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# STATE OF INDIANA

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November 23, 2009

Board of Directors
Indiana Association for Child Care
Resource and Referral, Inc.
3901 N. Meridian St.
Indianapolis, IN 46208

We have reviewed the audit report prepared by Comer, Nowling and Associates, PC, Independent Public Accountants, for the period October 1, 2006 to September 30, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Indiana Association for Child Care Resource and Referral, Inc., as of September 30, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. Pages 18 through 21 contain two current audit findings.

STATE BOARD OF ACCOUNTS

# Indiana Association For Child Care Resource and Referral, Inc.

## Financial Statements For The Year Ended September 30, 2007

Comer Nowling and Associates, P.C.

*Certified Public Accountants*

**INDIANA ASSOCIATION FOR CHILD CARE RESOURCE AND REFERRAL, INC.**
**(Indianapolis, Indiana)**
**FINANCIAL STATEMENTS**

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COMER NOWLING AND ASSOCIATES, P.C.

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BUSINESS VALUATIONS
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# Independent Auditor's Report

Board of Directors
Indiana Association for Child Care Resource and Referral, Inc.
Indianapolis, Indiana

We have audited the accompanying statement of financial position of Indiana Association for Child Care Resource and Referral, Inc. (a nonprofit organization) as of September 30, 2007 and the related statement of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indiana Association for Child Care Resource and Referral, Inc. as of September 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated January 11, 2008, on our consideration of Indiana Association for Child Care Resource and Referral, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



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Our audit was performed for the purpose of forming an opinion on the basic financial statements of Indiana Association for Child Care Resource and Referral, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material aspects, in relation to the basic financial statements taken as a whole.

*Comer, Nowling And Associates, P.C.*

Comer, Nowling And Associates, P.C.
Indianapolis, Indiana
January 11, 2008

# INDIANA ASSOCIATION FOR CHILD CARE RESOURCE AND REFERRAL, INC.
# STATEMENT OF FINANCIAL POSITION
# SEPTEMBER 30, 2007

## ASSETS

| | | |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash | $ | 83,256 |
| Grants receivable | | 1,262,418 |
| Total current assets | | 1,345,674 |
| **OFFICE EQUIPMENT AND FURNITURE, NET OF ACCUMULATED DEPRECIATION** | | 13,432 |
| Total assets | $ | 1,359,106 |

## LIABILITIES AND UNRESTRICTED NET ASSETS

| | | |
|---|---|---|
| **CURRENT LIABILITIES:** | | |
| Accounts payable | $ | 830,363 |
| Accrued payroll and payroll expenses | | 19,709 |
| Contingent liability - questioned costs | | 18,331 |
| Total current liabilities | | 868,403 |
| **UNRESTRICTED NET ASSETS** | | 490,703 |
| Total liabilities and unrestricted net assets | $ | 1,359,106 |

See accompanying notes to financial statements.

# INDIANA ASSOCIATION FOR CHILD CARE RESOURCE AND REFERRAL, INC.
# STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
# FOR THE YEAR ENDED SEPTEMBER 30, 2007

| | |
|---|---|
| **REVENUE AND OTHER SUPPORT** | |
| Contributions | $ 1,423 |
| Child care development fund | 5,033,382 |
| Program fees and other income | 17,632 |
| Total revenue and other support | 5,052,437 |
| **OPERATING EXPENSES** | |
| Operating expenses: | |
| Child care development fund | 4,664,221 |
| Management and general | 392,679 |
| Total operating expenses | 5,056,900 |
| **NET DECREASE IN UNRESTRICTED NET ASSETS** | (4,463) |
| **UNRESTRICTED NET ASSETS - BEGINNING OF YEAR** | 495,166 |
| **UNRESTRICTED NET ASSETS - END OF YEAR** | $ 490,703 |

See accompanying notes to financial statements.

