MEMORANDUM REPORT ON REVIEW OF

KENTUCKY HIGHLANDS INVESTMENT CORPORATION

LONDON, KENTUCKY

The Launching Pad:
A Business Planning Center

ARC Grant No: KY-12032-95-I-302-0410

June 1, 1995 through August 31, 1996

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Report Number: 97-24(H)

Date: April 28, 1997

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June 1, 1995 through August 31, 1996

Prepared By:

Tichenor & Associates
Certified Public Accountants
Woodbridge, Virginia

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

APPALACHIAN
REGIONAL
COMMISSION

A Proud Past,
A New Vision

ARC

Office of the Inspector General

May 1, 1997

Mr. Jerry Rickett, President
Kentucky Highland Investment Corporation
P. O. Box 1738
London, KY 40743–1738

re: OIG Report 97–24(H), Grant 12032–95

Dear Mr. Rickett:

Enclosed is a copy of the report on The Launching Pad project. The work was performed by auditors with Tichenor and Associates, CPA under contract with my office. The report denotes several control and reporting issues and includes grantee and auditor comments.

While we believe all the noted items should receive management consideration, we consider the issues related to fund advances, interest earnings, and completion of grant objectives to be of primary significance. Therefore, we will followup with ARC within 60 days to determine the status of actions on these issues and related recommendations.

A copy of this report is being provided to the Federal Co–Chairman, ARC Executive Director, and Kentucky State Alternate.

We appreciate the courtesies and cooperation provided the auditors.

Sincerely,

Hubert N. Sparks
Inspector General

Enclosure

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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. 97-24(H)

SUBJECT: Memorandum Review Report on Kentucky Highlands Investment Corporation, The Launching Pad Program, London, Kentucky. Grant No: KY-12032-95-I-302-04210, ARC Contract No. 95-67.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Kentucky Highlands Investment Corporation for the Launching Pad project 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 had been met.

BACKGROUND: ARC awarded Grant Number KY-12032-95-I-302-0410 to the Kentucky Highlands Investment Corporation (KHIC) for the period June 1, 1995 through August 31, 1996. Total grant funding was for an amount not to exceed $250,000, or 65 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with $135,000, or 35 percent in cash, contributed services, or in-kind contributions, as approved by ARC. As of January 31, 1997, ARC made two progress payments to KHIC totaling $250,000. KHIC had reported direct costs totalling $1,312,500 and loans made to business plan preparers totalling $65,000.

This grant was to provide funding for The Launching Pad, which was to provide assistance to start-up companies in Bell, Clay, Clinton, Knox, Jackson, McCreary, Harlan, Wayne, Rockcastle, and Whitley counties in the following areas: analysis of industry, company, and its products; market research and analysis; sales and marketing plan; manufacturing and operation plan; financial plan; and management team. In addition, it was to provide existing businesses assistance in analysis of sales, manufacturing plan, financial plan and management team. This project was expected to create 200 new jobs each year by providing office space to new companies and providing the use of KHIC's own personnel, ranging from investment analysts to administrative staff, to support and compliment the staffs of the new companies. The specific tasks of the grant were to:

- Plan and establish four new manufacturing companies;

- Instruct eight existing area businesses through the business planning process, including Cumberland Farm Products, Inc., a growers cooperative;

- Conduct technology audits, to be performed by Eastern Kentucky University (EKU), to analyze and recommend the appropriate technology for the four start up companies and to analyze the existing business production processes and products of the existing businesses; and,

- Provide a seminar to KHIC staff, to be conducted by EKU, on visioning.

ARC funding was to be used to:

1) contract with EKU ($30,000);
2) provide salary and retirement benefits to KHIC staff ($130,000);
3) provide a loan to a start-up company ($65,000); and,
4) obtain computer equipment for five work stations, including software and printing equipment ($25,000).

<u>SCOPE</u>: We performed a program financial and compliance review 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 grant and the applicable Office of Management and Budget (OMB) Circulars, and if KHIC had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with KHIC personnel. Our results and recommendations are based on those procedures.

<u>RESULTS</u>: The following results were based on our review performed at KHIC's offices in London, Kentucky on January 29 through 31, 1997.

A. Incurred Costs

KHIC's general ledger indicated that total incurred costs for the project were $1,282,564 ($159,353 of direct costs and $1,123,211 in loans to businesses). However, KHIC claimed direct reimbursable costs, from June 1, 1995 through August 31, 1996, of $250,000 and matching costs of $1,123,211, or a total of $90,647 more that it had incurred. We reviewed the total costs claimed and determined the following.

