



**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF INSPECTOR GENERAL

Audit Services  
Chicago/Kansas City Audit Region

November 20, 2007

**Control Number**  
**ED-OIG/A05H0009**

Dr. Paul R. Brown  
President  
Zane State College  
1555 Newark Road  
Zanesville, Ohio 43701

Dear Dr. Brown:

This ***Final Audit Report***, entitled *Zane State College's Administration and Oversight of Its Title III Grant*, presents the results of our audit of the Title III Strengthening Institutions grant provided to Zane State College by the U.S. Department of Education (Department). The objectives of the audit were to determine whether Zane State College (1) could support the information reported to the Department on its annual performance reports, and (2) used grant funds only for allowable, reasonable, and necessary costs. Our audit covered the period October 1, 2003, through September 30, 2006.

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## **BACKGROUND**

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Zane State College (College), formerly Muskingum Area Technical College, is located in Zanesville, Ohio. The College, officially chartered in September 1969, is a two-year technical college that offers students the opportunity to earn an associate degree while participating in experienced-based learning in their chosen field. The College primarily serves three Ohio counties, enrolls more than 2,000 students, and offers 25 technology programs. It is governed by a nine-member District Board of Trustees, accredited by the Higher Learning Commission, and a member of the North Central Association of Colleges and Schools.

A Title III, Strengthening Institutions, grant (CFDA number 84.031A) is to improve the academic quality, institutional management, and fiscal stability of eligible institutions in order to increase their self-sufficiency and strengthen their capacity to make a substantial contribution to the higher education resources of the nation. According to its grant proposal, the College's project was to improve administrative and academic quality through technology. Under the administrative component, the College was to move from a management information system that was "heavily reliant on three COBOL programmers for access to institutional and student information to an open systems, client-server, computerized information system." Under the academic component, the College was to "develop a comprehensive faculty development

program, including two annual workshops” and a “program of faculty and curriculum development that [would] result in at least 50 technology-enhanced courses to accommodate diverse student learning styles and improve student outcomes.”

The Department awarded the College a five-year grant in the amount of \$1.75 million. The grant period was from October 1, 2001, through September 30, 2006. The College drew down the following amounts over the five years of the grant.

Title III Grant Draw Downs	
Year 1	\$255,000
Year 2	\$373,160
Year 3	\$313,348
Year 4	\$421,000
Year 5	\$387,492
Total	\$1,750,000

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## AUDIT RESULTS

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The College can support the information that it reported to the Department in its annual performance reports for the three grant years ended September 30, 2004, 2005, and 2006. However, the financial information the College reported to the Department was incorrect for these three grant years. The expenditure information was incorrect for the two grant years ended September 30, 2004 and 2006. The carryover and non-federal expenditures (match) information was incorrect for the three grant years ended September 30, 2004, 2005, and 2006.

In addition, the College used grant funds only for allowable, reasonable, and necessary costs during the three grant years ended September 30, 2004, 2005, and 2006. However, the College was unable to locate the following property purchased with \$3,727 of Title III funds: two laptop computers and five Apple iPod Shuffles.

The College concurred with our findings and recommendations. The text of its response is provided in full as an Attachment to this report.

### **Finding No. 1 The College Incorrectly Reported Financial Information in Its Annual Performance Reports**

The College incorrectly reported financial information in its annual performance reports for the three grant years ended September 30, 2004, 2005, and 2006. The College reported lower than actual expenditures for the grant years ended September 30, 2004 and 2006.<sup>1</sup> During our audit, the College provided us accounting records showing the correct amount of expenditures for each grant year.

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<sup>1</sup> The College correctly reported the amount of expenditures in its annual performance report for the grant year ended September 30, 2005.

Year Ended	Reported Expenditures	Actual Expenditures	Difference (Reported Less Actual)
September 30, 2004	\$356,005	\$440,073	(\$84,068)
September 30, 2006	\$247,119	\$272,955	(\$25,836)

In addition, the College incorrectly reported carryover data for the grant years ended September 30, 2004, 2005, and 2006.