# INDIANA ASSOCIATION FOR CHILD CARE RESOURCE AND REFERRAL, INC.
# STATEMENT OF FUNCTIONAL EXPENSES
# FOR THE YEAR ENDED SEPTEMBER 30, 2007

| | Child Care Development Fund | Management and General | Total |
|---|---|---|---|
| **OPERATING EXPENSES** | | | |
| Salaries and wages | $ 476,129 | $ 242,276 | $ 718,405 |
| Payroll taxes and benefits | 33,499 | 17,046 | 50,545 |
| Contracted services | 3,876,554 | 35,412 | 3,911,966 |
| Supplies | 21,687 | 15,879 | 37,566 |
| Telephone | 13,324 | 15,293 | 28,617 |
| Postage and delivery | 2,945 | 2,884 | 5,829 |
| Occupancy | 6,362 | 13,332 | 19,694 |
| Equipment | 10,802 | - | 10,802 |
| Promotion and advertising | 113,878 | 6,633 | 120,511 |
| Travel | 87,120 | 28,370 | 115,490 |
| Printing | 3,412 | 479 | 3,891 |
| Miscellaneous | 10,980 | - | 10,980 |
| Questioned costs | 18,331 | - | 18,331 |
| Total program expenses prior to GAAP Adjustments | 4,675,023 | 377,604 | 5,052,627 |
| GAAP adjustments: | | | |
| Fixed asset acquisitions | (10,802) | - | (10,802) |
| Depreciation expense | - | 15,075 | 15,075 |
| Total GAAP adjustments | (10,802) | 15,075 | 4,273 |
| Total operating expenses | $ 4,664,221 | $ 392,679 | $ 5,056,900 |

See accompanying notes to financial statements.

# INDIANA ASSOCIATION FOR CHILD CARE RESOURCE AND REFERRAL, INC.
## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED SEPTEMBER 30, 2007

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | |
| Change in net assets | $ (4,463) |
| Adjustments to reconcile increase in net assets to net cash used in operating activities: | |
| Depreciation | 15,075 |
| Increase (decrease) in cash from changes in: | |
| Grants receivable | (495,714) |
| Accounts payable | 298,620 |
| Accrued payroll and payroll expenses | 8,250 |
| Contingent liability - questioned costs | 18,331 |
| Net cash provided by operating activities | (159,901) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | |
| Acquisition of property and equipment | (10,802) |
| Net cash used in investing activities | (10,802) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | (170,703) |
| **CASH, BEGINNING OF YEAR** | 253,959 |
| **CASH, END OF YEAR** | $ 83,256 |

See accompanying notes to financial statements.

# INDIANA ASSOCIATION FOR CHILD CARE RESOURCE AND REFERRAL, INC.
# NOTES TO FINANCIAL STATEMENTS
# SEPTEMBER 30, 2007

## NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### NATURE OF OPERATIONS

Indiana Association for Child Care Resource and Referral, Inc. (the "Organization") was incorporated and commenced operations as a not-for-profit organization under the laws of the State of Indiana in 1990. The purpose of this Organization is to unite child care resource and referral providers in a statewide coordination effort to identify and respond to the need for quality child care resource and referral services. Program services include conducting needs assessments, developing service standards, providing technical assistance, sponsoring staff development and training, acting as a clearinghouse for child care resources and referral information and conducting public awareness education.

### BASIS OF ACCOUNTING

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

### REVENUE RECONGNITION

The Organization receives grants from the State of Indiana (State) and the federal government to carry out certain program activities. The grants are received under contracts which require the Organization to submit to the State appropriate records of services provided to subgrantees contractors. Revenues under the contracts are recognized as the services are provided.

### FURNITURE AND EQUIPMENT

Furniture and equipment are stated at cost and depreciated over estimated useful lives of five to seven years using the straight-line method. Expenditures for improvements and major renewals are capitalized unless purchased with government funds. When property is sold, retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is credited or charged to income. Expenditures for maintenance and repairs are expensed when incurred.

### CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, the organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

### INCOME TAX STATUS

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

## NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### GOVERNMENT GRANTS

Support funded by grants is recognized as the Organization performs the contracted services under grant agreements. Grant revenue is recognized as earned as the eligible expenses are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

### CONTRIBUTIONS

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

### CONTRIBUTED SERVICES

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance non-financial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, solicitations, and various committee assignments.

### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### FINANCIAL STATEMENT PRESENTATION

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of Net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

## INDIANA ASSOCIATION FOR CHILD CARE RESOURCE AND REFERRAL, INC.
## NOTES TO FINANCIAL STATEMENTS
## SEPTEMBER 30, 2007

### NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### EXPENSE ALLOCATION

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### STATEMENT OF FINANCIAL ACCOUNTING STANDARD NO. 144

SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*," requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 144 has not materially affected the Organization's net change in unrestricted net assets, statement of financial position or statement of cash flows.

### NOTE 2 – GRANTS RECEIVABLE

The Organization's grant receivables as of September 30, 2007 consisted of the following:

| | |
|---|---|
| Child Care Development Fund | $ 1,262,418 |

### NOTE 3 – FURNITURE AND EQUIPMENT

The Organization's furniture and equipment are as follows at September 30, 2007:

| | |
|---|---|
| Furniture and equipment | $ 61,372 |
| Accumulated depreciation | (47,940) |
| | $ 13,432 |

Depreciation expense for the year ended September 30, 2007 equaled $15,075.

### NOTE 4 – EMPLOYEE BENEFITS

The Organization has implemented a cafeteria plan based upon Internal Revenue Code Section 125 which allows employees to purchase fringe benefits with pre-tax dollars. The plan is provided to all full time employees working at least 30 hours per week. During the year the Organization made contributions to the plan of $270 per month per employee for the first six months of the year and $500 per month for the last six months. As a result, for the year ended September 30, 2007, employee benefit expense under this plan was approximately $64,680.

## NOTE 5 – LEASES

The Organization leases office equipment and a mail machine over a variety of terms for use in conducting the business of the organization. Future minimum lease payments on leases having non-cancelable terms beyond September 30, 2007 are as follows:

| Year | Amount |
|---|---|
| 2008 | $ 12,656 |
| 2009 | 12,656 |
| 2010 | 12,281 |
| 2011 | 12,156 |
| 2012 | 3,039 |
| | $ 52,788 |

Related rental expense of $12,656 is included in the statement of functional expenses for the year ended September 30, 2007.

## NOTE 6 – CONCENTRATION OF CREDIT RISK

The Organization may at times maintain cash balances in financial institutions in excess of the federally insured limits of $100,000. Organization's management monitors the financial ratings of such financial institutions and believes the risk of loss is minimal. As of September 30, 2007, bank account balances exceeded the federally insured limits by $189,663.

The Organization receives 99.6% of its total support from federal awards received from the United States Department of Health and Human Services and passed through the Indiana Family Social Services Administration.

## NOTE 7 – CONTINGENT LIABILITY

During our audit work, it was noted that that $18,331 of employer payroll tax and benefits were expensed when accrued for, but also expensed a second time when the actual payroll taxes and benefits were paid. These duplicated expenses result in questioned costs to the Organization. This matter is discussed in detail in the accompanying schedule of findings and questioned cost as item 07-1. Accordingly, since the probability that Organization will be required to repay these funds is high, the financial statements reflect a contingent liability of $18,331.

# SINGLE AUDIT SECTION

# INDIANA ASSOCIATION FOR CHILD CARE RESOURCE AND REFERRAL, INC.
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# YEAR ENDED SEPTEMBER 30, 2007

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Contract Number | Federal Expenditures |
|---|---|---|---|
| Department of Health and Human Services | | | |
| Passed Through State of Indiana Family and Social Services Administration: | | | |
| Child Care Development Fund | 93.596 | 49-05-87-0491 | $ 5,033,382 |

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Indiana Association for Child Care Resource and Referral, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 – SUB-RECIPIENTS**

Indiana Association for Child Care Resource and Referral, Inc. provided federal awards to sub-recipients as follows:

| Program Title | Federal CFDA Number | Amount Provided |
|---|---|---|
| Child Care Development Fund | 93.596 | $ 3,470,758 |

## INDIANA ASSOCIATION FOR CHILD CARE RESOURCE AND REFERRAL, INC.
## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
## YEAR ENDED SEPTEMBER 30, 2007

No findings were noted in the prior year audit report.

