
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD**

**University of Alabama
Alabama International Trade Center (AITC)
Tuscaloosa, Alabama**

**Final Report Number: 15-25
Project Numbers: AL-15573-C5 & C6
June 2015**

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



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June 15, 2015

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Leon Snead & Company, P.C. completed an audit of grant numbers AL-15573-C5 and AL-15573-C6 awarded by the Appalachian Regional Commission (ARC) to the University of Alabama (UA), Alabama International Trade Center (AITC). 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 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 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 matching requirements and the goals and objectives of the grant were met.

Overall, the AITC's financial and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grants reviewed. The costs tested were supported and considered reasonable. We found that the AITC had an adequate process in place for obtaining and recording data related to the goals and objectives of the grant. In addition, the records and reports indicated that the tasks required by the grant agreement were being accomplished. The overall grant performance measures, with respect to anticipated outputs and outcomes, were adequately met for grant number AL-15573-C5, which was completed on December 31, 2013.

However, we noted one instance in which an administrative procedure appeared not to be carried out as required. The variance between the overall budgeted amounts and the final total expenditures for grant AL-15573-C5 was large enough to require prior approval by ARC. However, no supporting documentation for this approval was available at the time of the audit. This issue relating to the budget variance noted during the audit and our recommended corrective action is discussed in detail in the Finding and Recommendation section of the report.

A draft report was provided to the AITC on May 28, 2015, for comments. The AITC provided a response to the report on June 1, 2015. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the AITC and ARC staffs 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 numbers AL-15573-C5 and AL-15573-C6 awarded by the Appalachian Regional Commission (ARC) to the University of Alabama (UA), Alabama International Trade Center (AITC). 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 AITC, located on the University of Alabama campus in Tuscaloosa, is part of the University's mission of service and outreach to existing industry in Alabama. The AITC delivers export technical assistance to companies and financial institutions in Appalachian Alabama. The services provided by the AITC include export research, training programs, and consulting services in export financing, which are provided through the AITC's flagship program, the University of Alabama Export Trade Financing Program (EXTRA).

Grant 15573-C5 covered the period October 1, 2012 to December 31, 2013 and provided \$129,755 in ARC funds and required \$129,760 in non-ARC recipient match funding. The majority (\$80,960) of ARC funds were budgeted for salaries (including fringe benefits) and contractual costs, with smaller amounts for other categories including supplies, travel, and indirect costs. The grant had been completed and was administratively closed by ARC with a total of \$129,755 in grant funds being expended and reimbursed by ARC.

Grant 15573-C6 covered the period January 1, 2014 to December 31, 2015 and provided \$104,500 in ARC funds and required \$104,500 in non-ARC recipient match funding. Similar to the prior year, the majority (\$63,475) of ARC funds were budgeted for salaries (including fringe benefits) and contractual costs, with smaller amounts for other categories including supplies, travel, and indirect costs. The grant was still in progress at the time of the audit with a total of \$50,398 in ARC funds being expended and reimbursed as of May 8, 2015.

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 the goals and objectives of the grant were met.

We reviewed documentation provided by the AITC and interviewed personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed financial and project progress reports to determine if they were submitted in accordance with requirements. We reviewed the written policies and administrative procedures to determine if they were compliant with federal requirements and adequate to administer the grant. We reviewed the most recent A-133 report to identify any issues that significantly impacted the ARC grants and review.

Of the \$129,755 in expenditures charged to the grant and claimed for reimbursement through December 31, 2013, we selected \$124,342 in expenditures for testing to determine whether the charges were properly supported and allowable. Of the \$50,398 charged to the grant and claimed for reimbursement through May 8, 2015, we selected \$47,397 in expenditures for testing to determine whether the charges were properly supported and allowable. We tested matching costs for grants AL-15573-C5 and AL-15573-C6, and found the costs to be allowable and properly supported.

The primary criteria used in performing the audit were the grant agreement, applicable Office of Management and Budget Circulars, and the ARC Code. The audit was performed in accordance with *Government Auditing Standards*. The fieldwork was performed May 6-8, 2015 including on-site work at the University of Alabama Office of Contract and Grant Accounting in Tuscaloosa, Alabama. The preliminary results were discussed with the AITC and University of Alabama staff at the conclusion of the onsite visit.

Summary of Audit Results

Overall, the AITC's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grants reviewed. The costs tested were supported and considered reasonable. We found that the AITC had an adequate process in place for obtaining and recording data related to the goals of the grant. In addition, the records and reports indicated that the tasks required by the grant agreement were accomplished.

The overall grant performance measures, with respect to anticipated outputs and outcomes, were met. In cases where the performance measures were not met the explanation was sufficient and measures were taken to adjust goals for future years to better match actual performance.

