



## REPORT OF REVIEW

### KENTUCKY DEPARTMENT OF LOCAL GOVERNMENT FRANKFORT, KENTUCKY

#### Consolidated Technical Assistance Grants

KY-7779-94-C14-302-0328  
(Contract 94-106)

October 1, 1994 - February 15, 1996

and

KY-7779-95-C15-302-0418  
(Contract 95-99)

October 1, 1995 - September 30, 1996

OIG Report 97-39(H)  
July 21, 1997

## I. INTRODUCTION

### A. PURPOSE

The purposes of our review were (1) to determine the allowability of the costs claimed under the ARC grants, (2) to determine if the grant objectives were met, and (3) to determine the current status of the projects.

### B. SCOPE

Our survey included procedures to review costs incurred and claimed for reimbursement under the grants, as well as costs claimed as matching funds. The initial period of performance for KY-7779-94 was October 1, 1994 through September 30, 1995; however, the community planning studies component was extended to February 15, 1996. The period of performance for KY-7779-95 was October 1, 1995 through September 30, 1996. We reviewed the grantee's reports, examined records, and held discussions with grantee officials in Frankfort, Kentucky April 21-24, 1997. As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreement, Office of Management and Budget (OMB) Circulars A-87 and A-102, and the ARC Code.

### C. BACKGROUND

ARC Grants KY-7779-94 and KY-7779-95 (contracts 94-106 and 95-99) were awarded to the Kentucky Department of Local Government to provide Kentucky's participating Appalachian Communities with planning and technical assistance for downtown development and revitalization in order to stimulate private sector investment and to provide the environment necessary to retain and/or create jobs. In addition, grant funds were to be used for administrative support services associated with the administration of the ARC grant programs in the 49 counties of Appalachian Kentucky. Grant activities to be accomplished as specified in the grant agreements were:

- 1) Downtown Revitalization Program: Planning and technical assistance grants will be awarded for the purpose of implementing community revitalization efforts via comprehensive downtown development plans, market analyses, traffic studies, streetscape and storefront design assistance, historic preservation plans, and development and implementation of community fund-seeking strategies. Also, Grantee will continue to fund several local sponsors to match funds from the Kentucky Heritage Council Main Street Program to set up downtown coordinator positions.
- 2) Kentucky Appalachian Planning and Program Management: Support services associated with the administration of the ARC grant programs in Kentucky's Appalachian region that encompasses 49 counties, including program management, grant program administration and project administration. Funds will cover a percentage of time for four staff members in the Division of Development Finance of the Department of Local Government. These staff members are responsible for planning, overall program management, grant process administration and technical assistance for ARC programs, as well as project administration with respect to certain ARC direct gains.
- 3) ARC Grant KY-7779-95 also included a provision to reimburse part of the travel expenses incurred by project personnel attending the ARC Telecommunications Conference in Binghamton, New York.

ARC grant KY-7779-94 was awarded for \$247,500 or 50 percent of actual, reasonable and eligible costs of the project. Grant KY-7779-95 was awarded for \$147,500 and subsequently increased to \$198,752. Under the terms of each grant, the grantee was to provide the non-federal share of 50 percent of project costs in cash, contributed services, or in-kind contributions, as approved by ARC. ARC closed out KY-7779-94 in June 1996 and paid the grantee a total of \$230,000 (49.5 percent) based on total project costs of \$464,288.83. KY-7779-95 was still open at the time of our visit and \$47,695 remained in the ARC contract account.

## II. RESULTS

### A. ARC Grant KY-7779-94

The grantee's records for grant KY-7779-94 indicate that \$182,500 of the grant funds were spent on the downtown revitalization subgrants to communities and \$47,500 were spent on administrative costs. We sampled downtown revitalization subgrants to Appalachian communities under the KY-7779-94 grant and found that the project files were complete and the expenditures properly documented.

The administrative costs were primarily personnel costs for four individuals who worked on the ARC project. We reviewed the personnel costs which were supported by time and attendance records and found that costs were charged to the ARC project based on the budget percentages and not actual costs. We did not attempt to determine the difference between the actual costs and the claimed costs, however, we noted that the claimed costs were higher than actual for two employees and lower than actual for another. The amount of the difference did not appear to be significant. We discussed this issue with a grantee official and were informed that they changed their procedures in January 1997 and currently claim personnel costs based on the level of effort an individual devotes to a project as documented by time sheets rather than the proposed budget amount.

