APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL

AUDIT OF GRANT AWARD

University of Kentucky Research Foundation
Lexington, Kentucky

Final Report Number: 13-09
Project Number: KY-16403
January 2013

Prepared by
Leon Snead & Company, P.C.
January 25, 2013

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 number KY-16403 awarded by the Appalachian Regional Commission (ARC) to the University of Kentucky Research Foundation (Foundation). 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 if program funds were managed in accordance with the ARC and federal terms and requirements; grant funds were expended as provided for in the ARC approved budget; internal grant guidelines and internal controls were operating effectively; accounting and reporting requirements were implemented in accordance with generally accepted accounting principles and the goals and objectives of the grant were met.

Overall, the Foundation’s financial management and administrative procedures and related internal controls were adequate to manage the ARC grant and funds reviewed. Most of the costs reviewed were reasonable and adequately documented; however, we questioned $22,618 in procurement-related costs due to inadequate procurement actions and supporting documentation. A detailed discussion of the issues is presented in the "Results of Audit" section of the report.

A draft report was provided to the Foundation on December 26, 2012, for comments. The Foundation provided a response to the report on January 18, 2013, addressing our audit recommendations. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the Foundation and ARC staff during the audit.

Sincerely,

Leon Snead & Company, P.C.
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Background

Leon Snead & Company, P.C. completed an audit of grant number KY-16403 awarded by the Appalachian Regional Commission (ARC) to the University of Kentucky Research Foundation (Foundation). The audit was made at the request of the ARC, Office of the Inspector General, to assist that office in its oversight of ARC grant funds.

The ARC grant awards provide funding to support the Foundation in implementing and expanding the Youth E-Discovery Challenge project to schools in distressed counties of Appalachia Kentucky. The Youth E-Discovery Challenge is a curriculum that is the result of research combining elements of REAL Enterprise, NFTE, Kentucky 4-H curriculum, and NxLevel youth entrepreneurship programs. Teachers receive extensive training and ongoing support before, during, and after implementation of a nine-week multi-disciplinary instructional unit. During the unit, students in grades 4 through 8 learn the basics of writing a business plan, developing (and sticking with) a budget, marketing, and other aspects of starting a business.

ARC provided initial support for the project in 2009. The two most recent grants, which provided continued support for the project, were included in our audit coverage. Grant KY-16403-C1, covering the period October 1, 2010 through January 31, 2012, provided $275,000 in ARC funds and required $117,604 in nonfederal match funding. The grant had been completed and closed at the time of our audit. Grant KY-16403-C2, covering the period February 1, 2012 through July 31, 2013, provided $200,000 in ARC funds and requires $71,818 in nonfederal match funding.

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 goals and objectives of the grant were met.

We reviewed the documentation provided and interviewed grantee personnel to obtain an overall understanding of the project, the accounting system, and operating procedures. We reviewed financial and other required reports to determine whether they were properly supported and submitted in accordance with the requirements. We reviewed a sample of costs charged to the project to determine whether the charges were properly supported and allowable. We reviewed the Foundation’s administrative procedures and related internal controls to ensure they were adequate to administer the grant and funds. We also reviewed the most recent Single Audit report to determine whether there were any issues that impacted the ARC grant.

The primary criteria used in performing the audit were the specific grant terms and requirements, 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 November 26 to December 4, 2012, including on-site work.
at the Foundation's offices in Lexington, Kentucky. The audit results were discussed with the Foundation staff at the conclusion of the on-site visit.

Overall, the Foundation's financial management and administrative procedures and related internal controls were adequate to manage the ARC grant and funds reviewed. Most of the costs reviewed were reasonable and adequately documented; however, we questioned $22,618 in procurement-related costs due to inadequate procurement actions and supporting documentation. The areas needing improvement, the questioned costs, and our recommended corrective actions are discussed in the Results of Audit section of the report.
RESULTS OF AUDIT

A. Procuring Duplication Services

The Foundation did not provide adequate documentation to justify the cost charged to the ARC grant for duplication services. As a result, we have questioned the allowability of $15,085 in costs included in our sample and claimed for reimbursement by the grantee.

