



APPALACHIAN
REGIONAL
COMMISSION

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Office of the Inspector General

April 28, 1999

MEMORANDUM FOR The Federal Co-Chairman
ARC Executive Director
ARC General Counsel

SUBJECT: OIG Reports 99-7(H), 99-8(H), 99-9(H), and 99-10(H); Grants KY-12828,
KY-12288, KY-12436, and KY-12111

Enclosed are reports on a grant issued for the McCreary County Learning Center and three grants administered by the Presbyterian Child Welfare Agency for leadership initiative and preschool expansion and relocation projects.

With respect to the McCreary County Learning Center, the grantee did not have an adequate accounting system, quarterly reports were not submitted, and the building construction contracts did not contain all required provisions. This was attributed to grantee inexperience with this type of project. However, the Rural Housing Service of the US Department of Agriculture provided close project oversight, including tracking of funding and disbursements; and the auditors concluded that the project had been completed in accordance with applicable agreements and requirements. Recommendations were directed at ensuring that future projects financed by Federal grants be handled in accordance with the provisions in the applicable OMB circulars.

The primary conditions noted for the three other projects pertained to the lack of, or untimely submission of, quarterly reports and reprogramming of budgeted items without advance approval. The grantee concurred that, for future projects, required reports would be submitted timely.


Hubert N. Sparks
Inspector General

Enclosures

cc: Ms. Judy Rae

**MEMORANDUM REPORT ON REVIEW OF THE
MCCREARY COUNTY EDUCATIONAL DEVELOPMENT FOUNDATION, INC.
WHITLEY CITY, KENTUCKY**

McCreary County Learning Center

ARC Grant No: KY-12828-I-97

September 9, 1997 through February 4, 1999

CAUTION: *Certain information contained herein is subject to disclosure restrictions under the Freedom of Information Act, 5 U.S.C. 522 (b)(4). Distribution of this report should be limited to Appalachian Regional Commission and other pertinent parties.*

Report Number: 99-7

March 25, 1999

TICHENOR & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

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TO: Appalachian Regional Commission (ARC)
Office of Inspector General (OIG)

FROM: Tichenor & Associates
Louisville, Kentucky

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report Number 99-7

SUBJECT TO: Memorandum Review Report on McCreary County Educational Development
Foundation, Inc., McCreary County Learning Center, Whitley City,
Kentucky. Grant No: KY-12828-I-97.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by McCreary County Educational Development Foundation, Inc. (the Grantee) for its McCreary County Learning Center project were expended in accordance with the ARC approved grant budget and did not violate any restrictions imposed by the terms and conditions of the grant; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and (c) the objectives of the grant have been met.

BACKGROUND: ARC awarded Grant Number KY-12828-I-97 to the McCreary County Educational Development Foundation for the period September 9, 1997 through our fieldwork date, February 4, 1999. Total grant funding was for an amount not to exceed \$250,000, or approximately 15 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with 32 percent in cash, contributed services, and in-kind contributions, as approved by ARC. ARC funding was made available through the United States Department of Agriculture, Rural Housing Service. The purpose of this grant was to expand and upgrade a county-owned building that will become the McCreary County Learning Center which will provide additional space for college courses. The project will include the construction of a 15,000 square foot expansion of the current educational facility used by the McCreary County Educational Development Foundation. The additional space will include a science laboratory, a computer technology center, a distance learning center, three additional classrooms, an art room, and student and faculty lounge areas. Courses will continue to be offered by the University of Kentucky and Somerset Community College.

Program oversight of this project was performed by the United States Department of Agriculture, Rural Housing Service located in London, Kentucky. The Rural Housing Service required the funds to be expended in the following manner. Local funding was to be used first, Enterprise Community grant and loan funds second and ARC funds last. As of our fieldwork date, February 4, 1999, the ARC funds had not been drawn down by the grantee. However, during our fieldwork, we found evidence that indicated that construction costs had been incurred but not yet paid by the grantee and the grantee stated that it intended to drawdown the ARC grant funds to pay on the balance of the construction costs.

SCOPE: We performed a program review of the grant as described in the Purpose, above. Our review was based on the terms of the grant agreement and on the application of certain review procedures previously approved by the ARC, OIG. Specifically, we determined if the construction of the building had been performed, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if the McCreary County Educational Development Foundation had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with Grantee personnel. Our results and recommendations are based on these procedures. These review procedures were performed in accordance with applicable Government Auditing Standards.

