
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD**

**Brushy Fork Institute
Training and Flex-E-Grant Mini-Grant Project
Berea, Kentucky**

**Project Number: KY-16080
August 2012**

**Prepared by
Leon Snead & Company, P.C.**



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August 15, 2012

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, N.W.
Washington, D.C. 20009

Leon Snead & Company, P.C. has completed an audit of grant number KY-16080 awarded by the Appalachian Regional Commission (ARC) to the Brushy Fork Institute (BFI). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

The primary objectives of the audit were to determine if program funds were managed in accordance with the ARC and federal terms and requirements; grant funds were expended as provided for in the ARC approved budget; internal grant guidelines and internal controls were operating effectively; accounting and reporting requirements were implemented in accordance with generally accepted accounting principles and the goals and objectives of the grant were met.

Overall, BFI's accounting and financial management procedures and related internal controls were adequate to manage the funds provided under the ARC grant reviewed. The grantee's records and reports indicate that the tasks required by the grant agreement are being completed. However, we identified \$12,249 in questioned costs charged to the grant agreement because the charges were claimed for reimbursement twice or were not supported by proper documentation.

A draft report was provided to BFI on July 20, 2012. The Director of BFI provided a response to the report on August 2, 2012, addressing our audit recommendations. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the BFI and ARC staff during the audit.

Sincerely,

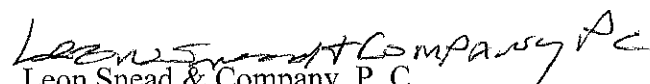

Leon Snead & Company, P. C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number KY-16080 awarded by the Appalachian Regional Commission (ARC) to the Brushy Fork Institute (BFI). The audit was made at the request of the ARC, Office of the Inspector General, to assist the office in its oversight of ARC grant funds.

ARC awarded the grant to BFI for an initiative to provide community development training and mini-grants (Flex-E-Grant) to support small investments that address critical community issues. The program includes two cycles of Flex-E-Grant mini-grants, scholarship funds for community teams to participate in the Annual Institute, mini-grant proposal writing workshops, and annual gatherings of Flex-E-Grant grant recipients.

The initial grant was awarded to BFI in August 2008 in the amount of \$400,000, but subsequent amendments increased the ARC funding to \$1,987,000 and extended the period of performance to end in February 2013. The grant requires matching funds of \$376,450.

Objectives, Scope, and Methodology

The primary audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and federal grant terms and requirements; (2) grant funds were expended as provided for in the approved budget; (3) internal grant guidelines and best practices, including program (internal) controls, were appropriate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the goals and objectives of the grant were met.

We reviewed the documentation provided and interviewed BFI's director and staff to obtain an overall understanding of the project, the accounting process, and operating procedures. We reviewed the Requests for Advance or Reimbursement and other required reports submitted to ARC and a sample of costs charged to the project to determine whether the charges were properly supported and allowable. In that regard, we focused the testing on expenditures for the period of January 1, 2010 through February 29, 2012. The total reported grant expenditures for that period were \$952,588.

We reviewed BFI's administrative procedures and related internal controls to ensure they were adequate to manage and account for the ARC funds. In addition, we reviewed the most recent financial statement audit report (including the related report on internal controls) to determine whether there were any issues that affected the ARC grant.

As a basis for determining whether the costs charged to the grant were allowable and whether BFI had complied with applicable Federal requirements, we used the provisions of the grant agreement, applicable Office of Management and Budget Circulars, and the relevant parts of the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed at BFI's office in Berea, Kentucky, during the period of June 19-21, 2012.

Overall, BFI's accounting and financial management procedures and related internal controls were adequate to manage the funds provided under the ARC grant reviewed. The grantee's records and reports indicate that the tasks required by the grant agreement are being completed. However, we identified \$12,249 in questioned costs charged to the grant agreement that need to be addressed to improve the financial management of the ARC grant. The costs questioned and our recommended corrective actions are discussed in the Results of Audit section of the report.

RESULTS OF AUDIT

Questioned Costs

We questioned \$12,249 in costs charged to the ARC grant because the charges were claimed for reimbursement twice or were not supported by proper documentation.