COMER NOWLING AND ASSOCIATES, P.C.



## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Indiana Association for Child Care Resource and Referral, Inc.
Indianapolis, Indiana

We have audited the financial statements of Indiana Association for Child Care Resource and Referral, Inc. (a nonprofit organization), as of and for the year ended September 30, 2007, and have issued our report thereon dated January 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Indiana Association for Child Care Resource and Referral, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding 07-1 and 07-2 to be significant deficiencies in internal control over financial reporting.



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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider finding 07-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Indiana Association for Child Care Resource and Referral, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed certain instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 07-1 and 07-2.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Comer, Nowling And Associates, P.C.*

Comer, Nowling And Associates, P.C.
January 11, 2008

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Indiana Association for Child Care Resource and Referral, Inc.
Indianapolis, Indiana

Compliance

We have audited the compliance of Indiana Association for Child Care Resource and Referral, Inc. (a nonprofit organization) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to its major federal programs for the year ended September 30, 2006. Indiana Association for Child Care Resource and Referral, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Indiana Association for Child Care Resource and Referral, Inc.'s management. Our responsibility is to express an opinion on Indiana Association for Child Care Resource and Referral, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Indiana Association for Child Care Resource and Referral, Inc.'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Indiana Association for Child Care Resource and Referral, Inc.'s compliance with those requirements.

In our opinion, Indiana Association for Child Care Resource and Referral, Inc. complied, in all material respects, with the requirements referred above that are applicable to its major federal programs for the year ended September 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 07-1 and 07-2.

Internal Control Over Compliance

The management of Indiana Association for Child Care Resource and Referral, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Indiana Association for Child Care Resource and Referral, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees within a timely period, in the normal course of performing their assigned functions, to prevent or detect noncompliance with applicable requirements of laws, regulations, contracts and grant agreements that would have a direct and material effect on a major federal program. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Indiana Association for Child Care Resource and Referral, Inc.'s ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants such that there is more than a remote likelihood that the Organization's noncompliance that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding 07-1 and 07-2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with applicable requirements of laws, regulations, contracts and grants in relation to a major federal program will not be prevented or detected by the Organization's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider Finding 07-1 to be a material weaknesses.

The Organization's responses to the findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Organization's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Comer, Nowling And Associates, P.C.*

Comer, Nowling And Associates, P.C.
January 11, 2008

# INDIANA ASSOCIATION FOR CHILD CARE RESOURCE AND REFERRAL, INC.
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# YEAR ENDED SEPTEMBER 30, 2007

**Section I – Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

| | | |
|---|---|---|
| • Material weakness(es) identified? | Yes _x_ | No ___ |
| • Significant deficiencies identified? | Yes _x_ | No ___ |

| | | |
|---|---|---|
| Noncompliance material to financial statements noted? | Yes _x_ | No ___ |

***Federal Awards***

Internal control over major programs:

| | | |
|---|---|---|
| • Material weakness(es) identified? | Yes _x_ | No ___ |
| • Significant deficiencies identified? | Yes _x_ | No ___ |

Type of auditors report issued: Unqualified

| | | |
|---|---|---|
| Any audit findings disclosed required to be reported in Accordance with Section 510(a) of Circular A-133 | Yes _x_ | No ___ |

Identification of major programs

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 93.596 | Child Care Development Fund |

| | |
|---|---|
| Dollar threshold used to distinguish between type A and type B programs | $300,000 |

| | | |
|---|---|---|
| Auditee qualified as low-risk auditee? | Yes _x_ | No ___ |

# INDIANA ASSOCIATION FOR CHILD CARE RESOURCE AND REFERRAL, INC. SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED SEPTEMBER 30, 2007

**Section II – Financial Statement Findings**

See Finding 07-1 and 07-2.

