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COMMISSION

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Office of the Executive Director  
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Date: March 31, 2003

Subject: OIG Report 03-2—CO 13993-I-2002 Kentucky Flex-E-Grant Program

To: Clifford H. Jennings, ARC Inspector General

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This memo responds to the above referenced OIG Report dated November 19, 2002 and serves to inform you that action has been taken to implement the recommendations in the report.

The two recommendations made in the report have been reviewed with the Kentucky ARC State Office and ARC headquarters staff. Both entities have agreed to provide better controls related to project expiration dates and documentation of conversations and other communications between them regarding the Flex-E-Grant.

Additionally, the grantee, the Kentucky Department of Local Government, has agreed to prepare progress reports in accordance with the grant agreement. As part of standard project closeout procedure, ARC staff will ensure that the grantee certifies that it has expended all drawn down funds.

Please let me know if the Commission staff can be of additional assistance.

Thomas M. Hunter  
Executive Director

cc: Peggy Satterly, ARC Program Manager  
Ewell Balltrip, Kentucky State Alternate  
Sue Moreland, Flex-E-Grants Project Officer



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*Office of the Inspector General*

*Report file*

November 19, 2002

MEMORANDUM FOR The Federal Co-Chairman  
ARC Executive Director

SUBJECT: OIG Report 03-2—ARC Grant CO-13993  
Kentucky Flex-E-Grant Program

Attached is a copy of the subject report dealing with the Kentucky Flex-E-Grant program. There are two recommendations requiring a response from ARC. Please provide an action plan with dates for dealing with these recommendations within 30 days. This report will remain open until there has been a satisfactory resolution of the open items.

Clifford H. Jennings  
Inspector General

Attachment

cc: Judy Rae

**MEMORANDUM REPORT ON REVIEW OF  
KENTUCKY DEPARTMENT FOR LOCAL GOVERNMENT  
FRANKFORT, KENTUCKY**

**KENTUCKY FLEX-E-GRANT PROGRAM**

**ARC Grant Number: CO-13993**

**April 1, 2001 through December 31, 2002**

**CAUTION:** *Certain information contained herein is subject to disclosure restrictions under the Freedom of Information Act, 5 U.S.C. 522 (b)(4). Distribution of this report should be limited to Appalachian Regional Commission and other pertinent parties.*

**Report Number: 03-02**

**Date: November 7, 2002**

**MEMORANDUM REPORT ON REVIEW OF  
KENTUCKY DEPARTMENT FOR LOCAL GOVERNMENT  
FRANKFORT, KENTUCKY**

**KENTUCKY FLEX-E-GRANT PROGRAM**

**ARC Grant Number: CO-13993**

**April 1, 2001 through December 31, 2002**

**Prepared By:**

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

FROM:               Tichenor & Associates, LLP  
                          Louisville, Kentucky

REPORT FOR:       The Federal Co-Chairman  
                          ARC Executive Director  
                          OIG Report Number: 03-02

SUBJECT:           Memorandum Review Report on Kentucky Department for Local  
                          Government, Kentucky Flex-E-Grant Program, ARC Grant Number:  
                          CO-13993.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed by the Kentucky Department for Local Government for its Kentucky Flex-E-Grant 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) that the objectives of the Grant were met.

BACKGROUND: ARC awarded Grant Number CO-13993 to the Kentucky Department for Local Government for the period April 1, 2001 through March 31, 2002. The ARC Project Coordinator approved Amendment Number 1 to the Grant Agreement on October 3, 2002 extending the period of performance through December 31, 2002. Total grant funding was for an amount not to exceed \$377,000 or 83 percent of actual, reasonable and eligible project costs. ARC required that the award to be matched with \$75,400 or 17 percent in cash, contributed services, or in-kind contributions, as approved by ARC. ARC has made two advance payments to the Kentucky Department for Local Government totaling \$284,407.

The purpose of the Flex-E-Grant Program is to provide short-term financial assistance to projects that assist distressed counties within Appalachian Kentucky to (1) develop locally crafted responses to local problems that contribute to economic distress, (2) to

assist in implementing such responses or (3) to generate or enhance the local capacity to address barriers to community advancement.

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 described above were being performed, if the accountability over ARC funds is sufficient as required by applicable Office of Management and Budget (OMB) Circulars, and if the Kentucky Department for Local Government was in compliance with the requirements of the Grant Agreement. In addition, we discussed the program objectives and performance with the Kentucky Department for Local Government personnel. Our results and recommendations are based on those procedures. These review procedures were performed in accordance with applicable Government Auditing Standards.

RESULTS: The following results are based on our review performed at the Kentucky Department for Local Government in Frankfort, Kentucky from October 2 through October 3, 2002.

