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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the ARC - Kid One Transport System Inc. Grant AL-14991-C4-2011. The report is in response to Contract No. BPA 11-01-B.



Vienna, Virginia
January 31, 2013

KID ONE TRANSPORT SYSTEM INC.

AL-14991-C4-2011

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state and local government. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair, who is appointed by the President. Local participation is provided through multi-county local development districts (LDDs). Each year, ARC provides funding for several hundred projects in the Appalachian Region, in areas such as business development, education and job training, telecommunications, infrastructure, community development, housing, and transportation. These projects create thousands of new jobs, improve local water and sewer systems, increase school readiness, expand access to health care, assist local communities with strategic planning, and provide technical and managerial assistance to emerging businesses.

Kid One Transport System Inc. (Kid One or the Grantee) is a not-for-profit company that provides free transportation to children (up to the age of 19) and expectant mothers to their medical, dental and mental health service appointments.

On April 12, 2011, ARC approved the Kid One Transporting Children to Better Health Grant, project number AL-14991-C4-2011, in the amount of \$150,000 (the Grant) to Kid One Transport System Inc. The ARC funds were to be used for the period from April 4, 2011 to March 31, 2012 to provide funding for 15,000 children and expectant mothers in Appalachian Alabama to receive free transportation to their health care appointments. Grant funds were to expand Kid One's free transport service in 27 ARC counties to reach 1,500 new clients during the period. The Grant required the Grantee to obtain \$1,050,000 in additional cash, contributed services or in-kind contributions.

Objective

Watkins Meegan LLC has been engaged to conduct a performance audit on the Kid One Transporting Children to Better Health Grant for the period from April 4, 2011 to March 31, 2012. The purpose of our performance audit was to determine that:

- Funds expended and claimed for reimbursement from ARC were valid program expenses and in accordance with the ARC Grant requirements;
- Internal controls were in place to ensure compliance with the Grant requirements; and
- Goals and objectives of the Grant had been achieved.

Executive Summary

Grant funds were used to provide funding for children and expectant mothers in Appalachian Alabama to receive free transportation to their medical, dental or mental health appointments. ARC funding was generally used to pay payroll and benefits of drivers and other operating and administrative expenses such as automobile insurance and fuel for the vehicles. Expenses claimed were valid and properly supported and also were in direct relation to supporting the Grant and its objectives. Additional funding was obtained as required by the Grant agreement.

In general, the performance objectives of the Grant were met. However, while overall transportation goals were achieved, the Grantee was not able to substantially increase services in rural and distressed Appalachian counties in Alabama. The large majority of transportation was provided to clients in Jefferson (competitive) and Tuscaloosa (transitional) counties.

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Scope

We performed a performance audit of the Kid One Transporting Children to Better Health Grant AL-14991-C4-2011 at the Kid One offices in Birmingham, Alabama from December 4 through December 6, 2012, as described under this section and under the audit methodology section. Our review was based on the terms of the Grant agreement and on the application of procedures compiled in the modified ARC "Sample Audit Program."

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Methodology

Our procedures were based on the "Sample Audit Program" prepared by the Office of the Inspector General (OIG) at ARC and included suggested procedures over the Grantee's accounting and internal control systems affecting the Grant. We met with the CEO/president and the director of business administration of the Grantee to discuss the structure, controls and processes around Grant administrations and monitoring. We also discussed and reviewed other financial and operational elements related to the conduct of the project.

Our review of background material included ARC's Grant agreement and related documentation, information from ARC's Grant management system, other Grant requirements, and the audited financial statements for the year ended December 31, 2011 for Kid One.

Our procedures included a review of controls in place for recording, accumulating and reporting costs under the Grant. We discussed with management and certain staff whether the goals and objectives of the project funded with ARC monies had been met. This included meeting with the CEO/president and director of business administration to understand how their daily activities and responsibilities supported the administration of the Kid One Transporting Children to Better Health Grant. We also gained an understanding of the responsibilities of other staff funded by the Grant.

We examined the payroll history reports for the staff, whose employment was supported by the ARC funds received, and related records. We also inquired of key staff regarding the supplies, materials, fuel and other expenses that were paid for by ARC funds to determine if they were allowable costs, i.e., the expenses supported ARC staff and project coordination only. We evaluated those payments and other activities for compliance with the applicable Grant requirements and federal regulations.

In addition, we examined schedules and supporting documentation for non-federal matching contributions received in cash, contributed services or in-kind contributions. We also gained an understanding of the systems and reports used to track clients transported and areas served.

Results

Compliance with Grant Provisions

The ARC (federal) share of actual expenditures incurred, reported and supported was \$150,000 during the period under review. We examined supporting documentation for the costs incurred, and determined that, in general, the funds had been expended in compliance with the Grant agreement. We also determined that the Grantee substantially met the requirement for \$1,050,000 of additional funding from non-federal sources.

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Areas Served

The Grantee exceeded the goal of providing over 15,000 clients in ARC counties with free transportation to their medical appointments. Nearly 1,200 new clients were reported as added during the Grant period. In the Grantee's proposal, it was stated that they would focus on rural and distressed counties and areas. Only about 1 percent of the 16,669 clients served were from "distressed" counties. Kid One continues to look for ways to reach potential clients in the most distressed counties, but has had difficulty despite continued outreach through healthcare providers, drivers and others in its network.

We recognize the extent of overall activity throughout the Appalachian Region, the efforts to service rural and distressed counties, the difficulties in reaching and serving clients in these counties and the population variance between counties served.

However, Grant objectives emphasized service to rural and distressed counties and the large majority of services were provided to Jefferson and Tuscaloosa counties. For example, these two counties, which are not identified as distressed counties, accounted for 87 percent of the 16,699 client transports reported for 2011.

Although clients served were in eligible counties, including a large number of transports reportedly from distressed areas in Jefferson County, the distribution of transport services did not result in achievement of a primary Grant objective. Emphasis should be placed on reaching potential clients in rural and distressed counties if future ARC funding occurs.

General Comment

During our visit, we observed considerable activity with respect to constant calls requesting program applications or appointments and the overall numbers of clients served reflected a very active program.