



September 30, 2002

MEMORANDUM FOR The Federal Co-Chairman
ARC Executive Director

SUBJECT: OIG Report 02-34—ARC Grant KY-13397
Next Generation Entrepreneurial Schools

Attached is a copy of the subject report dealing with Kentucky Science and Technology Corporation's Next Generation Entrepreneurial Schools initiative. There are no issues requiring action or followup. We consider the report closed.

A handwritten signature in black ink, appearing to read "Clifford H. Jennings", with a long, sweeping flourish extending to the right.

Clifford H. Jennings
Inspector General

Attachment

cc: Ms. Judy Rae

**MEMORANDUM REPORT ON REVIEW OF
KENTUCKY SCIENCE AND TECHNOLOGY CORPORATION
LEXINGTON, KENTUCKY**

NEXT GENERATION ENTREPRENEURIAL SCHOOLS

ARC Grant Number: KY-13397

May 1, 1999 through September 30, 2002

CAUTION: *Certain information contained herein is subject to disclosure restrictions under the Freedom of Information Act, 5 U.S.C. 522 (b)(4). Distribution of this report should be limited to Appalachian Regional Commission and other pertinent parties.*

Report Number: 02-34

Date: September 27, 2002

**MEMORANDUM REPORT ON REVIEW OF
KENTUCKY SCIENCE AND TECHNOLOGY CORPORATION
LEXINGTON, KENTUCKY**

NEXT GENERATION ENTREPRENEURIAL SCHOOLS

ARC Grant Number: KY-13397

May 1, 1999 through September 30, 2002

Prepared By:

**Tichenor & Associates, LLP
Certified Public Accountants
304 Middletown Park Place, Suite C
Louisville, Kentucky 40243**

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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: 02-34

SUBJECT: Memorandum Review Report on Kentucky Science and Technology
Corporation, Next Generation Entrepreneurial Schools, ARC Grant
Number: KY-13397.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Kentucky Science and Technology Corporation (KSTC) for its Next Generation Entrepreneurial Schools 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 are being met.

BACKGROUND: ARC awarded Grant Number KY-13397-0-I to KSTC for the period May 1, 1999 through September 30, 2001. The ARC Coordinator approved Amendment Number 1 on January 28, 2001 extending the period of performance through September 30, 2002. Total grant funding was for an amount not to exceed \$200,000 or 75 percent of actual, reasonable and eligible project costs. ARC required that the grant be matched with \$66,000 or 25 percent in cash, contributed services, or in-kind contributions, as approved by ARC. ARC made one progress/advance payment to KSTC in March 2001 totaling \$120,781 based on a request dated February 23, 2001. According to KSTC officials, the \$120,781 included reimbursement of KSTC non-matching funds totaling \$32,154 expended since May 1, 1999 and an advance payment of \$88,627.

The purpose of the grant is to provide funds for a program designed to educate the next generation of Appalachian Kentucky entrepreneurs and instill in them the value of entrepreneurship as a desirable and viable career option. Two Appalachian school

districts have been selected to test and infuse Next Generation concepts and strategies into the operations of their districts. The funds are being used to achieve the grant objectives by training teachers in entrepreneurialism, financing projects developed and initiated by the teachers, but completed by the students, and to have independent analysis of the program conducted in order to address weaknesses in the program and to gage the overall progress and success of the program.

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 were being performed, if the accountability over ARC funds is sufficient as required by applicable Office of Management and Budget (OMB) Circulars, and if the KSTC was in compliance with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with the KSTC personnel. Our results and recommendations are based on those procedures. These review procedures were performed in accordance with applicable Government Auditing Standards.

RESULTS: The following results are based on our review performed at the KSTC's office in Lexington, Kentucky on July 18 and 19, 2002.

A. Incurred Costs

The KSTC claimed total program costs of \$206,985 for the period May 1, 1999 through June 30, 2002 of which they claimed direct reimbursable cost of \$120,781 and matching costs of \$86,204. We reviewed the direct and in-kind costs claimed and determined that, in general, the funds had been expended as reported. However, we identified \$32,105 of the \$120,781 in ARC funds received in March 2001 had not yet been expended as of June 30, 2002. This issue is discussed below.

Drawdowns Exceeded Current Needs

The KSTC submitted a drawdown request for \$120,781 in February of 2001. The request was for funding to cover the period from May 1999 through March 2001. During the course of our review, we noted that as of June 30, 2002 the KSTC had expended \$88,676 of the ARC funds and still had \$32,105 of ARC funds on hand.

