



**EXAMINATION OF SELECTED TRANSACTIONS
OF THE KENTUCKY WOOD PRODUCTS COMPETITIVENESS CORPORATION**

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

CONTENTS

	<u>Page</u>
<u>TRANSMITTAL LETTER</u>	1
<u>FINDINGS AND RECOMMENDATIONS</u>	3
<u>EXHIBIT</u>	13



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

March 3, 2003

Debbie Goldberg, Board Chairperson
Kentucky Wood Products Competitiveness Corporation
106 B Progress Drive
Frankfort, Kentucky 40601

RE: Auditor's Report on Selected Transactions of the Kentucky Wood Products
Competitiveness Corporation

Dear Ms Goldberg:

We have performed an examination of selected transactions of the Kentucky Wood Products Competitiveness Corporation (Wood Products) occurring during calendar years 2000, 2001, and 2002 (Examination Period). Our objectives were to determine whether Wood Products operated within statutory guidelines governing contracting, hiring consultants, and approving expenditures, and whether the consulting firm of Goldsmith, Ratcliff, Shoop LLC (GRS) provided verifiable services in exchange for payments received from Wood Products.

We examined Wood Products records and spoke with current and former Wood Products personnel and consultants. We were denied requested access to GRS records by GRS counsel. GRS partners also declined to speak with us. We were unable to verify that GRS performed services for Wood Products. We will refer this issue to the Office of Attorney General to determine whether further investigation is warranted. While the former Wood Products Executive Director offered statements including specific information on work allegedly performed by GRS, we gathered conflicting evidence and statements from others during our examination.

We also determined that Wood Products did not comply with statutory requirements governing contracting, hiring consultants, and approving expenditures in its dealings with GRS and other parties. We found that Kentucky's statutes dealing with Wood Products operations and oversight are insufficient in a number of areas to ensure public funds appropriated to Wood Products are spent appropriately. One notable example is that the statutes do not contain any provision requiring contracts to be in writing.



Ms Goldberg
March 3, 2003
Page 2

We examined the independent audit reports of Wood Products for fiscal years 2000 through 2002. These audits reflect an alarming pattern of expenditures outpacing revenues. Wood Products' current liabilities exceeded current assets at June 30, 2002, by over \$172,000. This financial position calls into question the continued viability of Wood Products.

Other issues also came to our attention during the course of our examination. Wood Products bylaws governing expenditure approvals were not followed. Charges totaling at least \$2,178.46 were made to Wood Products credit cards, which were unnecessary and personal in nature. According to *Funk v. Milliken*, Ky., 317 S.W.2d 499 (1958), public expenditures must be necessary, reasonable in amount, beneficial to the public, and not predominantly personal in nature. In addition, 1099-MISC forms were not completed in compliance with U.S. Treasury Department regulations. Finally, certain best practices related to expenditures were not observed.

The findings noted during our examination are presented and explained in the attached report. We thank Wood Products personnel and others for the cooperation extended to us during the course of our work.

Very truly yours,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

EBHJr:kct

Findings and Recommendations

The financial position of Wood Products at June 30, 2002, calls into question its viability.

*Current liabilities
exceeded current assets by
over \$172,000 at June 30,
2002.*

The Kentucky Wood Products Competitiveness Corporation (Wood Products) was created by KRS 154.45-015 effective July 15, 1994, as:

a de jure municipal corporation and political subdivision of the Commonwealth of Kentucky which shall be a public body corporate and politic, performing functions and purposes essential to improving and promoting the health and general welfare of the people of the Commonwealth through promoting, enhancing, and developing the Commonwealth's secondary wood products industries

In the last four fiscal years, Wood Products has received \$3,407,135 in state appropriations through fiscal year 2002. The independent audit reports for Wood Products reflect an alarming pattern of expenditures outpacing revenues. The Wood Products governmental fund balance, which was nearly \$1.4 million at June 30, 1998, was in deficit at June 30, 2002. Wood Products current liabilities exceeded current assets at June 30, 2002, by over \$172,000.