We noted one instance in which an administrative procedure appeared not to be carried out as required. The variance between the overall budgeted amounts and the final total expenditures for grant AL-15573-C5 was large enough to require prior approval by ARC. However, no supporting documentation for this approval was available. This issue and the corresponding recommended corrective actions are discussed in the Findings and Recommendation section of this report.

Finding and Recommendation

Revision of Budget

AITC grant number AL-15573-C5 with ARC had a project budget that included \$129,755 of ARC funds and \$129,760 of non-ARC funds for a total project budget of \$259,515. Upon reviewing the final project budget, we noted several transfers between budget line items that totaled \$34,660. This amount exceeded 10% of the project's total approved budget, which is the maximum total budget transfer allowed by ARC regulations. Total budget transfers in excess of 10% of the project's total approved budget require approval from ARC.

The ARC Grant Administration Manual For ARC Non-Construction Grant Agreements, dated June 2012, states that for grants that exceed \$100,000, prior approval is required when proposing changes to major line items where the total transfer exceeds 10% of the project's total budget as last approved by ARC.

We were told the reason for the transfer was to cover employee salaries for work completed under the grant that had been originally intended for consultant contractors. When external consultants could not be hired to do the work, the AITC assigned internal staff to the project. We found the reason to be acceptable and the transfer did not change the total budget. Furthermore, there were no changes in key personnel due to the change.

However, approval of the change was not documented and maintained on file at the grantee's location. The grantee noted they were aware of the requirement, and had followed up with its ARC Administrator, but no records of the approval could be found. In addition, the AITC has policies and procedures in place on budget revisions, which we found to be adequate. However, they were not followed in this instance.

At the exit conference, the grantee noted they agreed with the finding and were taking steps to ensure this would not happen in the future.

Recommendation

The AITC should follow its established policies and procedures related to budget revisions to ensure that (a) changes to a project's total budgets that exceed 10% of the project's total approved budget are communicated to and approved by ARC, and (b) supporting documentation for any approvals are kept on file at the grantee's location.

Grantee Response

The grantee indicated agreement with the finding. They provided the following comments in response to the recommendation.

“UA concurs that it was not able to provide documentation of approval to make the budget changes that exceeded 10% of the total budget. Our process is to request such approval through an email or in writing when we determine that we will need such a change. During invoicing UA would typically identify situations where the approval was not yet requested and make the request at that time, as UA would not expect the invoice to be paid without the request being approved. UA will

follow our established policies and procedures and ensure that approvals for changes are documented and retained.”

Reviewer’s Comments

The recommendation should remain open and ARC will determine whether the actions identified in the grantee’s response are adequate to resolve the recommendation or whether additional information or actions are needed.

Appendix I
Grantee Response

Office of the Vice President
for Research

Contract and Grant Accounting

THE UNIVERSITY OF
ALABAMA
R E S E A R C H

Monday, June 1, 2015

Leon Snead, President
Leon Snead & Company
416 Hungerford Drive, Suite 400
Rockville, Maryland 20850

Dear Mr. Snead:

Please find below The University of Alabama's (UA) response to the Appalachian Regional Commission, Office of the Inspector General Audit of the University of Alabama, Alabama International Trade Center (AITC) received via email May 28, 2015.

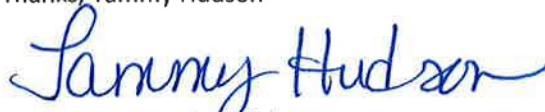
Per your report, the ARC Grant Administration Manual For ARC Non-Construction Grant Agreements, dated June 2012, states that for grants that exceed \$100,000, prior approval is required when proposing changes to major line items where the total transfer exceeds 10% of the project's total budget as last approved by ARC. Auditors noted transfers between budget line items that totaled \$34,660, exceeding the 10% requirement.

UA concurs that it was not able to provide documentation of approval to make the budget changes that exceeded 10% of the total budget. Our process is to request such approval through an email or in writing when we determine that we will need such a change. During invoicing UA would typically identify situations where the approval was not yet requested and make the request at that time, as UA would not expect the invoice to be paid without the request being approved. UA will follow our established policies and procedures and ensure that approvals for changes are documented and retained.

UA also has one minor suggested edit on page 1, paragraph 2 of the first sentence. The AITC, located on the University of Alabama campus in Tuscaloosa, is part of the University's mission of service and outreach to existing industry in Alabama.

Should you have any questions or need clarification on anything, please contact Tammy Hudson at thudson@research.ua.edu or call 205-348-8117.

Thanks, Tammy Hudson



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