

**MEMORANDUM REPORT ON REVIEW OF
UNIVERSITY OF ALABAMA CHILD DEVELOPMENT AND RESEARCH
CENTER
TUSCALOOSA, ALABAMA**

ARC Grant Number: CO-14150-I-302

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Report Number: 09-02

Date: June 11, 2009

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TUSCALOOSA, ALABAMA**

ARC Grant Number: CO-14150-I-302

Prepared By:

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TO: Appalachian Regional Commission (ARC)
Office of Inspector General (OIG)

FROM: Tichenor & Associates, LLP
Louisville, Kentucky

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report Number: 09-02

SUBJECT: Memorandum Review Report on the University of Alabama Child
Development and Research Center, ARC Grant Number: CO-
14150-I-302.

PURPOSE: The purpose of our review was to determine if (a) the total funds provided to the University of Alabama Child Development and Research Center (CDRC) construction project were expended in accordance with the ARC approved grant budget and did not violate any restrictions imposed by the terms and conditions of the grant; (b) the accounting, reporting, and internal control systems provided for disclosure of pertinent financial and operating information; and (c) that the objectives of the grant are being met.

BACKGROUND: ARC awarded Grant Number CO-14150-I-302 to the University of Alabama for the construction of the CDRC. The initial grant, approved on May 21, 2002, was for an amount not to exceed \$5,000,000 with \$400,000 in local funding. On May 22, 2003, ARC funding was increased to \$9,967,000 with \$400,000 in local funding, \$980,000 of U.S. Department of Education (DoED) funding and \$462,500 in U.S. Department of Housing and Urban Development (HUD) funding. The ARC has made payments of \$8,927,937 to the grantee as of January 19, 2007.

The grant provided funds for a project consisting of the construction and furnishing of the CDRC on the University of Alabama campus. A 60,000 square foot building was designed to house all of the activities of the CDRC. The new CDRC is designed to be a comprehensive program that will seek to address issues related to children through a multi-dimensional inter-disciplinary approach that will include all of the University of Alabama missions of teaching, research and service. Working families will begin

receiving services with prenatal classes and hospital visits. Parents who come to the CDRC for financial assistance will also receive childcare resource information and referrals. Graduate and undergraduate students will have the opportunity to combine research with application through service delivery to children, parents and caregivers as the CDRC trains caregivers in a six-county region. Finally, the CDRC will actively encourage interdepartmental collaborations on campus and through community initiative.

SCOPE: We performed a program review of the grant as described for the purpose above. Our review was based on the terms of the grant agreement and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. Specifically, we determined if the tasks described above were being performed, if the accountability over ARC funds is sufficient as required by applicable Office of Management and Budget (OMB) Circulars, and if the University of Alabama CDRC was in compliance with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with CDRC personnel. Our results and recommendations are based upon those procedures. These review procedures were performed in accordance with applicable Government Auditing Standards.

RESULTS: The following results are based on our review performed at the University of Alabama in Montgomery, Alabama, on May 7, 2007 through May 11, 2007.

A. Incurred Costs

After Reviewing the University of Alabama’s financial records, we have determined that the University has incurred the following amounts related to the grant:

Amount billed to date	\$9,428,581
Less double billing on waterline	(62,531)
Building Contractor invoice not billed to ARC	303,489
Error on billing	4
Less adjustments for 9/1/06-6/30/07	(2,666)
Architect’s invoices not billed to ARC	<u>10,583</u>
Total incurred cost	9,677,460
Final Payment due Building Contractor	<u>228,972</u>
Total Cost	9,906,432
ARC Grant	<u>9,967,000</u>
Balance of Available Funds	<u>\$ 60,568</u>

In addition the University purchased furniture for the CDRC costing \$258,706. Of this amount, \$150,000 was billed to ARC and is included in the amount billed to date listed above. The balance of \$108,706 in furniture cost has not been billed to ARC. If the University applies the unbilled portion of the furniture cost against the remaining balance of funds, all funds will be fully utilized and there will be no funds to de-obligate.

The following is a summary of budgeted and incurred project costs for all grant/revenue sources:

<u>Source</u>	<u>Budgeted</u>	<u>Incurred</u>
ARC	\$ 9,967,000	\$ 9,906,432
U of A	400,000	437,500
HUD	462,500	462,500
DoED	980,000	929,851
Totals	<u>\$ 11,809,500</u>	<u>\$ 11,736,283</u>

The University provided \$437,500 in in-kind match (land used for the project). A grant of \$980,000 was provided by the DoED and a grant of \$462,500 was provided by HUD.

During the course of the review, we reviewed the ARC and in-kind match claimed and determined that the funds had been expended as shown in the financial records.