The eroding financial condition of Wood Products is partially due to not receiving one quarter's appropriation of nearly \$200,000 in fiscal year 1999 due to a change in funding methodology. Also, Wood Products did not receive \$250,000 in an additional grant payment from the Governor's Office of Agricultural Policy in fiscal year 2002 because established requirements were not met to the grantor's satisfaction.

Wood Products guaranteed a loan in March 2000 for Kentucky Wood Manufacturing, Inc., a secondary wood products company located in Harlan County. Wood Products' financial condition further deteriorated when the company failed in July 2001 leaving Wood Products with a financial obligation as guarantor of \$109,361.

Nevertheless, though Wood Products experienced unanticipated financial events the Wood Products Board of Directors (Board) budgeted expenditures in excess of anticipated revenues by more than \$650,000 for fiscal years 2000 through 2002.

Recommendation

We recommend Wood Products adopt a responsible budget and continue to seek additional funding sources to improve its financial condition.

Claims that GRS performed work for Wood Products could not be substantiated.

Conflicting statements were taken regarding how GRS came to be employed by Wood Products.

The consulting firm of Goldsmith, Ratcliff, Shoop LLC (GRS) began invoicing Wood Products in October 2000 for work reportedly performed. We could not reconcile conflicting statements about how GRS came to be employed by Wood Products. The former Executive Director stated that while still with the Governor's Office, a former Director of Intergovernmental Affairs recommended that Wood Products go to GRS for consulting work. However, the former Director of Intergovernmental Affairs stated that he never referred Wood Products to GRS. GRS claims to have been recommended to Wood Products by a Louisville businessman.

The former Wood Products Executive Director states that GRS billed Wood Products \$60,000 in 2002 when no work was performed.

Wood Products paid GRS \$145,000 for "professional services" reportedly rendered between October 2000 and December 2001. GRS submitted invoices for an additional \$60,000 for the period between January and June 2002, but these invoices were not paid according to the former Executive Director because GRS did not perform any work for Wood Products during that period.

The former Executive Director stated that GRS performed the following work for Wood Products between October 2000 and December 2001:

- Handled public and media relations for the Kentuckyvirtual.com (Kentucky Virtual) project; and,
- Assisted in applying for grants from the Appalachian Regional Commission (ARC) for a project in Monroe County and for Kentucky Virtual, the Agriculture Development Board (ADB), U.S. Department of Commerce (Commerce), and Small Business Administration (SBA) for Kentucky Virtual.

The former Executive Director stated a number of Wood Products employees worked with GRS on the above tasks. Each of these employees disavowed working with GRS and none were aware of any work that GRS performed for Wood Products.

The Kentucky Virtual project leader was not aware of GRS performing any work related to Kentucky Virtual.

The former Wood Products E-Commerce Director served as the project leader for Kentucky Virtual. According to the former Executive Director, three different consultants performed public and media relations work at different times for Kentucky Virtual: Ashley Media Company (Ashley Media), GRS, and Creative Alliance Public Relations (Creative Alliance). The former E-Commerce Director recalls working with Ashley Media and Creative Alliance, but never with GRS. Ashley Media initially handled public relations for Kentucky Virtual while Creative Alliance began handling public relations in October 2001. He was not aware of any alleged relationship between Wood Products and GRS until after questions regarding payments to GRS were raised by the media in December 2002.

The former Executive Director stated that GRS reviewed packets sent to vendors soliciting participation on the Kentucky Virtual web site. However, the former E-Commerce Director said that was incorrect and that he did not see how GRS could have performed that work without his knowledge.

Wood Products has no documentation that GRS performed work on any grants, though one grant-related contact with GRS was documented.