The Foundation’s applicable policies and procedures (Section B-3-1 of the University of Kentucky Business Procedures Manual) state: "...The University of Kentucky Purchasing Division has established many contracts for goods and services. University Price Contracts established by the Purchasing Division shall be used when making the purchase for any goods or services covered by these contracts...." In addition, the federal standards in OMB Circular A-110 require all costs to be adequately documented in order to be considered allowable and that some form of price or cost analysis must be performed and documented on every procurement.

Our audit disclosed an expenditure of $15,085 for costs for teacher manuals was charged to grant KY-16403-C1 and subsequently reimbursed by ARC. The supporting documentation showed that the project office did not follow the established procedures to use the University’s contracted vendor.

We were told that the project staff had incurred $11,851 in costs for duplicating teacher manuals in 2010 and charged the costs to the initial ARC grant (KY-16304-302). The project manager had the duplication services performed by a firm near her home office, although the University had an established contract with FedEx-Kinko for duplication services at the time. The purchasing office staff allowed the payment to the vendor, but reminded the project office that the University had the existing duplicating services contract and stated that it should be used in the future. When the subsequent duplication services were performed in 2011, which related to the $15,085 expenditure we were verifying, the same local firm was used rather than the University FedEx-Kinko contract despite the earlier guidance by the purchasing office.

We discussed this matter with the project office staff and were told that there was not a FedEx-Kinko location near the project manager’s office and they felt it was more convenient and cost-effective to have it done by the local firm. Considering the University’s requirement to use existing standard contracts, and the federal requirement that the cost analysis should be documented, we question the $15,085 charged to grant KY-16403-C1. We were told that similar duplication service costs have also been charged to the current grant (KY-16403-C2).

At the exit conference, the participants were in general agreement with the issue as presented. The project manager stated that she had performed an analysis at the time the decision was made to use the duplicating vendor; however, she indicated that the analysis was not documented.
Recommendations

The Foundation should:

1. Provide ARC documentation supporting the decision not to use the existing contract and the costs incurred or credit the ARC grants for the amounts charged.

2. Ensure that the existing standard contracts are used for goods or services needed on the ARC grants unless a different decision is justified and documented.

Grantee Response

The Foundation stated in its response that:

1. Although the detailed cost comparison that was performed at the time of vendor selection was not maintained, the duplicating expense information provided in its response demonstrates the services were comparable in cost and did not violate existing University Price Contracts in place at the time.

2. Its principal investigator provided a certification statement that indicates personnel responsible for the financial management of the award were provided training regarding the University Business Procedures Manual and that he will continue to ensure adherence to University and Federal guidelines for future procurement purchases.

Reviewer’s Comments

*The response provided by the grantee is sufficient to close out the two recommendations.*
B. Contracting for Professional Services

The Foundation did not provide adequate documentation to justify the cost charged to the ARC grant for professional services. As a result, we have questioned the allowability of $7,533 in costs included in our sample and claimed for reimbursement by the grantee.

Written procurement instruments, including purchase orders and contracts, are necessary for procuring goods and services under federal grants to properly describe the requirements, establish the terms, conditions, and costs agreed upon, and provide a basis to evaluate contractor performance and costs claimed. The terms and conditions also provide a basis to verify that the costs claimed by the contractor and subsequently charged to the grant are proper, accurate, and consistent with the agreed upon amount.

Our review of expenditures included $7,060 charged to grant KY-16403-C1 and $473 to grant KY-16403-C2 for services provided by a contractor to help implement the grant. We determined that the services were not covered by a written contract for the period of the costs reviewed. A written agreement had been established with the contractor under the initial ARC grant, KY-16403-302-09 awarded in 2009. The project office used a standard University form (Agreement between Independent Contractor and Client) used routinely to obtain professional services that are not considered personal services in nature. The services to be provided as described in the agreement included preparing training materials, providing training to teachers in the E-Discovery program, training for E-Education, and following up with teachers during project implementation. The terms stated that the agreement ended on September 30, 2010, which was the ending date of the initial ARC grant. The initial agreement was the only one executed.