RESULTS: The following results were based on our review performed at the McCreary County Educational Foundation offices in Whitley City, Kentucky on February 1 through 4, 1999.

A. Incurred Costs

The sources of funds and program costs as of February 4, 1999 are as follows:

Expenditures by Fund:

	Begin. Fund <u>Balances</u>	Percentage of <u>Total</u>	Amounts <u>Paid</u>	Remaining <u>Balance</u>
ARC Grant	\$ 250,000	15%	\$ -	\$250,000
RHS Grant	91,000	5%	-	91,000
ECG *	97,833	6%	97,833	-
RHS Loan	711,000	42%	692,700	18,300
Applicant Contribution	<u>534,411</u>	<u>32%</u>	<u>533,716</u>	<u>695</u>
Subtotal	\$1,684,244	<u>100%</u>	\$1,324,249	\$359,995
Add'l Applicant Cont.	<u>11,034</u>		<u>11,034</u>	<u>-</u>
Totals	<u>\$1,695,278</u>		<u>\$1,335,283</u>	<u>\$359,995</u>

* Enterprise Community Grant

Expenditures by Budget Category:

<u>Budget Category</u>	<u>Actual Cost Incurred</u>	<u>Amounts Paid</u>	<u>Amounts Incurred But Not Paid</u>
Construction	\$1,344,217	\$1,133,937	\$210,280
Architectural	50,000	50,000	-
Legal and Administrative	24,500	24,500	-
Equipment	141,500	-	141,500
Interest	37,000	37,000	-
Inspection	8,000	7,250	750
Contingencies	90,061	82,596	7,465
Totals	<u>\$1,695,278</u>	<u>\$1,335,283</u>	<u>\$359,995</u>

B. Internal Controls

We determined that the Grantee had the following internal control weaknesses that affected the accountability of costs or compliance with the terms of the grant agreement:

1. McCreary County Educational Development Foundation Had No Formal Accounting System

During our review, we found that the McCreary County Educational Development Foundation, Inc. consisted only of thirteen members of the Board of Directors. They are a 501(c)(3) organization and with the intent of only seeing that construction and renovation of the McCreary County Learning Center is performed. The accounting system consisted only of a checking account that was maintained by the Foundation's treasurer. All receipts and payments for the construction of the building were made through their checking account. The project oversight manager with the U.S. Department of Agriculture, Rural Housing Service, maintained a statement of deposits and withdrawals to track all funding and disbursements by the Foundation. As a result, no formal accounting system was in place during our review.

OMB Circular A-110, Subpart C – Post-Award Requirements, .21 – Standards for financial management systems, states:

“(b) Recipients’ financial management systems shall provide for the following: (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program. (2) Records that identify adequately the source and application of funds for federally-sponsored activities. (3) Effective control over and accountability for all funds, property and other assets. (4) Comparisons of outlays with budget amounts for each award. (5) Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks. (6) Written procedures for determining the

reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award. (7) Accounting records including cost accounting records that are supported by source documentation.”

2. Quarterly Financial Status Reports Were Not Submitted to the ARC

The Grantee did not prepare and submit quarterly Financial Status Reports to the ARC as required by paragraph eight of the ARC Agreement for Administrative Requirements for Community Facilities Grants.

OMB A-110, Subpart C – Post-Award Requirements, .51 – Monitoring and reporting program performance, states:

“(a) Recipients are responsible for managing and monitoring each project. (b) The Federal awarding agency shall prescribe the frequency with which the performance reports shall be submitted...performance reports shall not be required more frequently than quarterly or, less frequently than annually. (d). Performance reports shall generally contain. (1) A comparison of actual accomplishments with the goals and objective established for the period, the findings of the investigator, or both. (2) Reasons why established goals were not met, if appropriate. (3) Other pertinent information...”

3. Building Construction Contract Did Not Contain All Required Provisions

The building construction contract did not contain all provisions as required by OMB Circular A-110.

