



SURVEY REPORT

REVIEW OF FRIENDSHIP HOUSE, INC. DALTON, GEORGIA

Child Care Project

Grant No. GA-11308-93-I-302-0325
May 1, 1993 - April 30, 1995

Report No. 95-21(H)
August 25, 1995

I. INTRODUCTION

A. PURPOSE

The purposes of our audit were (1) to determine the allowability of the costs claimed under the ARC grant, (2) to determine if the grant objectives were met, and (3) to determine the current status of the project.

B. SCOPE

Our survey included procedures to review costs incurred and claimed for reimbursement under the grant, as well as costs claimed as matching funds. The initial period of performance for the grant was May 1, 1992 through April 30, 1994, however, it was extended to April 30, 1995.

We reviewed grantee's reports, examined records and held discussions with the grantee's project director and other officials in Dalton, Georgia from March 22-23, 1995. As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreement, Office of Management and Budget (OMB) Circulars A-110 and A-122, and the ARC Code.

C. BACKGROUND

ARC Grant number GA-11308-93-I-302-0325 for \$75,000 was awarded to Friendship House, Inc. to assist with the expansion of the grantee's child care program to serve an additional 40 preschool children from low-income families and, if warranted, to extend the center's hours of operation. The grant funds were to be used to pay the salaries and benefits for four additional full-time teachers. The grant was subsequently amended to increase the funding to \$150,000 and to extend the grant period for another year.

The original grant agreement required the grantee to provide the non-federal share of \$18,750 or 20 percent in cash, contributed services, and in-kind contributions as approved by ARC. When the grant agreement was amended to add a second year, the grantee's contribution increased to \$100,902 or 40 percent of allowable project costs. At the time of our review, the grantee had claimed expenses of \$89,943 and received \$67,317.46. Payment of a reimbursement request for \$22,625.54 was pending.

II. RESULTS OF REVIEW

A. FINANCIAL MANAGEMENT SYSTEM

We reviewed the grantee's accounting records and found that a separate contract account for the ARC grant had not been established as required by the Grant Administration Provisions. However, the grantee determined the amount of grant and matching costs (by budget category) on a monthly basis and provided it to ARC supported by income and expense data prepared by their bookkeeping service. That method would have been acceptable if the figures reported to ARC had been reliable; however, we found that the budget amount for matching costs was not consistent with the grant agreement and the monthly and cumulative totals contained errors.

Recommendation: We recommend that the grantee ensure that their financial management system reflects the budget amounts approved in the grant agreement and that the expense amounts reported to ARC are accurate.

B. GRANT EXPENDITURES

We reviewed salary and benefits expenditures for the four employees charged to the ARC grant and no deficiencies were noted. Total expenditures from May 1, 1993 through December 31, 1994 were \$113,441.63. During our review, the Friendship House director indicated they would not spend all of the grant funds before the end of the grant period and told us they would request a time extension from ARC to enable them to use the remaining funds. We understand that the grantee has forwarded a request to the ARC program coordinator to extend the grant through August, 1995.

C. MATCHING COSTS

Throughout the grant period, the grantee has been operating under the assumption that they were required to provide a non-federal matching share of \$34,174 which is the same amount of the budget submitted with their initial grant application. However, the original ARC grant agreement indicated that the grantee would provide match of \$18,750 (20 percent of allowable project costs) during the first year. Amendment No. 1 added a second year of funding and required total match of \$100,902 (40% of allowable project costs). We understand that the increased match percentage was based on a budget submitted to ARC by the grantee, but the grantee couldn't recall why they substantially increased the total match to be provided by them.

The grantee determined their matching costs by multiplying total expenditures for certain budgeted expenses by a percentage based on the number of "ARC children" to total children for each month. ARC children are considered to be those in excess of 85.

The grantee's monthly reports to ARC indicate matching costs through December 31, 1994 were \$34,862.67, substantially less than the \$100,902 total match required by the grant agreement. Our figures indicate the match should be \$37,021.70 after correcting an error in the insurance computation for May 1994. We realize that at the time of our review the grantee had not claimed any match for the remaining four months of the grant period or considered the additional four months covered by the requested time extension. However, we are concerned that the rate of cost share being claimed by the grantee may not be sufficient to meet the requirement.

We noted that the grantee did not claim any matching costs for some categories of expenses that would ordinarily be allowable for this type of project such as workers compensation insurance, salaries and benefits for administrative and kitchen staff, the cost of office and kitchen supplies and in-kind costs associated with the work of their volunteers.

Recommendation: We recommend that the grantee contact the ARC program coordinator to resolve the issue of allowable matching costs.

D. PROGRAM INCOME

We found that the grantee received tuition income of \$234,325 during the grant period through December 31, 1994. By applying the same percentages to program income as was applied to expenses, program income related to the ARC children would be \$59,440. According to the ARC Code, program income is to be used to reduce the ARC grant amount or to expand approved project services. We discussed this issue with ARC program staff and they indicated the grantee's use of program income to offset the operational expenses of the Friendship House is acceptable.

E. PROGRAM STATUS

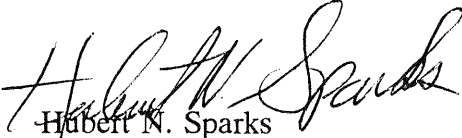
The grant agreement included a provision to expand the hours of operation at Friendship House. At the time of our review, the director told us they are currently surveying local employers to determine if there is a need for expanded hours.

During the course of the grant, management of Friendship House decided that the optimal number of children was 120 instead of 125 as originally proposed. The grantee reports that the community and local businesses have been very supportive of Friendship House and there is currently a waiting list to enroll children. The grantee continues to seek funding sources for Friendship House and noted during our visit that their building loan will be paid off in 1995.

F. ACTION ON RECOMMENDATIONS

ARC's project coordinator advised the OIG that a member of the grantee's board of directors, who is an accountant, contacted her to resolve the issues noted in this report. We understand that the

deficiencies in the grantee's financial management system have been corrected and that the grantee provided sufficient documentation to ARC regarding allowable matching costs. The grantee's project director indicated they had no additional comments to the draft report. We consider the issues resolved.


Hubert N. Sparks
Inspector General