

**The Center for Rural Development  
Appalachian Rural Development  
Philanthropy Initiative**

**OIG Report Number: 15-01**

**Grant: KY-17099**

**Grant Period: September 2011 – June 2015**

Appalachian Regional Commission  
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Mr. Hubert N. Sparks  
Inspector General

Transmitted herewith is a report of CohnReznick LLP, a Performance Audit of the Center for Rural Development Appalachian Rural Development Philanthropy Initiative Grant KY-17099. The report is in response to Contract No. BPA 11-01-B.

*CohnReznick LLP*

Tysons, Virginia  
December 12, 2014

THE CENTER FOR RURAL DEVELOPMENT

APPALACHIAN RURAL DEVELOPMENT PHILANTHROPY INITIATIVE

KY-17099

**Background**

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state and local governments. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair who is appointed by the President. Local participation is provided through multi-county local development districts (LDDs). Each year, ARC provides funding for several hundred projects in the Appalachian Region, in areas such as business development, education and job training, telecommunications, infrastructure, community development, housing and transportation. These projects help create new jobs; improve local water and sewer systems; increase school readiness; expand access to health care; assist local communities with strategic planning; and provide technical and managerial assistance to emerging businesses.

The Center for Rural Development (Grantee) works with communities to establish local philanthropic leadership and resources via a network of local partners in order to develop long-term funding for future community development in all Kentucky ARC distressed counties. The Grantee, in conjunction with four other regional entities, formed the Appalachian Rural Development Philanthropy Initiative (ARDPI) network, which is committed to promoting wealth creation and community transformation through a concerted effort that builds civic, human and financial capacity around local philanthropy. This work involves creating an infrastructure that engages local people in the communities and builds the capacity of the region, supporting the growth of local wealth through permanent community endowments. The Grantee requested funds from ARC to support the Grantee's role in the ARDPI.

On September 1, 2011, ARC approved the Appalachian Rural Development Philanthropy Initiative (ARDPI): Center for Rural Development Grant, number KY-17099 (Grant), in the amount of \$582,150 to the Center for Rural Development for the period September 1, 2011 to August 31, 2013. The Grant period of performance was subsequently extended through a total of six amendments to now run through June 30, 2015. Matching funds from other sources were to total \$145,540, for a total funding amount of \$727,690. The sources of funding and amounts noted in the ARC Grant approval memo are shown in Table 1 below:

Table 1: Analysis of Budgeted Project Funding Sources

<b>Funding Source</b>	<b>Amount</b>	<b>Percentage</b>
Appalachian Regional Commission (ARC)	\$582,150	80%
Local	\$145,540	20%
<b>Total</b>	<b>\$727,690</b>	<b>100%</b>

**Executive Summary**

Grant funds were used to cover employee salary and benefits, contractual costs for a dedicated consultant so that the local communities will have an advisor available on an as-needed basis, travel costs, program materials, training event costs and other administrative costs for the Grantee. The Grant was still in process at the time of the audit, with the performance period scheduled to run through June 30, 2015. As of the most recent interim report submitted by the Grantee, covering the period through July 31, 2014, ARC reimbursed \$418,535 of expenses while reported matching funds for the same period were \$104,827, for a total expenditure of \$523,362. While it appears that the Grant expenditures will be lower than the original budget at the end of the performance period, the proportion of ARC to matching funds is consistent with the requirements of the Grant agreement.

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**Executive Summary (Continued)**

Expenses reviewed during the audit appeared valid and properly supported. Due to the grant still being in process at the time of the audit, we were unable to determine if the outputs and outcomes stated in the grant application were accomplished. However, in general we noted the Grantee made progress towards achieving those outputs and outcomes.

**Objective**

CohnReznick LLP was engaged to conduct a performance audit of the Appalachian Rural Development Philanthropy Initiative Grant for the period September 1, 2011 to July 31, 2014, the data of the most recent interim report submitted by the Grantee as the Grant is still in progress at the time of the audit. The purpose of our performance audit was to determine the following:

- Funds expended and claimed for reimbursement from ARC and matching funds reported to ARC were valid program expenses and in accordance with the ARC Grant requirements;
- Internal controls were in place to ensure compliance with the Grant requirements; and
- Goals and objectives of the Grant had been, or would be, achieved.

**Scope**

We completed a performance audit of the Grant, including fieldwork at the Grantee offices in the Center for Rural Development from October 28-30, 2014, as described under this section and under the audit methodology section. Our audit was based on the terms of the Grant agreement and on the application of procedures in the modified ARC Audit Program.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

**Audit Methodology**

Our procedures were based on the Audit Program guidelines provided by the ARC Office of the Inspector General and included suggested procedures over the Grantee's accounting and internal control systems affecting the Grant. We met with the Controller, Grants Compliance Accountant and other Grantee staff members to discuss the overall structure and processes around Grant administration and monitoring.