Year Ended	Reported Carryover Balance	Actual Carryover Balance
September 30, 2004	\$89,096	(\$56,536)
September 30, 2005	(\$102,881)	(\$80,639)
September 30, 2006	\$0	(\$3,594)

Finally, the Director of Accounting Services informed us that the College incorrectly reported the non-federal expenditures (match) related to the Title III grant. The official stated the College incorrectly reported its match for the three grant years ended September 30, 2004, 2005, and 2006. The College could not provide us with a yearly breakdown of the actual match amounts, but provided a spreadsheet that showed the five-year cumulative match. The spreadsheet showed cumulative match of \$849,054, which is \$186, 418 more than the match required per the grant proposal. The College reported exactly the same amount of match as it had budgeted in the grant proposal for the grant years ended 2005 and 2006. The amount reported for the grant year ended September 30, 2004, differed from the budgeted amount.

According to 34 C.F.R. § 75.720, a grantee is required to submit financial and performance reports annually. According to 34 C.F.R. § 75.702, a grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds.

The College reported less than its actual expenditures for the grant year ended September 30, 2004, because it only included nine months of expenditures. The nine months of expenditures covered October 2003 through June 2004, coinciding with the end of the College's fiscal year. The College reported less than its actual expenditures (\$272,955) for the grant year ended September 30, 2006, because it wanted the ending carryover balance to be zero. Therefore, the College reported \$247,119 as its actual expenditures, resulting in a reported carryover balance of zero. The College reported the incorrect carryover balance in the grant year ended September 30, 2004, but we were unable to determine the source of this incorrect carryover balance. This amount was carried forward to the other two grant years resulting in the carryover balances for the grant years ended September 30, 2005 and 2006 also being incorrect. The College reported it did not track the match yearly because it believed that it was exceeding the match amount. Turnover in the grant administrator position contributed to the match not being tracked by year. The Director of Accounting Services stated that the match figures in the annual performance report were not correct by year. Budgeted numbers from the Grant Proposal were reported instead of the actual match amount for each year.

Reporting accurate financial information in the annual performance report is important. The report provides the Department information on whether a grantee is expending funds at the expected rate and, if not, an explanation as to why. When it receives an annual performance report with incorrect information, the Department could assume the reported financial information is correct and could rely on this information to make funding decisions.

## Recommendations

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require the College to

- 1.1 Establish a system of internal control sufficient to provide reasonable assurance that it reports complete and accurate financial information to the Department in its annual performance reports, and
- 1.2 Submit corrected annual performance reports to the Department for the grant years ended September 30, 2004, 2005, and 2006.

## Finding No. 2 The College was Unable to Account for Property Purchased with Title III Grant Funds

The College could not account for all property purchased with Title III grant funds. During our physical review of property, the College could not locate two laptop computers and five Apple iPod Shuffles.<sup>2</sup>

According to 34 C.F.R. § 74.34(f), recipients of federal funds must maintain accurate records for equipment acquired with federal funds. The College is required to take a physical inventory of equipment and reconcile the results with the equipment records at least once every two years. The College is required to investigate and determine the causes of any differences between quantities determined by the physical inspection and in the equipment records. In addition, the College is required to have a control system in place to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment must be investigated and fully documented. The College is required to notify the Secretary in cases where equipment purchased with federal funds cannot be accounted for.

The definition of equipment per 34 C.F.R. § 74.2 is tangible, nonexpendable, personal property including exempt property charged directly to the award, having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. However, consistent with recipient policy, lower limits may be established. The College's policy is that any individual item with an acquisition cost of \$1,000 or more must be inventoried.

In the first years of the grant, the College did not have a control system in place that included adequate safeguards to prevent loss, damage, or theft of equipment. Weaknesses in the College's inventory control system included (1) not maintaining accurate records for equipment purchased with Title III grant funds and (2) not taking a physical inventory of equipment and determining the causes of any differences between quantities determined by the physical inspection and the quantities recorded in the College's equipment records. The College has made an effort to strengthen its inventory control system by using automated systems, performing physical inspections, and reconciling differences as they are identified.

Because the College could not account for two laptop computers (\$3,232) and five Apple iPod Shuffles (\$495)<sup>3</sup> purchased with \$3,727 of Title III funds, it cannot demonstrate that the funds

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<sup>2</sup> The College purchased a total of five iPod shuffles to incorporate the use of podcasts for faculty lectures.