1. Total ARC Funds Have Not Been Expended as Reported

KHIC claimed and received $250,000 in reimbursements from ARC for the period of June 1, 1995 to August 31, 1996. However, we determined that $90,647 of this amount has not yet been expended by KHIC. Therefore, this amount represents an advance payment, rather than a reimbursement. This advance represents $65,000 of funds which were to be loaned to a start-up company, and $25,647 of funds which were to be paid to EKU when it provided the remaining services under its contract with KHIC. As of January 31, 1997, a full five months after the end of the grant period, these funds had not been expended by KHIC. KHIC stated that the loan of $65,000 would be made to a start-up company in Wayne County, Kentucky after KHIC held its board meeting in mid-March, 1997. KHIC also expected EKU to provide its remaining services by the end of the summer, 1997. However, both of these situations involve some costs apparently incurred after expiration of the grant.

OMB A-110, Subpart C, Post Award Requirements, .22 (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...to the actual disbursements by the recipient organization..."

KHIC should not have requested or received payment of the total grant amount as stipulated in the grant agreement, Article 3-3.2 and 3-3.3.

RECOMMENDATION:

We recommend that KHIC resolve the issue of funds being expended after the expiration of the grant period with ARC prior to additional funds being provided to EKU for the remaining services under their agreement or to the start-up company for the loan of $65,000. In addition, if the expenditure of the additional funds is approved by ARC, we recommend that KHIC be required to report to ARC when these funds are expended and that ARC monitor KHIC to ensure that all funds are expended, since the grant period expired over five months ago and the ARC funds have already been provided to KHIC.

KHIC should establish written procedures to minimize the time between the receipt of funds and the disbursement of those funds. In addition, they should revise their reporting procedures to provide ARC with accurate, complete information concerning the use of funds and the need for further time extensions.

Grantee's Response:

"Although it is true that KHIC asked for funds prior to completing two components of the project, we did so after consultation and full communication with our project coordinator. Your report does not indicate that the communication was held and therefore it appears that we did something that was in violation of the contract...We fully intend to advise the ARC when the funds have been expended and the status of the project whether or not it is a requirement after the grant has been closed out."

Additional Comments:

We recognize the Grantee's response that the circumstances were discussed with the project coordinator, however, we did not note any extension of the grant beyond August 31, 1996, or approval for funds not yet expended to be released to the Grantee. We continue to recommend that the Grantee request and obtain a formal extension of the grant period based on adequate justification or return the unexpended funds to ARC.

2. Equipment Purchases Included Telephones

KHIC claimed a total of $24,464 for the purchase of computer equipment, of which $2,910 was for telephones purchased for The Launching Pad facilities. The purchase of telephones for the facility were not included in the ARC approved budget. In addition, KHIC was unable to provide documentation that approval was obtained for this equipment after award of the grant or during the grant period. Therefore, we questioned the allowability of the $2,910 for the telephones.

OMB A-122, Attachment B, 13., Equipment and other capital expenditures, b. (1) states:

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

RECOMMENDATION:

We recommend that KHIC establish procedures to obtain ARC approval for all items of equipment to be purchased under a grant, including the noted telephones.

Grantee's Response:

"We do not consider the purchase of a telephone system for the Launching Pad to be a violation of OMB A-122, Attachment B, 13. The telephone system purchased was not for general purposes of KHIC. The system was specifically purchased for the Launching Pad and is not for other KHIC programs. It was purchased to provide the businesses located in the business planning center with telephone services which would not be dependent on the KHIC switchboard. We did not think that this met the requirements for preapproval of ARC."

Additional Comments:

The Grantee specifically stated in their grant application, and the ARC approved budget included, $25,000 for the purchase of "...necessary computer equipment for five work stations and the required software and printing equipment." Therefore, the purchase of other equipment should be documented, justified as a grant related expense, and approved by ARC in accordance with the OMB Circular A-122.

3. Interest Earned on Advance

KHIC deposited all ARC funds received, including the advance discussed above, into a general, interest-bearing bank account. The account included funds from several different sources and KHIC did not determine or allocate the interest earned based on funding source. We estimated that KHIC earned $748 of interest on the advance discussed above for the period of November 18, 1996 through January 31, 1997. KHIC will continue to earn interest on these funds at approximately .33 percent per month until the funds are expended for the purposes discussed in Note 1 above.

ARC Guidelines for 302 Applications, Notes Regarding Implementation of Section 302-Funded Projects, 2) Payments, (F), states, in part:

> "...Interest from investment of ARC funds is not considered income and must be returned to the ARC for subsequent return to the U.S. Treasury..."