We examined hard-copy grant files of Wood Products, spoke with consultants and Wood Products personnel involved with grant applications, and reviewed grant-related electronic file directories on the Wood Products computer network drive. Wood Products hard-copy grant files do not contain any documentation that GRS performed any grant work, though one of these files did contain a single grant-related fax cover page from the former Executive Director to GRS related to grants. According to the cover page, the former Executive Director faxed 14 pages described as “ARC Preliminary Grant Apps” to a GRS partner on December 22, 2000. On the same date, the former Executive Director submitted a preliminary grant application to ARC for a Kentucky Virtual grant.

Every individual we interviewed other than the former Executive Director, stated that they were not aware of any work performed by GRS for Wood Products.

All the Wood Products employees we spoke with, which included all the employees named by the former Executive Director, stated that they were not aware of any work being performed by GRS. The employee of a lumber company that participated in the ARC grant for the Monroe County project also said she had never heard of GRS and was not aware that GRS had performed any work for Wood Products.

A former employee of the Governor's Office of Agricultural Policy who worked with Wood Products on its ADB grant application stated that he was not aware that GRS had performed any work for Wood Products. The ARC Special Counsel knew one of the GRS partners, but he also stated that he was not aware that GRS had performed any work for Wood Products, nor did ARC have any documentation that GRS was involved with Wood Products grant applications.

Electronic files at Wood Products support the position that grant work was performed in house.

Because many interviewees described grant work as being performed internally at Wood Products, we reviewed the grant-related electronic file directories on the Wood Products computer network drive. We found 153 individual files in these directories. The filenames of many of these files included references to application sections and names of Wood Products employees. The presence of these files appears to support statements regarding grant work being performed by Wood Products employees, and raises the question of identifying what additional grant work might have been assigned to GRS.

GRS has not cooperated with Wood Products or with our examination.

The Wood Products Interim Executive Director sent a letter on August 22, 2002, explicitly requesting that GRS provide written documentation of its work. Wood Products legal counsel sent a letter October 1, 2002, informing GRS that Wood Products refused to pay outstanding invoices, citing the lack of any work product evidence. Finally, the Interim Executive Director sent a letter repeating the Wood Products request for written documentation of work from GRS on January 29, 2003. This last letter included notification that if documentation were not received, Wood Products would pursue a refund of payments made to GRS. On February 21, 2003, GRS provided a written response to Wood Products. (See Exhibit A)

We contacted GRS to arrange interviews. In response, we were instructed to direct all inquiries to the GRS legal counsel retained for matters pertaining to Wood Products. GRS counsel requested that we obtain a letter from Wood Products authorizing GRS to grant us access to any documentation GRS may have related to Wood Products. An authorization letter signed by the Board Chairperson was provided to GRS counsel, but counsel ultimately declined to provide information or access to any GRS files. In lieu of documentation, we were provided a copy of the written response to inquiries from Wood Products prepared by GRS in February 2003.

Recommendation

We recommend that Wood Products continue its efforts to compel GRS to document work for which they were paid or seek reimbursement of payments made.

The relationship between Wood Products and GRS differed from relationships with other consultants used by Wood Products.

We have not been provided any written agreement governing the contractual relationship between Wood Products and GRS. While the absence of a written contract is a departure from typical best practice, we discovered no mandate in KRS 154.47 requiring a written agreement. The former Executive Director stated that a written agreement with GRS was created, presented to the Board Executive Committee, and signed by the Board Chairperson sometime in the spring of 2000. A search of the Wood Products office and off-site storage area did not produce the agreement. Board minutes provided by Wood Products did not include any references to such an agreement.

Neither the current Board Chairperson nor the Board member that served as Chairperson in the spring of 2000 recalled seeing or signing any such agreement. The former Board Chairperson did recall, however, the former Executive Director discussing the possibility of hiring GRS in very broad terms with the Board during a meeting. Board meeting minutes provided by Wood Products did not include any references to this discussion.

GRS was the only consulting firm that did not have some form of written agreement for any compensated work.

