

PERFORMANCE AUDIT
OF THE

**Lake Cumberland Area
Development District, Inc.**

**Regional Labor Market Survey &
Web Services Grant**

Grant: KY-17067-302-11

OIG Report Number: 13-16

GRANT PERIOD: NOVEMBER 2011 – APRIL 2013

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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Lake Cumberland Area Development District, Inc. Regional Labor Market Survey & Web Services Grant KY-17067-302-11. The report is in response to Contract No. BPA 11-01-B.

A handwritten signature in black ink that reads "Watkins Meegan LLC". The signature is written in a cursive, flowing style.

Tysons, Virginia
April 25, 2013

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.

The Lake Cumberland Area Development District, Inc. is a not-for-profit association of local governments working together to solve common problems through a regional approach. The entity creates a network from citizens to local elected officials through state agencies to the governor and appropriate federal agencies.

ARC approved the Regional Labor Market Survey & Web Services Grant, project number KY-17067-302-11, awarded to the Lake Cumberland Area Development District, Inc. (the Grantee, or LCADD) with total funding in the amount of \$462,773. This includes \$370,218 of ARC (federal) funding and \$92,555 of State (non-federal) funding. The Grant was initially issued for the period from November 1, 2011 to November 1, 2012. The terms were amended on November 13, 2012 to extend the period of performance to April 30, 2013. The Grant provides funding for consultant services to perform a labor market survey for 42 Appalachian counties and to develop an interactive web system to facilitate economic development efforts and information sharing throughout Kentucky. Grant funding also covers the costs of adding information into the interactive web system from these 42 counties and an additional 10 counties.

Objective

Watkins Meegan LLC has been engaged to conduct a performance audit on the Lake Cumberland Area Development District, Inc. Regional Labor Market Survey & Web Services Grant for the period from November 1, 2011 to April 30, 2013. 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 pay contractual expenses to perform labor market surveys and to enter the survey data into an existing web system. The labor market surveys and interactive web system will comprise an interface that will improve the communication and flow of information between employers, job-seekers, educators, local governments and economic development agencies. The Grantee expects the website to be delivered prior to April 30, 2013.

We were unable to determine that a competitive bidding process was used to procure contract services as required by the Grant agreement and Federal Regulations. We noted that the consultant services were performed under a contract between the Lincoln Trail Area Development District, a district outside of the ARC geographic area and the consultant, ERISS Corporation (ERISS). The services provided with Grant funding pertain to activity within the ARC geographic area. The Grantee made payments to Lincoln Trail Area Development District (LTADD) for subsequent remittance to ERISS. LTADD had procured similar services from the same consultant under a previous contract. The Grantee received all matching funds per the Grant terms. ARC has paid \$333,196, with the remaining balance to be paid upon completion of the Grant terms and submission and acceptance of final report and funding request.

In general, it appears the performance objectives of the Grant will be met, although the data to be entered into the website has not yet been fully completed. ERISS notified the Grantee on January 31, 2013 that the survey portion of the contract is complete and processing the data for the website is in process. ERISS confirmed that they had performed more than 6,800 basic employer profiles and 1,500 in-depth profiles in their labor market surveys for 42 Appalachian counties, as anticipated in the Grant application. The final website will have survey information from the 52 Appalachian counties designated in the Grant.

The Grant required that interim reports be submitted to ARC every 120 days. One of the required reports was not submitted. The final report is due within one month after the period of performance ends.

Scope

We performed a performance audit of the Lake Cumberland Area Development District, Inc. Regional Labor Market Survey & Web Services Grant KY-17067-302-11 at the LCADD office from February 11, 2013 through February 12, 2013, 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 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 Audit Program guidelines provided by ARC Office of Inspector General and included suggested procedures over the Grantee's accounting and internal control systems affecting the Grant. We met with the Executive Director to discuss the LCADD overall structure and processes around Grant administration 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, ARC Grant approval, the Grant application and the Lake Cumberland Area Development District, Inc. Audited Financial Statements for the Year Ended June 30, 2012.