<sup>3</sup> Even though the Apple iPod Shuffles were not accountable property per the College's policy, the College agreed to reimburse the Department for their cost.

were used for their intended purposes. In addition, the laptop computers and Apple iPod Shuffles were not available for instructors or employees who needed them to help fulfill the objectives of the grant.

### **Recommendations**

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require the College to

- 2.1 Return to the Department the \$3,727 used to purchase the property it cannot locate, and
- 2.2 Strengthen its system of internal control to provide reasonable assurance that it can account for all equipment and other property purchased with federal grant funds.

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## **OBJECTIVES, SCOPE, AND METHODOLOGY**

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The objectives of the audit were to determine whether the College (1) could support the information reported to the Department on its annual performance reports and (2) used grant funds only for allowable, reasonable, and necessary costs. Our audit covered the period October 1, 2003, through September 30, 2006.

To achieve our objectives, we performed the following procedures.

1. Obtained and reviewed audit reports prepared by the College's independent public accountants for the four years ended June 30, 2003, 2004, 2005, and 2006.
2. Gained an understanding of the College's internal control structure, policies, procedures, and practices applicable to the administration of its Title III grant by interviewing College officials and reviewing written policies and procedures.
3. Reviewed the College's annual performance reports covering the four years ended September 30, 2006, and traced information that we deemed critical to budget, academic, administrative, and financial information the College maintained.
4. Obtained the College's accounting records and identified all Title III grant funds expended for the period October 1, 2003, through September 30, 2006.
5. Judgmentally selected a sample of non-personnel expenditures for the period October 1, 2003, through September 30, 2006, and traced the expenditures to requisition forms, purchase orders, invoices, and cancelled checks to determine whether they were allocable, reasonable, necessary, and adequately supported. We sampled \$210,695 of the \$618,614 of non-personnel expenditures the College recorded in its accounting records. We selected the expenditures based on the type of item (software, hardware, and contracts), the dollar amount of the item, and the date that the item was purchased.
6. Judgmentally selected a sample of \$23,126 of the \$319,331 in salaries and stipends paid for the period October 1, 2003, through September 30, 2006. We selected six pay periods for five employees paid salaries from the Title III grant. We traced the pay period information back to time sheets, time and effort forms, payroll documents, and bank statements to ensure the personnel expenditures were allocable, reasonable, necessary, and adequately supported and to confirm that employees were paid. We selected the employee's first pay period that

occurred during the audit period plus one additional pay period to cover all years under audit. We also verified through discussions that two employees still at the College received their salaries. We reviewed each employee's contract and time and effort forms and the detail of each pay period. We reviewed the detail looking for data out of the ordinary and obtained explanations for extraordinary data. Further, we verified employees paid under the grant received the same fringe benefit package as employees not paid under the grant and verified that the overall fringe benefit rate charged to the grant agreed to the rate set forth in the grant proposal. In addition, we judgmentally selected 10 of 44 faculty who received a stipend by selecting the first name and then every ninth name from a list of faculty who received a stipend. We verified that these 10 faculty members received their stipends by contacting each faculty member.

7. Verified the existence of a judgmentally selected sample of hardware and software purchased for \$5,000 or more per unit during the period October 1, 2003, through September 30, 2006. We selected hardware and software purchases based on the dollar amount of the item and the date that the item was purchased, ensuring we selected purchases from each of the three years within this period. We verified the existence of \$302,034 of the \$502,289 expended by the College for hardware and software.
8. Verified the existence of all \$174,142 in property purchased for less than \$5,000 per unit during the period October 1, 2003, through September 30, 2006.
9. Interviewed College officials regarding Title III grant administration procedures related to the issues disclosed by our testing.

We also relied, in part, on data provided to us by the College from its computer system. We compared the College's data to the Department's financial data. We compared the dates for the transactions the College recorded with the audit period (October 1, 2003, through September 30, 2005). We also compared the data with purchase orders, invoices, cancelled checks, and other information on paper documents maintained by the College. Based on these comparisons, we concluded that the College-provided data was sufficiently reliable for the purposes of our audit.