RECOMMENDATION:

We recommend that KHIC return to ARC the $748 of interest earned on the ARC advance as of January 31, 1997. In addition, we recommend that KHIC establish policies and procedures to determine all interest earned on those funds after January 31, 1997 and return that additional interest to ARC. These policies and procedures should remain in effect for any future funding received by KHIC.

Grantee's Response:

"Again, we realize that we did draw down the $90,647 prior to its being expended for the purposes of the grant. We have procedures in effect and we would not draw down the money in advance without the prior knowledge of ARC or any other agency."

Additional Comments:

We did not see any written evidence in the ARC project files that the final payment was approved as an advance to be used almost one year after expiration of the grant. Regardless of prior communications with ARC, or whether ARC approves a grant amendment to extend the period of performance and allow the Grantee to expend the funds which were drawn down, advances must be deposited in an interest-bearing account and all interest earned must be remitted to the U.S. Government in accordance with OMB and ARC regulations.

B. Internal Controls

We determined that the Grantee's internal control policies and procedures for assuring the grant costs were properly accumulated, supported and reported were not adequate as discussed below.

1. Work Provided Under Other Federal Grants

KHIC incurred total labor and fringe benefit costs of $131,601, but claimed only $130,536 for reimbursement from ARC. KHIC did not identify which of the labor or fringe benefit costs was not claimed for reimbursement. We noted that KHIC's schedule of incurred costs included $254 for 15.5 hours of labor and fringe benefits for work related on a company which was funded under an Small Business Administration (SBA) grant and $131 for 8 hours claimed for services for a company which was funded under the intermediary relending program (IRP). KHIC agreed that neither the SBA or IRP time should have been charged to the ARC grant. However, since KHIC claimed less labor and fringe than it incurred, and the remaining labor and fringe benefit costs appears allowable and properly allocated, we determined that the misallocated costs did not have to be refunded to ARC.

OMB A-122, Attachment A, B., Direct Costs, (1) states, in part:

> "Costs identified specifically with awards are direct costs of the awards and are to be assigned directly thereto."

In addition, OMB A-122, Attachment A, A., Basic Considerations, 4., Allocable costs, states, in part:

> "A cost is allocable to a particular cost objective...in accordance with the relative benefits received."

RECOMMENDATION:

We recommend that KHIC review its procedures for allocating direct labor and fringe costs to ensure that all costs incurred are allocated to the award with which they are specifically associated.

Grantee's Comments:

"We do not agree with the analysis of the time reports that is presented here. After receiving this report, we verified the worksheet that was provided to the auditor by our staff and found that there were several hours that were on the worksheet that should not have been and also that there were some hours that were not on the worksheet that should have been...KHIC does have very elaborate procedures for allocating direct labor to ensure that costs are allocated to grant awards. The problem in this case was not that we do not have procedures for allocating time but that the schedule prepared for the auditors was not correct."

Additional Comments:

We agree that the Grantee has adequate time keeping procedures, however our finding refers to the schedule of costs incurred prepared by the Grantee and provided to the auditor's as support for costs claimed which included hours not associated with the ARC project. We did not question these costs because, as stated in the report and response, total costs incurred exceeded costs claimed. We continue to recommend that the Grantee review its procedures for summarizing costs by project so that all costs for each project are properly accumulated and reported.

2. Program Income Not Offset Against Expenses

KHIC received $2,500 of program income that was not offset against related expenses. A one-time management advisory fee was billed to and reimbursed by one of the existing businesses participating in The Launching Pad project. This fee was not deducted from the claimed salaries and fringe benefit costs for the investment analyst who performed the work. In addition, we were unable to determine if KHIC used this fee to provide additional services beyond the costs claimed because the funds were deposited into a general account which had funds from several sources and disbursements to the benefit of several projects.

OMB A-110, Subpart C, .24, Program Income, states, in part:

> "(b) Except as provided in paragraph (h) below, program income earned during the project period shall be retained by the recipient and, in accordance with Federal awarding agency regulations or the terms and conditions of the award, shall be used in one or more of the ways listed in the following.
>
> (1) Added to funds committed to the project by the Federal awarding agency and recipient and used to further eligible project or program objectives.
>
> (2) Used to finance the non-Federal share of the project or program.
>
> (3) Deducted from the total project or program allowable cost in determining the net allowable costs on which the Federal share of costs is based."