Grant Number	Drawdown Amount	Date of Drawdown	Costs Questioned	Notes
KY-16080-C1-09	\$173,930	12/02/11	\$ 9,600	1
KY-16080-C2-10	115,287	11/23/11	358	1
KY-16080-C2-10	211,851	02/24/12	2,291	2
Totals	\$501,068	-	\$12,249	-

Notes

1. During the 2009 funding year, the City of Whitesburg was a subgrantee under the ARC grant. As of April 2011, BFI had accrued in its accounting system \$9,600 in charges from the City of Whitesburg. The costs were included in the drawdown of \$115,287 made by BFI on November 23, 2011 and in the drawdown of \$173,930 made on December 2, 2011. The drawdown of \$173,930 was the final claim for reimbursement from ARC grant # KY-16080-C1-2009.

In the same manner, \$358 in travel cost was accrued in BFI's accounting system and included in the drawdown made on November 23, 2011 and the final drawdown made on December 2, 2011.

2. We questioned \$2,291 in participant lodging costs that were included in the drawdown of \$211,851 made on February 24, 2012.

BFI claimed a total of \$38,384 for Annual Institute scholarships in 2011, which included \$32,000 for scholarship registrations and \$6,384 for reimbursement of participant lodging costs. However, the records indicated that the actual total disbursements for participant lodgings totaled \$4,094. The difference between the lodging costs claimed and the verified costs totaled \$2,291 is questioned because of insufficient supporting documentation.

Recommendations

BFI should:

1. Provide documentation to support the costs questioned, or refund to ARC any charges determined to be unallowable.
2. Implement procedures to ensure that all charges are valid and supported before submitting them to ARC for reimbursement.

Grantee Response

BFI stated in its response that:

1. The \$9,600 and \$358 in questioned costs were mistakenly charged to the grant and should be refunded to ARC. BFI stated that it will be sure the ARC is refunded for these erroneous payments either by sending payment or reducing future reimbursement requests and that the ARC can indicate which method of refund is preferable.
2. It has been unable to verify \$536 of the \$2,291 in questioned costs noted during the audit and will refund that amount to ARC if necessary. BFI stated that it can provide documentation to support the other costs, but would need guidance on how to submit the receipts.
3. For the future, it will implement the following procedures: (a) Reimbursement will no longer be requested as "expected" expenses. All billing will come directly from the Banner reports that are generated as checks are cut in Berea College's Accounting Office; (b) As BFI does billing for months that have expenses for multiple contracts, after all contract financial statements are prepared, it will do a final comparison of the total amounts to eliminate duplicate requests for reimbursement; (c) During the process of approving check requests for participant lodging, the amount number will be added to the list of information to check; and (d) When sending the request for reimbursement to the ARC, it will use data only from the Banner sheets that are generated by the Berea College Accounting Office as checks are cut, rather than including data from the scholarship spreadsheets that may not match actual disbursements.

Reviewer's Comments

ARC OIG will determine whether the proposed or completed actions identified in the grantee's response are adequate to consider the recommendation resolved and implemented, or whether additional information or actions are needed.

Appendix I
Grantee Response

**Brushy Fork Institute of Berea College
Response to Audit of Appalachian Regional Commission
Training and Flex-E-Grant Mini-Grant Project
(ARC Grant Contract KY-16080)**

**Submitted to Leon Snead and Company, P.C.
August 2, 2012**

RESPONSE TO RESULTS OF REVIEW

Questioned Costs

The auditors from Leon Snead and Company questioned \$12,249 in costs charged to the ARC grant because the charges were either claimed twice for reimbursement or were not supported by proper documentation.

Below is the response to each of the Notes that appeared in the Draft Report the Leon Snead submitted to the Appalachian Regional Commission in July 2012.

Response to Item 1 in the Notes

Item 1 in the notes questioned two charges:

- \$9,600 paid to the City of Whitesburg
- \$358 in travel cost

The audit firm noted that both of these amounts were accrued by Brushy Fork in its accounting system as of April 2011. The review revealed that these costs were included in two drawdowns, the first for \$115,287 (for KY-16080-C2-10) made to Brushy Fork on November 23, 2011 and the second for \$173,930 (for KY-16080-C1-09 as the final drawdown) made to Brushy Fork on December 2, 2011.

Donna Morgan, director of Brushy Fork Institute, reviewed Brushy Fork's records related to the two questioned costs. Following is Brushy Fork's response to these two questioned costs.

