentation, information from ARC's grant management system, other Grant requirements and the Union College Single Audit Report for the Fiscal Year Ended June 30, 2013.

We reviewed controls in place for recording, accumulating and reporting costs under the Grant and evaluated the process for compliance with applicable Grant requirements and regulations. We made inquiries regarding whether the goals and objectives of the project funded with ARC monies had been met and toured the facility and various teaching labs to view the equipment purchased with ARC funds and ensure that the equipment was being used in conjunction with Nursing program as intended.

Results

Compliance with Grant Provisions

ARC reimbursed the Grantee the full budgeted amount of \$500,653 for expenses incurred during the Grant period. Reported matching funds provided by the Grantee were \$229,098 for the same period, fulfilling the matching contribution requirement stipulated in the Grant agreement.

Grant funds were used solely to purchase equipment for installation in the newly renovated facility housing Union College School of Nursing and Health Sciences. We examined supporting documentation for a sample of the expenses incurred against the Grant and noted that all appeared to be valid, adequately supported and in direct relation to supporting the Grant and its objectives. At the beginning of audit fieldwork, the Grantee self-reported an error in one of the reimbursement requests which occurred as a result of a vendor invoicing error. The vendor cancelled an invalid invoice for which the Grantee had requested and received reimbursement from ARC. Additional information is noted in the observation below.

Through inquiry and review, we sought to validate the outputs and outcomes expected from the Grant award as detailed in the ARC Grant approval memo. The anticipated output and outcome measurements included in the ARC Grant approval memo were as follows:

Outputs:

- Purchase and installation of equipment and furnishings needed to secure accreditation and provide academic instruction; and
- Approximately 80 students enrolled in nursing degree programs each year.

Outcomes:

- At least 10 jobs created within one year for new faculty/staff positions; and
- Approximately 75 BSN graduates each year beginning in the fourth year.

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Results (Continued)

Compliance with Grant Provisions (Continued)

We completed a walk-through/tour of the facility and confirmed the equipment was in place and operational. The equipment is now being used for academic instruction and also helped the Grantee achieve standards required by its accrediting agency and the Kentucky Board of Nursing. Equipment includes advanced patient simulator systems which can provide life-like clinical practice for students, such as SimMan 3G, SimMan Essential, SimMom, Newborn Sim, Sim Junior and SimBaby models. Additional mid-fidelity manikins have been placed in the nursing care lab, along with an electronic medication management system, a bedside documentation device, IV pumps, and vital sign machines. As part of the walk-through process, we noted a finding related to the inventory log maintained by the Grantee for the equipment acquired with Grant funds. Additional information on this finding is noted below.

Enrollment figures for the Nursing programs have not yet met the projected targets, with 12 students enrolled in 2012/13 and 11 students enrolled in 2013/14. Enrollment statistics reviewed during the audit for 2014/15 indicated that the enrollment numbers may increase, with a total of 127 students accepted in Nursing programs for 2014/15. While final enrollment numbers for 2014/15 may be less than the number of currently accepted applications, these figures would indicate that the Grantee is making progress toward achieving the target to enroll more than 80 students each year. However, the target of 75 BSN graduates each year may take longer to attain.

Through discussion with the Grantee, we noted that the Grantee has not created new jobs at the time of the audit, but projects adding two to three new faculty/staff positions, which have already been posted, for the 2014/15 year, and up to 10 new positions in total within two years.

Based on our review, it appears that the Grantee is making progress toward achieving the goals set out in the Grant application. ARC should continue to monitor performance as part of its ongoing validation process.

At the conclusion of the audit, we noted and discussed the following items with the Grantee and they generally agreed with the finding, recommendation and observation as described below:

Finding – Equipment Inventory

The Grant agreement requires that equipment and/or real property purchased with Grant funds must be accounted for during and after the end of the project period. During our site tour, we noted several errors on the spreadsheet used by the Grantee to monitor the equipment in the labs. Errors included items where the equipment serial number did not correspond to the inventory number assigned to the equipment, the serial number was not listed, the serial number was erroneously documented, the equipment had not yet been assigned unique asset identification numbers, the equipment inventory log did not have the right product description, or individual inventory items that were combined and functioned as a single asset were not documented as such. Without adequate tracking and monitoring of the equipment, there is a risk that items purchased with Grant funds could be stolen or misplaced without being detected in a timely manner.

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Finding – Equipment Inventory (Continued)

Recommendation:

The Grantee should update its equipment inventory log with the correct asset identification numbers, tagged to the right inventory item number and product description. The Grantee should also establish periodic procedures to verify the equipment inventory and confirm that the assets are accounted for. As part of the periodic validation process, the equipment inventory log should be reviewed by faculty personnel with the appropriate working knowledge of the equipment in the labs.

Observation

At the outset of our audit, Union College self-reported an erroneously requested reimbursement for a cancelled invoice that had resulted in an overpayment by ARC to Union College in the amount of \$932.86. At the time of the audit, the Grantee was working with ARC to determine the appropriate treatment for this error. As this process was already underway, no further recommendation was considered necessary.