The related Federal awarding agency regulations as summarized in Part II, Appalachian Regional Commission, General Contract Provisions, Article G4, Contract-Related Income, states, in part:

> "...Pursuant to Section 18-7.3 of the ARC code, contract-related income must be used to reduce the ARC grant amount, unless the ARC, pursuant to procedures of Section 303 of the Appalachian Regional Development Act, specifically approves the expenditure of such contract-related income to expand project services."

RECOMMENDATION:

KHIC should obtain ARC authorization to expend program income on project related expenses, either funded by ARC or other matching sources. Unless approval is received, we recommend that program income be used to reduce the ARC grant amount.

Grantee's Response:

"We do not agree that the $2,500 charged to an existing business participating in the Launching Pad project is program income. The $2,500 that was charged to the business was shown as matching funds for the project from the company. The work which was provided to the company for cash management was billed to the company but the company has not in fact paid the invoice at this time. This presentation of the matching funds was approved with the budget and we did not (and in fact still do not) think that prior ARC approval was needed in order that this fee be included as matching funds to expand the project rather than program income to reduce the amount of funding received from ARC."

Additional Comments:

We concur that the approved budget included $385,000 in total program costs to be funded $250,000 by ARC, $50,000 by the National Cooperative Bank Development Corporation, and $65,000 from fees from existing businesses. However, the source of funding is not equivalent with the expenditure of funds under the grant. The Grantee must incur allowable costs, which will then be reimbursed up to 65 percent, or $250,000, by ARC.

With respect to the $2,500 in fees, we determined that services were provided to and fees were billed to two companies for management advisory services, Southeastern Kentucky Rehabilitation Industries, Inc. (SEKRI) and Transcare Ambulance Service, Inc. (Transcare). We determined that SEKRI paid the management fee and that Transcare did not due to a bankruptcy determination. Therefore, the $2,500 remains program income which is subject to the regulations cited above.

3. Equipment Records

KHIC does not maintain sufficient equipment records as required by Federal regulations. KHIC stated that detailed equipment records were not kept which identified the equipment purchased under the ARC grant. The only documentation provided was the invoice for the equipment which described the equipment but did not list serial numbers or model numbers.

OMB A-110, Subpart C, .34, Equipment, states:

> "The recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following.
>
> (1) Equipment records shall be maintained accurately and shall include the following information.

(i) A description of the equipment.

(ii) Manufacturer's serial number, model number, Federal stock number, national stock number or other identification number.

(iii) Source of the equipment, including the award number.

(iv) Whether title vests in the recipient or the Federal Government.

(v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost."

RECOMMENDATION:

KHIC should revise its accounting policies and procedures to establish adequate equipment records for all equipment purchased with funding from or by the Federal Government.

Grantee's Response:

"KHIC does keep detailed equipment records...Serial numbers are not always present on equipment...We will make labels which include the grant award source and numbers on equipment which is purchased using grant funds."

Additional Comments:

We recommend the procedures suggested by the Grantee be implemented to ensure compliance with the stated Federal criteria.

4. Quarterly Progress Reports Not Prepared and Submitted to ARC

KHIC did not prepare the required quarterly progress reports for the Launching Pad project. We determined that KHIC had only prepared and submitted the final progress report. KHIC stated that written quarterly reports were not prepared because verbal communication was maintained with ARC personnel.

The ARC grant agreement, Article 2-10.1 Progress Reports states:

> "Grantee shall prepare and submit to the ARC Project Coordinator, in three copies, quarterly progress reports indicating the work accomplished under the agreement to date, any problems encountered and ameliorative actions taken, and a forecast of work for the next report period."

RECOMMENDATION:

We recommend that KHIC prepare, and submit all progress reports as required by the grant agreement.

Grantee's Response:

"KHIC did not prepare quarterly written reports. We did verbally communicate with the ARC on progress at least quarterly but did not prepare the written report."

Additional Comments:

The written reports were a requirement of the grant and the failure to prepare them was therefore included in our report.

C. Program Results

Our review indicated that all of the objectives and specific tasks identified in the grant and grant proposal, as summarized above, had not been achieved as of January 31, 1997. The objectives not achieved and its status are discussed below.

Required Objective Not Achieved:

1) Perform technology audits for the eight existing businesses and for the four start up companies.

2) Assist the Cumberland Farms Products, Inc. in looking for new products for farm production and co-op processing and marketing. Both KHIC and university staff would assist in this process.

3) Provide a loan(s) for $65,000 provided by ARC.

Status of Objective:

1) Only two of the eight existing businesses have had technology audits performed by EKU and none of the start up companies has had a technology audit completed. A representative from KHIC stated that EKU was only able to do these during the summer and expected that the remaining audits would be completed by the end of the summer, 1997.

