GRANT AUDIT OF

THE MEHARRY MEDICAL COLLEGE

GRANT NO. AID/AFR-G-1342

AUDIT REPORT NO. 0-000-83-62

MAY 5, 1983

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Introduction

The Office of the Regional Inspector General for Audit/Washington (RIG/A/W) reviewed a report issued by the Department of Health and Human Services (DHHS), Audit Report No. 04-21453, on an examination of the above grant with the Meharry Medical College.

The purpose of the examination was to ascertain whether the financial management systems and internal controls established by the College met the terms and conditions of Federal grants and contracts.

Grant Information

A summary of grant data is shown below:

Grant Number:	AID/afr-G-1342
Grant Ceiling:	$1,082,510
Expiration Date:	January 31, 1979
Project Number:	698-392-3-0392
Project Title:	Maternal & Child Health/Family Planning Training & Research Center
Audit Period:	1/1/78 - 1/31/79
Type of Audit:	Final

The status of grant funds is:

Grant Ceiling		$1,082,510
Amount Reimbursed:		
Costs Audited-		
Approved Prior Audit	$ 477,109	
Approved Current Audit	187,631	
Qualified Costs	417,770	
Subtotal	$1,082,510	1,082,510
Amount Due Grantee	254,602	
Total Reimbursed	$827,908	
Grant Balance		$ -0-

* Amount to be reimbursed to the grantee is subject to the Office of Contract Management (M/SER/CM) acceptance of costs designated by the auditors as qualified costs on which an opinion is not expressed.

FINDINGS AND RECOMMENDATIONS

Grant Costs

The DHHS auditors made a detailed review of $1,111,481 of costs recorded under Grant AID/afr-G-1342. Their audit disclosed the following:

Total Costs Recorded (1/31/79)		$1,111,481
Less: Duplicate Payments	$22,932	
Amount Exceeding Grant	6,039	28,971
Subtotal		$1,082,510
Costs on which an Opinion is not Expressed		417,770
Grant Costs Accepted		$664,740
Less: Amount Approved Prior Audit		477,109
Accepted Costs in Current Audit		$187,631

AID's financial records show that the grantee has been paid a total of $827,908. Of this amount, the DHHS auditors cited costs of $417,770 on which an opinion is not expressed because Meharry did not properly document personal services costs in its accounting records to the extent that a determination could be made that amounts charged were for work on specific grant and contract activities. Although these costs were not determined and supported in accordance with Federal regulations, the DHHS auditors recognized that the work was performed under Federal projects. However, they could place no value on that work. A total of $254,602 is due the grantee, if AID's Office of Contract Management accepts the qualified costs of $417,770 as project-related expenses.

Recommendation Number 1

The Office of Contract Management (M/SER/CM) should take appropriate action to resolve the qualified costs of $417,700 and reimburse Meharry Medical College for any amount due.

Other Matters

The results of the audit were highlighted by the DHHS auditors as follows:

"The College's financial management system does not provide for the accurate, current, and complete disclosure of the financial results of each Federal project as required in the Office of Management and Budget (OMB) Circular A-110. Problems in the College's system for accumulating, recording, and reporting the results of Federally-funded activities are not unique to Fiscal Years 1978 and 1979 but have been pointed out in numerous reports issued by the OIG -- Office of Audit (formerly HHS Audit Agency) as well as by the College's independent external auditors. Because of the seriousness of the problems in Meharry's financial management system, HHS entered into a management agreement with the College during March 1980, as a condition of the College's continued participation in HHS-funded programs. A key provision of the agreement provided for the College to hire an accounting firm to assist in instituting accounting system changes that would enable Meharry to track the use of its funds and provide financial information essential to the sound management of the College. Because this phase of the management agreement has not been completed, we are unable to determine the impact it will have on the system weaknesses identified in our audit.

"On March 20, 1980, the College and HHS entered into a second agreement whereby Meharry would repay HHS for funds drawn from the DFAFS (Federal Reserve Letter of Credit) in excess of documented expenditures. On January 29, 1981, we issued Report No. 04-13009 to the HHS Deputy Assistant Secretary for Health Operations showing Meharry's DFAFS liability to be $3,791,753 at January 31, 1980. As discussed in this report, expenditures recorded in the College's accounting records did not always agree with expenditures reported to DFAFS and expenditures reported to awarding agencies. Our DFAFS liability computation represented cash drawn from the DFAFS payment system in excess of expenditures recorded in the College's accounting records. Consequently, we are not recommending in the direct cost report a financial adjustment for the differences between expenditures reported to the DFAFS and expenditures recorded in the College's accounting records.

