

**MEMORANDUM REPORT ON REVIEW OF THE
MOREHEAD STATE UNIVERSITY
MOREHEAD, KENTUCKY**

Morehead State University/St. Claire Medical Center Child Care Center

ARC Grant No: KY-12229-95-I-302-0630

October 1, 1995 through September 30, 1998

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Report Number: 98-26-H

Date: February 13, 1998

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Office of Audit

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

FROM: Tichenor & Associates
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REPORT FOR: The Federal Co.-Chairman
ARC Executive Director
OIG Report No. 98-26-H

SUBJECT TO: Memorandum Review Report on Morehead State University, Morehead
State University/St. Claire Medical Center Child Care Center, Morehead,
Kentucky. Grant No: KY-12229-95-I-302-0630, ARC Contract No. 95-
130.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Morehead State University (MSU) for its Morehead State University/St. Claire Medical Center Child Care Center program 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) the objectives of the grant have been met.

BACKGROUND: ARC awarded Grant Number KY-12229-95-I-302-0630 to MSU for the period October 1, 1995 through September 30, 1998. Total grant funding was for an amount not to exceed \$300,000, or 52 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$274,920 or 48 percent in cash, contributed services, or in-kind contributions, as approved by ARC. ARC made four progress payments to MSU totaling \$223,183. The remaining balance of \$76,817, had not been drawn down by MSU as of February 13, 1998.

The purpose of this grant was to provide funds for operational support for a child care center to serve employees of St. Claire Medical Center and employees and students of Morehead State University. The Grantee is to provide staff, equipment and supplies to operate a child care center for 48 children at the St. Claire Outreach Building.

SCOPE: We performed a program review of the grant as described in 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 listed above had been performed, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if MSU had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with MSU's personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at MSU's offices in Morehead, Kentucky on February 9 through 13, 1998.

A. Incurred Costs

MSU incurred total program costs of \$511,929, of which they claimed direct reimbursable costs from October 1, 1995 through December 31, 1997 of \$223,183. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported. However, we identified documentation to support payments made to St. Claire Medical Center was not maintained and matching costs were based on approved budgets rather than actual costs. We also were unable to determine if the day care center will ever be self-sustaining, which is the goal. These weaknesses and going concern issues are discussed below.

B. Internal Controls

We determined that MSU had the following internal control weaknesses, which affected the accountability of costs or compliance with the terms of the grant. These weaknesses could result in unallowable costs being charged to the grant.

1. Documentation to Support Payments to St. Claire Medical Center Not Maintained

MSU did not require St. Claire Medical Center to provide support for invoices submitted to MSU for expenses claimed associated with the day care center. St. Claire Medical Center provided meals for the children, maintenance and janitorial services, telephone service and supplies for the day care center. Invoices for these services were submitted to MSU for payment without supporting documentation. However, we were able to review the supporting documentation maintained by St. Claire Medical Center accounting staff.

ARC Contract Number KY-12229-95-I-302-0630 between Morehead State University and Appalachian Regional Commission, Article A10, Records Requirements states:

"All disbursements from the contract account shall be for obligations incurred, after the effective date, in the performance of this contract, and shall be supported by contracts, invoices, vouchers and other data, as appropriate, evidencing the disbursement."

2. Matching Costs Based on Budgets Rather Than Actual Cost Incurred

During our review of MSU and St. Claire Medical Center matching costs, we found that the matching costs were based on budgeted costs included in the grant application. The matching costs included renovation of the day care center and outside playground, furniture and equipment, personnel salaries, employee health services screening, and program income. We saw evidence that the day care center and playground were renovated and that MSU and St. Claire Medical Center personnel were contributing time to the day care center. In addition, employee health services screening was being provided by St. Claire Medical Center. However, MSU was unable to provide documentation to support how the budgeted figures were derived and also did not track the actual costs being contributed to the day care center.

ARC Contract Number KY-12229-95-I-302-0630 between MSU and ARC, Article A10, Records Requirements, states:

"Contractor shall maintain custody of time records, payrolls, and other data, as appropriate, to substantiate all services reported to the Commission as Contributed Services under this contract."

Recommendations:

We recommend that MSU require support for all payments made to third parties and the supporting documentation be maintained by MSU. We recommend that MSU perform a reconciliation of the actual matching costs incurred on behalf of the day care center including documentation to support such costs and provide the reconciliation to ARC prior to the end of the grant, September 30, 1998.

C. Program Results

Unable to Determine if Morehead State University/St. Claire Medical Center Child Care Center Will Be Self-Sustaining


We reviewed ARC documentation which indicated concerns over the MSU/St. Claire Medical Center Child Care Center becoming self-sufficient before the end of the grant agreement, September 30, 1998. We toured the day care center during our review and concluded that the facility cannot handle the 49 children as licensed by the Commonwealth of Kentucky as space is presently allocated. ARC information indicated that the center needs 50 children to break even. We found that capacity levels were running approximately 26 children on average. The Grantee's budgeted revenue as reflected in the grant application is based on 50 percent capacity (24 children) in year one, 60 percent capacity (36 children) in year two, and 100 percent enrollment (48 children) by year three which will allow the Center to operate when ARC funds terminate. However, center management indicated 40 children is the maximum the facility can accommodate. Based on our review, the current facility cannot handle more than 35 children at any given time.

DISCUSSION:

We discussed the issues with MSU's management during the exit conference held on February 13, 1998. Management responded by stating that they agreed with the findings and recommendations and would implement policy to require supporting documentation to be maintained for payments to third parties and were strengthening their policies on tracking matching costs. They also stated that they were working on the day care center becoming self-sufficient in the near future.

GRANTEE'S RESPONSE:

We provided MSU with a copy of the draft report in order to obtain their comments on the findings and recommendations. MSU responded by stating, "The comments appear to be accurate and well stated."


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