
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD
Schuyler County Child Care Coordinating Council, Inc.
Montour Falls, New York**

**Final Report Number: 14-25
Project Number: NY-17093
June 2014**

**Prepared by
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Leon Snead & Company, P.C. completed an audit of grant number NY-17093 awarded by the Appalachian Regional Commission (ARC) to the Schuyler County Child Care Coordinating Council, Inc. (the Child Care Council). The audit was performed to assist the Office of 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 terms and requirements; (2) internal grant guidelines, including program (internal) controls, were appropriate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) the matching requirements and the goals and objectives of the grant were met.

The Child Care Council did not have an effective financial management system and related internal controls in place to manage and administer the ARC grant reviewed. This was primarily due to the lack of written accounting policies and procedures establishing how the accounting system should be set up, maintained, and documented. As a result, we have questioned the entire \$110,523 in costs claimed for reimbursement and the \$140,313 reported as matching costs.

The proposed child care center was established and operating; however, two of the planned outcomes were not met, which included (a) providing non-traditional evening and weekend care to allow parents to obtain or continue employment and (b) reaching a sustained total of 85 enrollees. We were told that the evening and weekend child care program was never implemented due to less demand for such care than expected when the grant was proposed.

The issues noted during the audit and our recommended corrective actions are discussed in detail in the Findings and Recommendations section of the report. A draft report was provided to the Child Care Council on May 5, 2014, for comments. The Child Care Council provided a response to the report on June 11, 2014, addressing our recommendations. These comments are included in their entirety in Appendix II.

Leon Snead & Company appreciates the cooperation and assistance received from the Child Care Council and ARC staff during the audit.

Sincerely,


Leon Snead & Company, P. C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number NY-17093 awarded by the Appalachian Regional Commission (ARC) to the Schuyler County Child Care Coordinating Council, Inc. (the Child Care Council). 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 Child Care Council is a non-profit organization established in 1988 to serve Schuyler County and the surrounding area as one of approximately 49 child care resource and referral centers available throughout New York State. The centers are resource agencies that work toward improving the availability and quality of child care and serve as a referral service for parents seeking child care. In response to community needs for non-traditional and expanded child care, we were told that the Child Care Council decided to establish and operate a child care center that would offer not only traditional daytime care, but also infant care. In addition, it would offer evening and weekend care. The child care center was named *My Place* and began operating and offering child care programs in early 2012. In the spring of 2013, the Child Care Council decided to transfer its resource and referral responsibilities to another organization and focus solely on supporting and operating the *My Place* child care center.

ARC grant NY-17093 was initially awarded to cover the period August 1, 2011 through July 30, 2012; however, the grant agreement was amended three times, the last time extending the grant performance period to July 31, 2013. The grant provided \$150,000 in ARC funds and required \$150,285 in non-ARC matching funds to provide funding for a regional day care center startup serving Schuyler County in Appalachian New York. The project was intended to establish a location for high quality care for young children and provide a child care option for parents and caregivers so they could work, job search, or attend school. The grant had been completed and the final reports had been submitted at the time of the audit; however, the grant had not been administratively closed by ARC. The total project cost reported under the grant was \$250,836, including \$110,523 of federal funds.

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) internal grant guidelines, including program (internal) controls, were appropriate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) the matching requirements and the goals and objectives of the grant were met.

We reviewed the documentation provided and interviewed the Child Care Council staff to obtain an overall understanding of the grant activities, the accounting system, and the operating procedures. We reviewed the Child Care Council's administrative procedures and related internal controls to determine whether they were adequate to administer the grant funds. We reviewed financial and other required reports to determine whether they were properly supported and submitted in accordance with the requirements. We also reviewed the most recent audit report to determine whether there were any issues that impacted the ARC grant.

The primary criteria used in performing the audit were the provisions of the ARC grant agreement, applicable Office of Management and Budget (OMB) Circulars, and relevant parts of the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of April 7-16, 2014, including on-site work at the Child Care Council's office in Montour Falls, New York. The audit results were discussed with the Child Care Council representatives at the conclusion of the on-site visit.

