

MEMORANDUM REPORT ON REVIEW OF
PICKENS COUNTY BOARD OF EDUCATION
CARROLLTON, ALABAMA

PICKENS COUNTY TELECOMMUNICATIONS BROADBAND SYSTEM
DEVELOPMENT

ARC Grant Number: AL-14720-04

Grant Period: June 1, 2004 through August 1, 2005

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: 08-07

Date: April 3, 2008

**MEMORANDUM REPORT ON REVIEW OF
PICKENS COUNTY BOARD OF EDUCATION
CARROLLTON, ALABAMA**

**PICKENS COUNTY TELECOMMUNICATIONS BROADBAND SYSTEM
DEVELOPMENT**

ARC Grant Number: AL-14720-04

Grant Period: June 1, 2004 through August 1, 2005

Prepared By:

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

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE, SUITE C
LOUISVILLE, KENTUCKY 40243

BUSINESS: (502) 245-0775
FAX: (502) 245-0725

E-MAIL: WTICHENOR@TICHENORASSOCIATES.COM

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: 08-07

SUBJECT: Memorandum Review Report on Pickens County Board of
Education, Pickens County Telecommunications Broadband
System Development, ARC Grant Number: AL-14720-04.

PURPOSE: The purpose of our review was to determine if (a) the total funds provided to the Pickens County Board of Education for its Pickens County Telecommunications Broadband System Development grant 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 AL-14720-04 to the Pickens County Board of Education for the period June 1, 2004 through August 1, 2005. Total grant funding was for an amount not to exceed \$124,800 or 80 percent of actual, reasonable, and eligible project costs. ARC required that the grant be matched with \$31,200 or 20 percent in cash, contributed services, or in-kind contributions, as approved by the ARC. The ARC made two payments totaling \$124,800. ARC closed out the grant after the final payment was made on November 28, 2005.

The purpose of the grant was to provide funds to support a project designed to provide enhanced broadband services to a number of government offices and organizations that provide criminal justice services, health services, social services, and library functions within Pickens County.

The project underwrote the purchase and installation of high-speed electronic interface equipment and fiber optic transceivers. An amendment to the grant agreement also transferred unused telecommunications equipment that was purchased under the Jefferson County Distance Learning I project to the Pickens County Board of Education.

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 Pickens County Board of Education was in compliance with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with Pickens County Board of Education personnel. Our results and recommendations are based upon 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 Pickens County Board of Education in Carrollton, Alabama, on December 17, 2007 through December 19, 2007.

A. Incurred Costs

The Pickens County Board of Education's financial records report total program costs of \$156,000 for the period from June 1, 2004 through August 1, 2005. Of these costs, \$124,800 (80%) was attributed to ARC expenditures, with the remaining \$31,200 (20%) attributed to matching and in-kind expenditures.

During the course of the review, we reviewed the direct and matching costs claimed and determined that the funds had been expended as shown in the financial records.

B. Internal Controls

During the course of the review, we reviewed the Pickens County Board of Education's system of internal controls. Four areas of weakness were identified that could have affected the accountability of costs or compliance with the terms of the grant agreement.

1. Internal Control over Receipts

Proper internal control requires that all receipts be posted to the appropriate account in a timely manner.

Every three years, the Pickens County Board of Education changes bank accounts. The ARC was not made aware when the grantee changed accounts at the end of 2004. As a result, the ARC sent a payment of \$93,800 to an inactive bank account on March 2, 2005. The payment was not transferred to the correct account and posted to the general ledger until April 29, 2005.

Recommendation:

We recommend that the ARC remind the grantee of the importance of notifying the ARC prior to changing bank accounts.

Grantee's Response:

Pickens County Board of Education stated that they understand the importance of notifying ARC prior to changing bank accounts and will comply with all current and future grants. (See **Appendix A** – Grantee's Response. Also see **ARC's Response**, below.)

2. Competitive Bidding

The ARC Grant Agreement: General Provisions (Part II), Article 5 (Contracting Procedures) states that all interested parties shall have a full and fair chance at doing business with the grantee. The Code of Alabama 1975, Title 41, Chapter 16, Article 2, Section 24, requires that all purchases in excess of \$7,500 be advertised. The ARC Grant Agreement: General Provisions (Part II), Article 27 (Statement of Federal Funding) states that all bid solicitations should clearly state the percentage of the total cost of a project which will be financed by federal money, and the dollar amount of federal funds for the project.

The Pickens County Board of Education bid out the construction and maintenance of a fiber optic network extension as well the purchase and installation of video conferencing equipment. The grantee did not advertise their bid solicitation to the public, however notices were sent to five contractors selected by the Alabama Department of Economic & Community Affairs. These notices did not indicate that the project was being financed with federal funds.