The University has not made its final payment to the Building Contractor for \$228,972. The final payment to the Building Contractor will be made when the remaining items on the close out list have been completed. The following items remain on the close out list:

1. Mechanical System Piping Warranty – A draft warranty has been given to the University and University Administration and Legal are reviewing the warranty.
2. Joint Seal Warranty – This is a 10 year warranty for weather tightness and color change. The University has not received the warranty from the sub-contractor.
3. Building Directory for the Lobby – The University is making final changes to the Directory so the Building Contractor can purchase and install the Directory. The contract with the Building Contractor has an allowance for this item. It is expected to cost less than the allowance amount. If the cost is under allowance, the final change order will reduce the payment to the Building Contractor.
4. Fresh Air Louvers for the Mechanical Room – The installed louvers are leaking and need to be replaced with louvers that were specified for the project. This item will not hold up final payment. If not corrected by the Building Contractor, it will be corrected by the University and the final payment to the Building Contractor will be adjusted.

5. Flat Roof Warranty – Has been provided to University Administration. Waiting on University approval.

When these items are completed, the University will need to complete and submit their Final Report.

B. Internal Controls

During the course of the engagement, we reviewed the University of Alabama's system of internal controls. Two areas of weakness were identified that could have affected the accountability of costs or compliance with the terms of the grant agreement.

1. Interface between Financial Accounting and Construction Administration

Invoices sent to TVA, the grant administrator for ARC, did not always agree with the monitoring reports sent to them. This was the result of incomplete/incorrect information being exchanged between Financial Accounting (who prepared the invoices) and Construction Administration (who prepared the monitoring reports). Financial Accounting had not billed for a Building Contractor's invoice in the amount of \$303,489. Expenses of \$62,531 for a waterline were double billed. Additionally, Construction Administration had incomplete data when they prepared their report. Had there been a better flow of information between Financial Accounting and Construction Administration, these discrepancies could have been avoided.

RECOMMENDATION:

We recommend that ARC require the grantee's Financial Accounting and Construction Administration put proper controls in place to ensure that the Final Project Report is accurate.

ARC'S RESPONSE:

ARC concurred with our recommendation and stated that with the help of TVA, the University of Alabama has developed a new policy addressing this concern. (See **Appendix A – ARC's Response.**)

AUDITOR'S COMMENT:

Controls have been put in place to ensure that the Final Project Report is accurate. As a result, this recommendation is considered closed.

2. Excluded Parties List System

Based on the A-133 Audits for the Fiscal Years Ending September 30, 2005 and September 30, 2006, the University was not checking the Excluded Parties List System (EPLS) to ensure that excluded contractors were not receiving contracts that included Federal funding.

We reviewed the EPLS and confirmed that the builder and the architect were not on the EPLS. Per Financial Accounting, the University has put procedures in place to ensure that the EPLS is used for future contracts.

RECOMMENDATION:

We recommend that ARC require the grantee to ensure that the policies that have been put in place are followed for future contracts.

ARC'S RESPONSE:

ARC concurred with our recommendation and stated that in the future they will ensure it is being followed by the University. (See Appendix A – ARC's Response.)

AUDITOR'S COMMENT:

Steps have been taken to ensure that for future contracts the University excludes contractors found on the EPLS. As a result, this recommendation is considered closed.

C. Program Results

Based upon our observations and the assertions of CDRC management the specific objectives identified in the grant have been achieved or are in the process of being implemented.

1. Per the grant agreement, 100 children were to receive model preschool instruction.

Per Dr. Carroll Tingle (Interim Chair of Human Development and Family Studies), 107 children are enrolled.

Auditor observed the preschool instruction. Children were split into separate age based groups for instruction.

2. Per the grant agreement, 350 child care providers were to receive training and technical assistance.

Per information compiled by CDRC management, 132 Day Care Centers, 151 Family Homes (small day cares) and 1,414 day care personnel have received training and technical assistance.

3. Per the grant agreement, 3,000 adults were to receive parenting and child care skills instruction.

Per a talking points handout supplied by CDRC Management:

- a. The baby talk program has made 8,478 contacts via well child clinics and 3,618 visits to hospitals.
 - b. The resource lending library has served 1,498 participants.
 - c. Work shops have had 3,496 participants.
4. Per the grant agreement, 2,500 Temporary Assistance for Needy Families and “working poor” families were to receive childcare financial assistance in a six county area.

Per Dr. Carroll Tingle, the CDRD has expanded its services to 12 counties and assists qualified families in obtaining state financial assistance for day care and instructs the families in what to look for in a quality day care.

5. Per the grant agreement, 120 students are to receive child development instruction.

Per a memorandum from Dr. Carroll Tingle dated May 11, 2007, there are 319 undergraduates and 26 graduate level students taking part in studies at the CDRD. In 2006 there were 81 students who graduated with undergraduate degrees and 14 with graduate degrees.

