Final Report Number: 18-34
Grant Numbers: SC-17832 and SC-17832-C1
September 2018

Prepared by:
Leon Snead & Company, P.C.
September 12, 2018

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, N.W.
Washington, DC  20009

Leon Snead & Company, P.C. completed an audit of grant numbers SC-17832 and SC-17832-C1 awarded by the Appalachian Regional Commission (ARC) to Anderson School District Five (District Five). 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 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.

Overall, District Five’s administrative procedures and internal controls were adequate to effectively manage and account for the funds provided under the ARC grant. We determined that District Five effectively managed, administrated and accounted for ARC funds and maintained data related to the overall goals of the grants. Performance measures were met or on track for the project. Specific performance outcomes for grant SC-17832 were: (1) 252 students served; (2) 252 students were improved seeing them through graduation and one year post-secondary education; (3) nearly all post-secondary students were in full-time jobs, the military or a community college or university. For grant SC-17832-C1, the performance outcomes as of May 31, 2018 were: (1) Westside High School had 42 students enrolled in JAG classes 1, 2, and 3; (2) 15 freshman students were enrolled in JAG 1 classes; (3) JAG Specialists were following-up with 19 students; and (4) JAG Specialists had met with and formed partnerships with 8 businesses/industries. However, we identified one area that requires management attention. We questioned $3,530 of indirect costs on SC-17832 and $40 on SC-17832-C1 because, in some instances, the rate District Five used to bill indirect costs exceeded the approved indirect cost rate for the billing period. This matter and the corresponding recommended corrective actions are discussed in the Finding and Recommendation section of this report.

Leon Snead & Company appreciates the cooperation and assistance received from the District Five 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 numbers SC-17832 and SC-17832-C1 awarded by the Appalachian Regional Commission (ARC) to Anderson School District Five (District Five). 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.

Grant number SC-17832 provided funds to assist District Five with its implementation of the Jobs for American’s Graduates (JAG) program at West and T.L. Hanna High Schools. The program provided specialized guidance and instructions to at-risk students in grades 9 through 12. The program included group and individual instructions in employability skills, monitoring of attendance and behavior, guidance on career and life decisions, summer employment training, community service projects, and field trips to employers and conferences. Grant number SC-17832-C1 provided funds to continue the JAG program at the above two schools and to implement an introductory JAG programs at Robert Anderson and Glenview Middle schools. The middle school programs includes grades 8 through 12 to target at-risk students at a younger age and increase high school completion and post secondary enrollment rates.

Objectives, Scope, and Methodology

The audit objectives were to determine whether: (1) program funds were managed in accordance with 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.

The periods of performance for grants SC-17832 was October 1, 2014 through September 30, 2016 and SC-17832-C1 was October 1, 2016 through September 30, 2018. ARC awarded $228,494 under the initial grant and $231,796 under the continuation grant for a total of $460,290.

The total project costs were $920,580. The percentage break-out of funding for the overall project was 50% ARC and 50% District Five.

ARC grant funds of $412,457 were expended during the project; $228,494 was expended under grant SC-17832 and, as of May 31, 2018, $183,963 had been expended under grant SC-17832-C1. District Five’s matching contribution exceeded the required match for grant SC-17832. As of May 31, 2018, District Five’s matching contribution for SC-17832-C1 was $197,768. The required match for SC-17832-C1 was $231,797. Consequently, it appears that District Five will meet the matching requirement.

We reviewed $377,819 of ARC grant funds that were expended and reimbursed and $369,758 of the matching funds provided by District Five.
We reviewed documentation District Five provided and interviewed personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed written policies and administrative procedures to determine if they complied with federal requirements and were adequate to administer the grant. We reviewed financial and project performance reports to determine if they were submitted in accordance with requirements. We also reviewed the most recent financial statement audit to identify any issues that significantly impacted the ARC grant and the grant audit.

The on-site fieldwork was performed at the District Five, Anderson, South Carolina office during the period of July 23 through July 27, 2018. The preliminary audit results were discussed with District Five officials at the conclusion of the on-site visit.