One notice was returned as undeliverable. Of the four notices that were successfully delivered, three companies were capable of supplying and installing the videoconferencing equipment and two were capable of construction and maintenance of a fiber optic network extension. One bid was received for the video conferencing equipment and one bid was received for the fiber optic network extension.

Recommendation:

We recommend that ARC require the Pickens County Board of Education to publicly advertise any bid solicitations for future grants. All bid solicitations should clearly state the percentage of the total cost and the dollar amount of federal funds financing the project.

Grantee's Response:

Pickens County Board of Education stated that their bidding procedures have been changed and all current and future bids will be publicly advertised and include a statement of the percentage of the total cost and the dollar amount of federal funds financing the project. (See **Appendix A – Grantee's Response**. Also see **ARC's Response**, below.)

3. Contracting

OMB Circular No. A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment A, Part C (Basic Guidelines) states that, to be allowable under Federal awards, costs must be adequately documented. Additionally, the ARC Grant Agreement: General Provisions (Part II), Article 11 (Method of Payment) also states that all disbursements shall be supported by contracts, invoices, vouchers and other data, as appropriate.

After accepting bids in the amounts of \$91,000 and \$65,000, the Pickens County Board of education did not enter into formal written contracts that detail each party's duties and responsibilities.

Recommendation:

We recommend that, for future grants, the ARC require the Pickens County Board of Education to enter into formal written contract agreements that detail each party's duties and responsibilities.

Grantee's Response:

Pickens County Board of Education stated that procedures have been put into place to ensure that formal written contract agreements are entered into for all future grants. (See **Appendix A – Grantee's Response**. Also see **ARC's Response**, below.)

4. Completion of Progress Reports

The ARC Grant Agreement: Special Provisions (Part I), Article 3 (Reports) requires the completion of a progress report for each 120-day period as well as a final report upon project completion.

The grantee only submitted one interim progress report during the fourteen month grant period. A final report was submitted upon project completion.

Recommendation:

We recommend that ARC require the Pickens County Board of Education to complete progress reports in a timely manner on any future ARC grants.

Grantee's Response:

Pickens County Board of Education stated that they will complete reports on future grants in a timely manner as specified in the ARC Grant Agreement. (See **Appendix A – Grantee's Response**. Also see **ARC's Response**, below.)

ARC's Response

ARC concurred with all four of our recommendations and notified Pickens County Board of Education that if they apply for funding in the future, strict compliance with the grant agreement will be required.

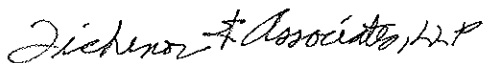
Additionally, the ARC Programs Operations Division has scheduled a staff meeting to discuss their current grant agreement, issues of grantee non-compliance, and ongoing staff training on pertinent OMB circulars related to ARC grants. (See **Appendix B – ARC's Response**.)

Auditor's Comment

Both ARC and the grantee have agreed to all four of our recommendations. Additionally, ARC has agreed to take steps to train its staff on issues relating to grantee non-compliance with grant agreements and pertinent OMB circulars. As a result, our recommendations are considered closed.

C. Program Results

Our review of the Pickens County Board of Education's Pickens County Telecommunications Broadband System Development grant indicated that the specific objectives identified in the grant have been achieved. Broadband services are now in use at all ten unique government offices and organizations listed in the grantee's proposal.



Tichenor & Associates, LLP
Louisville, Kentucky
December 19, 2007

APPENDIX A
GRANTEE'S RESPONSE

PICKENS COUNTY BOARD OF EDUCATION

377 LaDow Center Circle
P.O. Box 32
Carrollton, Alabama 35447

Leonard Duff, Ph.D.
Superintendent

Phone 205-367-2080
Fax 205-367-8404

February 21, 2008

MEMORANDUM

TO: Appalachian Regional Commission (ARC)

FROM: Pickens County Board of Education

RE: Response to Report on Pickens County Board of Education, Pickens County Telecommunications Broadband System Development, ARC Grant Number AL-14720-04

The following is a response to the four areas of weakness identified by the review performed on December 17, 2007 through December 19, 2007 for ARC Grant Number AL-14720-04.

Internal Controls

Proper internal control requires that all receipts be posted to the appropriate account in a timely manner.

Every three years, the Pickens County Board of Education changes bank accounts. The ARC was not made aware when the grantee changed accounts at the end of 2004. As a result, the ARC sent a payment of \$93,800 to an inactive bank account on March 2, 2005. The payment was not transferred to the correct account and posted to the general ledger until April 29, 2005.

Recommendation:

We recommend that the ARC remind the grantee of the importance of notifying the ARC prior to changing bank accounts.

