



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to Kentucky Equine Education Project (KEEP) Foundation Grant Number PW-20837

Report Prepared by Regis & Associates, PC

Report Number 25-12

December 18, 2024

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, Suite 718
Washington, D.C. 20009



Office of Inspector General

Appalachian Regional Commission

December 18, 2024

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 25-12 – Kentucky Equine Education Project (KEEP) Foundation

This memorandum transmits the Regis & Associates, PC, report for the audit of costs charged to grant number PW-20837 per its agreement with the Appalachian Regional Commission. 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 reasonable, supported, and fairly represented to the Commission.

Regis & Associates, PC, 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 the audit report. To fulfill our responsibilities, we:

- Reviewed the 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, as necessary;
- Reviewed the draft and final audit reports; and
- Coordinated the issuance of the audit report.

The auditors made three recommendations in the report. Within the next 30 days, please provide me with your management decisions describing the specific actions that you will take to implement the recommendations.

We thank your staff for the assistance extended to the auditors during this audit. Please contact me at 202-884-7675 if you have any questions regarding the report.

*Report on Performance Audit
of
Appalachian Regional Commission
Grant Number PW-20837-TA-22*

for the Period from October 1, 2022 to November 30, 2023

*Awarded to
Kentucky Equine Education Project Foundation*

*Prepared for the Appalachian Regional Commission -
Office of the Inspector General*

Auditee: *Kentucky Equine Education Project Foundation*
As of Date: December 10, 2024


MANAGEMENT CONSULTANTS &
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EXECUTIVE SUMMARY

Office of Inspector General
Appalachian Regional Commission
1666 Connecticut Avenue, NW; Suite 700
Washington, DC 20009

We conducted a performance audit (the audit) of grant agreement number PW-20837-TA-22, awarded by the Appalachian Regional Commission (ARC) to Kentucky Equine Education Project Foundation (the Grantee); with a grant performance period of October 1, 2022, to November 30, 2023. We conducted this performance audit at the request of the ARC Office of Inspector General, to assist it in its oversight of ARC grant funds. This performance audit engagement covers the period from October 1, 2022, to November 30, 2023.

The objectives of the performance audit were to determine whether: (1) program funds were managed in accordance with ARC and Federal grant requirements; (2) grant funds were expended, as provided for in the approved grant budget; (3) internal guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with accounting principles generally accepted in the United States of America (or other applicable accounting and reporting requirements); (5) matching requirements were met; (6) the reported performance measures were fair and reasonable; and (7) if the requirements for the performance of a Single Audit were met, the Grantee conducted such an audit and appropriately addressed any noted findings and recommendations related to the management of Federal awards.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 our findings and conclusions, based on our audit objectives.

We conducted the planning and fieldwork phases of the audit during the period from March 26, 2024, through September 31, 2024. We determined that, except for the matters identified as findings 2024-001, 2024-002, and 2024-003 in the accompanying Findings, Recommendations, and Grantee's Response section of this report; Kentucky Equine Education Project Foundation's financial management, administrative procedures, and related internal controls, were adequate to manage ARC's grant funds.

We discussed the results of this performance audit with Kentucky Equine Education Project Foundation's officials at the conclusion of our fieldwork. Kentucky Equine Education Project Foundation's response has been included as Attachment 1 to this report.

Regis & Associates, PC appreciates the cooperation and assistance received from Kentucky Equine Education Project Foundation's and ARC's staff during this performance audit.

Regis & Associates, PC

Regis & Associates, PC
Washington, DC
December 10, 2024

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency, representing a unique partnership of Federal, state, and local governments. ARC-funded programs are used to support education and job training, healthcare, water and sewer systems, housing, highway construction, and other essentials of comprehensive economic development. ARC's staff is responsible for program development, policy analysis and review, grant development, technical assistance to states, and management and oversight. ARC grants are made to a wide range of entities, including; local development districts, state ARC Offices, state and local governments, educational establishments, nonprofit organizations, and for a variety of economic development projects.