The primary criteria used to perform the audit were the grant agreement; applicable sections of 2 CFR 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and applicable ARC regulations. The audit was performed in accordance with Government Auditing Standards.

Summary of Audit Result

Overall, District Five’s administrative procedures and internal controls were adequate to effectively manage and account for the funds provided under the ARC grant. We determined that District Five effectively managed, administered and accounted for ARC funds and maintained data related to the overall goals of the grants.

Performance measures were met or on track for the project. Specific performance outcomes for grant SC-17832 were: (1) 252 students served; (2) 252 students were improved seeing them through graduation and one year post-secondary education; (3) nearly all post-secondary students were in full-time jobs, the military or a community college or university. For grant SC-17832-C1, the performance outcomes as of May 31, 2018 were: (1) Westside High School had 42 students enrolled in JAG classes 1, 2, and 3; (2) 15 freshman students were enrolled in JAG 1 classes; (3) JAG Specialists were following-up with 19 students; and (4) JAG Specialists had met with and formed partnerships with 8 businesses/industries.

However, we identified one area that requires management attention. We questioned $3,530 of indirect costs on SC-17832 and $40 on SC-17832-C1 because, in some instances, the rate District Five used to bill indirect costs exceeded the approved indirect cost rate for the billing period. This matter and the corresponding recommended corrective actions are discussed in the Finding and Recommendation section of this report.
Finding and Recommendation

A. Indirect Costs

We question $3,570 of indirect costs charged to ARC grant SC-17832. This condition occurred because, in some instances, the rate District Five used to bill indirect costs exceeded the approved indirect cost rate for the billing period.

The United States Department of Education defines indirect costs as: costs that represent the expenses of doing business that are not readily identified with a particular grant, contract, project function or activity, but are necessary for the general operation of the organization and the conduct of activities it performs. Consequently, cost allocation plans or indirect cost rates are used to distribute these costs to benefiting revenue sources.

2 CFR 200 Appendix V, State/Local Governments and Indian Tribal-Wide Central Services Cost Allocation Plans, Section G.4 states that:

Billing rates used to charge Federal awards must be based on the estimated costs of providing the services, including an estimate of the allocable central service costs. A comparison of the revenue generated by each billed service to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. Adjustments will be made by one of the following adjustment methods: (a) a cash refund including earned or imputed interest; (b) credits to the amounts charged to individual programs; (c) adjustments to future billings; or (d) adjustments to allocated central service costs.

For the overall period of ARC grant SC-17832, District Five had six separate one-year indirect cost rate agreements. The State of South Carolina Department of Education established the rate agreements. Each rate agreement stated the rates were for use on grants and contracts with the federal government to which 2 CFR 200, Subpart E applies. The agreements further stated that the rates were negotiated in accordance with the authority granted to the South Carolina Superintendent of Education by the U.S. Department of Education. The rate agreements included an “Unrestricted” and a “Restricted” rate. We determined that the “Restricted” applied to the ARC grant.

We compared the rate District Five used to bill the ARC grant with the approved rate in effect at end of each billing period. We determined that for 7 of the 11 reimbursement requests, District Five used a rate that was higher than the approved rate at the end of the billing period. As shown in Appendix I, $3,570 of excess indirect costs were charged to the ARC grant.

We discussed this matter with District Five officials. They stated that the approved budget for the initial grant (SC-17832) specified an indirect cost rate of 8.86%. For the continuation grant (SC17832-C1), the approved budget specified an indirect cost rate of 6.72%. They further stated that their understanding was that the indirect rate that was specified in the approved budget could be used for the life of the grant. Our analysis, however, showed that the District Five used different billing rates on several occasions. On two occasions, the District Five used the approved rate for billing purposes and on one occasion, District Five used a billing rate that was less than the approved rate. (See Appendix I). District Five officials provided the following additional information.
1. An 8.86% rate was used for the first five drawdowns under the initial grant. For the sixth and last drawdown, a rate of 7.19% was billed. This rate was used because a rate over 7.19% would have exceeded the total budget for indirect costs.