The \$9,600 paid to the City of Whitesburg was mistakenly charged to both drawdowns, as indicated above. The subgrantee had requested an extension to the project period for the Flex-E-Grant they had received, extending this period to the end of April 2011. (Projects had been set to end in December 2010.) Brushy Fork received permission from the ARC to extend this project period and as a result extend the project period for our own grant to the end of May. As Brushy Fork Institute prepared the financial portion of the final report for KY-16080-C1-2009, we added the \$9,600 payment into the April expenses as we expected it to be disbursed that month and wanted to include it in the report for C1-2009. However, the \$9,600 was not actually disbursed until May 13 and appeared in our May Banner records generated by the Berea College Accounting Office. The amount was mistakenly also reported on the KY-16080-C2-2010 and needs to be refunded to ARC for that contract number.

The second amount was for travel costs for \$358. When Brushy Fork reported on Flex-E-Grant related travel during the month of March 2011, this cost was charged to both KY-16080-C1-2009 and KY-16080-C2-2010. The \$358.44 worth of travel in March 2011 should have been charged only to the C1-2009 contract. Therefore, Brushy Fork Institute will refund the Appalachian Regional Commission for the amount of \$358.44.

The contract KY-16080-C2-2010 is open through the end of September 2012. Brushy Fork will be sure the ARC is refunded for these erroneous payments listed in Item 1 of the notes, either by sending payment or reducing future reimbursement requests by these amounts. The ARC can indicate which method of refund is preferable.

For the future, Brushy Fork will implement the following procedures to avoid errors of this type:

1. For Flex-E-Grant payments or any other payments, reimbursement will no longer be requested as "expected" expenses. All billing will come directly from the Banner reports that are generated as checks are cut in Berea College's Accounting Office.
2. As Brushy Fork does billing for months that have expenses for multiple contracts, after all contract financial statements are prepared, we will do a final comparison of the total amounts to eliminate duplicate requests for reimbursement. This issue arises only in those months that have concurrent contracts running.

Response to Item 2 in the Notes

In item 2, the auditor questioned \$2,291 of a total of \$6,384 in participant lodging costs that were part of a request for reimbursement for scholarships for the 2011 Annual Institute. During the on-site visit, Brushy Fork appeared to have insufficient reporting documentation for these participant lodging costs.

Upon receiving this draft report, we have further reviewed our financial files for these documentation receipts and have recovered documentation for \$5,848.12 of the participant lodging costs requested in the drawdown of \$211,851 made on 2/24/12..The itemized list of charges for which we can provide documentation follows.

Payee	Amount
City of Owingsville	120.12
Project Worth Outreach	330.30
Cumberland Mountain Outreach	99.19
Bacon Creek Historical Society	500.00
Debra Harman	84.88
Timothy D. Crawford	133.50
Tonya Dickerson-Asher	133.50
Chad Brock	133.50
Lola Thomas	303.00
City of Prestonsburg	539.47
City of Horse Cave, Kentucky	198.39
Elliott County FCS Program	261.27
Downtown Campton Renaissance	444.40
McCreary County Fiscal Court	280.75
Menifee Board of Education	500.00
Joe Depriest	147.34
Linda Lowe	127.32
Helen Williams	44.50
Lake Cumberland Area Dev District	156.00
Bertie Kay Salyer	168.88

Linda Bradley	105.42
Teresa Brown	140.55
Housing Development Alliance	165.36
Monroe County Board of Education	173.46
Cumberland Tourism Commission	391.90
MalayiaWhisman	66.13
Janell Potter	99.19
	5848.32

A number of these participant lodging charges had been originally charged to the incorrect account line in our accounting system, and we found several receipts filed in folders for that incorrect account line. This also means that the charges show in our monthly accounting on the wrong account lines, until the College Accounting Office fixed this issue and we did a future reconciliation of our records to the Banner sheets.

Brushy Fork can submit the documentation for \$5,848.12 of these reimbursement requests. Please let us know how to submit these receipts.

We have been unable to verify the remaining \$535.88 of the costs and will refund that amount to ARC if necessary. This error arose from the fact that our billing to ARC was done from a separate spreadsheet of scholarships that was not linked to our actual monthly reconciliation to the Banner sheets that are generated as checks are cut. An entry had been made in that sheet for an expected payment of lodging that was never realized as a disbursement.

For the future, Brushy Fork will implement the following procedures to avoid errors of this type:

1. During the process of approving check requests for participant lodging, the account number will be added to the list of information to check.
2. When sending the request for reimbursement to the ARC, Brushy Fork will use data only from the Banner sheets that are generated by the Berea College Accounting Office as checks are cut, rather than including data from the scholarships spreadsheet we maintain. This will reduce the chance of error that could be caused by incorrect entries in the subsidiary scholarship spreadsheet system that do not match actual disbursements.