Office of Management and Budget Circular A-110, Subpart C, Post-Award Requirements, Financial and Program Management, .22 Payment, paragraph (b) states:

“Recipients are to be paid in advance, provided they maintain or demonstrate the willingness to maintain: (1) written procedures that minimize the time elapsing between the transfer of funds and

disbursement by the recipient, and (2) financial management systems that meet the standards for fund control and accountability as established in Section .21. Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.”

According to the KSTC’s Project Director, a request for extension was initially sent on November 27, 2001 and was resubmitted on January 28, 2002 because the original request was destroyed in ARC’s anthrax screening process for incoming mail. Therefore, spending was halted during the period October 2001 through February 2002. No additional funds were requested by KSTC and the Project Director anticipated that the funds on hand would be used in the fourth quarter of their fiscal year ending September 30, 2002.

RECOMMENDATION:

We recommend that the KSTC not withdraw any of the remaining grant funds in excess of its current needs as required by OMB Circular A-110.

GRANTEE’S RESPONSE:

The KSTA Project Director stated that they agreed with our recommendation and is supported by a decision not to pursue any advance requests since they received the initial payment from ARC. The Director also stated, in recognition of the unprecedented nature of this project, they will be happy to restrict future payment requests to a reimbursement basis for as long as possible without compromising critical progress.

B. Internal Controls

Progress Reports Not Prepared Every 120 Days

The KSTC did not prepare 120-day progress reports for the Next Generation Entrepreneurial Schools grant (KY-13397-0-I).

Grant Agreement Number KY-13397-0-I between the Appalachian Regional Commission and the Kentucky Science and Technology Corporation, Part I- Special Provisions, Paragraph 3 states:

“Reports. Progress reports for each 120-day period of the grant and a final report are required under this agreement (see Part II, Article 4).”

The KSTC Project Director stated that they were aware of the 120-day progress report requirement, but only submitted them based on their fiscal year.

RECOMMENDATION:

We recommend that KSTC prepare 120-day progress reports in accordance with the Grant Agreement.

GRANTEE’S RESPONSE:

The KSTA Project Director stated that although the project began May 1, 1999, the actual grant agreement was not fully executed until mid September after extensive good faith negotiation and correspondence between ARC and KSTC. The Director also stated that throughout the original and extended grant period, various formal and informal financial/progress reports were, and continued to be submitted in order to keep ARC informed of the status of this unique program. In addition, the Director stated that they are currently in the process of preparing an interim financial/progress report for October 1, 2001 to July 31, 2002 to accompany their no cost extension request through September 30, 2003. Also, the Director agreed to send financial/progress reports on a 120-day basis.

C. Program Results

Our review of the KSTC, Next Generation Entrepreneurial Schools project indicated that the objectives of the grant are being met, though they are being met at a slow pace.

Tichenor & Associates, LLP
Tichenor & Associates, LLP
Louisville, Kentucky
August 13, 2002



**APPALACHIAN
REGIONAL
COMMISSION** *A Proud Past,
A New Vision*

Office of the Inspector General

September 30, 2002

Mr. Ewell H. Balltrip, Executive Director
Kentucky Appalachian Commission
The Gorman Center
601 Main Street, Suite 001
Hazard, KY 41701

re: *OIG Report 02-34; ARC Grant KY-13397,
Next Generation Entrepreneurial Schools*

Dear Mr. Balltrip:

Enclosed is a copy of our report dealing with Kentucky Science and Technology Corporation's Next Generation Entrepreneurial Schools initiative.

Sincerely,

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

Clifford H. Jennings
Inspector General

Enclosure

cc: Ms. Peggy Satterly
ARC Program Manager



**APPALACHIAN
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*A Proud Past,
A New Vision*

Office of the Inspector General

September 30, 2002

Ms. Joanne Lang
KY Science and Technology Corp.
P. O. Box 1049
Lexington, KY 40588-1049

re: OIG Report 02-34, ARC Grant KY-13397—Next
Generation Entrepreneurial Schools

Dear Ms. Lang:

Attached is a copy of our report on the subject grant. A copy of the report is being provided to the Federal Co-Chairman, ARC Executive Director, and the Kentucky State Alternate.

The courtesies and cooperation afforded the auditor were appreciated.

Sincerely,

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

Clifford H. Jennings
Inspector General

Enclosure



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Home Project Management Special Programs Status of Funds Reports My Profile

Welcome Ingrid+ Rickard, today is Monday, September 30, 2002

Project - General: KY-13397-0 -I ✓

Project	Grantee	Location	Funding	Payment	Notes	Performance	Closeout
ID: 24284					◀ New Grantee ▶	◀ Select Gran	

Grantee's Name *

Contact Person:

Type of Grantee:*

Employer ID Number (EIN):

Phone:

Fax:

Email:

Grantee Address

Address

City

State

Zip Code

*Proj Title: Next Generation
Entrepreneurial
Schools*