

**MEMORANDUM REPORT ON REVIEW OF THE  
KENTUCKY INTERNATIONAL TRADE OFFICE  
FRANKFORT, KENTUCKY**

**Internationalization of Kentucky's Appalachian Counties**

**ARC Grant No: KY-12287-96-I-302-0929**

**November 1, 1995 through February 28, 1997**

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**Report Number: 98-40(H)**

**Date: April 24, 1998**

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Under Contract Number J-9-G-5-0010 with the  
U.S. Department of Labor  
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Office of Audit

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

FROM: Tichenor & Associates  
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman  
ARC Executive Director  
OIG Report No. 98-40(H)

SUBJECT TO: Memorandum Review Report on Kentucky International Trade Office,  
Internationalization of Kentucky's Appalachian Counties, Frankfort,  
Kentucky. Grant No: KY-12287-96-I-302-0929, ARC Contract No. 12287-  
96.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Kentucky International Travel Office (the Grantee) for its Internationalization of Kentucky's Appalachian Counties project 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-12287-95-I-302-0929 to the Grantee for the period November 1, 1995 through February 28, 1997. Total grant funding was for an amount not to exceed \$250,000, or approximately 80 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with 20 percent in cash, contributed services, and in-kind contributions, as approved by ARC. ARC made three advance/progress payments totaling \$225,000. The Grantee returned \$36,996 of unused grant funds to ARC on January 8, 1998. The remaining \$61,996 of grant funding was deobligated by ARC on February 5, 1998.

The purpose of this grant was to assist in the development of an international trade initiative for the counties in Appalachian Kentucky. The project was to include a training institute for individuals of various organizations, the provision of technical assistance through cooperative networking agreements as well as direct technical assistance for companies in areas such as marketing research and export consortia and data development. The following specific tasks were to be performed:

1. Training: Conduct a one-week "Train-the-Trainer" institute to provide basic knowledge to appropriate public and private, non-profit organizations and create a network of service providers ("multipliers").
2. Technical Assistance:
  - a. Formalize a network of "multipliers" through use of memoranda of agreement to assist Grantee in delivering trade services;
  - b. Provide direct technical assistance to small and medium size businesses; and,
  - c. Conduct trade seminars and workshops for small grouping of similar industries.
3. Marketing:
  - a. Perform market research regarding industries to target and their characteristics; and,
  - b. Develop export consortia for wood, crafts, textiles and machinery businesses for networking, market identification, trade show participation and other collaborative efforts.
4. Data Development: Create a computerized data base to collect, process and disseminate trade information.
5. Financing: Work with SBA and Ex-IM Bank to facilitate export finance assistance to Appalachian county businesses.
6. Evaluation: Provide a program evaluation by collecting and analyzing specifically enumerated "input" and "output" data.

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 the Grantee had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with Grantee personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at the Grantee's offices in Frankfort, Kentucky on April 22 through 24, 1998.

**A. Incurred Costs**

The Grantee claimed total program costs of \$257,380, of which they claimed direct reimbursable costs from November 1, 1995 through February 28, 1997 of \$194,004. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported. However, we identified \$36,996 in ARC funds that were held for 10 months after the end of the grant period, without interest. In addition, we noted that quarterly progress reports were not submitted as required. These issues are discussed below.

*Interest on Advanced Funds Were Not Returned to ARC*

ARC allowed the Grantee to request advances for operational needs. The Grantee received a total of \$225,000 from ARC. However, the Grantee expended only \$194,004 and retained the remaining \$30,996 of ARC funds for a period of 10 months after the end of the grant period. These funds were returned to ARC on January 8, 1998, along with \$6,000 of program income received through the grant project, but no interest was calculated or returned with the excess funds. We calculated interest based on an annual interest rate of 8 percent on these funds or interest totaling \$2,470.

OMB Circular A-102, Subpart C, Post Award Requirements, .21 Payment, paragraph (h)(2)(i), Interest Earned on Advances, states:

"Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act and the Indian Self-Determination Act grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal Agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses."

RECOMMENDATION:

We recommend that ARC require the Grantee to calculate and return the interest. Our calculation supports an interest earned amount of \$2,470.

**B. Internal Controls**

We determined that the Grantee had the following internal control weakness that affected the accountability of costs or compliance with the terms of the grant.

*Quarterly and Special Reports Were Not Submitted to the ARC Project Coordinator*

The Grantee did not prepare and submit quarterly progress reports and special reports, including copies of memoranda of agreements, to the ARC Project Coordinator as required by the grant agreement. Only two of the required four progress reports were submitted to the ARC Project Coordinator. We found no special reports were submitted to ARC.

The grant agreement, Articles 2-10.1 and 2-10.2 state:

"Upon completion of each seminal/workshop, Grantee shall provide ARC with a list of participants and speakers, including their addresses and the names of the organizations or districts they represent, and one (1) copy of all reports, programs, agreements and/or contracts with participants, and or any other materials resulting from the seminar/workshop. Grantee shall also submit to the ARC Project Coordinator copies of all memoranda of agreements entered into."

"Grantee shall prepare and submit to the ARC Project Coordinator, in three copies, quarterly progress reports indicating the work accomplished under the agreement to date, any problems encountered and ameliorative actions taken, and a forecast of work for the next report period."

RECOMMENDATION:

We recommend that the Grantee ensure that quarterly and special reports are submitted as required by the ARC.

**C. Program Results**

Our review of the Grantee' project indicated all specific tasks identified in the grant, and summarized above, had been achieved.

DISCUSSION:

We discussed these issues with the Grantee's management during the exit conference held on April 24, 1998. Management responded by stating it generally agreed with the findings and recommendations. Management stated that unused funds were not returned because they understood that the funds would be carried over into the 1997 ARC grant and they were unaware of the requirement to submit special reports to the ARC.

OTHER:

We provided the Grantee with a copy of the draft review report on August 4, 1998. The Grantee did not provide any written or oral comments to the findings and recommendations contained in the report. Therefore, no changes to the findings or recommendations have been made subsequent to the draft report.

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