**Section III – Federal Award Findings and Questioned Costs**

**Finding 07-1 – Payroll and Benefit Accruals In Excess of Actual Costs**

***Condition:*** During our review of current year payroll and benefit liability accruals it was noted that some employer payroll tax and benefits were expensed when accrued for, but also expensed a second time when the actual payroll taxes and benefits were paid. These duplicated expenses result in questioned costs to the Organization.

***Criteria:*** OMB Circular A-122, ATTACHMENT A, addresses the general cost principles applicable to expenditures of federal awards. The following citations of those principles are relevant to Finding 07-01:

A. Basic Considerations

2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

    a. Be reasonable for the performance of the award and be allocable thereto under these principles...

    d. Be accorded consistent treatment.

    e. Be determined in accordance with generally accepted accounting principles (GAAP)...

3. Reasonable Costs. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs...consideration shall be given to:

    a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award...

# INDIANA ASSOCIATION FOR CHILD CARE
# RESOURCE AND REFERRAL, INC.
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# YEAR ENDED SEPTEMBER 30, 2007

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 07-1 – Payroll and Benefit Accruals In Excess of Actual Costs (continued)**

d. Significant deviations from the established practices of the organization which may unjustifiably increase the award costs.

***Effect:*** $18,331 of employer payroll tax and benefit expenses accrued as program expenditures are questioned as a result of failing to meet the general cost principles of OMB Circular A-122.

***Recommendation:*** Expanded written procedures regarding detailed transaction posting should be developed with Board oversight to ensure that general ledger transaction posting is consistent, accurate, and conforms to Federal cost principles.

Management Response (Corrective Action Plan)

Management has corrected the errors in account classification going forward and will institute a quarterly reconciliation of salaries and payroll taxes recorded in the general ledger with federal 941 tax returns. Significant variances will be investigated and appropriate adjustments, if necessary, will be made.

Management is currently revising and updating the organization's financial policies and procedures. Among the procedures being implemented will be an internal monitoring process by outside, independent auditors prior to year end. Items identified during this review will be examined and necessary adjustments made.

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 07-2 – Lack of Internal Controls Over Disbursement Transactions**

***Condition:*** During our review of internal controls over payroll and accounts payable disbursement transactions it was noted that not all expenditures were approved by the Executive Director or appropriate supervisor prior to preparing disbursement checks. Per the Organization's *Financial Policies and Procedures Manual*, the Executive Director is to approve all expenditures prior to the Fiscal Director preparing checks. In addition, it was noted that some Organization employees submit their payroll timesheets through the use of computer generated Excel spreadsheets transmitted to the central office via e-mail. Those timesheets, however, are not being signed by the employee or formally approved by a supervisor or the Executive Director.

***Criteria:*** OMB Circular A-133, Subpart C, Section .300, part b states:

The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. In addition, OMB Circular A-122, ATTACHMENT B, Section 7m states the following:

> (1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in **subparagraph (2)**, except when a substitute system has been approved in writing by the cognizant agency.
>
> (2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

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**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 07-2 – Lack of Internal Controls Over Disbursement Transactions (continued)**

(a) The reports must reflect an *after-the-fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

(b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

(c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

(d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

***Effect:*** The Organization did not follow its internal policies regarding cash disbursements which are intended to provide proper internal control over cash. In addition, current payroll timesheet procedures do not conform with the requirements of OMB Circular A-122.

***Recommendation:*** The Organization should follow its existing *Financial Policies and Procedures Manual* and work to significantly expand that procedure manual to incorporate additional oversight and approval guidance.

Management Response (Corrective Action Plan)

Management is currently revising and updating organizational systems to improve methods of tracking employee time worked and strengthen expense approval procedures.