2) As of January 31, 1997, Cumberland Farms Products, Inc. had not been assisted by either KHIC staff or personnel from EKU in looking for new products for farm production and co-op processing and marketing. A representative from KHIC stated that this would be completed by the end of the summer, 1997.

3) The loan(s) for the $65,000 provided by ARC had not been made as of January 31, 1997. KHIC stated that a start-up company in Wayne County, Kentucky was going to receive this loan and that it would be made after the board meeting in mid March 1997.

We also noted that KHIC aided six existing and start-up companies although its objective was to aid eight existing and four start-up companies. However, this appears adequate since KHIC must rely on existing businesses and entrepreneurs to approach them for this assistance.

RECOMMENDATION:

We recommend that KHIC be required to report to ARC on the specific efforts being used to complete the objectives listed in the grant application and grant. In addition, we recommend that KHIC notify ARC when these objectives are accomplished.

Grantee's Response:

"The objectives that have not been achieved during the grant period are directly related to the expenditure of the funds which are held by KHIC...We will of course report to ARC on specific efforts associated with the money that has not been expended."

Additional Comments:

As discussed previously, we recommend that the Grantee obtain a formal amendment to the grant extending the period of performance to enable them to complete the scope of work agreed to in the grant agreement.

D. Other Matters

Matching Requirements

KHIC's match consisted of $1,123,211 for loans made to three existing businesses and one start-up company. We noted that $800,000 in loans made to two of the existing companies were from the Kentucky Highlands Empowerment Zone Revolving Loan Fund. Kentucky Highlands received designation as the lead entity for an empowerment zone and received funding of $40,000,000 over 10 years from the Department of Health and Human Services and the United States Department of Agriculture for this empowerment zone. Although, the remaining $323,211 loaned appears to meet the matching requirements established in the grant, we recommend that ARC determine if the $800,000 from the Empowerment Zone Revolving Loan Fund is allowable for matching purposes.

DISCUSSION:

We discussed the results of our review with KHIC's Chief Financial Officer during a telephone exit conference on February 11, 1997. The Chief Financial Officer stated that she was aware of these issues. She also stated that she did not believe that the empowerment funds were allowable as a match because they were Title XX funds and she believed that these funds could not be used to match other Federal funding. She stated that she had wanted to show all aid that had been provided to the companies participating in The Launching Pad project but that these funds should not be included as matching funds.

Tichenor & Associates

TICHENOR & ASSOCIATES
Woodbridge, Virginia

KHIC
Kentucky Highlands Investment Corporation
P.O. Box 1738 London, Kentucky 40743-1738 362 Old Whitley Road London, Ky. 40741

March 28, 1997

Ms. Dierdre M. Reed
Partner
Tichenor and Associates
12531 Clipper Drive Suite 202
Woodbridge, Va 22192

Re: Review of ARC Contract 95-67; ARC Grant KY-12032-95-I-302-0410
The Launching Pad: A Business Planning Center

Dear Ms. Reed:

The following are our comments regarding the Memorandum Report of the above listed project that was provided by you for comment.

A. 1. Total ARC Funds Have Not Been Expended as Reported

Although it is true that KHIC asked for funds prior to completing two components of the project, we did so after consultation and full communication with our project coordinator. Your report does not indicate that the communication was held and therefore it appears that we did something that was in violation of the contract which is not true. KHIC does have procedures to minimize the time between the receipt of funds and the expenditure of funds and we are very careful to follow the procedures unless there is an occurrence which is out of the ordinary as was the case in this instance.

We fully intend to advise the ARC when the funds have been expended and the status of the project whether or not it is a requirement after the grant has been closed out.

A. 2. Equipment Purchases Included Telephones

We do not consider the purchase of a telephone system for the Launching Pad to be a violation of OMB A-122, Attachment B, 13. The telephone system purchased was not for general purposes of KHIC. The system was specifically purchased for the Launching Pad and is not for other KHIC programs. It was purchased to provide the businesses located in the business planning center with telephone services which would not be dependent on the KHIC switchboard. We did not think that this met the requirements for preapproval of ARC.

A.3. Interest Earned on Advances

Again, we realize that we did draw down the $90,647 prior to its being expended for the purposes of the grant. We have procedures in effect and we would not draw down the money in advance without the prior knowledge of ARC or any other agency.