Summary of Audit Results

The Child Care Council did not have an effective financial management system and related internal controls in place to manage and administer the ARC grant reviewed. This was primarily due to the lack of sufficient written accounting policies and procedures establishing how the accounting system should be set up, maintained, and documented. As a result, we have questioned the entire \$110,523 in costs claimed for reimbursement and the \$140,313 reported as matching costs.

The proposed child care center was established and operating; however, two of the planned outcomes were not met, which included (a) providing non-traditional evening and weekend care to allow parents to obtain or continue employment and (b) reaching a sustained total of 85 enrollees. We were told that the evening and weekend child care program was never implemented due to less demand for such care than expected when the grant was proposed.

The issue relating to the financial management system and our recommended corrective actions are discussed in detail in the Findings and Recommendations section of the report.

Findings and Recommendations

Financial Management System

The Child Care Council did not have an effective financial management system and related internal controls in place to manage and administer the ARC grant reviewed. This was primarily due to the lack of sufficient written accounting policies and procedures establishing how the accounting system should be set up, maintained, and documented. As a result, we have questioned the entire \$110,523 in costs claimed for reimbursement and the \$140,313 in costs reported as matching costs.

The ARC Administrative Requirements for Grants and Cooperative Agreements establishes certain standards for grantee's financial system and processes. These standards include (a) being able to provide accurate and complete reporting on financial transactions and results related to grant funds and (b) maintaining accounting records that adequately identify obligations, assets, expenditures, and income related to grant activities. To be allowable for reimbursement under the ARC grant, or acceptable as matching costs, claimed expenditures must be adequately documented and supported, be necessary and reasonable, and not be specifically excluded under the Federal cost principles. Match amounts must also have supporting documentation not only to show they were incurred, but also to verify that they were not used as match costs on more than one grant or activity.

We determined that the Child Care Council's accounting records were not maintained in a manner to clearly identify expenditures that were paid for with ARC funds or used as matching costs. To be consistent with the ARC financial standards, separate accounts or projects are normally established in the accounting system/records for each major funding source or project to enable financial transactions to be recorded and tracked for each activity. Based on discussions with the current bookkeeper and a review of available QuickBooks records, it appeared that a system was set up to record transactions against four major cost centers or project accounts, which is consistent with the financial standards. They were identified as: Agency, Center, Center ARC, and Center SCCCC. However, the current bookkeeper and other staff members assigned to assist us during the audit were new to the Child Care Council operations and was unable to provide any documentation or explanations as to what these categories were intended to include.

We requested the bookkeeper to generate reports from the system for the four classifications. Apparently, no amounts or transactions were ever entered into the accounting records under the Center ARC fund/project classification since no report was produced. Also, there were few transactions entered into the QuickBooks records under the other three classifications. It appeared that the prior bookkeeper(s) were entering transactions into the QuickBooks general ledger records without identifying them to any particular cost center or project. Instead, expenditures were entered into the general ledger under a general category like "supplies," "food," "training," etc. The Child Care Council could not provide support for the costs associated with the ARC grant, either the ARC funds or related match amounts. Although the grantee submitted "Payment Advance Request Worksheet" forms and "Request for Advance or Reimbursement" forms, we were not provided documents to support this information on the submitted forms.

Although we could not identify all of the specific expenditures related to the ARC grant, we selected 75 transactions totaling \$29,369 for testing that were recorded in the general ledger during the grant timeframe without knowing if they were ARC grant-related expenditures. Most of the transactions selected were from supplies and supplies-related cost categories, which would most closely relate to the costs claimed by the Child Care Council in its financial reports to ARC. Based on our review of the amounts and supporting documentation provided by the Child Care Council (purchase orders, invoices, payments, etc.), we questioned \$3,456 of the expenditures and considered \$8,649 of the expenditures as unallowable under the approved grant budget and/or the Federal cost guidelines, as identified in Appendix I.

The questioned amounts in Appendix I did not have adequate supporting documentation, such as the purchase document or the final bill and payment documentation needed to verify that the items were approved and properly billed, received, and paid for. In many cases, the staff could not locate either the purchase information or the documentation to show that the items were paid for. The only information was the entry in the general ledger showing the date, vendor, and amount information.

The three expenditures in Appendix I were considered as unallowable costs for the reasons noted below.

