
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Rensselaerville Institute
Delmar, New York**

**Final Report Number: 16-08
Project Number: MS-16061-C3
March 2016**

Prepared by:

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Leon Snead & Company, P.C. completed an audit of grant number MS-16061 awarded by the Appalachian Regional Commission (ARC) to the Rensselaerville Institute (TRI). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

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.

Most of the costs tested were supported and considered reasonable. However, we identified several areas that require management attention. We questioned some of the costs because TRI could not provide supporting documentation. In addition, TRI was not consistently preparing and submitting progress reports to ARC in a timely fashion. We also noted several areas in which TRI's financial management policies and procedures needed revisions. Finally, TRI's supporting documentation for matching funds was insufficient. These issues and the corresponding recommended corrective actions are discussed in the Findings and Recommendations section of this report. The overall grant performance measures, with respect to anticipated outputs and outcomes, were met.

A draft report was provided to TRI on February 19, 2016, for comments. TRI provided a response to the report on March 11, 2016. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the TRI and ARC staffs during the audit.

Sincerely,

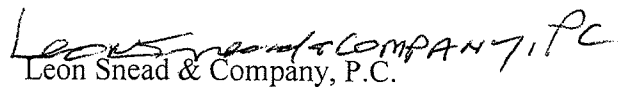

Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant MS-16061-C3 awarded by the Appalachian Regional Commission (ARC) to the Rensselaerville Institute. 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 Rensselaerville Institute (TRI) is a nonprofit, independent educational institution. TRI participates in programs for community development and revitalization projects through grants, contracts and consulting arrangements; working to turn around failing schools, focusing government resources to improve outcomes and coordinating the development and/or improvement of water supply systems in certain small, rural communities. The grant was awarded to TRI to deliver the Appalachian Community Learning Project (ACLP) program within the State of Mississippi. The grant included a sub-agreement with Mississippi State University's John C. Stennis Institute, for the purpose of building MSU's capacity to fully deliver the ACLP program upon completion of the grant.

Created as a service and research arm of Mississippi State University (MSU), Stennis Institute of Government provides meaningful, applied research to both local and state units of Mississippi government. Through its executive development programs, training opportunities, and technical assistance programs, the Institute provides support for today's policy makers. Projects range in size and scope from specific work with Mississippi's smallest towns to federally-funded grants with multi-state application.

Grant MS-16061-C3 covered the period March 1, 2013 to December 31, 2014 and provided \$259,000 in ARC funds and required \$110,000 in non-ARC recipient match funding. The grant included a revision, MS-16061-C3-R1, to add funds to supplement and complete the project scope of work. Funds in the amount of \$14,000 were provided by ARC, and \$6,000 was obtained as matching funds by TRI. The total estimated cost of the project was \$389,000. The total project cost reported under the grant was \$406,443.24. The additional funds above the total estimated cost was due to an increase in non-ARC funding.

The majority of the funding was for TRI and MSU personnel expenses, mini-grant awards to community groups in Mississippi, ARC-related conferences and workshops, and ARC-related travel by TRI and MSU staff. The grant had been completed and closed by ARC at the time of the audit.

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.

TRI charged \$265,433.24 in expenditures to the grant. Of the amount charged, we selected \$142,511.19 for testing to determine whether the charges were properly supported and allowable. Unused funds totaling \$7,566.76 were de-obligated at the end of the grant period. We tested matching costs to determine whether they were properly recorded and that fund commitments were documented. The on-site fieldwork was performed at the Rensselaerville Institute offices in Delmar, New York during December 7-10, 2015 and at MSU, Stennis Institute, during January 19-21, 2016.

We reviewed documentation provided by TRI 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 also reviewed the most recent financial statement audit report to identify any issues that significantly impacted the ARC grants and review.

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*.

Summary of Audit Results

Most of the costs tested were supported and considered reasonable. However, we identified several areas that require management attention. We questioned some of the costs because TRI could not provide supporting documentation. In addition, TRI was not consistently preparing and submitting progress reports to ARC in a timely fashion. We also noted several areas in which TRI's financial management policies and procedures need revisions. Finally, TRI's supporting documentation for matching funds was insufficient. These issues and the corresponding recommended corrective actions are discussed in the Findings and Recommendations section of this report. The overall grant performance measures, with respect to anticipated outputs and outcomes, were met. We noted no instances where the performance measures were not met.

