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APPALACHIAN REGIONAL COMMISSION  
OFFICE OF INSPECTOR GENERAL  
AUDIT OF GRANT AWARD

The Center for Rural Development  
Somerset, Kentucky

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Final Report Number: 17-21  
Project Number: CO-18224-15  
July 18, 2017

Prepared By:

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July 18, 2017

Appalachian Regional Commission  
Office of Inspector General  
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Bonadio & Co., LLP completed an audit of grant number CO-18224-15 awarded by the Appalachian Regional Commission (ARC) to The Center for Rural Development (the Center). 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 expensed 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); and (5) the matching requirements and the goals and objectives of the grant were met.

Overall, the Center's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant. The costs tested were supported and considered reasonable.

Bonadio & Co., LLP appreciated the cooperation and assistance received from The Center for Rural Development and the ARC staff during the audit.

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## BACKGROUND

Bonadio & Co., LLP completed an audit of grant number CO-18224-15 awarded by the Appalachian Regional Commission (ARC) to The Center for Rural Development (the Center). 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 Center for Rural Development located in Somerset, Kentucky is a nonprofit organization that provides guidance and leadership in order to stimulate innovative and sustainable economic development solutions and a better way of life for citizens in the community. The Center's programs largely serve residents in a 45-county primary service area in Southern and Eastern Kentucky.

The grant was approved on August 31, 2015 and provided \$2,455,242 in ARC funds to the Center for the period of September 1, 2014 through August 31, 2017 to support the Center's management oversight, marketing, education outreach, videoconferencing for higher education and outgoing support service activities related to the construction and operation of the Eastern Kentucky portion of the Kentucky Information Highway (KIH).

As of the most recent interim report submitted, the Center requested reimbursement of \$736,017 from ARC for grant-related expenditures through ended April 30, 2017. Matching funds expended from federal, state and local sources were only \$300 for the same period. The total reported expenditures for the period were \$736,317.

Grant funds were primarily used to reimburse the Center for employee related costs (salaries, benefits, travel) and equipment. The Center has another approved ARC grant (CO-18225) which is for the actual construction of the Eastern Kentucky portion of the KIH, which at the time of the audit had not yet commenced.

## OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the performance audit were to determine whether (1) program funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expensed 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); and (5) the matching requirements and the goals and objectives of the grant were met.

We performed a program review of Grant CO-18224-15 at the Center offices on June 7, 2017 and June 8, 2017, as well as additional procedures off-site. Our review was based on the terms of the grant agreement and on the application of procedures in the modified ARC Audit Program. The primary criteria used in performing the audit were 2 CFR, ARC grant documents, the grant approval, the ARC code, other ARC requirements, federal cost principles, and audit requirements for federal awards. The audit was performed in accordance with the *Government Auditing Standards*.

We reviewed the internal policies and processes at the Center. We interviewed the Center's Controller and Grant Administrator at the Center office to discuss their procedures in place surrounding grant administration and monitoring. We reviewed controls over the application process, monitoring of the grant and the controls in place for recording, accumulating and reporting costs under the grant. We made inquiries and reviewed documentation regarding whether the goals and objectives of the project funded with ARC funds had been met.

We reviewed documentation provided by the Center to obtain an overall understanding of the grant activities, the accounting system, payroll processes and other operational activities. We also reviewed background material which included ARC's grant agreement and related documentation, ARC grant approvals, the Center's grant application to ARC, information from ARC's grant management system, other supporting grant documentation and audited financial statements pertaining to the Center.

The majority of the administrative grant was used to reimburse payroll and benefit costs, which was approximately \$434,000. We selected six months of personnel expenditures during the grant period, which included three employees for each month selected to test their salary and benefit allocations. We obtained the supporting payroll registers, timesheets and other personnel information. We evaluated the accuracy and appropriateness of the Center employees' salaries and benefits that were allocated to the grant.

We also selected a sample of 15 non-payroll expenditures, which consisted of approximately \$191,000 in equipment, \$21,000 in travel costs, \$3,000 in supplies and \$16,000 in other expenses, totaling approximately \$231,000. We examined the related supporting documentation for the samples selected. We evaluated the documentation to determine the validity and appropriateness of the expenditures.

The audit results were discussed with Center representatives at the conclusion of the on-site visit.

## **SUMMARY OF AUDIT RESULTS**

As reported by the Center, the funds disbursed under the grant were used to support the management oversight, marketing, education outreach, enhanced videoconferencing for higher education instruction delivery and ongoing support services for the Appalachian portion of the Kentucky Information Highway. Funds were also used for activities to promote broadband network with media campaigns, and at national conferences, trade shows and conventions. Once actual construction commences, the grant will include construction oversight assistance and systems testing.

At the time of the audit, the actual construction of the eastern portion of the KIH had not yet began; however, as described by the Center during the audit, they continue to provide education and awareness of the KIH and work towards actual construction.

The Center had adequate policies and procedures in place. The Center had sufficient procedures to monitor employees' time related to the grant and directly allocate their salary and benefits accordingly.

Expenses reviewed during the audit appeared to be appropriate and had adequate supporting documentation. The majority of grant expenditures were for personnel, benefits and equipment. The grant was still in process at the time of the audit, with the performance period scheduled to end August 31, 2017. Total project expenditures through April 30, 2017 were \$736,317, which included \$300 of non-ARC funds.

## **FINDINGS**

### **Request for Extension**

The grant requires that funds are to be expended during the approved grant period. The grant expires August 31, 2017. At the time of our audit, the grant was still in process and actual construction had not yet begun. Major activities undertaken thus far have been numerous meetings, conferences, public meetings on the project and general monitoring of related activities. However, a major portion of the planned work in the grant was the management and monitoring of the related construction project but numerous delays have prevented the timely construction of the network. As of April 2017, construction of the main trunk lines of the ARC funded sections of the Kentucky Information Highway fiber network have yet to begin. The eastern Kentucky portion of the project has been setback due to numerous delays. The prime contractor continues to secure right-of-ways from property owners along the main KIH route. There remained approximately 700 easements out of 2,000 to be secured for phase one of the project. The project also experienced significant delays due to turnaround times from pole owners (e.g. AT&T and Windstream) to approve make-ready engineering and construction activities. Per our discussions with Center personnel, progress is being made and the Center is continually working to resolve delays and get the construction phase underway. A significant amount of management, travel and other administrative costs will be necessary during the construction phase. It appears that the Center will need to apply for extension of the grant period, in order to qualify for reimbursement of administrative costs during the actual construction phase of the project.

### **Recommendation**

The grantee should timely request an extension to the grant period with adequate supporting justification.

### **Grantee's Response**

The Center requested and received an extension of the performance period. The new period of performance is 9/1/2014 to 8/31/2018.