- The financial report submitted to ARC for the period April 1, 2012 to July 31, 2012, included two questionable expenditures that were charged to ARC funds - \$491 for training and \$8,033 for cleaning and replacing classroom materials due to fire. The approved grant budget authorized ARC funds to be used under only two budget categories: \$29,800 for equipment and \$120,200 for supplies. Since the \$491 was for training we question whether the expenditure is an allowable cost under the approved funding.

The \$8,033 included in the financial report was described as costs for cleaning and replacing supplies. However, our review of the supporting documentation provided to us showed the total amount was for paying Service Master for cleaning and remediating the facilities and equipment as a result of damage, i.e. cleaning the walls, floors, tables, kitchen equipment, etc. We did not see any indication of supplies being replaced. We do not believe these types of costs fit the intent of the supplies budget category and therefore question whether the expenditure is an allowable cost under the approved budget. Furthermore, we were told that the insurance covered some or all of the fire damage.

- Among the individual expenditures that we selected for testing was \$125 paid to the Xerox Corporation as a "non-reporting fee." This apparently resulted because the Child Care Council did not submit some of the required reports to Xerox on equipment being leased or used. The Federal cost principles do not allow fines, penalties, and fees to be charged to Federal funds.

Since the Child Care Council did not have an effective financial management system for recording, tracking, and reporting on costs charged to the ARC grant, we were unable to verify that the reported expenditures were documented, reasonable, and allowable. Therefore, we have questioned the entire \$110,523 in costs claimed for reimbursement and the \$140,313 in costs reported as matching costs.

At the exit conference, the Child Care Council representatives did not express any disagreement with the finding or indicate what action would be taken to address the issue. They agreed that there is a need to clarify the costs and ensure that the final report to ARC is supported with detailed costs that are verifiable.

Recommendations

The Child Care Council should:

1. Obtain documentation to adequately support the \$110,523 in claimed expenditures charged to the grant and the \$140,313 in expenditures reported as matching costs and submit it to ARC for consideration. If documentation cannot be obtained for all of the claimed expenditures, refund the unsupported amount to ARC.
2. Submit a revised SF-270 report to ARC to adjust for any refunds that are made.
3. Prior to requesting additional Federal funding, implement the necessary changes in operations to ensure that its financial management system contains sufficient internal controls to account for all funds, including written policies and procedures establishing how the accounting system should be set up, maintained, and documented.

Grantee Response

The director of *My Place* provided a response to the draft report and stated that:

1. The manual is currently being evaluated by its finance committee to determine necessary improvements to the accounting system in order to prevent future accounting problems.
2. The \$8,033 expenditure in the report considered to be unallowable was utilized to restore equipment and supplies affected by a fire, rather than purchase new equipment and supplies at a much higher cost.
3. The \$3,456 in questioned expenditures due to lack of supporting documentation is an indication of poor accounting system established for this start-up child care center, but the items purchased are able to be identified and are in use at the center.
4. They have since reviewed documentation related to all expenditures and matching costs and are comfortable that the amounts claimed in the reports to ARC are substantially accurate.
5. They do not support the finding that the entire reimbursement and matching cost amounts are questionable.

Reviewer's Comments

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

General Comments - Enrollment and Playground

The child care center was established and operating; however, two of the planned outcomes were not met, which included (a) providing non-traditional evening and weekend care to allow parents to obtain or continue employment and (b) reaching a sustained total of 85 enrollees.

The project proposal estimated the potential child care needs in Schuyler County and the current day care capacities for different age groups. It was noted that requests for before school and after school child care, non-traditional care, weekend care and drop-in care have risen in the past few years and currently there is limited capacity available for non-traditional care.

Based on the grantee final narrative report, enrollment at *My Place* is an ever changing thing. The original intent was to fill vacancies in the day time program and then add evening and weekend care once the day time enrollment reached 26 children. The center did not receive enough interest in the extended care program to get it up and running. It did not make financial sense for the program to be open for additional hours for one or two children.