The project office had not established new agreements or processed a written amendment extending the performance period beyond September 30, 2010. Therefore, we question the $7,060 charged to grant KY-16403-C1 and $473 to grant KY-16403-C2 for services that was reimbursed by ARC.

At the exit conference, the participants were in general agreement with the issue as presented. They did indicate that a new agreement would be established with the applicable contractor.

Recommendations

The Foundation should:

1. Negotiate a written contract covering the cost for teacher training and other services that will be charged to grant KY-16403-C2, including the $473 questioned amount.

2. Provide ARC written support for the $7,060 charged to grant KY-16403-C1 or refund that amount to ARC.

3. Ensure that no procurement-related costs are charged to ARC grants without properly executed contracts.
Grantee Response

The Foundation stated in its response that:

1. A new form was executed and included with its response for the periods in question as a demonstration that both parties continued operating under the parameters as listed in the original agreement executed for the award.

2. The expenses in question are substantiated by source documentation with required approvals and can be provided if necessary and that a portion of the expenses referenced in the report was included the audit sample for review when completing the on-site fieldwork. In addition, the Foundation stated that to its knowledge there were no problems with the source documentation provided; therefore, the costs have been documented to benefit the project and should remain on the award.

3. The University is reviewing current processes for the execution and maintenance of the “Agreement between Independent Contractor and Client” forms to ensure official modifications are executed to existing agreements when situations such as this arise.

Reviewer’s Comments

The response provided by the grantee is sufficient to close out recommendation 1. Recommendations 2 and 3 should remain open and ARC will determine whether the proposed actions identified in the grantee’s response are adequate to resolve the recommendations or whether additional information or actions are needed.
Appendix I
Grantee Response
Please find attached the University response to the review findings in the draft report. The initial letter we received and the entrance conference with Mr. Richard Dix indicated that the engagement was limited scope review. We would appreciate the report be updated to replace the work 'audit' with the word 'review' throughout the document. Our responses are based upon that understanding.

Thanks!

Ronda Beck, Controller
University of Kentucky
301 Peterson Service Building
411 South Limestone
Lexington, KY 40506-0005
859-257-4758
859-257-4805 (fax)
ronda.beck@uky.edu

"An investment in knowledge pays the best interest." – Benjamin Franklin

see blue. ✨✨
✨✨ print green.
Per the letter received, and entrance conference discussion with Mr. Richard Dix, the engagement was a limited scope review. The report should be updated to replace the word “audit” with the word “review” throughout. The responses provided are contingent on the understanding between the parties involved that the scope of the engagement was a review, rather than an audit.

A. Procuring Duplication Services

1. Provide ARC documentation supporting the decision not to use the existing contract and the costs incurred or credit the ARC grants for the amounts charged.

Although the detailed cost comparison that was performed at the time of vendor selection was not maintained, the duplicating expense information provided below demonstrates the services were comparable in cost and did not violate existing University Price Contracts in place at the time. In addition, OMB Circular A-110 indicates “positive efforts shall be made by recipients to utilize small businesses, minority-owned firms, and women’s business enterprises, whenever possible”. The vendor chosen is a locally owned small business. The owner was very impressed by the project aims in the area and wanted to provide discounted services to contribute to the continued success stating: “After seeing the pilot program of the E-Discovery Challenge at St. Patrick School, I was very excited about what this program would do for the students of Kentucky”.

