



March 23, 2005

Memorandum for: The Federal Co-Chair
ARC Executive Director

Subject: OIG Report 05-12
Kentucky Hills Industries.
Grant KY-14048-01

During the past year, my office has reviewed the activities associated with the grant issued to Kentucky Hills Industries (KHI) under grant KY-14048-01. An audit firm under contract to our office attempted to conduct the audit but soon discovered there were no records to audit. The only records were bank records and they were insufficient to determine if the funds had been spent correctly.

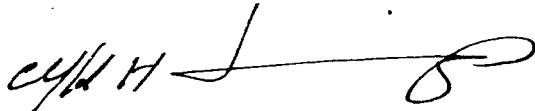
After review of the information the auditors were able to gather, it was decided to request assistance for performance of a criminal investigation. The Tennessee Valley Authority Inspector General graciously provided a criminal investigator to work on this issue on behalf of my office. While the investigator did indeed find evidence that the funds were not spent appropriately (i.e., ARC funds of over \$13,000 were used to pay back taxes for a period prior to the issuance of the grant), the United States Attorney, Eastern District of Kentucky, declined prosecution in this matter.

The one outstanding asset that remains from this grant is a van purchased by KHI for \$21,915.00. On April 15, 2003, the van was transferred from KHI to the Pine Knot Fire Department. The fire department used the van to assist a food bank program as well as to transport firemen to training, and for other uses. The fire department currently has placed a lien on the vehicle for the money used to insure the van.

While it is fairly clear that there is not much hope for recovery of funds misspent, the van is a tangible asset that can and should be recovered for use by other ARC grantees in Kentucky. If no proper use can be found in Kentucky, the van should be made available to any other grantee in any other state who can demonstrate the need for the van.

I will be happy to share the investigative report with appropriate ARC staff as needed to perform actions to resolve the issues with the grant and to close out the grant. However, as it is an investigative report and does contain sensitive and personal information it will not be attached to this report.

This report is considered open and will remain so until my office is notified of the disposition of open items and the grant is closed out. If you have any questions, please contact me on 202-884-7675.

A handwritten signature in black ink, appearing to read 'C.H. Jennings', with a long horizontal flourish extending to the right.

Clifford H. Jennings
Inspector General

cc: Director for Program Operations
General Counsel