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**APPALACHIAN REGIONAL COMMISSION  
OFFICE OF INSPECTOR GENERAL**

**AUDIT OF GRANT AWARD**

**Kentucky Department for Local Government  
Frankfort, Kentucky**

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**Final Report Number: 14-5  
Project Number: KY-7779-C31 & C32  
December 2013**

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



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& COMPANY, P.C.**

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January 31, 2014

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 numbers KY-7779-C31 and C32 awarded by the Appalachian Regional Commission (ARC) to the Kentucky Department for Local Government (DLG). 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 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 grant 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 matching requirements and the goals and objectives of the grant were met.

Overall, the grantee's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grants reviewed. The costs tested were supported and considered reasonable. However, the grant reporting requirements were not being complied with and needs to be addressed by the grantee. The issue relating to grant reporting and our recommended corrective action are discussed in the Finding and Recommendation section of the report.

A draft report was provided to DLG on November 14, 2013, for comments. DLG provided a response to the report on December 23, 2013, addressing our audit recommendation. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the DLG and ARC staffs during the audit.

Sincerely,

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

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## **Background**

Leon Snead & Company, P.C. completed an audit of grant numbers KY-7779-C31 and C32 awarded by the Appalachian Regional Commission (ARC) to the Kentucky Department for Local Government (DLG). The audit was conducted at the request of the ARC, Office of the Inspector General, to assist that office in its oversight of ARC grant funds.

ARC grants KY-7779-C31 and C32 provided funding to support planning and technical assistance activities essential for implementation of the ARC program in Appalachian Kentucky. The funds were to be used to support grant administration, program development, project management, and coordination of ARC activities with other state and federal agencies. The work elements were to include reviewing and processing applications, monitoring all ARC-funded projects, and management of the state's Flex-E-Grant Program and the Community/Economic Development Coordination Project.

Grant KY-7779-C31 covered the period October 1, 2011 through September 30, 2012, provided \$160,778 in ARC funding and required \$160,778 in non-ARC match funding. The grant had been closed by ARC at the time of the audit. Grant KY-7779-C32 covered the period October 1, 2012 through September 30, 2013, provided \$141,340 in ARC funding and required \$141,340 in non-ARC funding. The grant had been completed, but had not been closed by ARC at the time of the audit.

## **Objectives, Scope, and Methodology**

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and federal grant requirements; (2) internal grant guidelines, including program (internal) controls, were appropriate and operating effectively; (3) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (4) the matching requirements and the goals and objectives of the grants were met.

We reviewed the documentation provided and interviewed DLG personnel to obtain an overall understanding of the grant activities, the accounting system, and the operating procedures. We reviewed DLG's administrative procedures and related internal controls to determine whether they were adequate to administer the grant funds. We reviewed financial and other required reports to determine whether they were properly supported and submitted in accordance with the requirements. We also reviewed the most recent Single Audit report to determine whether there were any issues that impacted the ARC grants.

Of the \$239,105 in expenditures charged to the two grants and claimed for reimbursement (\$139,635 for KY-7779-C31 and \$99,470 for KY-7779-C32) during the grant periods, we selected a sample of \$63,874 of the expenditures (\$40,229 for KY-7779-C31 and \$23,645 for KY-7779-C32) for testing to determine whether the charges were properly supported and allowable. In addition, we selected a sample of \$63,874 in expenditures for testing that were charged to the grants and used for matching costs.

The primary criteria used in performing the audit were the provisions of the grant agreements, applicable Office of Management and Budget Circulars, and relevant parts of the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of October 14-22, 2013, including on-site work at DLG's office in Frankfort, Kentucky. The audit results were discussed with the DLG representatives at the conclusion of the on-site visit.

### **Summary of Audit Results**

Overall, the grantee's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grants reviewed. The costs tested were supported and considered reasonable. However, the grant reporting requirements were not being complied with and needs to be addressed by the grantee. The issue relating to grant reporting and our recommended corrective action are discussed in the Finding and Recommendation section of the report.

We were unable to form an opinion on the success in achieving the grant objectives because no specific performance output and outcome goals were included in the approved grant documents. However, based on the final project report, the following are some of the accomplishments DLG highlighted in its final project reports for grant KY-7779-C31.

- The staff conducted activities to support the state's Appalachian Development Plan and annual strategy statement.
- The staff provided technical assistance to key stakeholders in multiple venues.
- The staff reviewed and summarized 82 pre-applications requesting over \$27 million in funds.
- The staff shepherded 29 grants through ARC's application and approval process. The value of ARC funds approved in FY 2012 was \$10,317,053.