Findings and Recommendations

A. Grant Expenditures

To be allowable for reimbursement under the ARC Federal grant, claimed expenditures must be adequately documented and supported, be necessary and reasonable, and not be specifically excluded under Office of Management and Budget Code of Federal Regulations, 2 CFR 230 *Cost Principles for Non-Profit Organizations* (Appendix A, Part A: Basic Considerations). Necessary documentation would include source documents showing the expenditure occurred was properly approved, reasonable, and paid. Total amounts included in financial reports to ARC to obtain reimbursement must be supported by accurate accounting data.

Our review included selecting and testing specific expenditures charged to ARC under the grant to verify that they were reasonable, documented, and allowable. TRI provided expenditure reports that summarized the costs charged to the grant and we selected a sample of expenditures from these reports. Most of the items selected were from the payroll, travel, and program workshop cost categories. Based on our review of the amounts and documentation provided by TRI (employee time records, invoices, payments, etc.), we questioned \$22,246.71 for lack of support. Details are shown in the table below.

Date of Expenditure Report	Expenditure	Questioned Amount
06/30/13	Travel	\$3,649.32
05/31/14	Supplies (Conference Call)	53.57
05/31/14	Hotel Meals	146.05
12/31/14	Salaries & Wages	8,549.68
12/31/14	Travel	5,991.78
12/31/14	Supplies	41.86
12/31/14	Program Advertising and Marketing	1,688.72
12/31/14	Travel (Mileage and Hotel)	2,125.73
Total		\$22,246.71

The expenditures and amounts questioned did not have adequate supporting documentation, such as an invoice, receipt, or employee expense sheet, with which to verify that the items were proper charges for the ARC grant. In many cases, staff could not find the information or could find some of the information but not enough to support the total amount reported. Either the appropriate documentation must be found and verified or these expenditures must be excluded from the total amount claimed for reimbursement under the grant.

Recommendation

We recommend that TRI provide adequate support documentation for the \$22,246.71 in questioned costs or refund the total amount to ARC.

Grantee Response

While we agree that some of these records were incomplete and/or were not accompanied by the desired supporting documentation it should be noted that The Rensselaerville Institute (TRI) incurred significant costs above and beyond the funds of the project that we incurred essentially on a pro bono basis. Additionally, we are clear that some form of documentation does exist and that additional support could be gathered with additional time and resources on our part. We view this as some poor attention to record-keeping during the midst of transition with our Controller – not one where we did inappropriately used funds. Reports make it clear that we spent the time on the ground in Mississippi and on calls from a distance with ARC staff and participants in the program.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.

B. Accounting Procedures

TRI did not have an adequate accounting and financial reporting process to accurately associate and track transactions on the grant. This was due to challenges in transitioning grant financial management responsibilities between previous and current accounting staff.

In June of 2014 (midway through the second year of the ARC grant) the existing controller left TRI. Their current Chief Financial Officer (CFO) was hired in October 2015 and has assumed the responsibilities of the former controller. In the time between the departure of the former controller and the hiring of the current CFO (June 2014 through September 2015), TRI hired an interim controller and contracted with two accounting temporary agencies for general accounting support. In addition, the support staff, that was responsible for tracking grant expenditures and submitting expense reports to ARC, left TRI during the grant period.

We noted during our review of expenditures that TRI had difficulty reconciling its actual grant expenditures with the advances and reimbursements reported on the Standard Forms 270 submitted to ARC. Actual expenditures exceeded the total amount reported to ARC. TRI could not explain the difference, and the files needed to reconcile the difference could not be located. As a result, TRI did not effectively track its grant-related expenditures.

Office of Management and Budget Code of Federal Regulations 2 CFR 215 *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-profit Organizations*, explains that all federal grant recipients must have financial management systems that include cost accounting records that are supported by source documentation (Section 215.21, Standards for financial management systems). TRI needs to address how they will ensure that these standards are met when there is a change in personnel.

Recommendation

We recommend that TRI update their financial policies and procedures to ensure that grant financial management is not compromised. This should include procedures for record-keeping, document retention, and reporting.

Grantee Response

We are currently updating our financial procedures to remain compliant.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.

C. Reporting Requirements

TRI did not timely prepare and submit the required project and financial reports to ARC. As a result, TRI did not fully comply with the grant requirements and affected ARC's ability to monitor the project and to close out the grant in a timely manner.

1. The grant agreement required an interim progress report every 120 days and a final report at the end of the grant period. All reports were due within one month after the period of performance. We reviewed all of the reports that were submitted by TRI. Over the 22-month grant period (March 1, 2013 to December 31, 2014) there were five 120-day interim reporting periods for which a report should have been submitted.

An interim report was not submitted for the period from the beginning of November 2013 through the end of February 2014. TRI management explained that they did not submit a report because there was no activity to report during this period. However, TRI should have followed the reporting procedures established by the grant agreement.