Telephone (606) 864-5175 FAX (606) 864-5194

B. 1. Work Provided Under Other Federal Grants.

We do not agree with the analysis of the time reports that is presented here. After receiving this report, we verified the worksheet that was provided to the auditor by our staff and found that there were several hours that were on the worksheet that should not have been and also that there were some hours that were not on the worksheet that should have been. Enclosed is the revised worksheet. Total salaries and retirement benefits provided for this project during the grant period was $132,272.51. We did not include other fringe benefits allocable to the project since our project costs were more than the funds provided by ARC but we would be happy to calculate and include those costs if doing so would more accurately reflect the cost of the project.

KHIC does have very elaborate procedures for allocating direct labor to ensure that costs are allocated to grant awards. The problem in this case was not that we do not have procedures for allocating time but that the schedule prepared for the auditors was not correct.

B. 2. Program Income Not Offset Against Expenses

We do not agree that the $2,500 charged to an existing business participating in the Launching Pad project is program income. The $2,500 that was charged to the business was shown as matching funds for the project from the company. The work which was provided to the company for cash management was billed to the company but the company has not in fact paid the invoice at this time. This presentation of the matching funds was approved with the budget and we did not (and in fact still do not) think that prior ARC approval was needed in order that this fee be included as matching funds to expand the project rather than program income to reduce the amount of funding received from ARC.

B. 3. Equipment Records

KHIC does keep detailed equipment records. Those provided to the auditor includes: a description of the equipment, purchase or acquisition date, vendor, check number, date, and depreciation calculation. The schedule included the fund number from which the equipment was purchased. Serial numbers are not always present on equipment. The computer equipment purchased was computers that were put together using components which did not have numbers. We will make labels which include the grant award source and numbers on equipment which is purchased using grant funds.

B. 4. Quarterly Progress Reports

KHIC did not prepare quarterly written reports. We did verbally communicate with the ARC on progress at least quarterly but did not prepare the written report.

C. Program Results

The objectives that have not been achieved during the grant period are directly related to the expenditure of the funds which are held by KHIC. The contract with Eastern Kentucky University will be completed when their staff is available to complete their portion of the project. It should be no later than the end of the summer of 1997. If it is, we will return the money to ARC, cancel the contract, and achieve the results some other way. The loan which is listed as item three has been approved by the board and will be disbursed in April 1997. The business is in place and is hiring people.

We will of course report to ARC on specific efforts associated with the money that has not been expended.

I hope that these comments give you clarification for some issues that are listed in the report. My reaction is that some of the recommendations are not necessary since we already have policy and procedures that cover the recommendations. If I were reading this report for the first time without knowing the organization, I would not believe that this was the case.

Please call me if you have any other questions or comments.

