
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Fentress County Children's Center, Inc.
Jamestown, Tennessee**

**Final Report Number: 13-11
Project Number: TN-15759
April 2013**

**Prepared by
Leon Snead & Company, P.C.**



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March 29, 2013

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, N.W.
Washington, D.C. 20009

Leon Snead & Company, P.C. has completed an audit of grant number TN-15759 awarded by the Appalachian Regional Commission (ARC) to the Fentress County Children's Center, Inc. (FCCC). The audit was performed to assist the Office of the 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) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines and best practices, including program (internal) controls, were appropriate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements and the goals and objectives of the grant were met.

Overall, FCCC's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grants reviewed. However, FCCC had not established written policies and procedures that met all of the federal requirements and did not always follow its established policies and procedures. The costs tested were supported and considered reasonable. In addition, the records and reports indicated that the tasks required by the grant agreement were met.

The draft report was provided to FCCC on March 11, 2013, for comments on the findings and recommendations. In response, the Executive Director stated that Center officials concurred with the recommendations and actions had been taken to correct the problems.

Leon Snead & Company appreciates the cooperation and assistance received from the FCCC and ARC staffs during the audit.

Sincerely,

Leon Snead & Company, P.C.
Leon Snead & Company, P. C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number TN-15759 awarded by the Appalachian Regional Commission (ARC) to the Fentress County Children's Center, Inc. (FCCC). The audit was made at the request of the ARC, Office of the Inspector General, to assist that office in its oversight of ARC grant funds.

FCCC is a non-profit 501(c) (3) corporation and is involved in providing legal, medical, and mental health services to physically or sexually abused children and providing educational programs on abuse of children and adults. Its activities are overseen by a board of directors and day-to-day operations are handled by an executive director and a staff of four employees. The main business offices and facilities are located in Jamestown, Tennessee and include private space for providing counseling to children, parents, and others receiving the services. Mental health counseling services are provided by a professionally trained staff of a private counseling firm under contract with FCCC. FCCC also contracts out the operation of its financial and accounting activities, although the executive director routinely interacts with the contractor in maintaining the records.

FCCC receives funding for its operations from a number of sources including federal and state grants, private sources, and the Fentress County government. Although it did not have a current ARC grant at the time of our audit, it received ARC funding from 2008 to 2012 and federal funds were the largest single source of income. For example, the income reported on the Form 990 submitted to the IRS in 2011 showed: \$199,497 from ARC; \$24,798 from a private trust; \$27,264 from Fentress County; and \$92,684 from two Tennessee state grants.

The two most recent ARC grant awards were covered during our audit. The first grant (TN-15759-C2) was initially awarded to provide funding for the period of October 1, 2010 to September 30, 2011, but was later extended to December 31, 2011. Its purpose was to address health care problems related to child sexual abuse primarily through providing (a) medical examinations and mental health counseling to the victims, (b) advocacy services to the children and non-offending parents, and (c) prevention education to teachers and students. The grant provided \$200,000 in ARC funds and required \$50,000 in grantee match funding. The grant had been completed and was closed by ARC with a final payment made on January 24, 2012.

The second grant (TN-15759-C3) was awarded to provide funding for the period of October 1, 2011 to September 30, 2012. Its purpose was also to address children-related health issues in Fentress County, but with an emphasis on parental chemical dependence rather than child sexual abuse. It supported providing (a) mental health counseling for chemically dependent parents, (b) victim advocacy and life-skills services to children of chemically dependent parents, and (c) prevention education for teachers and students in local schools. The grant provided \$150,000 in ARC funds and required \$37,500 in grantee match funding. The grant had been completed and was closed by ARC with a final payment made on November 30, 2012.

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 goals and objectives of the grant were met.

We reviewed the documentation provided and interviewed grantee personnel to obtain an overall understanding of the project, the accounting system, and operating procedures. We reviewed financial and other required reports to determine whether they were properly supported and submitted in accordance with the requirements. We reviewed a sample of costs charged to the project to determine whether the charges were properly supported and allowable. In that regard, we sampled and tested \$138,776 from the total of \$350,000 in expenditures reimbursed to FCCC on the two closed grants to determine whether the charges were adequately supported and allowable. We reviewed the applicable administrative procedures and related internal controls to ensure they were adequate to administer the grant and funds. We also reviewed the most recent Single Audit report to determine whether there were any issues that impacted the ARC grants.

The primary criteria used in performing the audit were the specific grant terms and requirements, applicable Office of Management and Budget 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 February 11-20, 2013, including on-site work at the FCCC offices in Jamestown, Tennessee. The audit results were discussed with the FCCC executive director at the conclusion of the on-site visit.

Results of Audit

Overall, FCCC's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grants reviewed. However, FCCC had not established written policies and procedures that met all of the federal requirements and did not always follow its established policies and procedures. The costs tested were supported and considered reasonable. In addition, the records and reports indicated that the tasks required by the grant agreement were met. The issues relating to the FCCC written policies and procedures and our recommended corrective actions are discussed in the Findings and Recommendations section of the report.