We performed our audit work at the College in Zanesville, Ohio, and our offices from February through June 2007. We discussed the results of our audit with College officials on June 29, 2007. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

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## **ADMINISTRATIVE MATTERS**

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Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken, including the recovery of funds, will be made by the appropriate Department of Education officials, in accordance with the General Education Provisions Act.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department officials, who will consider them before taking final Departmental action on this audit:

Diane Auer Jones  
Assistant Secretary  
Office of Postsecondary Education  
U.S. Department of Education  
1990 K Street, N.W.  
Washington, D.C. 20006

Lawrence A. Warder  
Chief Financial Officer  
Office of the Chief Financial Officer  
U.S. Department of Education  
Union Center Plaza  
830 First Street, N.E.  
Washington, D.C. 20202

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Janice D. Keeney  
Acting Regional Inspector General  
for Audit

Attachment

**ATTACHMENT: College's Comments to the Draft Report**



October 25, 2007

Mr. Gary D. Whitman  
Acting Regional Inspector General for Audit  
Chicago/Kansas City Audit Region  
U.S. Department of Education  
Office of Inspector General-Audit Services  
500 West Madison Street, Suite 1414  
Chicago, Illinois 60661

Re: Control Number ED-OIG/A05H0009

Dear Mr. Whitman:

Thank you for the opportunity to respond to the **Draft Audit Report, Zane State College's Administration and Oversight of Its Title III Grant**, which you provided last month. I would also like to thank the staff of the OIG for their professionalism and courtesy throughout the audit process.

Zane State College acknowledges that the College could not account for two laptop computers and five iPod shuffles at the time of the audit and that the College's annual performance reports for grant years three to five included some expenditure data that was reported incorrectly.

The College found that some procedures at that time were insufficient or were not always followed systematically. However, the College is committed to taking several actions by the end of the year in order to address the conditions described in the draft audit report. The College will:

- Reimburse the U.S. Department of Education the amount of \$3,727, the estimated value of the items which were not accounted for.
- Correct and resubmit the budget tables from section 4 of the annual performance reports for years three, four, and five.
- Maintain the improvements to the College's inventory control procedures that have been made during the last eighteen months.
- Review, and if appropriate, revise the College's security policy to identify specific procedures employees must follow when equipment cannot be accounted for, and conduct appropriate awareness training for employees.
- Review and revise the College's grant reporting procedures—especially in the case of online reporting—to ensure that there is appropriate review and approval by at least one administrator in addition to the project director.

As you know, the College began taking action in some of these areas prior to the audit and made commitments on the others as soon as exceptions were reported by the OIG.

Overall the College views its Title III project as a very successful endeavor which has strengthened many aspects of the institution, including a technological upgrade and integration of administrative information systems and the introduction of many new technology applications in academic programs.

Zane State College's Title III grant focused on the development and conversion to a new management information system that is fully integrated and supports web-based services and information. Additionally, the grant developed the Instructional Design for Enhanced Academics (IDEA) Center, a fully equipped facility for faculty to develop skills and enhance curriculum. The Center also provides technical assistance and training for faculty to develop proficiency in using these resources.

During the late 1990's, the College's long range planning process identified specific technology-related problems that threatened Zane State's ability to successfully serve its constituents. Through focused efforts, including the Title III grant, the College has succeeded in securing the resources to resolve several of these problems. Zane State College identified inadequate technology in both administrative functions and the classroom as serious problems. The Title III grant was integral in developing and converting the College's management information system and developing the IDEA Center for the training of faculty cohorts and piloting of revised curricula. The College has made significant improvements in data integrity, hardware, reliability, capacity, and integration of management information during the Title III grant performance period.

Also noteworthy is that the College began institutionalizing the grant activities as the project was completed. The College's operating budgets for fiscal 2007 and again for fiscal 2008 have included funding to continue the IDEA Center (now called the Center for Excellence and Innovation in Teaching and Learning), the instructional technology coordinator position, the web analyst position, and the annual maintenance on the management information system.

In conclusion, I am certain that by accomplishing the objectives of its Title III grant, the College has greatly strengthened its institutional processes; and I am equally confident that the planned actions, based on the findings of the audit and on the College's own review of internal procedures, will ensure accurate reporting as well as full compliance with all other regulations governing future grant awards.

Sincerely,

/S/

Paul R. Brown, Ed.D.  
President