

**MOREHEAD STATE UNIVERSITY'S ADMINISTRATION
OF ROWAN COUNTY'S ADULT EDUCATION GRANTS
FROM THE COUNCIL ON POSTSECONDARY
EDUCATION AND KENTUCKY ADULT EDUCATION**

**For The Period
July 1, 2004 Through June 30, 2005**



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CRIT LUALLEN
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July 13, 2006

Reecie Stagnolia, Associate Vice President
Kentucky Adult Education
Council on Postsecondary Education
1024 Capital Center Drive, Suite 250
Frankfort, KY 40601

Wayne D. Andrews, President
Morehead State University
201 Howell-McDowell Admin Building
Morehead, KY 40351

Re: Adult Education Grants

Dear Mr. Stagnolia and Dr. Andrews:

This report contains the results of the performance audit of Morehead State University's administration of Rowan County's Adult Education Grant for the fiscal year ending June 30, 2005. The Council on Postsecondary Education and Kentucky Adult Education contracted with us to conduct performance audits of selected local adult education providers. This report represents our findings, recommendations, and the provider's responses.

We conducted this performance audit in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

We greatly appreciate the courtesies and cooperation extended to our staff during the audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts



TABLE OF CONTENTS

	PAGE
EXECUTIVE SUMMARY.....	1
RESULTS AND RECOMMENDATIONS	2
FINANCIAL REPORTING AND COMPLIANCE	2
PARTICIPANT ELIGIBILITY AND RECORD KEEPING.....	4
PAYROLL AND STAFF REQUIREMENTS.....	6
PURCHASING/EXPENDITURE COMPLIANCE.....	7
PROFESSIONAL DEVELOPMENT REIMBURSEMENT COMPLIANCE	8
INTERNAL CONTROLS RELATING TO GRANT	9

**MOREHEAD STATE UNIVERSITY'S ADMINISTRATION OF ROWAN
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EXECUTIVE SUMMARY

PURPOSE AND SCOPE

The Council on Postsecondary Education and Kentucky Adult Education (KYAE) selected the Morehead State University (local provider) for a limited scope performance audit of its administration of the Adult Education Grant for Rowan County. An on-site review was conducted April 10 through April 12, 2006 to address the following objectives:

- Reconcile student and faculty data electronically submitted to KYAE with the information retained by the local provider.
- Determine whether the local provider's professional development activities comply with applicable professional development policies and procedures.
- Determine whether the local provider's expenditures and costs comply with the terms of their grant agreement and reconcile to invoices submitted.
- Report internal control weaknesses identified during our audit that relate to the audit's objectives.

To accomplish these objectives, the performance audit team reviewed the Policy and Procedure Manual for Kentucky Adult Education, as well as the provider's grant proposal and final agreement with KYAE. During the on-site review, the audit team reviewed the provider's accounting records (trial balance/general ledger), interviewed program administrators regarding internal controls related to the above grants, and tested samples of participant files, personnel files, and expenditure documentation for compliance with applicable requirements. Below is the summary of findings:

FINDINGS SUMMARY

FINDING	Disallowed Costs
There were eleven (11) cost category variances and expenditures recorded in the Provider's Trial Balance were \$1,753 less than the expenditures requested for reimbursement on the KAE-10 Expenditure Report.	\$1,753
One (1) participant's file did not contain evidence to support that the goal of entering postsecondary education was met as reported to KYAE.	N/A
Four (4) participant files had no evidence to support the attendance hours recorded in AERIN.	N/A
Two (2) employees were not included on the electronic staff listing per AERINs for FY 2005.	N/A
Two laptops purchased from Gateway Business for \$2,360 during FY2005 were not available for observation to verify existence.	N/A

**MOREHEAD STATE UNIVERSITY'S ADMINISTRATION OF ROWAN
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RESULTS AND RECOMMENDATIONS

FINANCIAL REPORTING AND COMPLIANCE

Scope and Methodology

The KAE-10 Expenditure Reports were compared to the line item budget approved in the final agreement modification. This comparison was used to determine whether the provider's reimbursements complied with the approved budget.

The KAE-10 Expenditure Reports were then compared to the internally generated financial records maintained by the local provider. This comparison was used to determine whether the local provider's accounting records support the amounts requested for reimbursement on the KAE-10 Expenditure Reports.

Findings

CPE and KYAE reimburse providers for reasonable, allowable, and actual costs incurred if costs are specified in the contract. Expenditures for providers shall not exceed the cost category limitations or total as specified in the contract. Written department approval must be obtained before a provider may reallocate funds among the line items.