On September 19, 2022, the Appalachian Regional Commission awarded Grant Number PW-20837-TA-22, in the amount of \$50,000, to Kentucky Equine Education Project Foundation. As a condition of this award, the Grantee was required to contribute a minimum matching contribution of \$26,345; or 20% of the total grant cost.

The initial period of performance of the grant was from October 1, 2022, through September 30, 2023. On September 19, 2023, the grant period was extended to November 30, 2023. This performance audit engagement covers the period from October 1, 2022, to November 30, 2023. The grant was awarded to Kentucky Equine Education Project Foundation, to aid in a project titled, "Eastern Kentucky Equine Community Center Planning." The purpose of the project was to assess the feasibility of establishing the Eastern Kentucky Equine Center, in order to create job opportunities and support entrepreneurship in the equine and mental health sectors.

Objective, Scope, and Methodology

Objective

The general objectives of the performance audit were to determine whether Kentucky Equine Education Project Foundation expended grant funds in accordance with applicable requirements; and to report any resulting findings and questioned cost relating to internal controls; program performance; and compliance with provisions of the grant agreement, laws, and regulations.

Scope and Methodology

The Appalachian Regional Commission, Office of Inspector General, under Order Number ARC21P050, dated February 25, 2022; engaged Regis & Associates, PC to conduct a performance audit of Grant Number PW-20837-TA-22, titled "Eastern Kentucky Equine Community Center Planning", which was awarded to the Grantee.

The budgeted amounts for the grant are presented below:

Exhibit – A: Schedule of Grant Budget			
Object Class Category	Federal	Non-Federal	Total
Personnel	\$ -	\$ 26,345	\$ 26,345
Travel	8,385	-	8,385
Contractual	41,615	-	41,615
Total	\$ 50,000	\$ 26,345	\$ 76,345

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 our findings and conclusions, based on our audit objectives.

The audit was conducted, using the applicable requirements contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); the ARC Code; and the Grant Agreement.

Our audit procedures included:

- Obtaining an understanding of the Grantee's internal controls; assessing control risk; and determining the extent of testing needed, based on the control risk assessment.
- Reviewing written fiscal policies and administrative procedures for applicable grant activities.
- Assessing, on a test basis, evidence supporting the amounts; and the Grantee's data and records.
- Assessing the accounting principles and significant estimates made by the Grantee.
- Evaluating the overall evidence and presentation of the records.
- Assessing whether the grant's reported performance measures were fair and reasonable.
- Conducting other test procedures deemed necessary, based on our professional judgment.

Results

Based on the results of our testing and analysis on this performance audit, we determined that:

- 1) The grant funds were managed in accordance with ARC and Federal grant requirements, except for the matters described in Findings 2024-001, 2024-002, and 2024-003; in the accompanying Findings, Recommendations, and Grantee's Response section of this report.
- 2) As of November 30, 2023, the Grantee had expended \$45,614 of the budgeted amount of \$76,345. We questioned \$33,614 of these costs, as detailed in Finding 2024-003; in the accompanying Findings, Recommendations, and Grantee's Response section of this report. This resulted in a total audit recommended cost of \$12,000.

Below, we have presented a Schedule of Claimed and Audit Recommended Cost, which reflects the results of our audit.

Exhibit – B: Schedule of Claimed and Audit Recommended Costs							
Object Class Category	Claimed Costs		Questioned Costs		Audit Recommended		
	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ -	\$ 12,000	\$ -	\$ -	\$ -	\$ 12,000	\$ 12,000
Contractual	33,614	-	33,614	-	-	-	-
Total	\$ 33,614	\$ 12,000	\$ 33,614	\$ -	\$ -	\$ 12,000	\$ 12,000

- 1) Internal guidelines, including program (internal) controls, were not adequate and operating effectively. The Grantee did not have written financial policies and procedures for managing Federal grant funds and determining the allowability and allocability of costs charged to the ARC grant; as described in findings 2024-001 and 2024-002, in the accompanying Findings, Recommendations, and Grantee's Response section of this report.