According to section B-3-1 as referenced in the report, if the requirement is not covered by an existing contract, there are other methods of procurement that may be used by University Departments to secure the supplies, equipment and services necessary to accomplish the mission of the University. These methods are listed in section B-3-2, Delegated Procurement Authority (DPA) for University Departments. This section states the Procurement Card or the Departmental Authorization and Voucher (DAV) form is the document to be used to request approval and to authorize payment by the Office of Controller and Treasurer for delegated purchases made in accordance with DPA. While section B-3-2-1 Procurement Card Dollar Limits and Other Restrictions states that a limit of $5,000 per transaction has been established, the Purchasing Division may consider authorization for a higher transaction limit when requested by a cardholder and approved by the appropriate Director, Dean/Vice President or Provost. In this case, the procurement card held by the department and used to make the purchase was increased to allow the department to utilize the selected vendor. This increase to the procurement card limit signifies approval for the August 2011 purchase by the procurement office and therefore adhered to University guidelines and procedures.

In addition, the price contract with the duplicating vendor FedEx Kinko’s (now FedEx Office) is a convenience contract only. This contract is not, nor was ever intended to be, exclusive in nature due to the following:

1. It was established for the management and operation of the on-campus duplicating centers, not for provision of duplicating services to the University as a whole.

2. As part of the original Request for Proposal process, there was a Question and Answer stage where the University takes questions from prospective Offerors and provides written responses. That Q and A document becomes part of the full vendor contract award. Question 22 of the Q and A document for this contract makes it clear delivery of services was only to be for University activities located in Fayette County.

3. Also within the Q and A document, there was a question asking if all duplicating work was to be sent to the UK print centers. The written response from the University, which became part of the contract award, was that "It isn’t now nor will it be in the future mandated for UK departments to use the Duplicating sites."
A current quote was obtained from FedEx Office to determine the breakdown of materials and services, as they could not obtain the exact pricing for the period in question. The line item quote was then compared to the price contract in place at the time the job was completed to determine the standard pricing available to UK. The comparison demonstrated several of the goods and services provided were outside of the price contract. The attached cost comparison lists the items covered under the price contract separately, as the discount pricing for the items outside the contract is at the discretion of the retailer and cannot be substantiated by FedEx Office for the time period in question. The same breakdown was then requested of the selected vendor, Standard Quick Print, to indicate line item costs to complete the job.

In comparing the line items from the price contract only, the selected vendor, Standard Quick Print, was higher by $1,119.69. However, taking into consideration those costs that were not included in the price contract, based on the current discount pricing provided by the local FedEx Office, the selected vendor, Standard Quick Print, pricing was lower by $1,027.89. In total, the difference in pricing according to the cost comparison provided is $91.80. We believe that the pricing to use a local, small business was comparable and should be an allowable cost on this award.

In this case, the added cost of shipping was also a consideration as the duplicating services were obtained to create Teaching Manuals, which would then need to be distributed to the participants in areas of Kentucky outside of Fayette County. As the FedEx contract did not include delivery of services in these areas, the shipping costs would have been significantly increased. The vendor selected was located in the same area as the project director’s official workstation, Mason County, which allowed for direct pickup when possible and lessened the cost for shipping materials to the participating schools. In addition to the detailed materials and services included in the cost breakdown, the vendor delivered materials directly to participants in Lake Cumberland area free of charge and waived the handling fee for shipping. Although the shipping costs are not documented as part of the cost comparison, we are certain these charges would have been greater than the $91.80 spent.

2. Ensure that existing standard contracts are used for goods or services needed on the ARC grants unless a different decision is justified and documented.

See certification statement attached from Principal Investigator.

B. Contracting for Professional Services

1. Negotiate a written contract covering the cost for teacher training and other services that will be charged to grant KY-16403-C2, including the $473 questioned amount.

Written contract executed and attached.