There were 11 variances between the KAE-10 Expenditure Reports and the Provider's Trial Balance. In total, the expenditures recorded in the Provider's Trial Balance were \$1,753 less than the expenditures requested for reimbursement on the KAE-10 Expenditure Report. This means that the provider's financial information does not support the amounts requested for reimbursement. The following table illustrates our findings in this area.

Basic Grant (Adult Education)	KAE-10 Expenditure Report 6/30/05	Provider's Trial Balance (After Adjustments) 6/30/05	Difference
Administrative Personnel	\$17,132	\$19,065	(\$1,933)
Other Administrative Costs	1,200	1,184	\$16
Operating Costs	291	292	(\$1)
Instructional Personnel	115,222	110,430	\$4,792
Other Instructional Costs	2,082	4,648	(\$2,566)
Equipment Costs			
Development Funds	13,469	13,448	\$21

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POSTSECONDARY EDUCATION AND KENTUCKY ADULT EDUCATION AS
OF JUNE 30, 2005**

Incentives (Rewards)	6,569	6,544	\$25
Professional Development	2,819	1,018	\$1,801
Corrections			
Administrative Personnel			
Other Administrative Costs	250	249	\$1
Operating Costs			
Instructional Personnel	3,877	4,291	(\$414)
Other Instructional Costs	873	862	\$11
Equipment Costs			
TOTAL	\$163,784	\$162,031	\$1,753

Recommendations

The Provider should reconcile the KAE-10 Expenditure Report to the Trial Balance each month. This reconciliation should ensure that reimbursements requests have been expensed and recorded on the Trial Balance. This reconciliation should be conducted within each of the line item categories as well as in aggregate. To change a line item budget, providers should submit a Budget Amendment Request form to KYAE for approval (per the Policy and Procedure Manual for Kentucky Adult Education).

We recommend the provider establish a Trial Balance using the same accounts/categories used in the expenditure reports. This Trial Balance should allow a proper reconciliation of each expenditure category to the KAE-10 Expenditure Reports each month to ensure that amounts requested are supported by the provider's accounting records.

Provider Response – [This is the response provided by management when their views and planned corrective actions were requested. The Provider was given a reasonable amount of time to adequately respond to this request.]

The auditor was provided a spreadsheet, which details the expenditures in the 2004-05 fiscal year. The expenditures claimed on the KYAE-10 are consistent with our general ledger. As we explained to the auditor, some of our expenses are not paid until July but all expenses are **incurred** prior to June 30. This is standard operating procedure. All goods and services that are procured in a fiscal year (July 1, 2004 – June 30, 2005) must be for with from funds allocated to that fiscal year. If an expense was obtained prior to June 30, 2005, but we didn't receive an invoice until July 2005, the item must be paid with 2004-05 funds **not** 2005-06 funds.

Our contract was for \$163,784 and we expended \$162,031.21. We have correctly sent a refund check to the state for \$1,752.80.

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OF JUNE 30, 2005**

PARTICIPANT ELIGIBILITY AND RECORD KEEPING

Scope and Methodology

A total of 60 participants were selected randomly from the electronic student data sent from KYAE and compared to the documentation maintained in the participant files. We examined the files for the following:

- Proper eligibility documentation.
- Proper assessment testing.
- Evidence to support the achievement of goals/objectives.
- Agreed the establishment and achievement of goals/objectives to the information reported to KYAE.
- Proper separation from the program when applicable.
- Other requirements were tested based upon the applicable program requirements.

The participants tested received services during the period of July 1, 2004 and June 30, 2005.

Findings

Proper file maintenance and accurate data entry are important to support and document the success of a provider in meeting eligibility requirements and goal achievement. Any achievement or completion of goals should be documented. Programs are to maintain assessment forms on file for three years.

The following exceptions were noted:

- One (1) participant's file did not contain evidence to support that the goal of entering postsecondary education was met as reported to KYAE.
- Four (4) participant files had no evidence to support the attendance hours recorded in AERIN.

Recommendations

We recommend the provider create a checklist for participant files to facilitate a periodic review of the contents to ensure that the required documentation is being maintained. Any achievement of goals/objectives should be documented and maintained. The person entering participant data should require documentation for any data entry performed on a participant and any deficiencies should be reported to the Program Director.

**MOREHEAD STATE UNIVERSITY'S ADMINISTRATION OF ROWAN
COUNTY'S ADULT EDUCATION GRANTS FROM THE COUNCIL ON
POSTSECONDARY EDUCATION AND KENTUCKY ADULT EDUCATION AS
OF JUNE 30, 2005**

Provider Response – [This is the response provided by management when their views and planned corrective actions were requested. The Provider was given a reasonable amount of time to adequately respond to this request.]

