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

**Gateway Area Development District
Morehead, Kentucky**

**Final Report Number: 17-04
Project Number: KY-18000-302-14
December 15, 2016**

Prepared By:

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Appalachian Regional Commission
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Bonadio & Co., LLP completed an audit of grant number KY-18000-302-14 awarded by the Appalachian Regional Commission (ARC) to the Gateway Area Development District (the District). The audit was performed to assist the Office of Inspector General in carrying out its oversight of ARC grant funds.

The primary objectives of the audit were to determine whether: (1) program funds were expended in accordance with the ARC and Federal grant requirements; (2) grant funds were expended in accordance with the terms of the grant agreement; (3) internal controls were in place to ensure compliance with grant requirements; (4) grant funds were recorded and reported in accordance with generally accepted accounting principles (GAAP); and (5) the matching requirements and performance measures of the grant were met.

Overall, the District's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant reviewed. The expenditures tested were supported and are considered reasonable within the scope of the grant. We found that the District had an adequate process in place for obtaining and recording data related to the goals and objectives of the grant. In addition, the records and reports indicated that the tasks required by the grant agreement were being accomplished. The overall grant performance measures, with respect to anticipated outputs and outcomes, were adequately met.

Bonadio & Co., LLP appreciated the cooperation and assistance received from the District and the ARC staff during the audit.

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BACKGROUND

Bonadio & Co., LLP completed an audit of grant number KY-18000-302-14 awarded by the Appalachian Regional Commission (ARC) to the Gateway Area Development District (the District). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of the ARC grant funds.

The District is an Area Development District which is designed to be the focal point of a necessary federal, state, and local partnership to improve the quality of life in Bath, Menifee, Montgomery, Morgan and Rowan counties in Kentucky. The mission of the District is to bring local civic and governmental leaders together to accomplish major objectives and take advantage of opportunities which cannot be achieved or realized by those governments acting alone. The Commission also serves as a Local Development District for the Appalachian Regional Commission.

ARC grant number KY-18000-302-14 was awarded to cover the period September 1, 2014 to September 30, 2015. It provided \$750,000 in ARC funds and \$187,500 in non-ARC funds. The majority of the approved total budget was for the purchase of equipment to assist in the rebuilding of West Liberty, Kentucky following the March 2012 tornado destruction.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine whether: (1) program funds were expended in accordance with the ARC and Federal grant requirements; (2) grant funds were expended in accordance with the terms of the grant agreement; (3) internal controls were in place to ensure compliance with grant requirements; (4) grant funds were recorded and reported in accordance with generally accepted accounting principles (GAAP); and (5) the matching requirements and performance measures of the grant were met.

We reviewed the documentation provided and interviewed District personnel to obtain an overall understanding of the grant activities, the accounting system, and operating procedures. We reviewed the District's administrative procedures and related internal controls to determine whether they were adequate to administer the grant funds. We also reviewed the most recent Single Audit report to determine whether there were any findings reported that could have impacted the ARC grant. No such findings were noted.

The grant budget was \$907,500 in equipment and \$30,000 in other expenses, total budget was \$937,500. Our audit focused on the equipment expenditures that totaled \$916,200 of the \$946,200 reported expenditures.

The primary criteria used in performing the audit were ARC grant documents, the grant approval, the ARC code, other ARC requirements, federal cost principles, and audit requirements for federal awards. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed on September 26, 2016, including on-site work at the Gateway Area Development District in Morehead, Kentucky and equipment observations at all three site locations in West Liberty, Kentucky. The audit results were discussed with District representatives at the conclusion of the on-site visit.

SUMMARY OF AUDIT RESULTS

Overall, the District's administrative procedures were adequate to manage the grant and funds reviewed. The expenditures tested were supported and considered reasonable, and we did not question any incurred costs. We found the District had an adequate process in place for obtaining and recording data related to the goals of the grant. In addition, the records and reports indicated that the tasks required by the grant agreement were accomplished. The overall grant performance measures, with respect to anticipated outputs and outcomes, were adequately met for the grant KY-18000-302-14, which was completed on September 30, 2015.

Equipment

The District purchased equipment for three different locations (Courthouse, Extension Center, and Wellness Center) in West Liberty, Kentucky. The District provided supporting documentation including invoices, bid specifications, and check copies for all equipment purchases. The total amount of equipment purchases were within the grant budget. Equipment purchases were tested to determine equipment availability, confirmation of costs and adequacy of inventory controls. Through our evaluation of the inventory controls they appear to be operating effectively and are considered to be adequate. Testing of equipment existence included physical inspection at each location ensuring that the equipment was functioning and the description agreed to the auditor's expectations based on the supporting documentation and the bid specifications. Equipment noted during testing included HVAC systems totaling over \$500,000 and industrial kitchen equipment of approximately \$150,000.

Matching

The grant budget is \$187,500 of non-ARC funds from Morgan County. The Commission received \$196,233 of match funding from Morgan County, which was noted during the testing of equipment. Matching requirements appear to have been met without exception. Project expenditures totaled \$946,233, exceeding the total budgeted amount of \$937,500 by the additional matching funding provided in the amount of \$8,733.

Audit Findings

There were no audit findings noted as a result of our procedures.

OTHER OBSERVATIONS – PERFORMANCE MEASURES

- Through the emergency response of the District, the project successfully was able to rebuild and restore 3 buildings in the aftermath of the severe tornado that occurred in March of 2012. The equipment noted while touring the facilities included HVAC units, fire and security systems, athletic lockers, a partition wall, and commercial kitchen equipment.
- During the observation of the equipment noted above in West Liberty, it was clear that the District's administration of KY-18000-302-14 has made an impact on community following the 2012 tornado. The damage of the tornado is still evident, however after viewing the Courthouse, Extension Center, and Wellness Center the rebuilding of West Liberty is well underway. The Appalachian Regional Healthcare System has offices in the Courthouse helping to spur the local economy. The Extension Center is well utilized for community classes with over 1,000 participants taking part in cooking classes utilizing the new equipment purchased with the grant. It is apparent that the outcomes set forth in the administration of this grant have been met.