Though GRS was the second highest paid consultant employed by Wood Products during the Examination Period, it was the only consulting firm that did not have some form of written agreement covering the compensated work. Wood Products does not have a formal policy dictating when written agreements are to be used, how they are to be approved, or who can execute them. However, Wood Products did document to varying degrees agreements with the seven other consultants used during the Examination Period. This documentation ranged from full written agreements executed by both parties to letters of understanding describing the work to be performed and fees to be paid.

GRS was the only consulting firm that did not include detail of hours worked and tasks performed on invoices without a justifiable reason.

GRS invoices did not include any detail of hours worked or tasks performed, but stated only “professional services for the month of” The former Executive Director stated that the fee arrangement with GRS was for total fees based on the amount of work performed, not to exceed \$10,000 per month. He claims to have required GRS to provide detail of hours worked and tasks performed and that their detail was faxed to him by GRS prior to payments and filed in the

Wood Products office. Wood Products facsimile receipt records did not include any transmissions from GRS. The Wood Products employee responsible for receiving and distributing facsimiles did not recall receiving any transmissions from GRS. A search of the Wood Products office and off-site storage area did not produce any such records.

Invoices submitted by six of the seven other consultants used during the Examination Period included detail of hours worked and tasks performed. Invoices submitted by The Commonwealth Group did not include such detail, but instead referenced written agreements. These written agreements with The Commonwealth Group specified the scope of work to be performed in exchange for a fixed monthly fee. Wood Products does not have a formal policy setting minimum standards for information to be included on vendor invoices in order to receive payment.

Recommendation

We recommend that Wood Products implement a formal policy and procedures manual covering financial activities including, but not limited to:

- When written agreements are to be used;
 - Minimum standards for written agreement content;
 - Standard procedures for written agreement approval and execution;
 - When competitive bidding is to be used;
 - Standard procedures for competitive bidding; and,
 - Minimum standards for vendor invoices to receive payment.
-

Insufficient statutory oversight and Wood Products non-compliance with existing statutory requirements allowed the issue with GRS to occur.

Statutes allow but do not require contracts with consultants.

Statutory oversight of Wood Products activities is insufficient to ensure that state funds are used appropriately. A number of statutes govern Wood Products activities. Key controls are absent from some statutes, while others exempted Wood Products from established controls.

KRS 154.47-025 gives the Board authority to enter “into contracts or agreements necessary or incidental to the performance of its duties, functions, and responsibilities” and states the Board may employ “consultants and other persons as may be required in the judgment of the board to be essential to the board’s operations, functions, and responsibilities.” The statute does not address circumstances or set parameters when contracting is necessary.

KRS 154.47-030 gives the Board authority to contract with private firms if the resulting contracts meet several conditions, including competitive requests for proposals, strict performance and accountability criteria, periodic audit, and regular re-bidding. Thus, by foregoing a written contractual agreement with any vendor or consultant, the associated restrictions were circumvented.

Statutes limit the oversight of Wood Products financial activities.

KRS 42.4586 exempts moneys transferred to the Wood Products Development Fund from other provisions governing the Local Government Economic Assistance Program. Among these exempted provisions is the requirement of KRS 42.460 for an annual independent audit. KRS 42.460 requires this audit report to include a certification that the funds were spent for the purpose intended, and specifies the audit be distributed to the Cabinet for Economic Development and the Kentucky Economic Development Finance Authority. While Wood Products does receive an annual independent audit, the exemption granted by KRS 42.4586 reduces the level of assurance regarding the Wood Products expenditures and limits the audit's distribution.

Wood Products did not properly approve payments to GRS or other vendors.

KRS 154.47-020 states "approval of contracts or expenditures of funds under the authority of the corporation shall require an affirmative vote by the entire membership of the board." The statute again does not place a minimum on the amount of funds so expended. Payments to vendors or consultants, regardless of the existence of a contractual agreement, without the voted approval of the Board, appear to constitute a violation of this statute. The Board never voted to approve payments to GRS or any other vendor. Instead, the Board passively delegated its approval authority to Wood Products management.