2. The final narrative report was submitted late. According to the grant agreement, this report was due within one month after the period of performance (Part II, Article 4: Reports). The final report was submitted to ARC on July 7, 2015 when it should have been submitted by January 31, 2015. No sufficient explanation was provided as to why the report was delayed.
3. TRI did not submit its financial reports in accordance with ARC guidelines. The ARC Grant Administration Manual (dated July 2013 and October 2014) states that "financial reports are required even if no reimbursement is being requested for a particular reporting period" (Section II.(A) p.2). TRI did not submit financial reports for the two 120-day reporting periods summarized below.

- | | |
|------------------------------------|-------------------------|
| a. March 1, 2014 - July 1, 2014 | Due on August 1, 2014 |
| b. July 1, 2014 - November 1, 2014 | Due on December 1, 2014 |

Recommendations

We recommend that, on any future grant, TRI:

1. Adhere to the reporting schedule established in their grant agreement.
2. Submit Standard Form 270, the federal government's "Request for Advance or Reimbursement," within 30 days of each interim reporting period regardless of whether a payment is being requested. In cases when no payment is requested, the Standard Form 270 will list a payment request amount of \$0.00.

Grantee Response

We were given permission to skip the reports that were missing. In the future we will not allow this to happen and we will report 270's with a \$0.00 amount.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.

D. Procurement Policies

TRI's policies and procedures do not include procurement policies. The Office of Management and Budget Code of Federal Regulations, 2 CFR 215, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-profit Organizations*, explains that all recipients of federal grant funds shall establish written procurement procedures (Section 215.44).

Recommendation

We recommend that TRI incorporate written procurement policies into their existing policies and procedures. These policies should be reviewed and updated on a regular basis in order to maintain compliance with OMB standards and fit the needs of the grantee. The OMB standards explain what the grantee should have, at a minimum, as written procurement policies (2 CFR 215 Section 215.44).

Grantee Response

We are currently modifying our financial procedures to include a procurement policy.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.

E. Matching Funds

TRI did not maintain sufficient records to support the matching funds reported to ARC. Matching funds totaling \$141,010 were comprised of 14,101 volunteer hours contributed by the mini grantees and valued at \$10/hr. In total, 430 volunteers worked on the projects, resulting in an average of about 33 hours per volunteer.

TRI did not have sufficient documentation to support all of the hours. TRI recognized that this is an area that needs improvement. Specifically, TRI's final progress report included the need for better record-keeping in tracking volunteer hours and other in-kind donations.

Recommendations

1. TRI should maintain records of matching funds received on their grants. These records should confirm the source of the match funds, the amount, and in the case of non-cash donations, the valuation of the funds with justification for their valuation.
2. In cases where TRI must rely on a sub-grantee to assist in record-keeping, TRI should communicate the ARC grant requirements to their sub-grantees at the beginning of the grant period of performance and establish a process for regularly collecting and tracking cost share data to ensure it is accurately reported.

Grantee Response

On future contracts we will:

1. Update our internal tracking of matching funds.
2. Require sub-grantees to maintain records at least as comprehensive as ours.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.

Appendix I
Grantee Response

March 10, 2016

Leon Snead
Leaon Snead & Company, P.C.

Dear Mr. Snead:

This is in response to the draft audit report from February 2016 for Project Number MS16061-C3.

While we agree in principle with many of your audit findings we do find it necessary to respond and/or comment specifically on the Findings and Recommendations:

A: While we agree that some of these records were incomplete and/or were not accompanied by the desired supporting documentation it should be noted that The Rensselaerville Institute (TRI) incurred significant costs above and beyond the funds of the project that we incurred essentially on a pro bono basis. Additionally, we are clear that some form of documentation does exist and that additional support could be gathered with additional time and resources on our part. We view this as some poor attention to record-keeping during the midst of transition with our Controller – not one where we did inappropriately used funds. Reports make it clear that we spent the time on the ground in Mississippi and on calls from a distance with ARC staff and participants in the program.

B: We are currently updating our financial procedures to remain compliant.

C: We were given permission to combine the reports that were missing. In the future we will not allow this to happen and we will report 270's with a \$0.00 amount.

D: We are currently modifying our financial procedures to include a procurement policy.

E: On future contracts we will:

1. Update our internal tracking of matching funds.
2. Require sub-grantees to maintain records at least as comprehensive as ours.

Thank you for your time and consideration on this matter. It was a pleasure having you in our office.

Best regards,



Daniel Wagoner
CFO
Enclosure(s)