Students with a goal of obtaining a job or enrolling in postsecondary education are asked to report to an instructor when this goal is met. Employment and postsecondary goal obtainment is typically reported verbally by the student and written by the instructor on the student's file.

Upon audit recommendations, students will be asked to bring tangible evidence for their file in the future. In most instances our only option is to rely on students to report this information since confidentiality is an issue. Instructors will also pay closer attention to documenting student's initial goals in their file.

Daily program sign-in sheets are kept on file for three years. Students are required to sign their name and post the time they arrive and leave the center each day.

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COUNTY'S ADULT EDUCATION GRANTS FROM THE COUNCIL ON
POSTSECONDARY EDUCATION AND KENTUCKY ADULT EDUCATION AS
OF JUNE 30, 2005**

PAYROLL AND STAFF REQUIREMENTS

Scope and Methodology

A sample of 15 payroll disbursements was judgmentally selected for payroll testing. Personnel files were examined to verify that staff had received the required professional development training hours and had completed an Individual Professional Development Plan if applicable. Timesheets were examined for existence and approval. Personnel files were examined to verify evidence of the instructor's bachelor's degree. A determination was made as to whether the employee was included in the electronic staff listing per AERIN for fiscal year (FY) 2005.

Findings

CPE and KYAE rely on each provider to update its electronic staff listing to ensure complete and accurate information. Two (2) employees were not included on the electronic staff listing per AERINs for FY 2005.

Recommendations

We recommend that staff information be entered accurately and completely in KYAE's electronic information system (AERIN). The provider should ensure that the employee's status is listed as "active" in the information system. This should be done at the beginning of each year because during the close out period all staff are automatically coded as "inactive."

Provider Response – [This is the response provided by management when their views and planned corrective actions were requested. The Provider was given a reasonable amount of time to adequately respond to this request.]

Contrary to the audit report, the employees are both listed in 04-05 AErin staff report. Both are listed on the FY 04-05 budget personnel worksheet as well. We have checked AErin and found the employees entered as employees for the FY 04-05 and, as should be, both are now 'inactive' for that year. One staff member is presently listed in AErin as 'active' for the current year. The other was not employed anytime during the current year.

In reference to the audit recommendations concerning staff reporting in the AErin system, our staff is fully aware of the procedures involved in entering staff information, and updates of active and inactive status will continue to be accurately reported.

Auditor's Response:

This finding is based on an electronic staff list provided by KYAE that represented all "active" staff in AERIN during FY 2005.

**MOREHEAD STATE UNIVERSITY'S ADMINISTRATION OF ROWAN
COUNTY'S ADULT EDUCATION GRANTS FROM THE COUNCIL ON
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OF JUNE 30, 2005**

PURCHASING/EXPENDITURE COMPLIANCE

Scope and Methodology

A sample of eight (8) expenditures, representing 20% of the total purchases, was selected judgmentally from the detailed general ledger. These expenditures were tested for authorization/approval, supporting documentation, proper recording, and that it was an actual expense during the grant period of July 1, 2004 and June 30, 2005.

Findings

Two laptops purchased from Gateway Business for \$2,360 during FY2005 were not available for observation to verify existence. These items were listed on the provider's Inventory Report.

Recommendations

Inventory items should be maintained on-site, rather than left at home. If taken home for work purpose, the laptops should be brought back on-site by the individual/instructor rather than left at home.

Provider Response – [This is the response provided by management when their views and planned corrective actions were requested. The Provider was given a reasonable amount of time to adequately respond to this request.]

The laptops are sometimes taken home by instructors for more than one day for the purpose of doing work-related or professional development tasks.

Instructor's could have brought the computers in for observation the second day of the audit but were under the impression that it was not necessary. Upon recommendation, instructors have been informed not to leave computers at home.

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COUNTY'S ADULT EDUCATION GRANTS FROM THE COUNCIL ON
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PROFESSIONAL DEVELOPMENT REIMBURSEMENT COMPLIANCE

Scope and Methodology

Professional Development expenditures were tested for proper authorization, supporting documentation, and adherence to approved rates and reimbursement policies. A sample of four (4) expenditures, representing 20% of the total professional development expenditures, was selected judgmentally from the detailed general ledger.

Findings

No exceptions noted.

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OF JUNE 30, 2005**

INTERNAL CONTROLS RELATING TO GRANT

Scope and Methodology

Morehead State University's fiscal administrator was given an Internal Control Questionnaire regarding the controls in place for cash disbursements, bank reconciliations, revenue, expenditures, and payroll. The questionnaire was completed by the fiscal administrator and reviewed for any significant control deficiencies.

Findings

No significant control deficiencies noted.