Wood Products annual reports did not comply with statutory requirements.

KRS 154.47-035 requires Wood Products to submit biennially to the Legislative Research Commission a written status report on its projects and activities. The Budget of the Commonwealth for 2000-2002 imposes additional reporting requirements. The Budget requires annual written status reports, and specifies that the annual report shall include the amount of expenditures by activity within each county and the number of employees and relative salaries within Wood Products. The Wood Products annual reports for 2001 and

2002 do not break down expenditures by activity within each county, nor include the number of employees and relative salaries within Wood Products. The legislature accepted these annual reports though the reports' content did not comply with the Budget requirement.

Recommendations

We recommend that the Legislature:

- Enact legislation requiring written contracts when expenditures over a specified amount are involved;
- Repeal the exemption granted by KRS 42.4586;
- Thoroughly examine annual and independent audit reports taking action as necessary to address issues; and,
- Require and offer comprehensive training for all appointed board and commission members on issues such as:
 - fiduciary responsibilities;
 - assessing financial statements and audit reports;
 - model procurement;
 - investment procedures;
 - internal controls; and,
 - fraud prevention.

We recommend that Wood Products implement procedures to ensure that expenditures are approved and annual reports are prepared in compliance with statutory requirements.

A number of other control issues were noted at Wood Products.

We identified a number of other control issues during the course of our examination. Wood Products bylaws include a formal expenditure approval policy in Article IX that states:

All funds disbursed in an amount greater than \$10,000 will require the signatures of two of the following officers: Treasurer, Chairman, or Vice Chairman. Any funds disbursed in the amount of \$10,000 or less will require the signatures of two of the following: Executive Director, Treasurer, Chairman, or Vice Chairman. The Executive Director and the Office Manager of the Corporation are authorized to jointly sign checks in the amount of \$10,000 or less for office supplies and other normal administrative purchases.

Signature requirements were often not met for Wood Products disbursements.

Seven of the eight checks written to GRS did not comply with Article IX requirements. The Board Secretary signed three checks to GRS, the former Executive Director signed three checks to GRS that had amounts greater than \$10,000, and two checks to GRS were not signed by any Board officers. Such exceptions were not limited to disbursements to GRS. The Board Secretary stated that he often signs Wood Products checks.

Disbursement oversight by members of the Board was insufficient.

We discussed review and approval of disbursements with all Board members who had signed checks to GRS. Two Board members stated that supporting documentation for disbursements was not presented to them along with the checks to be signed. Occasionally these Board members would ask an employee to explain a disbursement if they were unsure what it was for, but they never reviewed supporting documentation or withheld their signatures. These Board members trusted Wood Products employees to prepare only bona fide disbursements and in doing so effectively delegated their oversight to Wood Products management.

Wood Products did not adequately control credit card usage.

Wood Products maintains five credit cards used to make small purchases. Four of these cards are issued to specific Wood Products employees and one card is shared by two employees to make regular purchases for office supplies and other miscellaneous items.

\$500 of Wood Products funds was donated to the National Republican Congressional Committee.

We examined transactions from October 2000 through November 2002 for Wood Products credit cards. We identified a \$500 charge made October 9, 2000, for a donation to the National Republican Congressional Committee (Republican Committee). This donation was charged on the card issued to the former Executive Director, who stated that he had no knowledge of it. However, a Wood Products employee stated that she asked the former Executive Director about the charge after noting it during her routine examination of the monthly credit card statements. According to this Wood Products employee, the former Executive Director stated that the charge was a donation and should be posted as such in the expenditure records. Despite repeated requests, the Republican Committee has not provided any documentation related to the donation.

\$1,678.46 of Wood Products funds were spent for alcohol and other expenses associated with holiday parties.