Sincerely,

Brenda McDaniel

Brenda McDaniel
Vice President and Chief Financial Officer

APPALACHIAN REGIONAL COMMISSION
$250,000 LAUNCHING PAD GRANT
TIME ALLOTMENT

DATE	EMPLOYEE	SVF	TYMBERLINE	JCRI	HI	CASECRAFT	M METALS	FIELDS APPAREL	FARM COOP	SEKRI	FITZGERALD	OVC	BMA	TOTAL HOURS	HOURLY RATE	TOTAL
07/15/95	BOLINGER		3.5	11										14.5	14.90	216.05
	MONCRIEF	3			7									10	50.24	502.40
	PARLIER			8		1	1							10	35.40	354.00
	STEGMAN		3	15										18	9.61	172.98
	TAYLOR		1.5											1.5	16.82	25.23
	THOMAS			27	8.5									35.5	11.77	417.84
07/31/95	BOLINGER	36.5	8.5	12.5										57.5	14.90	856.75
	MONCRIEF	7			7									14	50.24	703.36
	PARLIER			49.5		2	0.5							52	35.40	1,840.80
	STEGMAN		10.5	47										57.5	9.61	552.58
	TAYLOR		1.5											1.5	16.82	25.23
	THOMAS			71										71	11.77	835.67
08/15/95	BOLINGER	55.5	20											75.5	14.90	1,124.95
	MCDANIEL						76							76	38.46	2,922.96
	MONCRIEF	40			10									50	50.24	2,512.00
	PARLIER			54										54	35.40	1,911.60
	STEGMAN		6.5	49										55.5	9.61	533.36
	TAYLOR			7										7	16.82	117.74
	THOMAS			43.5										43.5	11.77	512.00
08/31/95	BOLINGER	18.5	12	2										32.5	14.90	484.25
	MONCRIEF	13.5	11											24.5	50.24	1,230.88
	PARLIER		19	43			1							63	35.40	2,230.20
	STEGMAN			31										31	9.61	297.91
	TAYLOR								2					2	16.82	33.64
	THOMAS			57										57	11.77	670.89
09/15/95	BOLINGER	52.5	6.5					7						66	14.90	983.40
	MCDANIEL	16												16	38.46	615.36
	MONCRIEF	12	1		12									25	50.24	1,256.00
	PARLIER			44										44	35.40	1,557.60
	STEGMAN	4		31.25	4									39.25	9.61	377.19
	TAYLOR													0	16.82	0.00
	THOMAS			42.5										42.5	11.77	500.23
09/30/95	BOLINGER	29												29	14.90	432.10
	MONCRIEF	3			4									7	50.24	351.68
	PARLIER			23										23	35.40	814.20
	STEGMAN	8		13.5	6									27.5	9.61	264.28
	TAYLOR													0	16.82	0.00
	THOMAS			39										39	11.77	459.03
10/15/95	BOLINGER	29		3.5			28							60.5	14.90	901.45
	MONCRIEF	2			5									7	50.24	351.68
	PARLIER			44.5			6							50.5	35.40	1,787.70
	STEGMAN	5.5		50	1									56.5	9.61	542.97
	TAYLOR	5.25		11			10.25							26.5	16.82	445.73
	THOMAS			51.5			3							54.5	13.70	746.65
10/31/95	BOLINGER	63			2		3							68	14.90	1,013.20
	MONCRIEF	17			6.5									23.5	50.24	1,180.64
	PARLIER			63			13			4				80	35.40	2,832.00
	STEGMAN	8		37.5			5							50.5	9.61	485.31
	TAYLOR						0.5							0.5	16.82	8.41
	THOMAS			59										59	13.70	808.30
11/15/95	BOLINGER	52.5		2	2									56.5	14.90	841.85
	MONCRIEF	4												4	50.24	200.96
	PARLIER			48		8	1							57	35.40	2,017.80
	STEGMAN			45.5										45.5	9.61	437.26
	TAYLOR													0	16.82	0.00
	THOMAS			74			2							76	13.70	1,041.20
11/30/95	BOLINGER	23								3.5				26.5	14.90	394.85
	MONCRIEF				6									6	50.24	301.44
	PARLIER			2										2	35.40	70.80
	STEGMAN			6.5										6.5	9.61	62.47
	TAYLOR													0	16.82	0.00
	THOMAS			66.5										66.5	13.70	911.05
12/15/95	BOLINGER	5								31.5				36.5	14.90	543.85
	MONCRIEF	7			8									15	50.24	753.60
	PARLIER			4		14								18	35.40	637.20
	STEGMAN			16										16	9.61	153.76
	TAYLOR					23.5								23.5	16.82	395.27
	THOMAS			64.5										64.5	13.70	883.65
12/31/95	BOLINGER	23								18				41	14.90	610.90
	MONCRIEF													0	50.24	0.00
	PARLIER					2				5				7	35.40	247.80
	STEGMAN									3				3	9.61	28.83
	TAYLOR													0	16.82	0.00
	THOMAS			47.5							2			49.5	13.70	678.15