The original output measure was to serve 85 FTE children during day time, extended evening and weekend care. The output measure was based on the program being able to operate with evening and weekend enrollment. The program never reached its goal of providing extended evening or weekend care. Actual enrollment for the day shift was at full capacity for a time at the infant, toddler and preschool ages, but by the end of the grant period, enrollment had dropped down to half capacity at the infant and toddler ages when children transitioned to the next age level. The center's wait-list did not support bringing either age group up to full capacity at that time.

At the end of the grant period, *My Place* offered care during the hours of 6:00 AM to 6:00 PM.

Age Level	Licensed Capacity	Actual Enrollment	Actual FTE	Full Time	Part Time - 3 day	Part Time - 2 day	Part Time - 1 day	Part Day	Drop In
Infants	8	4	4.0	4	-	-	-	-	-
Toddlers	12	13	11.2	10	2	-	-	-	1
Preschool	14	12	9.4	7	3	1	-	-	1
School Age	19	18	11.0	6	2	9	1	-	-
Totals	53	47	-	27	7	10	1	-	2

In addition, the final report also indicates that the ordering and installation of the playground equipment and fencing was put on hold to allow the *My Place* staff and Board of Directors to

get through the separation from the Schuyler County Child Care Coordinating Council. A local business had offered help with installation manpower. By the end of the grant period, the playground has not been purchased or installed. The Board of Directors will reevaluate the playground plan once the program is more stable and they are able to determine how best to proceed.

My Place will continue to operate with income from parent fees, the child care subsidy program and the Child Adult Care Food Program. They will also seek corporate sponsorships/partnerships to help sustain the quality of care provided by *My Place*.

Questioned and Unallowable Costs

Date	Vendor	Purpose of Expenditure	Questioned Amount	Unallowable Amount	Reason
05/06/13	Wal-Mart	Groceries	\$ 342	-	c
05/14/13	Wal-Mart	Groceries	317	-	c
04/29/13	Sams Club	Towels	249	-	c
04/13/12	Unisafe, Inc.	Gloves	140	-	b
04/16/12	Sams Club	Towels	107	-	b
10/10/12	Wal-Mart	Groceries	410	-	b
12/14/12	Wal-Mart	Unknown	193	-	a
12/12/12	Wal-Mart	Unknown	516	-	c
10/15/12	Unisafe, Inc.	Gloves	233	-	b
03/20/13	Unisafe, Inc.	Gloves	233	-	b
06/12/12	Sams Club	Towels	221	-	c
10/01/12	Wal-Mart	Copier	148	-	c
11/01/12	Staples	Unknown	112	-	c
04/16/12	Wal-Mart	Unknown	235	-	c
03/01/13	Xerox Corp.	Fee	-	\$ 125	-
07/31/12	Emstar	Training	-	491	-
06/12/12	Service Master	Fire cleanup	-	8,033	-
Totals	-	-	\$3,456	\$8,649	-

Notes: (a) Inadequate purchase information
(b) Inadequate payment information
(c) Inadequate purchase and payment information

**Appendix II
Grantee Response**



208 W. Broadway Street
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June 10, 2014

Dear Mr. Snead,

The following response is in regards to the Draft Audit Report.

1. A written policies and procedures manual was provided to the auditor. The manual is currently being evaluated by our finance committee to determine necessary improvements to the accounting system in order to prevent future accounting problems.
2. The \$8,033 expenditure considered in the report to be unallowable was utilized to restore equipment and supplies affected by a fire, rather than purchase new equipment and supplies at a much higher cost.
3. The \$3,456 in expenditures questioned due to a lack of supporting documentation is an indication of the poor accounting system established for this start-up child care center, but the items purchased are able to be identified and are in use at the center.
4. The above responses were indicated at the exit conference, but not acknowledged in the report. We have since reviewed documentation related to all expenditures and matching costs and are comfortable that the amounts claimed in the reports to ARC are substantially accurate.
5. The Center has a new board of directors, a new accountant, and a new director, who appreciate the audit report and related findings and recommendations as an opportunity to improve and address significant accounting issues. However, we do not support the finding that the entire reimbursement and matching cost amounts are questionable, a conclusion that was not identified during the exit conference.

Thank you for your time and consideration regarding My Place. Please do not hesitate to contact us for any reason.

Sincerely,

Brooke Bennett
Director