- 2) Accounting and reporting requirements were implemented, in accordance with accounting principles accepted in the United States of America (or other applicable accounting and reporting requirements), including ARC requirements; except for two SF-270 *Request for Advance or Reimbursement* reports that were not submitted in a timely manner, as described in finding 2024-003, in the accompanying Findings, Recommendations, and Grantee's Response section of this report.
- 3) We determined that the Grantee had contributed a matching amount of \$12,000 of the required matching contribution, as of November 30, 2023. As per the grant agreement, the minimum matching contribution was 20% (\$9,122.80) of the total actual grant cost of \$45,614. Thus, the Grantee met the matching contribution requirement. These matching funds were properly supported and allowable under both Federal and ARC requirements.
- 4) We determined that the Grantee implemented effective policies and procedures to accurately capture, record, and report grant performance measures (i.e., assessment of the feasibility of establishing the Eastern Kentucky Equine Center located in or around Breathitt and Knott County, Kentucky). Based on our review of the Grantee's procedures, the performance results reported to ARC were fair and reasonable.
- 5) We verified that the Grantee did not meet the requirements for the performance of a Single Audit; and thus, was not subject to the Single Audit requirements, under the Uniform Guidance.

Findings, Recommendations, and Grantee's Responses

Finding 2024-001 – Lack of Written Financial Policies and Procedures for Federal Awards

Condition:

During our audit, we found that the Grantee did not have written financial policies and procedures for managing federal grant funds, and determining the allowability and allocability of costs charged to the ARC grant; as required by the Uniform Guidance, Subparts D and E. For instance, the Grantee did not submit two of the four required SF-270 *Request for Advance or Reimbursement* reports in a timely manner. These reports were due on July 1, 2023, and December 30, 2023. The Grantee submitted the reports on September 14, 2023, and January 19, 2024, respectively as shown in Table 1 below:

Table 1 – Reporting dates, due dates, submission dates, and the number of days late.

Sequence No.	(A) Report period end date	(B) Due Date (Period end + 30 days)	(C) Submission Date	(D)=(C)-(B) No. of Days late
1	6/1/2023	7/1/2023	9/14/2023	75
2	11/30/2023	12/30/2023	1/19/2024	20

Questioned Costs:

None.

Criteria:

The provisions of 2 CFR 200, Subparts D (*Post Federal Award Requirements*) and E (*Cost Principles*); require that non-federal entities have certain written policies, procedures, and standards of conduct surrounding the management of federal awards.

Pursuant 2 CFR 200.329(c), *Monitoring and Reporting Program Performance*: “the non-federal entity must submit performance reports at the interval required by Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity.”

The *ARC Grant Administration Manual for ARC Non-Construction Grants*, dated February 2020, states: “The reporting period begins with the start date of the grant agreement. ARC requires interim progress reports every 120 days or every four months and a final report at the end of your project’s period of performance. Reports are due no later than 30 days after the close of a reporting period”.

Cause:

The Grantee did not have formally documented written policies, procedures, and standards of conduct for the management of federal awards and payments; and timely preparation and submission of required reports.

Effect:

The lack of written policies and procedures for managing federal awards may result in non-compliance with federal regulations; thereby increasing the risk of errors in the grant's financial, performance, compliance management; as well as having an adverse effect on the administration of necessary internal controls. Furthermore, the late submission of reports to ARC deprives ARC of its ability to provide effective oversight of the project being implemented.

Recommendation:

Recommendation 01: We recommend that the Grantee develop written policies and procedures surrounding the management of federal awards, in accordance with the Uniform Guidance.

Grantee's Response:

The Grantee concurred with the audit result. See the Grantee's full response in Attachment 1.

Auditor's Response:

Since the Grantee concurred with this finding, no additional comment is necessary.

Finding 2024-002 – Lack of Segregation of Duties

Condition:

Our testing of expenditures revealed that there was no segregation of duties between the person who prepares invoices, and the person who reviews and approves these invoices. One employee was responsible for overseeing all grant-related management activities, including financial management.

