

PERFORMANCE AUDIT
OF THE

Better Basics, Inc.

**Literacy Program for Clay,
Jefferson & Hale Counties**

Grant: AL-17208-302-12

OIG Report Number: 14-34

GRANT PERIOD: MAY 2012 – MAY 2013

WATKINS | MEEGAN

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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Better Basics, Inc. Literacy Program for Clay, Jefferson & Hale Counties Project Grant AL-17208-302-12. The report is in response to Contract No. BPA 11-01-B.



Tysons, Virginia
July 31, 2014

Better Basics, Inc.

Literacy Program for Clay, Jefferson & Hale Counties

AL-17208-302-12

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state and local governments. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair who is appointed by the President. Local participation is provided through multi-county local development districts (LDDs). Each year, ARC provides funding for several hundred projects in the Appalachian Region, in areas such as business development, education and job training, telecommunications, infrastructure, community development, housing and transportation. These projects help create new jobs; improve local water and sewer systems; increase school readiness; expand access to health care; assist local communities with strategic planning; and provide technical and managerial assistance to emerging businesses.

Better Basics, established in 1993, provides literacy programs that target at-risk children in elementary schools in Hale, Clay and Jefferson Counties in Alabama. Hale County is classified as distressed, Clay is classified as at-risk and Jefferson County is classified as transitional. Better Basics requested grant funding from ARC to develop and improve literacy skills of elementary school students in these counties by offering five different reading skills development and enrichment programs:

- Reading Intervention (small group reading assistance);
- Wise Words (second grade reading program);
- MORE (fourth grade reading program);
- School-Wide Enrichment (arts and cultural programs); and
- HOPE Summer Enrichment Camp (help bridging the summer between school years).

On February 6, 2012, ARC approved the Literacy Program for Clay, Jefferson & Hale Counties Grant number AL-17208-302-12, in the amount of \$220,000 to Better Basics, Inc. for the period May 15, 2012 to May 15, 2013. Required matching funds from other non-federal sources totaled \$123,577, for a total funding amount of \$343,577. The sources of funding are shown in the table below:

Table 1: Analysis of Budgeted Project Funding Sources

Funding Source	Amount	Percentage
Appalachian Regional Commission (ARC)	\$220,000	64%
Local Funds	\$ 55,577	16%
Grantee Contribution (from Program Income)	\$ 68,000	20%
Total	\$343,577	100%

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Executive Summary

Grant funds were used to support the reading skills development and enrichment programs outlined above. ARC reimbursed \$220,000 of expenses for the period May 15, 2012 to May 15, 2013. Matching fund expenses reported by the Grantee were \$165,163 for the same period.

Expenditures reviewed during the audit appeared to be materially valid, adequately supported and in direct relation to supporting the Grant and its objectives.

In addition, through inquiry and observation, we validated that the Grantee had accomplished the stated performance objectives of the Grant.

Objective

Watkins Meegan LLC was engaged to conduct a performance audit of Better Basics, Inc. Literacy Program for Clay, Jefferson & Hale Counties Project Grant for the period May 15, 2012 to May 15, 2013. The purpose of our performance audit was to determine the following:

- Funds expended and claimed for reimbursement from ARC and matching funds reported to ARC were valid program expenses and in accordance with the ARC Grant requirements;
- Internal controls were in place to ensure compliance with the Grant requirements; and
- Goals and objectives of the Grant had been, or would be achieved.

Scope

We completed a performance audit of the Better Basics, Inc. Literacy Program for Clay, Jefferson & Hale Counties Project Grant AL-17208, including fieldwork at the Better Basics offices in Birmingham, Alabama from May 13-15, 2014, as described under this section and under the audit methodology section. Our audit was based on the terms of the Grant agreement and on the application of procedures in the modified ARC Audit Program.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Methodology

Our procedures were based on the Audit Program guidelines provided by the ARC Office of the Inspector General and included suggested procedures over the Grantee's accounting and internal control systems affecting the Grant. We met with the Executive Director, Operations Director and Finance Director of the Grantee to obtain an understanding of the overall structure and processes around Grant administration and monitoring. We also discussed and reviewed other financial and operational elements related to the conduct of the program.

Audit Methodology (Continued)

Our review of background material included ARC's Grant Agreement, the Grant Application and related documentation, information from ARC's Grant management system, other Grant requirements, and the Grantee's audited financial statements for the Fiscal Year Ended June 30, 2013.