Our review of background material included the Grant application, agreement and related documentation, information from ARC's grant management system, and the Grantee's audited financial statements for the fiscal years ended June 30, 2012 and 2013.

We reviewed controls in place for recording, accumulating and reporting costs under the Grant and observed and made inquiries regarding whether the goals and objectives of the project had been met. For a sample of the salary costs funded by the Grant, we traced the employee annual salaries to personnel records, individual payrolls, and the allocation of payroll to various programs/grants. We traced a sample of other expenses, including contractual, travel, telephone and program material costs, to supporting documentation to ensure expenses were in support of the Grant. We also evaluated the process for compliance with applicable Grant requirements and regulations.

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**Results**

Compliance with Grant Provisions

As of the most recent interim report submitted by the Grantee, ARC reimbursed \$418,535 of expenses for the period September 1, 2011 to July 31, 2014. Reported matching funds provided by the Grantee were \$104,827 through July 31, 2014. Total expenditures for the Grant at the end of the period covered by our audit are approximately \$523,000. While it appears that the Grant expenditures will be lower than the original budget at the end of the performance period, primarily due to lower than anticipated volume of activity on Grant-related services performed by the Grantee, the proportion of ARC to matching funds is consistent with the requirements of the Grant agreement.

Grant funds were used to cover a portion of the salary and benefit costs for Grantee employees and for costs associated with a consultant. Grant funds were also used to cover travel expenses, program materials, training events and other administrative costs associated with the Grant project activities. We examined supporting documentation for a sample of the expenses incurred against the Grant and noted that all appeared to be valid, adequately supported and in relation to supporting the Grant and its objectives.

Through inquiry and review, we sought to validate the outputs and outcomes expected from the Grant award as detailed in the Grant application. The primary output included in the Grant application was that the Grantee would increase knowledge of philanthropy and the importance of keeping some funds donated to nationwide charities in the state of Kentucky. This would be accomplished by creating or increasing local, county endowment funds, training local leaders, creating a 10-year sustainability plan and establishing effective communications to the community about community foundations. Outcomes included a range of items, including increasing knowledge of local charities and creating opportunities by educating local leaders and professional advisors, establishing a foundation and environment of local philanthropy, helping local foundations and endowments identify prospective donors, and educating the community as a whole about philanthropy.

Through review of the interim performance reports submitted by the Grantee to ARC and through subsequent discussion with key Grantee personnel, we determined that the primary activity of the Grantee is to work with local communities to establish local philanthropic leadership and resources by setting up a network of local partners in order to develop long-term funding for future community development. To help set up this network, the Grantee and its partners held two "convening" meetings that anyone interested in local philanthropy was encouraged to attend, and hosted four continuing education training sessions to reach professional advisors, lawyers, financial advisors, CPAs, etc. The objectives were to increase awareness of the importance of supporting local charities and communicate the steps required to create county endowment foundations and the structure of those entities. The Grant also enabled the Grantee to create a website and add interactive tools to demonstrate the tax benefits for giving and the benefits of local philanthropy.

The Grantee reported in the most recent progress report covering the period through July 31, 2014 and during our site visit when asked to provide specific details and numbers that they had trained at least 20 local leaders, held 20 local events, conducted seven training events and two convening events. We reviewed the sign-in sheets to determine that the events were held and who was in attendance at the training and local events. The Grantee was also able to complete a 10-year Appalachian Philanthropy Development and Sustainability plan, which was a goal of the Grant. The Grantee stated in its application that at least 200 participants would attend the two convening events. 126 participants and 34 participants attended the 2011 and 2013 convening events, respectively, falling short of their 200 participant goal. The Grantee also stated in its application that it would achieve \$200,000 in endowment contributions in year one, we were unable to determine if this was achieved at the time of our audit.

At the conclusion of the audit, we discussed the following items with the Grantee, who generally agreed with the observations and recommendations as described below:

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**Observations**

During review of the Grantee's support of the achievement of outputs and outcomes, we noted that in certain instances, the Grantee reported collaborative results achieved in conjunction with the other partners in the ARDPI project. This reporting did not identify or segregate what was specifically achieved with the Grant funds provided by ARC. These areas were around the increased amount of donations to local and/or county endowment funds, targeted grant making and the establishment of broad-based advisory committees.

We also noted that for certain of the outputs and outcomes related to counties originally classified as "Pilot" status, the Grantee was not tracking performance metrics due to a decision to stop classifying participating counties as "pilot" or "prospect." The Grantee considered the related outputs and outcomes to no longer be applicable. These included identifying 150 donors, 15 endowment champions (three per county), implementing a Youth in Philanthropy program, establishing a community foundation infrastructure and the creation of a peer learning network. We believe that, absent any guidance from ARC to the contrary, the Grantee should still be working towards achieving these outputs and outcomes and should have measures in place to quantify performance against these targets. ARC should follow up with the Grantee at the conclusion of the Grant period of performance to determine whether these outputs and outcomes were successfully achieved and/or appropriately addressed by the Grantee.