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**APPALACHIAN REGIONAL COMMISSION  
OFFICE OF INSPECTOR GENERAL  
AUDIT OF GRANT AWARD  
Brushy Fork Institute  
Berea, Kentucky**

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**Final Report Number: 14-35  
Project Number: KY-16080-C3 and C4  
July 2014**

**Prepared by  
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Leon Snead & Company, P.C. has completed an audit of grant numbers KY-16080-C3 and C4 awarded by the Appalachian Regional Commission (ARC) to the Brushy Fork Institute (BFI). The audit was performed to assist the Office of Inspector General in carrying out its oversight of ARC grant funds.

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and federal grant requirements; (2) internal grant guidelines, including program (internal) controls, were appropriate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) the matching requirements and the goals and objectives of the grants were met.

Overall, BFI's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grants reviewed. The costs reviewed were supported and considered reasonable. We found that BFI had an adequate process in place for obtaining and recording data related to the goals of the grants. In addition, the records and reports indicated that the primary tasks required by grant agreement KY-16080-C3 were accomplished. However, the overall results of the project and use of ARC's funding under grant KY-16080-C4 were not determinable because the project was still in progress.

Leon Snead & Company appreciates the cooperation and assistance received from the BFI and ARC staff during the audit.

Sincerely,

*Leon Snead & Company, P.C.*  
Leon Snead & Company, P.C.

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## **Background**

Leon Snead & Company, P.C. completed an audit of grant numbers KY-16080-C3 and C4 awarded by the Appalachian Regional Commission (ARC) to the Brushy Fork Institute (BFI). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of ARC grant funds.

ARC awarded the two grants to BFI to provide funding for an initiative that combines community development training and mini-grants to support small investments that address critical community issues in distressed counties in Eastern Kentucky. The program includes Flex-E-Grant mini-grants, scholarship funds for community teams to participate in the Institute's annual mini-grant proposal writing workshops, annual gatherings of Flex-E-Grant grant recipients, and technical assistance to sub-grantees.

Grant KY-16080-C3 was initially awarded to cover the period July 1, 2011 through February 28, 2013; however, the grant agreement was amended twice. The second amendment extended the grant performance period to October 31, 2013. The grant provided \$529,000 in ARC funds and required \$137,600 in non-ARC match funds. At the time of the audit, the grant activities had been completed and the grant had been administratively closed by ARC. The total project cost reported under the grant was \$900,126, including \$526,972 of federal funds.

Grant KY-16080-C4 was initially awarded to cover the period July 1, 2012 through March 31, 2014; however, the grant agreement was amended to extend the grant performance period to September 30, 2014. The grant provided \$571,350 in ARC funds and required \$180,725 in non-ARC match funds. At the time of the audit, the grant activities had not been completed. As of June 1, 2014, the total federal payments made under the grant were \$259,657.

## **Objectives, Scope & Methodology**

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and federal grant requirements; (2) internal grant guidelines, including program (internal) controls, were appropriate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) the matching requirements and the goals and objectives of the grants were met.

We reviewed the documentation provided and interviewed BFI personnel to obtain an overall understanding of the grant activities, the accounting system, and the operating procedures. We reviewed BFI's administrative procedures and related internal controls to determine whether they were adequate to administer the grant funds. We reviewed financial and other required reports to determine whether they were properly supported and submitted in accordance with the requirements. We also reviewed the most recent audit reports to determine whether there were any issues that impacted the ARC grants.

Of the \$786,629 in expenditures charged to the two grants and claimed for reimbursement (\$526,972 to KY-16080-C3 and \$259,657 to KY-16080-C4) during the period July 1, 2011 through June 1, 2014, we selected a sample of \$448,975 in expenditures charged to the grants for testing to determine whether the charges were properly supported and allowable. In that regard, our sample included \$340,898 charged to KY-16080-C3 and \$108,077 charged to KY-16080-C4. In addition, we selected a sample of \$158,966 in expenditures for testing that were charged to the grants and used as matching costs.

The primary criteria used in performing the audit were the provisions of the grant agreements, applicable Office of Management and Budget Circulars, and relevant parts of the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of June 9-27, 2014, including on-site work at BFI's office in Berea, Kentucky during June 9-13, 2014. The audit results were discussed with the director at the conclusion of the on-site visit.

### **Summary of Audit Results**

Overall, BFI's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grants reviewed. The costs reviewed were supported and considered reasonable. We found that BFI had an adequate process in place for obtaining and recording data related to the goals of the grants. In addition, the records and reports indicated that the primary tasks required by grant agreement KY-16080-C3 were accomplished. However, the overall results of the project and use of ARC's funding under grant KY-16080-C4 were not determinable because the project was still in progress.