FINDINGS AND RECOMMENDATIONS

A. Written Policies and Procedures

FCCC did not have written policies and procedures in place to address some of the requirements in OMB Circular A-110. Therefore, it was not fully complying with the ARC grant requirements.

The ARC grant agreement (General Provisions, Article 1) requires each grant to be administered in accordance with applicable federal requirements as determined by the type of grantee involved. FCCC is a non-profit organization and is therefore subject to the administrative requirements in OMB Circular A-110 covering many operational aspects such as procurement, accounting and financial management, equipment management, and reports and records.

The FCCC written policies and procedures did not refer to the OMB Circular A-110 as being applicable to the FCCC operations for grant activities or contained specific policies and procedures necessary to comply with some of the requirements. For example, A-110, section 44, requires all grantees to have written procurement policies and procedures to ensure an effective procurement process is in place. This would include a process that ensures unnecessary purchases are avoided, non-competitive purchases are minimized and fully justified when necessary; steps are taken to ensure a fair and reasonable price is obtained; and important aspects of each procurement transaction are adequately documented in the FCCC files.

In addition, section 42 of A-110 requires grantees to have a written code of conduct that applies to individuals involved in the selection, award, or administration of contracts to help avoid potential conflicts of interest. FCCC had a written Business Ethics and Standards of Conduct, but it was not specific enough to meet the requirement for a written procurement code of conduct. Likewise, there were no written procedures governing equipment management, as described in section 34 of A-110. As a result, FCCC was not maintaining the kinds of equipment records required in that section for the equipment items purchased with ARC funds under the grants - a vehicle and some specialized medical equipment.

At the exit conference, the executive director indicated that she understood the issue and would work with the executive committee to update its policies and procedures.

Recommendation

Prior to receipt of any additional federal funding, FCCC should update its written policies and procedures to fully address the requirements in OMB Circular A-110.

B. Contract Approval

FCCC awarded three contracts for professional services that had not been properly approved and signed prior to the awards.

FCCC's written policies and procedures (Fiscal Policy, section F) require all agreements, which obligate FCCC resources to be approved and signed by two members of the executive committee. We consider this a good FCCC policy and believe it represents an effective internal control to help ensure proper management actions are taken and resources are effectively utilized.

We identified two contracts for accounting-related services (Linder and Beckman) and a contract for professional mental health counseling services (The Source Solution) that had costs charged to the ARC grants. We noted that each contract had only the signature of the FCCC executive director. There was no second FCCC signature as required by its policies and procedures. The executive director attributed this issue to a lack of familiarity with the established policies and procedures.

Although the three contracts did not fully comply with the established policies and procedures, we are not questioning the costs charged to the ARC grants because we verified that the related invoices sampled and tested were properly reviewed and approved. Nevertheless, we believe management action is needed to ensure future contracts for which costs will be charged to ARC grants are properly approved and signed consistent with the FCCC policies and procedures.

At the exit conference, the executive director indicated that she understood the issue and would work with the executive committee to address the issue.

Recommendation

Prior to receipt of any additional federal funding, FCCC should implement controls to ensure all contracts are approved and signed by two executive committee members in accordance with its established policies and procedures.

Grantee Response

In response to the draft report the Executive Director stated that: I agree with the findings and have taken steps to correct the problems. We did not receive a copy of the referenced changes that were made to the Center's policies and procedures.

Auditor's Comments

The action taken is sufficient to close out the recommendations. The grantee indicated that the agency had made the required changes to its policies and procedures and would provide a copy to ARC after approval by the Center's Executive Board.

Leon Snead Company

From: Lisa Roysdon [cacfentress@twlakes.net]
Sent: Thursday, March 28, 2013 10:46 AM
To: 'Leon Snead & Company'
Subject: RE: Audit of ARC grant TN-15759

I am having an Executive BVoard meeting today March 28,2013. I would like to get the Boards input before sending the corrective actions to you. I will be out of the office on Friday but I will try to have everything to you by Monday , April 1,2013.

Lisa

From: Leon Snead & Company [mailto:leonsnead.companypc@erols.com]
Sent: Tuesday, March 26, 2013 2:11 PM
To: 'Lisa Roysdon'
Subject: RE: Audit of ARC grant TN-15759

Ms. Roydson:

Thanks very much for your response . In reference to your question please send us a copy of the changes that were made. Thank you

Leon Snead
301-738-8190

From: Lisa Roysdon [mailto:cacfentress@twlakes.net]
Sent: Tuesday, March 26, 2013 1:53 PM
To: 'Leon Snead & Company'
Subject: RE: Audit of ARC grant TN-15759

Mr. Snead,

I did receive you message on the afternoon of March 26,2013, However I am not at a place I can return your call at the present time. (We have had an unusual Spring snow storm.) I apologize I did not read the email carefully and failed to see that you wanted me to respond. I do agree with the findings and have taken steps to correct the problems. Do you need a copy of the changes that have been made or does that need to go to ARC.

Thank You
Lisa Roysdon
Fentress County Children Center

From: Leon Snead & Company [mailto:leonsnead.companypc@erols.com]
Sent: Monday, March 11, 2013 9:01 AM
To: cacfentress@twlakes.net
Subject: FW: Audit of ARC grant TN-15759