**Recommendation:** We recommend that the grantee ensure that employees are not charged to ARC projects at a level of effort that is greater than what they actually contribute.

### B. ARC Grant KY-7779-95

Although the grantee's final financial report had not been completed for KY-7779-95 at the time of our on-site visit, the grantee provided closing figures to us indicating that Downtown Revitalization and Program Planning and Development expenditures totaling \$150,000 and \$48,993, respectively, were charged to the grant. Another \$1,252 was charged to the grant for travel expenses related to the ARC Telecommunications Conference.

At the time of our visit a grantee official indicated that the required final progress and financial reports were delayed in part by the departure of the former project director and the subsequent assignment and reassignment of key project personnel. The grant agreement specifies that the final reports should be submitted to ARC within 60 days of the end of the grant period. We understand that the reports were submitted to ARC subsequent to our visit.

We reviewed a sample of subgrants for the Downtown Revitalization component and noted that one community used part of their subgrant funds to pay the salary of a director instead of for a long range plan. We discussed this issue with a DLG official and he informed us that the community's needs changed after they applied for the funds and the change of scope was

acceptable. He indicated that he usually documents the file in such cases. No other deficiencies were noted regarding the Downtown Revitalization subgrants.

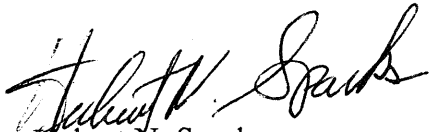
The administrative costs were primarily personnel costs for five individuals who worked on the project, including the former project director. We noted that one of the employees was charged to the ARC project at the rate of 50 percent, however, her time sheets indicated she actually contributed less time. The time sheets of other employees indicated they contributed more than the budget amount that was charged to ARC. We did not attempt to determine the amounts involved because of time constraints but it did not appear to be significant. As noted above, a DLG official indicated that they changed their procedures and currently claim personnel costs based on an individual's actual level of effort as documented by time sheets.

**Recommendation:** We recommend that the grantee ensure that final progress and financial reports applicable to subsequent ARC grants are completed within 60 days of the end of the grant period and provided to ARC as specified in the grant agreement. We also recommend that the grantee ensure that employees are not charged to ARC projects at a level of effort that is greater than what they actually contribute.

#### C. PROJECT STATUS

The grantee received a subsequent grant from ARC (KY-7779-96) that includes additional funds for the Downtown Revitalization Program; planning and program management; and for start-up funding for Kentucky's new Appalachian Commission office to be located at the Hazard Community College. During our on-site visit, we discussed with grantee officials the changes in the allocation of staff to the ARC projects due to the above noted reassignments. We noted that time allocation sheets for individuals not previously charged to ARC Consolidated Technical Assistance grants (i.e. additional clerical, legal and management staff) indicate that they are accumulating administrative charges that may be charged to the current ARC project as grant or matching costs.

**Recommendation:** We recommend that the grantee notify ARC who will be charged to the current ARC project and the nature of their contribution.

  
Hubert N. Sparks  
Inspector General



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March 26, 1997

Ms. Peggy Satterly, Program Manager  
Division of Development Finance  
Department of Local Government  
1024 Capitol Center Drive  
Frankfort, KY 40601-8024

**re:** ARC Grants KY-0779-94/95 and CO-12039-95

Dear Ms. Satterly:

Per our conversation, we have scheduled a review of the subject grants for the week of April 21, 1997. Jo Ann Brenner of my staff will contact you directly in the near future to finalize plans.


The review will include testing of the grantee's accounting and internal control systems effecting the grants, a comparison of available accounting records to financial status reports and other reports submitted to ARC, compliance with programmatic requirements of the contracts, and results of the projects. The auditor will review and utilize other available audit reports to the maximum extent deemed possible in order to avoid duplication of efforts. Essentially, the work will review available information on the status of the grants and the use of grant funds in line with ARC grant requirements.

We have included an internal control questionnaire and request that you have it completed and available for our review. Although it contains numerous questions, some of which may not apply to your organization, it will provide us with needed background information about your controls, policies, and accounting system.

Please call me if you have any questions.

Sincerely,

502 - 573 - 2382

  
Hubert N. Sparks  
Inspector General

Enclosure

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