



APPALACHIAN
REGIONAL
COMMISSION

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A New Vision*

Office of the Inspector General

March 20, 2003

MEMORANDUM FOR The Federal Co-Chairman
 ARC Executive Director

SUBJECT: OIG Report 03-09—ARC Grant KY-13795-0-1
 Appalachian Kentucky Entrepreneurship Initiative

Attached is a copy of the subject report dealing with the Appalachian Kentucky Entrepreneurship Initiative in Frankfort, Kentucky. There are two open recommendations. The grantee has promised to resolve the findings in the near future. We recommend that the project coordinator verify and concur with the promised action. I would appreciate notification once this has taken place.

Please contact me if you have any questions on this issue.

Clifford H. Jennings
Inspector General

Attachment

cc: Director, Program Operations

TICHENOR & ASSOCIATES, LLP
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March 17, 2003

Mr. Clifford H. Jennings, Inspector General
Appalachian Regional Commission
1666 Connecticut Avenue NW, Suite 215
Washington, DC 20009-1068

RE: Final Report on Reviews of the following:

1. Appalachian Kentucky Entrepreneur Initiative – Grant No. KY-13795-O-I

Dear Mr. Jennings:

Enclosed please find five copies (two bound and three unbound) of our final report on the above listed Grantee. It has been our pleasure working with you and your staff on this project. If we can be of further assistance, please call (502) 245-0775.

Sincerely,



William R. Tichenor
Tichenor & Associates, LLP

Enclosures

WRT/ska

**MEMORANDUM REPORT ON REVIEW OF
KENTUCKY FINANCE AND ADMINISTRATIVE CABINET
FRANKFORT, KENTUCKY**

APPALACHIAN KENTUCKY ENTREPRENEURSHIP INITIATIVE

ARC Grant Number: KY-13795-0-I

September 1, 2001 through February 28, 2003

Prepared By:

**Tichenor & Associates, LLP
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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: 03-09

SUBJECT: Memorandum Review Report on Kentucky Finance and
Administrative Cabinet, Appalachian Kentucky Entrepreneurship
Initiative, ARC Grant Number: KY-13795-0-I.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for advance by the Kentucky Finance and Administrative Cabinet for its Appalachian Kentucky Entrepreneurship Initiative 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 KY-13795-0-I to the Kentucky Finance and Administrative Cabinet for the period September 1, 2001 through February 28, 2003. The ARC Project Coordinator approved Amendment Number 1 to the Grant Agreement on January 11, 2003 extending the period of performance through February 28, 2004. Total grant funding was for an amount not to exceed \$250,000 or 80 percent of actual, reasonable and eligible project costs. ARC required that the grant be matched with \$62,500 or 20 percent in cash, contributed services, or in-kind contributions, as approved by ARC. To date, ARC has made one reimbursing payment to the Kentucky Finance and Administrative Cabinet in September 2002 totaling \$11,626.

The purpose of the grant is to coordinate professional, technical, financial, sales, marketing and human resource services to selected entrepreneurial firms within Appalachian Kentucky in order for them to expand their business opportunities. In

addition, those services are to be complimented by the training and business assistance services offered by the State of Kentucky.

The ARC funds will be used to purchase services, through a competitive bidding process, that will result in the development of business plans for four to six firms and the completion of detailed market analyses for ten to twelve firms throughout the Appalachian Region of Kentucky.

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 are 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 Finance and Administrative Cabinet is in compliance with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with the Kentucky Finance and Administrative Cabinet's personnel. Our results and recommendations are based on those procedures. These review procedures were performed in accordance with applicable Government Auditing Standards that are generally accepted in the United States of America.

RESULTS: The following results are based on our review performed at the Kentucky Finance and Administrative Cabinet in Frankfort, Kentucky from February 18 through February 20, 2003.

A. Incurred Costs

The Kentucky Finance and Administrative Cabinet claimed total program costs of \$33,731 for the period March 20, 2002 through November 20, 2002 of which they claimed direct reimbursable cost of \$21,728 and matching costs of \$12,003. It should be noted that only \$11,626 of the \$21,728 has been reimbursed to date. We reviewed the direct and matching costs claimed and determined that, in general the funds are being expended as reported and are being used to purchase consulting services for entrepreneurial businesses throughout the Appalachian Region of Kentucky.

B. Internal Controls

1. Progress Reports Not Prepared Every 120 Days

The Kentucky Finance and Administrative Cabinet did not prepare progress reports every 120-days as required by the Grant Agreement. We calculated that by January 31, 2003 four progress reports should have been submitted. However, to date there has been two progress reports submitted to the ARC.

Grant Agreement Number KY-13795-0-I between the Appalachian Regional Commission and the Kentucky Finance and Administrative Cabinet, 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 Finance and Administrative Cabinet ensure that future progress reports are prepared and submitted to the ARC in accordance with the Grant Agreement.

GRANTEE’S RESPONSE

The Grantee stated that a meeting of key personnel was going to be held in the near future and that this issue would be discussed and resolved.

2. Contractor Progress Reports Are Not Prepared In Accordance With Contract

The contractor, Advanced Management Solutions (AMS), does not submit progress reports in accordance with the contract.

The Contract between the Grantee and AMS, Terms and Conditions Section, Special Conditions, Item number 3 States:

“In addition to the monthly reports called for in the awarded contract, the contractor shall provide narrative quarterly reports indicating progress to date, including any testimonials received from clients, and a schedule of future activities.”

RECOMMENDATION

Though the contract does not appear to state that the progress reports from the contractor have to be in writing, we recommend that the Grantee require the reports to be in writing as evidence of what is being reported to them and as proof of the actual progress being made.

GRANTEE’S RESPONSE

The Grantee stated that a meeting of key personnel was going to be held in the near future and that this issue would be discussed and resolved.

C. Program Results

We noted that the only objective that has been achieved to date is that the three-year plan has been completed. The project has been extended through February 28, 2004 and is currently in progress.

Tichenor & Associates, LLP
Tichenor & Associates, LLP
Louisville, Kentucky
March 12, 2003