"During the period July 1, 1977 through June 30, 1979, Federal grant and contract expenditures at the College totaled $13,748,193. Because of Meharry's accounting system problems, we cannot express an opinion on the allowability of $9,900,473 for which supporting documentation and records were not available. Of the remaining $3,847,720, we reviewed $364,307 and found $72,700 or 20 percent unallowable.

"Other serious problems identified were:

"1. Almost 90 percent of the 48 reports of expenditures to awarding agencies were not filed within 90 days after the grants' budget period expiration dates, as required by Public Health Service (PHS) regulations.

"2. Many Federal grants and contracts had large unexpended balances at the end of their budget periods, indicating that the projects' objectives may not have been met as planned.

"3. About 30 percent of the Federal grants and contracts unliquidated obligations we reviewed did not represent valid commitments of the Federal projects. In one instance, we found that obligations were incurred solely to expend all Federal funds awarded.

"College officials expressed no disagreement with the facts and conclusions presented in this report. In their response, College officials stated that the trustees and the senior management of Meharry have no intention of allowing conditions to continue as the audit describes them 3 or 4 years ago. There is much to be done and the fundamental change in lifestyle will take a number of years and, as such, College officials are anxious to move forward. Such forward movement has included a decision in early 1981 by the Meharry Board of Trustees to replace the general management of the institution with individuals who could move more forcefully to deal with the kinds of problems identified in this audit report. In this regard, an interim president was appointed in March 1981. The institution should soon have a new president and senior management. An executive assistant to the president has been appointed and a new vice-president for finance has been named. A search is underway for an administrative vice-president. The College is also recruiting for a number of positions in academic management. During January 1981, the management of the grants and contracts office was changed and new business managers were appointed for each of the College's three schools.

"The consulting firm hired to assist in instituting accounting system changes has work underway in a number of areas including Accounts Payable Controls, DFAFS Letter of Credit, Cash Management, and the Payroll System. The products resulting from the firm's work should include clear instructions to Meharry on how to eliminate the kinds of problems raised in this audit report.

"The College has already decided to upgrade their central processing equipment and peripherals to enhance the reliability of data processing operations and to increase computer capacity to handle new and improved management systems.

"We are recommending that the College: (1) make a financial adjustment of $72,700 of unallowable costs charged to Federal projects; and (2) continue to institute such changes as are necessary to bring Meharry's financial management system to an acceptable level as soon as possible."

Conclusion

The Agency for International Development (AID), in our opinion, has not established a satisfactory relationship with the Meharry Medical College. We believe the financial and accounting deficiencies highlighted by the DHHS auditors would not have occurred if, at the commencement of the grant, AID had properly instructed and required the grantee to account for project funds. AID has not adequately stressed to the grantee that project-related funds should not be considered as general budgetary support funds commingled with other College funds.

We noted that the previous DHHS audit, Audit Report No. 04-91701 (AID Report 78-115), discussed similar findings. Yet, AID failed to react to the gravity of the problems encountered by the Meharry Medical College. We believe that AID should have taken action to terminate the grant after proper accounting for Government funds was not instituted by the grantee.

When we reviewed the previous DHHS audit, we expressed our views in a memorandum dated February 25, 1980, to the Office of Contract Management (CM/ROD/AFR) stating that: "We strongly recommend that no future contracts be awarded until assurance is received from DHHS that Meharry Medical College has implemented proper controls which will provide accurate accountability of costs incurred under a Government-funded program." But AID has recently signed a new grant-in-aid program with the Meharry Medical College.

On May 3, 1983, we called the DHHS Inspector General Office in Atlanta, Georgia. Their office has completed the field work on an audit of student aid (a non-AID project) at Meharry Medical College in Athens, Georgia. Although the report had not been issued, DHHS said that the same situation existed as described in the audit report (No. 04-21453) we have reviewed herein. Thus, there has been no improvement in the College's financial management system to provide for an accurate, current, and complete disclosure of the financial results of each Federal project. In our opinion, neither AID nor the College have made an adequate effort to correct the problems. We believe that AID should advise the grantee that it is terminating the present grant based on the current and past DHHS audit findings.

Recommendation No. 2

The Office of Contract Management (M/SER/CM) should terminate the newly-signed grant with the Meharry Medical College and refrain from issuing future contracts to the College until assurance is received from DHHS that the grantee has implemented proper controls which will provide accurate accountability of costs incurred under a Government-funded program.

THE MEHARRY MEDICAL COLLEGE
List of Report Recipients

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Audit Liaison Office, M/AAA/SER	1
Assistant Administrator, Bureau for Africa, AA/AFR	4
Audit Liaison Office, AFR/PMR/EMS	1
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