2. Provide ARC written support for the $7,060 charged to grant KY-16403-C1 or refund that amount to ARC.

The originally executed contract titled “Agreement between Independent Contractor and Client” listed the termination date as “9/30/10 – End of ARC Grant”. When grant KY-16403-C1 was extended to January 31, 2012, both parties to the agreement interpreted the termination date as extended along with the award. A new form has been executed and attached for the time period in question as a demonstration that both parties continued operating under the parameters as listed in the original agreement executed for the award. The expenses in question are substantiated by source documentation with required approvals and can be provided if necessary. A portion of the expenses referenced in the draft were included in the sample provided to the auditor for review when completing onsite fieldwork. To our knowledge there were no problems with source documentation provided, therefore the costs have been documented to benefit the project and should remain on the award.
3. Ensure that no procurement-related costs are charged to ARC grants without properly executed contracts.

The University is reviewing current processes for the execution and maintenance of the "Agreement between Independent Contractor and Client" forms to ensure official modifications are executed to existing agreements when situations such as this arise. In addition, a certification statement is attached from the Principal Investigator.

Attachments:

Duplicating Service Cost Comparison
Certification Statement
Agreement between Independent Contractor and Client – Termination date of 7/31/13
Agreement between Independent Contractor and Client – Termination date of 1/31/12
### Line items included in University Price Contract

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<td><strong>SKU</strong></td>
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<td><strong>Difference</strong></td>
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### Outside of Price Contract Services

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<td>2000 Insert Per Piece</td>
<td>$0.1000 200.00</td>
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<td>2000 BinderCoverVv1.SinWhit</td>
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</tbody>
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1 Line items included in this section were not covered under the University Price Contract. Provided discounts are at the discretion of the vendor. FedEx indicated a lower rate could possibly be available, as they usually send larger projects, such as this one, to the national pricing center. This pricing center marks large jobs such as this down even greater. However, as this was not a true purchase, there was no way to determine what, if any, additional discount may be applicable.
January 18, 2013

As Principal Investigator, I certify the personnel responsible for the financial management of the award were provided training regarding the University Business Procedures Manual related to procurement on Thursday January 17, 2013. I ensure we will continue to adhere to University and Federal guidelines for future procurement purchases. University Price contracts will be utilized for goods or services needed on the ARC grants unless the decision to utilize an alternate vendor is justified and documented. In addition, contracts required for procurement-related costs charged to ARC will be executed and maintained for each award period.

Respectfully,

Ron Hustedde, Ph.D.
Principal Investigator, E-Discovery Challenge
Extension Professor of Community and Leadership Development
UNIVERSITY OF KENTUCKY
AGREEMENT BETWEEN INDEPENDENT CONTRACTOR AND CLIENT

Whereas, the University of Kentucky, ARC Grant ("CLIENT") intends to contract with

Annette C. Walters
(Independent Contractor--"IC")

for the performance of certain tasks;

Whereas, IC's principal place of business is located at the following address:

6125 Heath Road, Ewing, KY 41039

IC's United States Tax Identification Number: 

☑ IC is a United States citizen
☑ IC is a United States Resident Alien
☐ IC is a Nonresident Alien of the United States

(Mark one of the above and attach appropriate forms)

Whereas, IC declares that IC is engaged in an independent business and has complied with all federal, state, and local laws regarding business permits and licenses of any kind that may be required to carry out the said business and the tasks to be performed under this agreement;

Whereas, IC declares that IC is engaged in the same or similar activities for other clients and that Client is not IC's sole and only client or customer.

THEREFORE, IN CONSIDERATION OF THE FOREGOING REPRESENTATIONS AND THE FOLLOWING TERMS AND CONDITIONS, THE PARTIES AGREE:

1. SERVICES TO BE PERFORMED.
Client engages IC to perform the following tasks and services:
Training, updating training materials for E-Discovery Challenge

2. TERMS OF PAYMENT.
Client shall pay IC according to the following terms and conditions:
$25 per hour, meals, hotel accommodations & other necessary expenses including mileage
IC shall submit invoices to Client for the payments due for in this paragraph.

3. INSTRUMENTALITIES.
IC shall supply all equipment, tools, materials, and supplies, to accomplish the designated tasks except as follows:

4. CONTROL.
IC retains the sole and exclusive right to control or direct the manner or means by which the work described herein is to be performed. Client retains only the right to control the ends to insure its conformity with that specified herein.