Auditor observed graduate and undergraduate schools in the process of observing the preschool in operation as a part of their studies.

6. Per the grant agreement, 18 faculty and 18 graduate research assistants are to conduct child development research.

Per a memorandum from Dr. Carroll Tingle dated May 11, 2007, there are 16 faculty and 18 graduate assistants conducting child development research. There are two faculty vacancies which they are in the process of filling.

Auditor discussed two of the research projects with faculty and graduate assistants.

7. Per the grant agreement, the CDRC is to create 90 jobs.

Per Dr. Carroll Tingle, the CDRC currently employs 93 individuals.

8. Per the grant agreement, the CDRC is to serve six counties.

Per Dr. Carroll Tingle, the CDC currently serves 12 counties.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

Louisville, Kentucky

August 23, 2007

**APPENDIX A
ARC'S RESPONSE**



June 4, 2009

Jack Somerville, CPA, CGFM
Tichenor & Associates, LLP
Certified Public Accountants
304 Middletown Park Place, Suite C
Louisville, Kentucky 40243

RE: Draft Audit on CO-14150-I-302 – University of Alabama Child Development and Research Center

Dear Mr. Somerville:

The Appalachian Regional Commission is in receipt of your draft audit on the above referenced project. We have been working with the Tennessee Valley Authority (TVA), the agency responsible for administering the grant for ARC, and the grantee in an effort to address the audit's two recommendations:

1. ARC require the grantee's Financial Accounting and Construction Administration put proper controls in place to insure that the Final Project Report is accurate.
2. ARC require the university to follow policies they have put in place relating to Excluded Parties List System (EPLS). Specifically, for future contracts, the university must exclude contractors found on the EPLS list.

ARC concurs with the recommendations found in the draft audit, and with the help of TVA the University of Alabama developed a new policy addressing the first audit concern. The policy is attached for your consideration.

Regarding the second recommendation, it will remain open until such time that ARC can insure it is being followed by the university.

Based on the information that has been submitted by the grantee, ARC is satisfied with their response and recommends final payment be made to the grantee by TVA.

Sincerely,

Henry B. King, PhD
Director, Program Operations Division

cc: Clifford Jennings
Thomas Hunter
Bonnie Durham
Eric Stockton
Philip McMullan

Office of the Vice President for
Financial Affairs

Office of Financial Accounting
and Reporting

THE UNIVERSITY OF
ALABAMA
FINANCIAL AFFAIRS

MEMORANDUM

TO: Laverne Harris, Executive Director for Administration
Cathy Tittle, Director, Business Administration and Construction
Mike Morrow, Assistant Director, Business Administration and
Construction
Pam Tilley, Assistant Director, Financial Accounting & Reporting
Cindy Zhu, Senior Accountant, Financial Accounting &
Reporting

FROM: Julie L. Shelton, Director, Financial Accounting & Reporting



RE: Federal Construction Funds Policy

DATE: May 7, 2009

Please be advised of the new Federal Construction Funds Policy recently adopted and published to the Office for Sponsored Programs Policies & Procedures website. http://osp.ua.edu/policy_procedures.html Exchange of information has improved between the offices of Financial Accounting & Reporting and Business Administration and Construction since the TVA Child Development Center Project. This policy serves as official documentation to ensure the continuation of the exchange of financial data and accuracy of financial data reported to federal agencies during federally sponsored construction projects.

cc Cindy Hope, Director, Office for Sponsored Programs

The University of Alabama
Office for Financial Accounting & Reporting
Federal Construction Funds Policy

The University's policy is to comply with reporting requirements related to Federal funded construction projects.

Federal reporting of finances for construction projects is performed by Financial Accounting & Reporting. The Senior Accountant in Financial Accounting & Reporting responsible for Plant activities prepares any financial reports or requests for reimbursement required by the funding agency. These financial reports/requests are reviewed by the Assistant Director of Financial Accounting & Reporting and then forwarded to the Director of Financial Accounting & Reporting for approval. The report/request is then submitted to the funding agency. Upon approval from the funding agency for requests for reimbursement, the Plant Accountant or Associate Director of Contract & Grants will drawdown the funds through the designated payment system. If drawdown is not applicable, the payment will be transferred to the University's bank account by the funding agency. A copy of all financial reports/requests for reimbursement are sent to the Business Administration for Construction & Physical Plant office.

Business Administration prepares a quarterly report of construction expenditures by month and sends a copy to the Senior Accountant in Financial Accounting & Reporting, who in turns verifies agreement between the quarterly report and reports/requests submitted to the funding agency. In addition, a copy of the quarterly report is sent to the project manager responsible for submitting progress reports to the funding agency.

Exchange and comparison of financial data between Financial Accounting & Reporting and Business Administration for Construction & Physical Plant will ensure accuracy between the reports submitted to the funding agency.