

MEMORANDUM REPORT ON REVIEW OF
CENTER FOR TECHNOLOGY ENTERPRISE, INC.
(CITE)
BOWLING GREEN, KENTUCKY

TELECOMMUNICATIONS REGIONAL INITIATIVE PROJECT

ARC Grant Number: KY-14118

Grant Period: October 1, 2001 through December 31, 2004

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Report Number: 08-11

Date: June 23, 2008

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Prepared By:

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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: 08-11

SUBJECT: Memorandum Review Report on Center for Technology
Enterprise, Inc. (CITE), Telecommunications Regional Initiative
Project, ARC Grant Number: KY-14118.

PURPOSE: The purpose of our review was to determine if (a) the total funds provided to CITE (formerly known as Center for Information Technology Enterprise, Inc.) for its Telecommunications Regional Initiative Project 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 KY-14118 to CITE for the period October 1, 2001 through September 30, 2002. The ARC Project Coordinator approved Amendment Number 1 to the Grant Agreement on July 20, 2002 extending the period of performance through December 31, 2002. Total ARC funding for this period was for an amount not to exceed \$249,994 or approximately 58.4% of actual, reasonable, and eligible project costs. ARC required that the grant be matched with \$178,000 or 41.6% in cash, contributed services, and in-kind contributions, as approved by the ARC. Tichenor & Associates, LLP previously reviewed this period in a report dated February 6, 2003 (OIG Report 03-06).

The ARC approved Amendment Number 2 to the Grant Agreement on September 30, 2002 extending the period of performance to December 31, 2003. This amendment also increased total ARC funding of the project to a sum not to exceed \$499,994 or approximately 39% of actual reasonable and eligible project costs. ARC required that the

grant be matched with \$782,000 or 61% in cash, contributed service, and in-kind contributions, as approved by the ARC.

The ARC approved Amendment Number 3 to the Grant Agreement on September 12, 2003 extending the period of performance to December 31, 2004. This amendment also increased total ARC funding of the project to a sum not to exceed \$776,994 or approximately 37.3% of actual reasonable and eligible project costs. ARC required that the grant be matched with \$1,306,000 or 62.7% in cash, contributed service, and in-kind contributions, as approved by the ARC.

The purpose of the grant was to provide an initial assessment in Appalachian Kentucky, to determine who uses the internet and for what purposes, how the internet performs and identify access problems. As a result of this project the State of Kentucky will be able to develop better deployment plans for broadband service. All sectors of the local economies will benefit from the results of the project as it relates to expansion of telecommunications services.

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 CITE was in compliance with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with CITE 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 CITE in Bowling Green, Kentucky, on March 5, 2007 through March 16, 2007.

A. Incurred Costs

CITE's financial records report total program costs of \$3,643,258 for the grant period. Of these costs, \$776,994 (21.3%) was attributed to ARC expenditures, with the remaining \$2,866,264 (78.7%) attributed to matching and in-kind expenditures. See Appendix A for a Schedule of Costs Budgeted and Incurred.

During the course of the audit, we reviewed the direct, indirect, and in-kind costs claimed and determined that the funds had been expended as shown in the financial records.

B. Internal Controls

During the course of the audit, we reviewed CITE's system of internal controls. One area of weakness was identified that could have affected the accountability of costs or compliance with the terms of the grant agreement.

1. Under-reporting of Actual Costs Incurred

During the course of the audit, we noted that CITE's final SF-270, Request for Advance or Reimbursement, dated November 18, 2004, under-reported actual costs incurred by \$1,821,629:

	<u>Reported</u>	<u>Actual</u>
ARC Costs	\$ 776,994	\$ 776,994
Matching Costs	<u>1,044,635</u>	<u>2,866,264</u>
Total Program Costs	\$1,821,629	\$3,643,258

CITE management stated that because the grant was for Appalachian Kentucky, but the program was expanded to be a statewide project, they only included 50% of total program outlays in their reporting.

Recommendation:

We recommend that ARC require CITE to correct and resubmit its final SF-270, Request for Advance or Reimbursement.

ARC's Response:

Concurrent with our review of KY-14118, we also reviewed CITE's ARC grants KY-14974 and KY-15056-05 (see OIG Report Numbers 08-12 and 08-13, respectively). ARC provided a written response to those two draft reports but did not comment on this recommendation.

Auditor's Comment:

ARC has not commented on the recommendation. As a result, we continue to make this recommendation.

C. Program Results

Our review of CITE's Telecommunications Regional Initiative Project grant indicated that the specific objectives identified in the grant were achieved.

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, Kentucky
November 2, 2007

APPENDIX A
SCHEDULE OF COSTS BUDGETED AND INCURRED

Schedule of Costs Budgeted and Incurred

October 1, 2001 through December 31, 2004

	Budget				Actual Costs Incurred
	Original	Amendment 2	Amendment 3	Total	
ARC					
Personnel	\$ 32,625	\$ 131,149	\$ 148,238	\$ 312,012	\$ 348,281
Fringe Benefits	6,851	26,230	25,168	58,249	68,324
Travel	4,250	7,500	10,000	21,750	22,426
Equipment	26,438			26,438	33,823
Supplies	1,080			1,080	2,964
Contractual	162,450	57,500	40,000	259,950	215,295
Indirect Cost			53,594	53,594	43,709
Other Approved Line Items	16,300	27,621		43,921	42,172
Totals	249,994	250,000	277,000	776,994	776,994
Matching					
Personnel		218,581	148,237	366,818	933,159
Fringe Benefits		43,716	25,167	68,883	163,621
Travel		12,500	10,000	22,500	64,054
Equipment		30,000		30,000	33,823
Supplies		15,000		15,000	2,964
Contractual	178,000	209,500	273,445	660,945	1,195,001
Indirect Cost			67,151	67,151	381,293
Other Approved Line Items		75,379		75,379	92,349
Totals	178,000	604,676	524,000	1,306,676	2,866,264

Total Grant					
Personnel	32,625	349,730	296,475	678,830	1,281,440
Fringe Benefits	6,851	69,946	50,335	127,132	231,945
Travel	4,250	20,000	20,000	44,250	86,480
Equipment	26,438	30,000		56,438	67,646
Supplies	1,080	15,000		16,080	5,928
Contractual	340,450	267,000	313,445	920,895	1,410,296
Indirect Cost			120,745	120,745	425,002
Other Approved Line Items	16,300	103,000		119,300	134,521
Totals	\$ 427,994	\$ 854,676	\$ 801,000	\$ 2,083,670	\$ 3,643,258

*** Amendment No. 2 increased the matching requirement by \$604,000. The detailed budget included with this Amendment totaled \$604,676.