2. For the first two drawdowns under the continuation grant, a rate of 6.72% was billed. This was the rate specified in the approved budget. For the third drawdown, a rate of .61% was billed. This rate was used because it was the end of District Five’s fiscal year and to facilitate an accurate and timely closing for the fiscal year only a limited amount of indirect costs could be billed on any grant or contract.

3. For the last two drawdowns under the continuation grant, a rate of .84% was billed. This was the approved rate at that time. The Director of Finance decided that this rate should be used for the remainder of the grant period.

District Five billed and was reimbursed for $3,570 of indirect costs that were in excess of the actual approved indirect cost rates that were in effect at the time of the billings. Consequently, we question $3,570 of costs charged to ARC grant SC-17832.

**Recommendation**

District Five should refund $3,530 of costs charged to ARC grant SC-17832 and $40 charged to grant SC-17832-C1 or make appropriate adjustments to future billings.

**Grantee’s Response**

The grantee provided us with a response from ARC regarding the indirect cost finding. It states that ARC have consulted with the Associate General Counsel and the Inspector General and were told that ARC will accept the unchanged indirect rate on this grant and there is no need to go back and revise the financial reports and payment requests.

**Auditor’s Comments**

*It appears that ARC has responded to the finding already. We are providing their response with the report to ensure that this is their final decision on the issue.*
### INDIRECT COST RATES BILLED to ARC Grant SC-17832
**COMPARED WITH ACTUAL APPROVED INDIRECT COST RATES**

#### SC-17832-14

<table>
<thead>
<tr>
<th>End Date of Billing Period</th>
<th>Rate Billed</th>
<th>Amount Billed</th>
<th>Approved Rate</th>
<th>Amount Billed</th>
<th>Cost Difference</th>
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<tbody>
<tr>
<td>1/31/2015</td>
<td>8.86%</td>
<td>$3,185</td>
<td>7.38%</td>
<td>$2,653</td>
<td>$532</td>
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<td>5/31/2015</td>
<td>8.86%</td>
<td>3,279</td>
<td>7.38%</td>
<td>2,731</td>
<td>548</td>
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<tr>
<td>9/30/2015</td>
<td>8.86%</td>
<td>2,582</td>
<td>6.72%</td>
<td>1,958</td>
<td>624</td>
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<td>1/31/2016</td>
<td>8.86%</td>
<td>3,653</td>
<td>6.72%</td>
<td>2,771</td>
<td>882</td>
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<td>5/31/2016</td>
<td>8.86%</td>
<td>3,041</td>
<td>6.72%</td>
<td>2,306</td>
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<td>9/30/2016</td>
<td>7.19%</td>
<td>2,354</td>
<td>6.55%</td>
<td>2,145</td>
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Subtotal: $3,530

#### SC-17832-C1-16

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<th>End Date of Billing Period</th>
<th>Rate Billed</th>
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<th>Approved Rate</th>
<th>Amount Billed</th>
<th>Cost Difference</th>
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</thead>
<tbody>
<tr>
<td>1/31/2017</td>
<td>6.72%</td>
<td>2,476</td>
<td>6.55%</td>
<td>2,415</td>
<td>61</td>
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<td>5/31/2017</td>
<td>6.72%</td>
<td>2,349</td>
<td>6.55%</td>
<td>2,289</td>
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<tr>
<td>9/30/2017</td>
<td>0.61%</td>
<td>211</td>
<td>0.84%</td>
<td>292</td>
<td>-81</td>
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<td>1/31/2018</td>
<td>0.84%</td>
<td>316</td>
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<tr>
<td>5/31/2018</td>
<td>0.84%</td>
<td>286</td>
<td>0.84%</td>
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Subtotal: 40

Total: $3,570

*Approved Rate as of the End of the Billing Period*
Leon Snead Company

From: Heard, Amy [AmyHeard@anderson5.net]  
Sent: Tuesday, August 28, 2018 3:21 PM  
To: leonsnead.companypc@erols.com  
Cc: McClung, Dana  
Subject: FW: Audit of ARC Grant No. SC-17832  
Attachments: SC-17832 Draft Report- Anderson School.docx; FW: ARC Final Payment and Closeout Summary for Grant No. SC-17832 (41.9 KB)

Good afternoon Mr. Snead, I hope you have had an enjoyable summer. Attached is the draft report received by your company for our ARC grant audit. Also, attached is a letter stating the district does not need to return the money that you have noted in your report. Can you please update the report and resend to the district so we can sign for acknowledgement. I do not want to sign acknowledging paying funds back when we have another report saying we do not need to pay. I think it is important for the reports to match so we can provide to our external auditors.

