

**MEMORANDUM REPORT ON REVIEW OF THE
SOUTHERN KENTUCKY ECONOMIC
DEVELOPMENT CORPORATION
SOMERSET, KENTUCKY**

Development of Long Term Strategies for Economic Development

ARC Grant No: CO-11824-95-I-302-1214

January 1, 1995 through July 27, 1996

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Report Number: 97-2 (H)

Date: December 23, 1996

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Prepared By:

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Under Contract Number J-9-G-5-0010 with the
U.S. Department of Labor
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Office of Audit

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TO: Appalachian Regional Commission (ARC)
Office of Inspector General (OIG)

FROM: Tichenor & Associates
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report No. 97-2 (H)

SUBJECT TO: Memorandum Review Report on Southern Kentucky Economic
Development Corporation (SKED), Development of Long Term
Strategies for Economic Development, Somerset, Kentucky. Grant No.:
CO-11824-95-I-302-1214, ARC Contract No.: 95-31.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by SKED for its Development of Long Term Strategies for Economic Development 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) the objectives of the grant have been met.

BACKGROUND: ARC awarded Grant Number CO-11824-95-I-302-1214 to SKED for the period January 1, 1995 through July 27, 1996. Total grant funding was for an amount not to exceed \$75,000, or 100 percent of actual, reasonable and eligible project cost, whichever is less. ARC did not require the grant be matched. ARC made five progress payments to SKED totaling \$60,751. A final request for payment was submitted by SKED on July 31, 1996, in the amount of \$14,249, the balance remaining under the grant agreement. As of our fieldwork date, September 12 and 13, 1996, the final request for payment had not been received by SKED.

The funds from this grant were to provide support salaries and other administrative costs so that SKED could develop long term strategies for its economic development operations for the Rural Development Center at Somerset College. The specific tasks of the grant program were to:

- Develop appropriate program planning for the rural development center at Somerset College; and
- Develop long term strategies for economic development operations at the center.

SCOPE: We performed a financial and compliance 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 listed above had been performed, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if SKED had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with SKED's personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at the SKED's offices in Somerset, Kentucky on September 12 and 13, 1996.

A. Incurred Costs

SKED incurred total program costs of \$95,097, of which they claimed direct reimbursable costs from January 1, 1995 through July 27, 1996 of \$75,000. The \$20,097 difference was in-kind costs that were not required under the grant agreement. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported by SKED. However, we determined that \$6,271 of capital equipment was purchased with ARC funds without ARC approval and \$1,500 in consultant costs had not been approved by ARC. These costs are discussed in the Internal Controls section below.

B. Internal Controls

1. Capital Equipment Purchased

SKED purchased computer equipment used in its Multi-Media Development Center with \$6,271 of ARC funds. The equipment was used to attract new businesses to the communities in the region. GIS maps, available building brochures, community brochures, and area labor force maps were created using the new system. The grant agreement did not specifically state that the purchase of this equipment was approved.

OMB A-122, Subpart B, paragraph 13.b. states, in part:

“ Capital expenditures for general purpose equipment are unallowable as a direct cost except with the prior approval of the awarding agency”

2. Consultant Costs Not Approved By ARC Or Competitively BID

SKED entered into a contract with Carol Rogers & Associates to prepare a final 1996 project report for the Appalachian Regional Commission. The effective date of the contract was April 29, 1996, and was for an amount not to exceed \$1,500. SKED did not include the use of a consultant in its application, approved budgets or progress reports.

OMB A-110, Subpart C, Post Award Requirements, .25 Revision to budget and program plans state:

- “(a) The budget plan is the financial expression of the project or program as approved during the award process.
- (b) Recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plans revisions, in accordance with this section.
- (c) For non-construction awards, recipients shall request prior approvals from Federal awarding agencies for one or more of the following program or budget related reasons.
 - (8) Unless described in the application and funded in the approved awards, the subaward, transfer or contracting out of any work under an award.”

C. Program Results

Our review of SKED's Development of Long Term Strategies for Economic Development program indicated all of the objectives and specific tasks identified in the grant, and summarized above, had been achieved.

DISCUSSION:

We discussed these issues with SKED's management during the exit conference held on September 13, 1996. Management responded by stating that they were unaware of the requirement to obtain prior approval for the purpose of capital equipment or the use of consultants. Management stated that prior approval would be obtained for future purchases of equipment or the use of consultants under any federal grant. Management also stated that these costs, although not stated in the grant agreement, were stipulated in the grant application, which is incorporated by reference into the grant agreement.

RECOMMENDATIONS:

We verified during our fieldwork that the computer equipment referred to above was still in place and being used by SKED to assist communities in the area. The Project Coordinator stated that he did not have the expertise necessary to prepare the final report to ARC. The computer equipment is still in place and being used for the purpose of assisting the local communities, and the consulting costs were incurred to meet a grant requirement. However, we recommend that the Grantee obtain ARC approval of these costs and in the future, budget deviations should be approved in advance.

TICHENOR & ASSOCIATES

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