5. PAYROLL OR EMPLOYMENT TAXES.
No payroll or employment taxes of any kind shall be withheld or paid with respect to payment to IC if the IC is a United States Citizen or Resident Alien. The payroll or employment taxes that are the subject of this paragraph include but are not limited to FICA, FUTA, federal personal income tax, state personal income tax, state disability insurance tax, and state unemployment insurance tax. If the IC is an United States Nonresident Alien Individual federal personal income tax and state personal income tax may be withheld.

6. WORKERS' COMPENSATION.
No workers' compensation insurance has been or will be obtained by the CLIENT on account of IC or IC's employees. IC shall comply with the workers' compensation laws with respect to IC and IC's employees.

7. TERMINATION.
This agreement shall end on 7/31/2013 and may not be terminated earlier (except for cause) without 10 days prior written notice from one party to the other.

Agreed to this 31st day of December, 2012 at Mays Lick, KY USA

By: [(Name and Title) CLIENT]

By: [(Name and Title) INDEPENDENT CONTRACTOR]
UNIVERSITY OF KENTUCKY
AGREEMENT BETWEEN INDEPENDENT CONTRACTOR AND CLIENT

Whereas, University of Kentucky, ARC Grant ("CLIENT") intends to contract with
Annette C. Walters (Independent Contractor--"IC") for the performance of certain tasks;

Whereas, IC's principal place of business is located at the following address:
6125 Nepton Road, Ewing, KY 41039

IC's United States Tax Identification Number: [Redacted]

☑ IC is a United States citizen
☐ IC is a United States Resident Alien
☐ IC is a Nonresident Alien of the United States
(Mark one of the above and attach appropriate forms)

Whereas, IC declares that IC is engaged in an independent business and has complied with all
federal, state, and local laws regarding business permits and licenses of any kind that may be
required to carry out the said business and the tasks to be performed under this agreement;

Whereas, IC declares that IC is engaged in the same or similar activities for other clients and
that Client is not IC's sole and only client or customer.

THEREFORE, IN CONSIDERATION OF THE FOREGOING REPRESENTATIONS AND THE FOLLOWING TERMS AND
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1. SERVICES TO BE PERFORMED.
Client engages IC to perform the following tasks and services:
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2. TERMS OF PAYMENT.
Client shall pay IC according to the following terms and conditions:
$25 per hour, meals, hotel accommodations & other necessary expenses including mileage
IC shall submit invoices to client for the payments called for in this paragraph.

3. INSTRUMENTALITIES.
IC shall supply all equipment, tools, materials, and supplies, to accomplish the
designated tasks except as follows:

4. CONTROL.
IC retains the sole and exclusive right to control or direct the manner or means by
which the work described herein is to be performed. Client retains only the right
to control the ends to insure its conformity with that specified herein.

5. PAYROLL OR EMPLOYMENT TAXES.
No payroll or employment taxes of any kind shall be withheld or paid with respect
to payment to IC if the IC is a United States Citizen or Resident Alien. The
payroll or employment taxes that are the subject of this paragraph include but are
not limited to FICA, FUTA, federal personal income tax, state personal income tax,
state disability insurance tax, and state unemployment insurance tax. If the IC is
an United States Nonresident Alien Individual federal personal income tax and state
personal income tax may be withheld.

6. WORKERS' COMPENSATION.
No workers' compensation insurance has been or will be obtained by the CLIENT on
account of IC or IC's employees. IC shall comply with the workers' compensation
laws with respect to IC and IC's employees.

7. TERMINATION.
This agreement shall end on 1/31/2012 and may not be terminated earlier (except for cause) without 10 days
prior written notice from one party to the other.

Agreed to this 31 day of December, 2012 at Mays Lick, KY, USA
By: [Signature] [Name and Title]
CLIENT

By: [Signature] [Name and Title]
INDEPENDENT CONTRACTOR