APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL

AUDIT OF GRANT AWARD
Lake Cumberland Area Development District
Russell Springs, Kentucky

Final Report Number: 17-08
Project Number: KY-17490
February 2017

Prepared by:
Leon Snead & Company, P.C.
February 1, 2017

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, N.W.
Washington, DC 20009

Leon Snead & Company, P.C. completed an audit of grant number KY-17490 awarded by the Appalachian Regional Commission (ARC) to the Lake Cumberland Area Development District (LCADD). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate 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 LCADD's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. The costs tested were supported and considered reasonable. However, we identified two areas that require management attention. While we found that the LCADD had an adequate process in place for obtaining and recording data related to the overall goals of the grant, they could improve their reporting in regard to the presentation of the anticipated outputs and outcomes of the project by reporting the exact number of participating students and staff upon completion of each phase of the project to ARC. Also, the LCADD was not always submitting their project progress reports and financial reports in accordance with grant requirements. These issues and the corresponding recommended corrective actions are discussed in the Findings and Recommendations section of this report.

A draft report was provided to the LCADD on January 5, 2017, for comments. The LCADD provided a response to the report on January 30, 2017. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the LCADD and ARC staffs 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-17490, including revisions R1, R2, and R3, awarded by the Appalachian Regional Commission (ARC) to the Lake Cumberland Area Development District (LCADD). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of ARC grant funds.

ARC awarded the grant funds to support The Leader In Me Growing a Workforce Program, which is designed to increase the educational attainment and achievement of all students in the 18 participating schools, which are located in primarily economically distressed areas in Kentucky. The program is based on Steven Covey's The 7 Habits of Highly Effective People, which helps students develop the skills and self-confidence to succeed, thereby improving academic achievement and increasing attainment. The training and related materials are provided by Franklin Covey Client Sales, Inc. (FranklinCovey).

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) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate 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.

Grant KY-17490 covered the period May 1, 2013 to September 30, 2015, and provided $308,788 in ARC funds and required $80,223 in non-ARC recipient matching funds. Revision KY-17490-R1 extended the completion date of the grant to August 30, 2017 and provided an additional $189,000 in ARC funds and required an additional $47,250 in non-ARC recipient matching funds. Revision KY-17490-R2 provided $288,207 in ARC funds and required $100,793 in non-ARC recipient matching funds. Revision KY-17490-R3 extended the grant ending date to August 30, 2018 and provided $145,000 in ARC funds and required $36,000 in non-ARC recipient matching funds. Overall estimated project costs for this grant are $1,195,261, which consists of $930,995 in ARC funds and $264,266 in non-ARC matching funds. The percentage break out of ARC to non-ARC funding for the overall project is 78% ARC funds and 22% non-ARC matching funds.

A total of $748,346 in grant funds was expended and reimbursed by ARC, and $179,844 was provided in non-ARC recipient matching funds as of December 23, 2016. Also as of December 23, 2016, there was a balance of $182,649 in ARC funds remaining on the grant. Of the expenditures charged to the grant and claimed for reimbursement, we selected a sample of $458,559 for testing to determine whether the charges were properly supported and allowable. We tested matching costs in the amount of $145,874 to determine whether the charges were properly supported and allowable.
We reviewed documentation provided by the LCADD and interviewed personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed written policies and administrative procedures to determine if they were compliant with federal requirements and adequate to administer the grant. We reviewed financial and project progress reports to determine if they were submitted in accordance with requirements. We reviewed the most recent audit and financial statements to identify any issues that significantly impacted the ARC grant and the grant audit.

The on-site fieldwork was performed at the LCADD offices in Russell Springs, Kentucky during December 13-15, 2016. The preliminary results were discussed with the LCADD staff at the conclusion of the on-site visit. The LCADD staff was in general agreement with the preliminary results.

The primary criteria used in performing the audit were the grant agreements; applicable Office of Management and Budget (OMB) Circulars, and the ARC Code. The audit was performed in accordance with Government Auditing Standards.

Summary of Audit Results

Overall, the LCADD's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. The costs tested were supported and considered reasonable.

