

# Office of Inspector General

*Report Prepared by Bonadio & Co., LLP  
Audit of Grant Award - University of Kentucky Research Foundation*

*Grant Number PW-18590*



**Appalachian  
Regional  
Commission**

Office of Inspector General

Audit Report: 21-07

April 22, 2021



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Regional  
Commission

Office of  
Inspector General

April 22, 2021

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit of Grant Award – University of Kentucky Research Foundation  
Report Number 21-07

This memorandum transmits the Bonadio & Co., LLP report for the audit of costs charged by the University of Kentucky Research Foundation for the Downtown Revitalization in the Promise Zone project per its agreement with the Appalachian Regional Commission for Grant Number PW-18590. The objective of the audit was to determine if costs claimed were allowable, allocable, reasonable, and in conformity with the Commission's award terms and conditions and Federal financial assistance requirements. In addition, the audit determined whether the performance measures were met, not met, or not likely to be met.

**OIG Oversight of the Audit**

Bonadio & Co., LLP is responsible for the attached audit report and the conclusions expressed in this report. We do not express any opinion on the conclusions presented in Bonadio & Co., LLP's audit report. To fulfill our responsibilities, we:

- Reviewed Bonadio & Co., LLP approach to and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with Bonadio & Co., LLP, as necessary, to discuss audit progress, findings, and recommendations;
- Reviewed the audit report prepared by Bonadio & Co., LLP; and
- Coordinated issuance of the audit report.

We thank your staff for the assistance that was extended to the auditors during this audit. If you have any questions regarding this report, please contact me at 202-884-7675.

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April 15, 2021

Appalachian Regional Commission  
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Bonadio & Co., LLP completed an audit of grant number PW-18590-IM-16 awarded by the Appalachian Regional Commission (ARC) to the University of Kentucky Research Foundation (grantee) for the Downtown Revitalization in the Promise Zone project. The audit was performed to assist the Office of Inspector General in carrying out its oversight of ARC grant funds.

The primary objectives of the audit were to determine whether: (1) program funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, 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); (5) the performance measures were met or likely to be met; and (6) matching requirements of the grant were satisfied.

Overall, the grantee's financial management and administrative procedures, including related internal controls, were adequate to manage the funds provided under the ARC grant reviewed. The expenditures tested were supported and considered reasonable. The overall grant performance measures were adequately met.

Bonadio & Co., LLP appreciated the cooperation and assistance received from the grantee and the ARC staff during the audit.

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## **BACKGROUND**

Bonadio & Co., LLP completed an audit of grant PW-18590-IM-16 awarded by the Appalachian Regional Commission (ARC) to the University of Kentucky Research Foundation (grantee). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of the ARC grant funds.

The grant provided \$1,947,586 in total funds including \$1,464,251 in ARC funds and required a match of \$483,335 in non-ARC funds. The original award covered the period September 1, 2016 to August 31, 2019 and was amended to extend the period of performance to August 31, 2020. The grantee will use the funding to launch the Downtown Revitalization in the Promise Zone project. The project will provide a regional approach to developing the assets of downtowns in the eight-county Promise Zone, an area significantly affected by the downturn of the coal industry. The grantee anticipated these activities would result in 160 businesses served, 440 participants served, 600 linear feet of pavement, 8 plans/reports to promote economic growth compiled, 8 counties served, 24 businesses created, 72 jobs created, 16 jobs retained, and leveraged private investment of \$800,000. ARC funding supported personnel, travel, and contractual costs. The program's overall objective was to address the physical and economic landscape of downtowns in the Kentucky Promise Zone region, promoting feasible economic diversification and supporting retail, professional services, and (regional) export-based small businesses.

## **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) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, 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); (5) the performance measures were met or likely to be met; and (6) matching requirements of the grant were satisfied.

We reviewed the documentation provided and interviewed grantee personnel to obtain an overall understanding of the grant activities, the accounting system, and operating procedures. We evaluated grantee administrative procedures and related internal controls to determine whether they were adequate to administer the grant funds. We examined financial and other required reports to determine if they were supported and submitted in accordance with the grant requirements. We also obtained and reviewed the most recent Single Audit report for the fiscal year ending June 30, 2020, that was dated October 2, 2020.

We reviewed expenditures of the grant from September 1, 2016 to August 31, 2020. During this period, there were \$1,461,327 of federal expenditures and \$483,335 of non-federal expenditures charged to the grant. We selected a sample of \$668,744 in expenditures to determine whether the charges were properly supported and allowable.

The criteria used in performing the audit were ARC grant agreement, the ARC code, other ARC requirements, and 2 CFR Part 200 "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards". The audit was performed in accordance with the *Government Auditing Standards*. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for findings and conclusions based on our audit objectives. The fieldwork was completed during the period of March 22, 2021 through March 26, 2021 remotely.

## **SUMMARY OF AUDIT RESULTS**

Overall, the grantee's administrative procedures were adequate to manage the grant funds received. Based on audit procedures performed, we did not question any costs incurred. The final reimbursement request for the period ended August 31, 2020 detailed total expenses of \$1,944,661, including \$1,461,326 of the ARC share and \$483,335 of matching funds. The expenses tested were supported and considered reasonable. We found that the grantee had an adequate process in place for obtaining and recording data related to most of the goals of the grant. In addition, the records and reports indicated that the tasks required by the grant agreement were generally accomplished. All progress reports were submitted in a timely manner. The final report was submitted February 10, 2021.

Despite the challenges posed by the pandemic, many projects were completed as planned. Over \$500,000 in grants was provided to small businesses allowing many to stay open and keep employees on the payroll. Project output and outcomes of the grant were generally met as the grantee provided funds to 175 businesses through the Kentucky Downtown Stimulus Fund. The grant served 7 of the 8 counties that were included in the grant approval. The following counties were served: Bell, Clay, Harlan, Leslie, Letcher, Perry, and Whitley. Knox County did not participate. In addition, the grantee was able to meet the goal of leveraged private investment of \$800,000 through the support of two private foundations. In addition, sidewalks were installed in Harlan County as part of the revitalization effort.

The outputs and outcomes of the grant were tested by reviewing financial information, internal reports, public information and other supporting documentation.