Thanks

Amy D. Heard, CPA  
Assistant Superintendent for Financial Services/CFO  
Anderson School District Five

From: Burns, Sarah  
Sent: Tuesday, August 28, 2018 1:14 PM  
To: Heard, Amy <AmyHeard@anderson5.net>  
Subject: FW: Audit of ARC Grant No. SC-17832

Sarah B. Burns  
Coordinator of Grants and Special Projects  
Anderson School District Five  
864/260-5000 ext. 10122  
Certified Grant Specialists (NGWA)

From: Leon Snead & Company [mailto:leonsnead.companypc@erols.com]  
Sent: Thursday, August 16, 2018 3:25 PM  
To: Burns, Sarah <SarahBurns@anderson5.net>  
Subject: Audit of ARC Grant No. SC-17832

Good Afternoon Ms. Burns,

Attached is a copy of the draft report on the above referenced audit for your review and comments. Please provide your comments by September 14, 2018. Please indicate whether you concur or nonconcur with the recommendations in the report and state what actions have been taken or are contemplated to implement the recommendations. If you have any questions, please call or e-mail me.

Please confirm your receipt of the attached report. Thanks very much for your assistance.

Leon Snead  
(301) 738-8190
Sarah,  
I apologize for the delay in getting back to you. I have finally been able to consult with both our Associate General Counsel and the Inspector General who employs the auditors. I have been told that ARC will accept your unchanged indirect rate on this grant. There is no need to go back and revise your financial reports and payment requests. However, going forward, on all ARC grants and any other federal grant your receive, you should be sure to charge the indirect rate that is current at the time the costs were incurred. The only caveat I have here is that, even if your indirect rate were increased, the amount of your grant would not be increased. For ARC, you would need to either put some of the additional indirect costs on the matching share side of the budget or request a budget amendment to reduce another line item. For any other federal grant you will need to seek guidance from the grantmaking agency.

I hope this is useful.

Jeff
To: Jeff Schwartz <jschwartz@arc.gov>
Subject: RE: ARC Final Payment and Closeout Summary for Grant No. SC-17832

Jeff,

Per our conversation earlier today, I am requesting input on the following:

Is there a written guidance that states that the grantee can continue to claim indirect cost per the approved grant award/budget or does the grantee need to change the rate at which indirect cost is claimed based on their annual indirect cost rate agreement?
The indirect cost rate when the above grant was submitted and approved for funding was 8.86. (14/15)
The second year of the grant period, the rate dropped to 6.72 (15/16)

We appreciate any input you can provide on this question.
Thank you!

Sarah B. Burns
Coordinator of Grants and Special Projects
Anderson School District Five
864/260-5000 ext. 10122
Certified Grant Specialists (NGWA)

From: ARC Grant Management [mailto:arcnet@arc.gov]
Sent: Tuesday, December 20, 2016 4:55 PM
To: jfrancisco@scommerce.com; Burns, Sarah <SarahBurns@anderson5.net>
Cc: Jeffrey Schwartz <jschwartz@arc.gov>
Subject: ARC Final Payment and Closeout Summary for Grant No. SC-17832

The following ARC grant is closed:

Grant Number: SC-17832
Title: Jobs for Anderson Graduates
Grantee: Anderson School District Five
Final Payment: $35,100.31

Please contact the grant's Program Manager for more information:

Jeffrey Schwartz
Program Manager
jschwartz@arc.gov
202-884-7721

State Representatives may view more information about this grant in ARC's project database:
https://arcnet.arc.gov/

Note: Please do not reply directly to this email notice. If you have any questions or comments, contact the Project Coordinator directly at the information provided in this email.

Appalachian Regional Commission
1666 Connecticut Ave NW