## Finding and Recommendation

### Reporting Requirements

DLG did not timely prepare and submit the required project reports and financial reports to ARC. As a result, DLG was not fully complying with the grant requirements and was affecting ARC's ability to monitor the projects and to close out the grants in a timely manner.

The grant agreements (KY-7779-C31 and C32) required progress reports to be submitted to ARC for each 90-day period. The reports were due within 30 days after the end of the reporting period. Interim financial reports were also required to be submitted on the same schedule. Final project reports and financial reports were required to be submitted to ARC within 30 days after the end of the grant periods. Under DLG's procedures, both the project report and financial report were prepared and submitted by the ARC program manager.

We reviewed all of the reports that had been submitted by DLG at the time of our audit. We determined that all of the reports had been submitted late, as shown in the table below.

KY-7779-C31				KY-7779-C32		
Report	Date Due	Date Submitted	Months Late	Date Due	Date Submitted	Months Late
Q1	01/31/12	09/24/12	7	01/31/13	10/08/13	8
Q2	04/30/12	09/25/12	4	04/30/13	10/11/13	5
Q3	07/31/12	10/08/12	2	07/31/13	In process	-
Final	10/31/12	09/25/13	10	10/31/13	In process	-

The primary reason given for the significant delays was that the ARC program manager had a very heavy workload, which included many high priority activities such as processing pre-applications and final applications, and assisting in preparing the Development Plan and Strategy Statement.

At the exit conference, the representatives agreed their reporting need to be improved; however, they did not indicate what corrective actions would be taken.

### Recommendation

Prior to applying for any future ARC grant, DLG should implement procedures to ensure that project reports and financial reports required under grant agreements are timely submitted.

**Grantee Response**

DLG stated in its response that the program manager will make timely submittal of required quarterly reports a priority for the current grant (KY-7779-C33). DLG also stated that efforts will be made to complete the financial reports, as well as, prepare the narrative progress reports during the month immediately following the end of the quarter. In addition, DLG stated that consideration will be given to providing additional employee assistance, if allowable in the DLG budget negotiation process.

**Reviewer's Comments**

*The response provided by the grantee is sufficient to close out the recommendation.*

**Appendix I**  
**Grantee Response**



## **Leon Snead Company**

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**From:** Littrell, Lynn (DLG) [Lynn.Littrell@ky.gov]  
**Sent:** Monday, December 23, 2013 2:33 PM  
**To:** Leon Snead & Company  
**Cc:** Satterly, Peggy (DLG); Wilder, Tony (DLG)  
**Subject:** RE: ARC Draft Report - KY-7779-C31 and C32  
**Attachments:** Audit Response.docx

**Mr. Snead:**

Please find attached our response to the finding and recommendation as documented in the draft audit report. I apologize for the delay.

I hope you have a Merry Christmas, Lynn

Lynn Travis Littrell  
Executive Director  
Office of the Governor  
Department for Local Government  
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Frankfort, KY 40601  
502-573-2382  
502-573-1519 fax

**Kentucky Department for Local Government  
Consolidated Technical Assistance Grants  
Project Numbers: KY-7779-C31 & C32**

**RESPONSE TO AUDIT FINDING AND RECOMMENDATION**

**Reporting Requirements**

The auditor from Leon Snead and Company questioned the lack of timely submission of required quarterly narrative and financial progress reports to ARC.

The grantee (Department for Local Government) acknowledges that quarterly reports have not been submitted in a timely manner on these two Consolidated Technical Assistance grants. The program manager has been late in submitting the progress reports. For two of the reporting periods, there was a delay in availability of financial reports due to installation of a new KY Dept. of Personnel Payroll System. That problem has been overcome and will no longer be a factor in delay of reporting. Also, during the reporting periods for these two grants, an employee assigned to assist with the ARC program transferred to another position within the agency. That position has not been filled due to budget considerations.

**Implementation of Procedures to Ensure Timely Report Submittal to ARC**

The program manager agrees to make timely submittal of required quarterly progress reports a priority for the current CTA Grant - KY-7779-C33. Efforts will be made to retrieve financial report as soon as available and complete the financial documents and forms as well as prepare the narrative progress reports during the month immediately following end of the quarter.

Consideration of providing additional employee assistance will be considered if allowable in the DLG budget negotiation process for current and future years.

Completion of the third and fourth (final) quarter reports for KY-7779-C32 is nearing completion for submission to ARC by December 31, 2013.