Audit Methodology (Continued)

Our procedures included a review of supporting documentation (receipts, invoices, vouchers, etc.) for matching funds and the costs reported under the Grant. We also inquired regarding procurement procedures and reviewed the consultant contract. We inquired of Management whether the goals and objectives of the project funded with ARC monies had been met to date and whether the goals and objectives of the project would be met at the end of the period of performance. This included meeting with the Executive Director and Associate Director and reviewing the progress of the web system and whether the outcomes quantified in the grant agreement would be achieved. We also gained an understanding of the responsibilities of the key staff. We reviewed communication from the consultant reporting on survey results including “screenshots” of the website in development from the consultant’s computer.

Results

Compliance with Grant Provisions

The ARC (federal) share and matching (non-federal) share of actual expenditures incurred, reported, and supported were \$333,196 and \$92,555, respectively, during the period under review. The remaining ARC (federal) share of \$37,022 (10 percent of federal funding) has been retained by ARC pending completion of the project and receipt and acceptance of the final report. The total actual expenditures will equal the total ARC and matching budget of \$462,773. We examined supporting documentation for costs incurred, and determined that in general the funds had been expended in compliance with the Grant agreement.

Desired project outcomes specified in the Grant application included 6,800 basic profiles of employers, in depth profiles of approximately 1,500 employers and labor market surveys for 42 Appalachian counties. Updating the website for survey data from the 52 counties is in process. It appears the program objectives will be achieved upon delivery of the website. ERISS reported completing employer profiles aligned with the initial projections. LCADD expects to begin testing of the website in March 2013 and anticipates completion of the website by the end of the grant period, April 30, 2013.

We had the following finding and observation based on our procedures:

Finding: Contract Procurement

Grant services were performed under an agreement between LTADD and ERISS. The total contract value was \$515,675. The Grantee received additional matching funds for amounts not covered under the ARC grant agreement with the Grantee. ERISS had provided services to LTADD under a previous contract for similar services in the area. The Grantee informed us that they had an agreement with LTADD related to the grant services.

As part of the pre-award process, the Grantee certified that they would procure consulting services for the market survey and web services using a competitive bidding process. Our analysis of the information provided does not include sufficient evidence to support that the service agreement was procured competitively. Most of the data relates to a 2009 procurement, called Wired65, involving 18 Kentucky and eight Indiana counties.

Finding: Contract Procurement (Continued)

In August 2011, the Grantee provided a certification to ARC stating that the consultant services would be obtained by a competitive bid procurement process. Documentation provided by the Grantee indicates the current service agreement was negotiated in 2010, prior to submission of the Grant application and certification to ARC. The final service agreement was signed in January 2012.

The absence of competition could result in questioned costs based on the apparent absence of a competitive procurement in accordance with applicable federal procurement regulations. ERISS had provided related services including website development under a previous contract related to the Wired65 program. We also noted that contract terms required periodic payments as of specified dates but did not require completion of specified milestones or deliverables. Agreements should include payment terms aligned with progress on the related contract.

Recommendation

The Grantee should consult with ARC to determine eligibility of the costs incurred. The Grantee should provide ARC with information regarding the reasoning for not competing the service contract for this Grant and documentation supporting the competitive process used for the prior contract with the service provider, including meeting applicable federal procurement regulations. Any agreement between the Grantee and LTADD should also be provided.

Management Response: *Management relied on the Request for Proposal for the Wired65 initiative issued by Lincoln Trail Area Development District in accordance with their approved procurement policy. The Grantee will consult with the assigned ARC representative to clarify the procurement process for the ARC Grant and will provide additional documentation as required.*

Other Observation – Reporting Requirements

Grant terms required submission of interim (120-day) and final financial and progress reports. One of the interim progress reports (March 1 to June 30, 2012) was not submitted. Timely submission of reports allows ARC to monitor Grant status and respond to any potential issues.

Procedures should be in place to ensure reports are prepared, reviewed and submitted based on Grant requirements.

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