We also identified credit card purchases made for holiday parties. These events, held in 2000, 2001, and 2002, totaled \$1,678.46. Of this amount, \$284.25 was for the purchase of alcoholic beverages.

According to *Funk v. Milliken*, Ky., 317 S.W.2d 499 (1958), public expenditures must be necessary, reasonable in amount, beneficial to the public, and not predominantly personal in nature. The purchases identified above do not comply with these criteria.

1099-MISC forms were not completed for some vendors, including GRS.

We examined copies of 1099-MISC forms completed by Wood Products for the eight consultants used during the Examination Period. Such forms were not required for two of these consultants because they are organized as corporations. The remaining six consultants were organized as a general partnership, limited liability company, or sole proprietor. Wood Products completed 1099-MISC forms for four of these six consultants. These forms were not completed for GRS or The Commonwealth Group, contrary to 26 CFR 1.6041-1.

Official copies of Wood Products Board minutes were frequently not certified by Board officers.

We examined official copies of Board minutes provided by Wood Products for meetings of the full Board and Executive Committee from August 1999 through November 2002. Minutes for only two meetings were certified by the Board Chairperson, while none of the other minutes were certified by any Board officer.

Recommendations

We recommend that Wood Products:

- Implement procedures to ensure compliance with its bylaws;
- Implement a formal policy regarding disbursement oversight that requires Board member review of supporting documentation prior to signing checks;
- Implement a policy that all expenditures, including those made by credit card, are to be necessary, reasonable in amount, beneficial to the public, and not predominantly personal in nature;
- Implement a procedure to scrutinize credit card expenditures to ensure adherence to the above mentioned policy;
- Implement a procedure to ensure 1099-MISC forms are completed in compliance with 26 CFR 1.6041; and,
- Ensure that official copies of Board meeting minutes are certified by both the Board Chairperson and Secretary.

EXHIBIT

EXHIBIT A

JOHNSON, JUDY, TRUE & GUARNIERI, LLP

ATTORNEYS AND COUNSELLORS

326 WEST MAIN STREET

FRANKFORT, KENTUCKY

40601-1887

TELEPHONE (502) 875-6000

FACSIMILE (502) 875-6008

WILLIAM E. JOHNSON
MICHAEL L. JUDY
J. GUTHRIE TRUE
RICHARD M. GUARNIERI
WILLIAM C. AYER, JR.
PAUL C. HARNICE
DAVID J. GUARNIERI
MARY E. CUTTER

wejohnson@jtg.com
mjudy@jtg.com
gtrue@jtg.com
rguarnieri@jtg.com
bayer@jtg.com
pharnice@jtg.com
dguarnieri@jtg.com
mbcutter@jtg.com

February 21, 2003

Mr. David Rowlette, Executive Director
Kentucky Wood Products Competitiveness Corporation
106 B Progress Drive
Frankfort, KY 40601

Dear Mr. Rowlette:

On February 5, 2003, I wrote and advised you that Goldsmith, Ratcliff & Shoop would respond to questions raised by you in a letter dated January 29, 2003.

You will find attached hereto a sixteen-page summary of the activities undertaken by Goldsmith, Ratcliff & Shoop during the periods mentioned therein. You will note this included work on grants received by Kentucky Wood Products and a wood industry company totaling \$700,000. Considerable effort and time was spent working on numerous other projects for Kentucky Wood Products.

Goldsmith, Ratcliff & Shoop was not asked to and did not accept employment based upon an hourly contract. The firm, after being advised of the services that would be required of it, advised Mr. Kaser of the monthly sum that would be charged for those services. If the fee for services had been based on an hourly charge then records supporting the hours worked would have been maintained. However, such was not the agreement.

Obviously, Kentucky Wood Products must have thought the services were worth the charge because submitted bills were paid, sometimes late, until 2002. Even when Kentucky Wood Products fell behind in payments, Goldsmith, Ratcliff & Shoop continued to provide valuable services to Kentucky Wood Products when called upon. Services were provided as recently as November 2002.