However, we identified two areas that require management attention. While we found that LCADD had an adequate process in place for obtaining and recording data related to the overall goals of the grant, they could improve their reporting in regard to the presentation of the anticipated outputs and outcomes of the project by reporting the exact number of participating students and staff upon completion of each phase of the project to ARC. Also, LCADD was not always submitting their project progress reports and financial reports in accordance with grant requirements.

These issues and the corresponding recommended corrective actions are discussed in the Findings and Recommendations section of this report.
Findings and Recommendations

A. Reporting Metrics

Outputs for the project are measured in terms of the number of students and staff at each participating school who are served by the project. Outcomes are defined as all who have participated in the project. Preliminary estimates for outputs for the initial nine participating schools were 3,600 students and 630 staff, based on approximately 400 students and 70 staff per school.

The initial participant rosters provided to FranklinCovey for these nine schools totaled 3,679 students and 462 staff. However, FranklinCovey stated in correspondence with the grantee that these numbers were based on information provided by the schools at the beginning of the project, and there was some question as to how accurate these numbers were after the program had been implemented. Part of FranklinCovey's responsibility is to obtain rosters from each school (18 participating schools in total) to detail the exact number of participants.

The project progress reports submitted by LCADD to ARC included pertinent information regarding the implementation and overall status of the project, but they often did not contain specific numbers of participating students and staff in regard to the outputs and outcomes required. When this information was included, it was based on the initial participant numbers rather than on the actual participant numbers. The grantee indicated they were in the process of obtaining updated rosters of participants from FranklinCovey as of the time of the audit.

Recommendation

LCADD should continue to pursue and obtain this data from FranklinCovey for all 18 participating schools in order to ensure future reports to ARC are as accurate and detailed as possible.

Grantee Response

LCADD stated that they concur with the finding and recommendation and have placed phone calls and sent emails to FranklinCovey to follow up on previous requests for the data from all the participating schools and will continue to do so until all data is received.

Auditor's Comments

ARC will determine whether the actions taken by the grantee are adequate to resolve the finding and close the recommendation.
B. Reporting Requirements

LCADD did not consistently submit project progress reports and financial reports to ARC in accordance with grant requirements. As a result, LCADD was not fully complying with the grant requirements and was affecting ARC’s ability to monitor the project.

Grant agreement KY-17490 required progress reports for each 120-day period plus a final report. All reports, interim and final, are due within 30 days after the end of their respective reporting periods. We reviewed all ten of the reports that were due and had been submitted by LCADD to ARC at the time of the audit. We found that while there were no periods of time that were not covered by LCADD reporting, nine of the ten reports covered reporting periods ranging between one and seven and a half months, not the 120-day periods required by the grant agreement.

At the exit conference, the grantee agreed their reporting schedule could be changed to coincide with the timeframe established in the grant agreement and informed us they intend to take immediate action on this issue.

Recommendation

LCADD should implement procedures to ensure that project progress reports and financial reports required under grant agreements are submitted in accordance with the grant requirements.

Grantee Response

LCADD stated that they concur with the finding and recommendation, and that all future progress reports will be submitted timely for each 120-day period plus a final report. The 120-day reports will be submitted within 30 days after the end of the respective reporting period.

Auditor’s Comments

ARC will determine whether the actions taken by the grantee are adequate to resolve the finding and close the recommendation.
DATE: January 27, 2017

TO: Leon Snead
Leon Snead & Company, P.C.

FROM: Judy Keltner
Lake Cumberland Area Development District, Inc. (LCADD)

RE: Audit of Grant Award
Project Number KY-17490

I have received the draft audit report for the Appalachian Regional Commission grant # KY-17490.

LCADD concurs with the findings and recommendations and is taking the following actions to implement the recommendations:

- Reporting Metrics – phone calls and emails have been placed to Franklin Covey, to follow-up on previous requests, for the data from all the participating schools. We will continue to pursue this until all data is received.
- Reporting Requirements – all future progress reports will be submitted timely for each 120-day period plus a final report. The 120-day period reports will be submitted within 30 days after the end of the respective reporting period.