01/15/96	BOLINGER											0	14.90	0.00
	MONCRIEF	3			8.5							11.5	50.24	577.76
	PARLIER			5		3	1	8	17			34	35.40	1,203.60
	STEGMAN			2	16.5				16.5			35	9.61	336.35
	TAYLOR											0	16.82	0.00
	THOMAS			63.5	5							68.5	13.70	938.45
01/31/96	BOLINGER	15			28			31.5				74.5	14.90	1,110.05
	MONCRIEF	12			19							31	50.24	1,557.44
	PARLIER		3	12				12	2			29	35.40	1,026.60
	STEGMAN			20					9			29	9.61	278.69
	TAYLOR											0	16.82	0.00
	THOMAS			39	30							69	13.70	945.30
02/15/96	BOLINGER	10			31.5			11.5				53	14.90	789.70
	MONCRIEF	7	4.25		4							15.25	50.24	766.16
	PARLIER		25	14		4		10	7			60	35.40	2,124.00
	STEGMAN			0.5	0.5							1	9.61	9.61
	TAYLOR								4.5			4.5	16.82	75.69
	THOMAS			8.5	79.25							87.75	13.70	1,202.18
02/28/96	BOLINGER	9.5	22	2	18.5							52	14.90	774.80
	MONCRIEF											0	50.24	0.00
	PARLIER		39.5	20				7	8			74.5	35.40	2,637.30
	STEGMAN							0.5				0.5	9.61	4.81
	TAYLOR											0	16.82	0.00
	THOMAS			9.25	69.75							79	13.70	1,082.30
03/15/96	BOLINGER	7	16		24							47	14.90	700.30
	MONCRIEF	16			10							26	50.24	1,306.24
	PARLIER		35.5	4					19			58.5	36.65	2,144.03
	STEGMAN		1						43.5			44.5	9.61	427.65
	TAYLOR		3.5						15.75			19.25	16.82	323.79
	THOMAS			35	65.5							100.5	13.70	1,376.85
03/31/96	BOLINGER		40.5									40.5	14.90	603.45
	MONCRIEF	5.5			2.5							8	50.24	401.92
	PARLIER		48	3		5			8			64	36.65	2,345.60
	STEGMAN											0	9.61	0.00
	TAYLOR								12			12	16.82	201.84
	THOMAS			21.5	61.5							83	13.70	1,137.10
04/15/96	BOLINGER	4						13				17	14.90	253.30
	MONCRIEF	18	2		8							28	50.24	1,406.72
	PARLIER		9			18			33			60	36.65	2,199.00
	STEGMAN				2				61.5			63.5	9.61	610.24
	TAYLOR								38.75			38.75	16.82	651.78
	THOMAS			29.5	73							102.5	13.70	1,404.25
04/30/96	BOLINGER	4			1			18				23	14.90	342.70
	MONCRIEF	2	8		9							19	50.24	954.56
	PARLIER		1	19		13		16	2			51	36.65	1,869.15
	STEGMAN				7							7	9.61	67.27
	TAYLOR											0	16.82	0.00
	THOMAS			8.5	95.5							104	13.70	1,424.80
05/15/96	BOLINGER		6							2		8	14.90	119.20
	MONCRIEF				5.5						5	10.5	55.04	577.92
	PARLIER					2		2				4	36.65	146.60
	STEGMAN											0	9.61	0.00
	TAYLOR											0	16.82	0.00
	THOMAS				37						64.5	101.5	13.70	1,390.55
05/31/96	BOLINGER			12.5						5.5		18	14.90	268.20
	MONCRIEF	3			8							11	55.04	605.44
	PARLIER			32	19	1		11				63	36.65	2,308.95
	STEGMAN				6					28		34	9.61	326.74
	TAYLOR				2.25							2.25	16.82	37.85
	THOMAS			82.5	23.5							106	13.70	1,452.20
06/15/96	BOLINGER			2								2	14.90	29.80
	MONCRIEF	10			9							19	55.04	1,045.76
	PARLIER			18	24.5			18				60.5	36.65	2,217.33
	STEGMAN						1					1	10.57	10.57
	TAYLOR									0.5		0.5	17.40	8.70
	THOMAS			14	6.5						64	84.5	13.70	1,157.65
06/30/96	BOLINGER			3				1.5				4.5	14.90	67.05
	MONCRIEF		5		10						2	17	55.04	935.68
	PARLIER			10	9			5				24	36.65	879.60
	STEGMAN						17					17	10.57	179.69
	TAYLOR											0	17.40	0.00
	THOMAS				5.5						93	98.5	13.70	1,349.45
07/15/96	BOLINGER			2	2.5							4.5	15.48	69.66
	MONCRIEF		5.5		3						4.5	13	55.04	715.52
	PARLIER			4	27			10				41	36.65	1,502.65
	STEGMAN			4				4				8	10.57	84.56
	TAYLOR											0	17.40	0.00
	THOMAS			9							92	101	13.70	1,383.70
07/30/96	BOLINGER			4								4	15.48	61.92
	MONCRIEF	8			5					8		21	55.04	1,155.84
	PARLIER			9	7							16	36.65	586.40
	STEGMAN											0	10.57	0.00
	TAYLOR									0.5		0.5	17.40	8.70
	THOMAS			4.5							4	8.5	13.70	116.45
08/15/96	BOLINGER											0	15.48	0.00
	MONCRIEF				12.5							12.5	55.04	688.00
	PARLIER			3	50			1				54	36.65	1,979.10
	STEGMAN											0	10.57	0.00
	TAYLOR											0	17.40	0.00
	THOMAS			10.5	24						47	81.5	13.70	1,116.55
08/31/96	BOLINGER											0	15.48	0.00
	MONCRIEF	25									12	37	55.04	2,036.48
	PARLIER			11	7			18				36	36.65	1,319.40
	STEGMAN			21								21	10.57	221.97
	TAYLOR											0	17.40	0.00
	THOMAS			24.5							83.5	108	13.70	1,479.60
	TOTAL FOR GRANT PERIOD											**5,511**		**120,247.74**
	RETIREMENT CONTRIBUTIONS - 10%													12,024.77
														132,272.51