Goldsmith, Ratcliff & Shoop constructed this time line to the best of their abilities, and hope the enclosed summary will explain the types of services requested of them and rendered by them. Goldsmith, Ratcliff & Shoop further believe there were many other projects about which they gave advice which are not listed in the summary.

JOHNSON, JUDY, TRUE & GUARNIERI, LLP

David Rowlette
February 21, 2003
Page 2

Copies of this letter and attached summary are being forwarded to Mr. Brian Lykins of the Auditor of Public Accounts and Hon. Rob Wilkey, Chair, House Subcommittee on Economic Development, for their information.

Sincerely yours,

JOHNSON, JUDY, TRUE & GUARNIERI, LLP

A handwritten signature in black ink, appearing to read "William E. Johnson", with a stylized flourish at the end.

William E. Johnson

WEJ/sm

Attachment

cc: Brian Lykins
Hon. Rob Wilkey

Initial Contacts

Mark Kaser met with Frank Shoop in 1999 on a referral from a Louisville businessman, Peter Malin. KWPCCC was looking for a government consultant, and Frank Shoop suggested The Commonwealth Group to Mark Kaser.

In August 2000, Mark Kaser returned, and asked Kevin, Bennet, and Frank if we could assist in preparing grants and assist in marketing KWPCCC. KWPCCC planned to seek several grants from a variety of sources, and Mark Kaser needed help with the process. In addition, KWPCCC planned to extensively market the e-commerce site, KentuckyVirtual.com, and sought advice and help in this project. We offered our services, but did not begin working until October of 2000.

At this time, Mark Kaser described KWPCCC as a public/private corporation that received funding from various industry sources in addition to funding from state and federal funds. Mark Kaser informed us that our retainer would be paid from industry sources and not from state or federal government funds.

Fourth Quarter 2000

October 2000

Kevin, Bennet, and Frank met with Mark Kaser on several occasions to become familiar with Kentucky Wood Products and the people and companies that create finished wood products.

Mark turned over numerous promotional pieces, brochures, a CD-rom, a catalog, a newsletter and other marketing materials for our review. In addition, Mark took us on a tour of a cabinet finishing company in Lexington and we viewed the processes and expertise involved in wood finishing.

Mark outlined his needs for support on numerous projects that required in-depth knowledge of governmental and intergovernmental processes. He also required advice and knowledge of marketing, media advertising and public relations on several upcoming projects.

Specifically, we were tasked with the following:

- Assistance reviewing Federal resources available through the Appalachian Regional Commission, Department of Commerce, and Small Business Administration, as well as the state Agriculture Development Funds.
- Assistance in writing grant proposals for Federal and state resources;
- Positioning the KWPCCC brand in marketing and public relations materials with targeted audiences;
- Editing and writing of key oral proposals, presentations, speeches or documents pertaining to grants or awards;
- Strategic counsel on how and when to target key decision-makers at the Federal, state and local levels of government;
- Strategic advice on positioning KentuckyVirtual.com in the internet market as the exclusive state sponsored e-commerce vendor (and distribution center) of Kentucky made products;
- Development and execution of a timeline, a rollout strategy, public relations and a media campaign for KentuckyVirtual.com.

November, December 2000

We reviewed the statutes and administrative regulations related to KWPCCC and the Department of Parks for achieving preferred vendor status with the state of Kentucky. In subsequent conference calls and a meeting with Mark Kaser, we outlined our thoughts on the Finance Cabinet's previous positions for preferred status.

We reviewed the resources available to KWPCCC from the Appalachian Regional Commission (ARC). We reviewed a target list and strategy for obtaining these resources for KWPCCC.

On several occasions, we met with Mark Kaser and Kelly Rodman of The Commonwealth Group and outlined our advice on the ARC projects and the Finance Cabinet's ability and willingness to designate KWPCCC as a

preferred vendor along with the Department of Corrections or the Department for the Blind.