Questioned Costs:

None.

Criteria:

Per 2 CFR 200.303(a), "A non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

Cause:

The condition noted above occurred because the Grantee was understaffed; and therefore, did not have the capacity to implement effective internal controls around segregation of duties in the review and approval of invoices for payment.

Effect:

The lack of segregation of duties in the invoice preparation process may result in incorrect billings to ARC. This condition may also result in the preparation and submission of incorrect project status reports to ARC, and potential misuse of federal funds.

Recommendation:

Recommendation 02: We recommend that the Grantee take appropriate internal control measure to ensure adequate segregation of duties in its invoice preparation process.

Grantee's Response:

The Grantee concurred with the audit result. See the Grantee's full response in Attachment 1.

Auditor's Response:

Since the Grantee concurred with this finding, no additional comment is necessary.

Finding 2024-003 – Lack of Proper Record Keeping in Procurement Activities

Condition:

Our procurement testing revealed that the Grantee awarded a contract in the amount of \$33,614, to a vendor for a feasibility study. The Grantee stated that it obtained a price quotation from two vendors. We observed that the Grantee retained the quote submitted by one vendor. However, the Grantee did not provide us with any documentation for the quote submitted by the winning vendor. We were also not provided with the selection criteria, or the justification for vendor selection.

Questioned Costs:

We questioned the total cost of \$33,614 that the Grantee incurred for the feasibility study.

Criteria:

Pursuant to 2 CFR 200.318 (i), “The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: Rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.”

Cause:

The Grantee did not have sufficient internal controls, policies, and procedures in place to ensure that procurement documentation was properly maintained and retained.

Effect:

Failure to maintain proper procurement records could lead to non-compliance with federal regulations, and lack of transparency and accountability in the procurement process. This practice may also result in procuring services at unreasonable prices, and overbillings to the government.

Recommendation:

Recommendation 03: We recommend that the Grantee work with ARC, to resolve the \$33,614 of questioned costs.

Furthermore, the Grantee should also implement Recommendation 01 related to Finding 2024-001 above.

Grantee’s Response:

The Grantee concurred with the audit result. See the Grantee’s full response in Attachment 1.

Auditor’s Response:

Since the Grantee concurred with this finding, no additional comment is necessary.

Attachment 1: Grantee's Response



December 10, 2024

Fidel Wambura, CPA
Regis & Associates, PC
1420 K Street, NW Suite 910
Washington, DC 20005

Subject: Performance Audit of Grant Agreement Number PW-20837-TA-22.

We are providing this letter in connection with the subject audit performed by Regis & Associates, PC on behalf of the Appalachian Regional Commission (ARC).

I have reviewed the audit findings and concur with the results of the audit. On behalf of Kentucky Equine Education Project Foundation, it was a pleasure working with you and your team and we look forward to working with you in the future. Please see below the response for each recommendation.

Recommendation 01: Moving forward, we will prioritize developing and executing written policies and procedures for the management of federal awards before submitting any further grant applications.
Recommendation 02: We acknowledge the importance of the implementation of appropriate internal control measures to ensure adequate segregation of duties in our invoice preparation process in maintaining robust financial controls and reducing the risk of errors or irregularities. In response to your recommendation, we will:

1. Conduct a review of our current invoice preparation process to identify areas requiring improved segregation of duties.
2. Develop and implement appropriate controls, such as assigning distinct responsibilities for invoice preparation, review, and approval to different personnel.
3. Provide training to relevant staff to ensure they understand the updated procedures and their roles within the process.
4. Regularly monitor and evaluate the effectiveness of these measures to ensure compliance and make improvements as necessary.

For future grant awards, we look forward to working on specific guidelines or additional details ARC and any other entities would like us to consider as we implement these measures.

Recommendation 03: We are confident that ARC will determine the \$33,614 total cost of the feasibility study to the Kentucky Center for Agriculture and Rural Development to be accurate and well-justified.

Sincerely,


Brittany Bell
The KEEP Foundation

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