We reviewed controls in place for recording, accumulating and reporting costs under the Grant and observed and made inquiries regarding whether the goals and objectives of the project funded with ARC monies had been met. For a sample of the funded training programs, we examined supporting documentation, including invoices and performance data maintained by the Grantee to manage and monitor their literacy programs. We evaluated the process for compliance with applicable Grant requirements and regulations.

Results

Compliance with Grant Provisions

Grant funds were used to assist in providing five literacy and culturally enriching programs in Hale, Clay, and Jefferson Counties in Alabama. The Grant was finalized and closed by ARC on July 17, 2013. The ARC (federal) share and matching (non-federal) share of reported expenditures were \$220,000 and \$165,163, respectively, during the Grant period, for total reported expenditures of \$385,163.

We requested and examined supporting documentation, including payroll records, invoices and donation receipts, for a selection of the expenses incurred against the Grant, as well as a selection of the matching expenses. We noted two immaterial items related to reported matching costs (see observation below). With the exception of these items, expenditures reviewed during the audit appeared to be valid, adequately supported and in direct relation to supporting the Grant and its objectives.

Through inquiry, review and observation, we sought to validate the outputs and outcomes expected from the Grant application, incorporated by reference into the Grant agreement. The anticipated outputs and outcomes were:

- **Reading Intervention** (small group assistance), 210 out of 264 students will show improvement of one grade level or more;
- **Wise Words** (second grade program), 100 students, in nine classrooms, will receive 340 incentive prizes in recognition of reading 2,000 books;
- **MORE** (Motivators of Reading Enrichment – fourth grade access to age-appropriate library), 175 students, in nine classrooms, will read approximately 2,250 book and will receive a minimum of 2,250 books for home libraries;
- **School-Wide Enrichment** (arts and cultural program), 680 students will participate in four arts and cultural activities per year at their school; and
- **HOPE Summer Enrichment Camp** (help bridging the school years), 75 students will participate in the camp and will receive educationally enriching programs during the summer months.

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Results (Continued)

Compliance with Grant Provisions (Continued)

We reviewed binders maintained by the Grantee for each of the programs supported by the Grant to validate reported attendance/participation metrics, presentations or events provided under the programs and, where applicable, student scores demonstrating improvements on standardized reading and comprehension tests before and after participation in the Grantee programs.

Reported metrics for the programs supported by the Grant were as follows:

- **Reading Intervention:** A total of 308 students participated, some of whom withdrew mid-year. Of 272 test results reported, 166 students averaged an improvement of 1.2 grade levels on standardized tests;
- **Wise Words:** A total of 96 students in six second grade classrooms read 3,678 books and earned 486 incentive prizes (e.g., pencils, t-shirts, medals, books, etc.);
- **MORE:** A total of 391 students in 19 fourth grade classrooms read 4,702 books, earned 5,620 books to build home libraries and earned 1,111 incentive prizes;
- **School-Wide Enrichment:** A total of 782 students at two elementary schools received eight enrichment performances and four additional enrichment resources during the school year;
- **HOPE Summer Enrichment Camp:** A total of 75 students from Fairfield City Schools participated in the camp.

Based on the metrics above, a total of 1,652 students were impacted by the programs, exceeding the overall output goal. While the reported scores for the Reading Intervention program were lower than anticipated, a positive outcome was still accomplished. For all other programs, the outcomes met or exceeded the goals.

At the conclusion of the audit, we noted and discussed the following observation with Management:

Observation: Matching Expenses

A matching expense of \$371.12 for supplies was reported by the Grantee in the first reimbursement request worksheet covering the period May 15, 2012 to August 31, 2012. The expense item was included in the match contributions for the Grant based on the date entered into the accounting system (May 16, 2012) rather than the transaction date, May 10, 2012, which was prior to the effective date of the Grant.

Additionally, an in-kind donation for books valued at \$1,155, included as part of matching expenses for supplies, was reported by the Grantee in the third reimbursement request covering the period January 1 to May 15, 2013. The receipt for this donation was not signed as required by Better Basics policies and procedures. Management provided additional evidence to corroborate the total quantity of books donated as part of the transaction; however, the donation form lacked the appropriate authorization.

We noted that these transactions were for classroom/training supplies that were used during the Grant period and further noted that overall match obligations were exceeded by the Grantee, mitigating the impact of these exceptions.