Response:

Pickens County Board of Education understands the importance of notifying the ARC prior to changing bank accounts, and will comply with all current and future grants. Pickens County Board of Education was faced with the same situation of making a bank

change during the implementation of ARC Grant AL 15571-2007. The proper forms were sent to notify ARC of the bank change on November 30, 2007.

Competitive Bidding

The ARC Grant Agreement: General Provisions (Part II), Article 5 (Contracting Procedures) states that all interested parties shall have a full and fair chance at doing business with the grantee. The Cod of Alabama 1975, Title 41, Chapter 16, Article 2 Section 24, requires that all purchases in excess of \$7,500 be advertised. The ARC Grant Agreement: general Provisions (Part II), Article 27 (Statement of Federal Funding) states that all bid solicitations should clearly state the percentage of the total cost of a project which will be financed by federal money, and the dollar amount of federal funds for the project.

The Pickens County Board of Education bid out the construction and maintenance of a fiber optic network extension as well the purchase and installation of video conferencing equipment. The grantee did not advertise their bid solicitation to the public, however notices were sent to five contractors selected by the Alabama department of economic and Community Affairs. These notices did not indicate the project was being financed with federal funds.

One notice was returned as undeliverable. Of the four notices that were successfully delivered three companies were capable of supplying and installing the videoconferencing equipment and two were capable of construction and maintenance of a fiber optic network extension. One bid was received for the video conferencing equipment and one bid was received for the fiber optic network extension.

Recommendation:

We recommend that ARC require the Pickens County Board of Education to publicly advertise any bid solicitations for future grants. All bid solicitations should clearly state the percentage of the total cost of the dollar amount of federal funds financing the project.

Response:

Pickens County Board of Education understands the ARC Grant Agreement as it relates to contracting procedures. Bidding procedures have been changed and all current and future bids will be publicly advertised with a statement of the percentage of the total cost of the dollar amount of federal funds financing the project.

Contracting

OMB Circular No. A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment A, Part C (Basic Guidelines) states that to be allowable under Federal awards, costs must be adequately documented. Additionally, the ARC Grant Agreement: General Provisions (Part I), Article II (Method of Payment) also states that

all disbursements shall be supported by contacts, invoices, vouchers and other data, as appropriate.

After accepting bids in the amounts of \$91,000 and \$65,000, the Pickens County Board of Education did not enter into formal written contracts that detail each party's duties and responsibilities.

Recommendation:

We recommend that, for future grants, the ARC require the Pickens County Board of Education to enter into formal written contract agreements that detail each party's duties and responsibilities.

Response:

Pickens County Board of Education understands the requirement to enter into formal written contract agreements and procedures have been put in place to assure compliance with all future grants.

Completion of Progress Reports

The ARC Grant Agreement: Special Provisions (Part I), Article 3 (Reports) requires the completion of a progress report for each 120-day period as well as final report upon project completion.

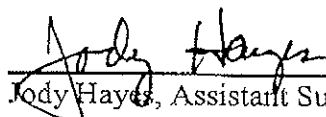
The grantee only submitted one interim progress report during the fourteen month grant period. A final report was submitted upon completion.

Recommendation:

We recommend that ARC require the Pickens County Board of Education to complete progress reports in a timely manner on any future ARC grants.

Response:

Pickens County Board of Education will complete reports on future grants in a timely manner as specified in the ARC Grant Agreement.



Jody Hayes, Assistant Superintendent

APPENDIX B
ARC'S RESPONSE



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

March 18, 2008

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

RE: Draft Audit on AL-14720 -- Pickens County Telecommunications Broadband System Development

Dear Mr. Tichenor:

The Appalachian Regional Commission is in receipt of your draft audit on the above referenced project, performed by Matt Mitchell of your staff. The ARC coordinator for the project, Harry L. Roesch, has discussed your findings with the grantee. The project's director, Jody Hayes, has provided a response (see attached) to the recommendations made in the audit, and Mr. Roesch has subsequently discussed the response to the audit recommendations with the grantee.

ARC concurs with all four recommendations found in the draft audit, and the Pickens County Board of Education has been notified that if they apply for funding in the future strict compliance with our grant agreement will be required. In addition, a meeting has been scheduled for March 24, 2008 with the ARC Program Operations Division staff to discuss our current grant agreement, issues of grantee non-compliance, and ongoing staff training on pertinent OMB circulars related to ARC grants.

Based on the information that has been submitted by the grantee ARC is satisfied with their response to your specific audit questions.

Sincerely,

Henry B. King, PhD
Director, Program Operations Division

cc: Clifford Jennings
Thomas Hunter
Bonnie Durham
Harry Roesch