#### **A. Incurred Costs**

The Kentucky Department for Local Government incurred total program costs of \$172,548 for the period April 1, 2001 through June 17, 2002 of which they claimed direct reimbursable costs of \$284,407. We reviewed the total program costs incurred and determined that the funds were used to make 29 subgrant awards to distressed counties within the Kentucky Appalachian Region. The matching funds were to be contributed by the individual Subgrantees and is anticipated to exceed \$140,929. Due to each of the Subgrantees being allowed the flexibility to complete their projects at differing times, it was not possible to accurately measure the amount of matching funds that have been contributed to date.

#### **B. Internal Controls**

##### **1. Progress Reports Not Prepared Every 120 Days**

The Kentucky Department for Local Government did not prepare 120-day progress reports for every 120-day period for the Kentucky Flex-E-Grant Program (CO-13993).

Grant Number CO-13993 between the Appalachian Regional Commission and the Kentucky Department for Local Government, Part I- Special Provisions, Paragraph 3 states:

“Reports. A progress report for each 120-day period and a final report are required under this agreement (see Part II, Article 4).”

RECOMMENDATION:

We recommend that the Kentucky Department for Local Government prepare progress reports in accordance with the Grant Agreement.

GRANTEE’S RESPONSE:

In response to our draft report, the Kentucky Department for Local Government responded by stating that they agree to submit all future reports in accordance with the Grant Agreement.

2. Operations Continued Without A Valid Grant Agreement In Place

The original grant period under the Flex-E Grant Program was from April 1, 2001 through March 31, 2002. An extension of the grant period was not requested by the Kentucky Department for Local Government until September 30, 2002 and was not approved by ARC until October 3, 2002. This resulted in a period of six months of operations under an expired agreement.

ARC Grant Number CO-13993 between the Appalachian Regional Commission and the Kentucky Department for Local Government, Part I- Special Provisions, Subpart 6 states:

“Period of Performance. The grant period of performance shall be April 1, 2001 through March 31, 2002.”

According to the Kentucky Department for Local Government’s ARC Project Manager and the ARC, this item was an oversight on the part of both parties to the agreement.

RECOMMENDATION:

We recommend that the Kentucky Department for Local Government monitor, more closely, the period of performance under any agreement with the ARC and request extensions in a timely manner. We also recommend that the ARC employ better controls that will ensure grant expiration dates do not pass without either closing the grant or extending the grant period.

### GRANTEE'S RESPONSE:

In response to our draft report, the Kentucky Department for Local Government pledges to monitor this area more closely in the future and to request extensions in a timelier manner.

### **C. Program Results**

The ARC grant funds were used to award 29 subgrants to distressed counties within the Kentucky Appalachian Region. However, very few of the subgrant projects were completed within the stipulated one-year subgrant period. The Kentucky Department for Local Government has received an extension of the Grant period and advises that all subgrant projects are in the final phases.

The Kentucky Department for Local Government requested and received \$284,407 in ARC funds and awarded subgrants totaling \$205,799 resulting in \$78,608 of ARC funds on hand as of the end of our fieldwork, October 3, 2002. Given the nature of the Flex-E-Grant Program and considering direction given from the ARC, OIG, this is being reported as a fact and not as a negative finding.

### RECOMMENDATION:

We recommend that ARC ensure the Kentucky Department of Local Government, prior to making any final payment, has disbursed all funds drawn down.

### **D. Other**

During our fieldwork we discovered that whenever we posed a question to the Kentucky Department for Local Government Project Director, regarding a potential finding or other issue, we were advised that the concerns had been addressed with the ARC Project Coordinator. However, when asked for any documentation supporting those discussions, the Project Director was unable to support her claims that the discussions had actually taken place. In addition, we inquired about conducting site tours and were advised that the Project Director and the ARC Project Coordinator had visited several sites in previous months. We inquired about documentation supporting the site visits and were advised that there was no documentation.

We discussed this issue with the ARC OIG and he suggested that measures be taken to protect both the ARC and the Grantees in future periods. We concluded that it would be to the benefit of both parties if they each maintained documentation of conversations, visits and directions given in the future.



RECOMMENDATION:

We recommend that the ARC Project Coordinator and the Kentucky Department of Local Government Project Director begin documenting their conversations regarding the Flex-E-Grant, as well as any other awards, in order to support claims made in future periods.

GRANTEE'S RESPONSE

In response to our draft report, the Kentucky Department for Local Government agreed that this would be a good practice to observe and will begin maintaining files containing documentation of emails, telephone conversations, site visits and any other communications with the ARC.



Tichenor & Associates, LLP  
Louisville, Kentucky  
October 3, 2002