OMB Circular A-110, Subpart C, Post-Award Requirements, .48 – Contract Provisions, paragraph (4)(d), states:

“All negotiated contracts (except those for less than the small purchase threshold) awarded by recipients shall include a provision to the effect that the recipient, the Federal awarding agency, the Comptroller General of the United States, or any of their duly authorized representatives, shall have access to any books, documents, papers, and records of the contractor which are directly pertinent to a specific program for the purpose of making audits, examinations, excerpts and transcriptions.”

Additionally, OMB Circular A-110, Appendix A, includes provisions for:

“1. Equal Employment Opportunity... 2. Copeland ‘Anti-Kickback’ Act (18 U.S.C. 874 and 40 U.S.C. 276c)... 3. Davis-Bacon Act, as amended (40 U.S.C. 276a to a-7)... 4. Contract Work Hours and Safety Standards Act (40 U.S.C. 327-333)... 5. Rights to Inventions Made Under a Contract or Agreement... 6. Clean Air Act (42 U.S.C. 7401 et. seq.) and the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.) as amended... 7. Byrd Anti-Lobbying Amendment (31 U.S.C. 1352)... 8. Debarment and Suspension (E.O.s 12549 and 12689).”

RECOMMENDATIONS:

We make the following recommendations for the findings identified above:

1. We recommend for all future projects financed by federal grant funds that the McCreary County Educational Development Foundation, Inc. implement a formal accounting system that will provide accurate current and complete disclosure for each grant.
2. We recommend that the McCreary County Educational Development Foundation, Inc. submit quarterly progress reports for all future projects financed by federal grant funds. The Grantee should also submit a final SF-269 Financial Status Report once this project is complete.
3. We recommend that for all future projects financed by federal grant funds the McCreary County Educational Development Foundation, Inc. ensure that all contracts are prepared in accordance with federal guidelines. This includes provision for access to contractor records and compliance with the provisions of OMB Circular A-110, Appendix A.

C. Program Results

Our review of the McCreary County Educational Development Foundation, Inc., the McCreary County Learning Center, indicated all specific tasks identified in the grant, and summarized above, had been achieved.

DISCUSSION:

We discussed these issues with McCreary’s Foundation and Learning Center management as well as the USDA Rural Housing Services project coordinator for this project. Management stated that it realized the nature of the deficiencies. Management stated that this was the first time they had applied for federal funds to complete a project of this size; and, although they had the best of intentions, they failed to comply with some of the grant requirements as noted above.

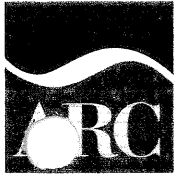
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OTHER:

We provided McCreary County Educational Development Foundation with a copy of the draft review report on March 5, 1999. We did not receive any written or oral response to the findings and recommendations contained in the draft report. Therefore, no changes to the findings or recommendations have been made subsequent to the draft report.

Tichenor & Associates

TICHENOR & ASSOCIATES
Louisville, Kentucky
February 4, 1999



April 28, 1999

Mr. Bruce A. Murphy, President
McCreary County Education
Development Foundation, Inc.
P. O. Box 579
Whitley City, KY 42653

re: OIG Report 99-7(H), ARC Grant KY-12828


Dear Mr. Murphy:

Enclosed is a copy of our report dealing with the McCreary County Learning Center. As noted, the report notes that procedures in OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations," and the grant agreement were not implemented fully with respect to an accounting system, submission of reports, and contract provisions. However, based on a review of available records, including records maintained by the USDA Rural Housing Service, the auditors did not make any recommendations with respect to the completed project. However, for future Federal grants, the provisions in OMB circulars and grant agreements should be implemented.

A copy of this report is being provided to the Federal Co-Chairman, ARC Executive Director, and Kentucky State Alternate.

The courtesies and cooperation provided the auditors were appreciated.

Sincerely,


Hubert N. Sparks
Inspector General

Enclosure



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Office of the Inspector General

April 28, 1999


Ms. Peggy Satterly, Program Manager
Department for Local Government
Division of Development Finance
1024 Capitol Center Drive
Frankfort, KY 40601-8024

re: OIG Reports 99-7(H), 99-8(H), 99-9(H),
and 99-10(H); ARC Grants KY-12828,
KY-12288, KY-12436, and KY-121211

Dear Ms. Satterly:

Enclosed are copies of our reports dealing with the McCreary County Learning Center and three projects administered by the Presbyterian Child Welfare Agency.

Sincerely,


Hubert N. Sparks
Inspector General

Enclosures