We also discussed the possibilities of marketing Kentucky wood products through projects with state agencies such as the Tourism Cabinet and the Department of Parks.

Other topics we discussed were the potential for KWPCCC to receive tax credits or loans through KEDFA and KREDA.

From these meetings and reviews we embarked on a strategy to target numerous resources, grants, credits, and loans.

ARC:

We advised Mark Kaser on the process that the Governor's office undertakes to review and select projects.

We outlined the role of the ARC Project Review Committee that aids the Governor in making his selection. We detailed the Priority List and the three classifications: One, Two, and Three that each project is given. We also discussed the criteria used to determine each project's classification including quality of the project, county need, potential benefit, committed matching funds, etc. We stressed the importance of these original designations as the starting point for grant discussions.

We advised Mark Kaser that should the KWPCCC desire funding from ARC, the Priority One designation was critical. We identified key decision-makers that might offer support to KWPCCC in attaining this designation including the Commissioner of Local Government, Executive Director of the Kentucky Appalachian Commission, and staff to the Governor. We urged Mark Kaser or Kelly Rodman to seek out the status of KWPCCC requests and ask that they be classified as priority one.

Mark informed us that he had decided to submit a \$250,000 proposal for Kentucky Virtual even though the deadline for submissions had passed. We advised Mark Kaser to prioritize his ARC project requests -- including this one -- because seldom did two projects from the same applicant receive grants. Mark set his priorities as follows: the top priority was given to the Virtual gift shop, and two wood industry projects in Monroe county and

Harlan county were classified as second tier or to be pursued through other grants. We urged Mark Kaser or Kelly Rodman to communicate the KWPCC priority list to the appropriate parties.

KEDFA/KREDA/Tax Credits/Loans

We reviewed the potential state programs that the wood products industry might benefit from. We discussed Mark Kaser's stated goal of strengthening the wood products industry's ability to benefit from state incentives and/or loans. We advised as to new legislation and possible changes to the KEDFA statutes that would be required to meet this goal. We discussed potential sponsors and supporters.

We outlined the history of the tax credit program that was written by then-Secretary of Economic Development Paul Patton. We reviewed the possible changes that could be undertaken, and offered our opinion on their merits. We also discussed the positions of various agency officials and legislators regarding a tax credit program versus a KEDFA loan priority.

Kelly Rodman stated that the Commonwealth Group would discuss the possibility of changes with the Governor's office to be sure any changes were acceptable. Mark Kaser and Kelly Rodman would work with the legislature on the Kentucky Wood Industry Development Act.

Marketing Projects

We advised Mark Kaser on the best positioning for KWPCC in the public arena. We reviewed his overall marketing efforts to bring wood products to state parks. We reviewed the possible joint plan and the Memorandum of Agreement with the Parks Department.

We met with Mark Kaser to discuss his upcoming presentation and PowerPoint before he presented to the Department of Parks and individual Parks Directors.

We assisted Mark Kaser in refining a PowerPoint presentation on the marketing plan for Kentucky Virtual. Through an exchange of e-mails with Mark Kaser, we edited and wrote possible changes to strengthen the presentation. We also provided edits and suggestions to the joint plan and the Memorandum of Agreement with the Parks Department. Mark Kaser

originally sought to get the Finance Cabinet to designate KWPC and the Department of Parks as a preferred vendor to supply office furniture to the state's agencies. We walked through the statutes and regulations pertaining to this designation. Ultimately, it was decided that in order to receive a preferable result that statutory changes would be necessary. These changes would provide parks with the same status as Corrections and the Department for the Blind. We reviewed the potential MOA that would position KWPC to benefit from this possible legislation. Mark Kaser would work with the Commonwealth Group to pursue these items.

Agriculture Development Board

We began to review and discuss the Agriculture Development Board application and process.

First Quarter 2001

January, February, March 2001

We continued our work on the goals outlined by Mark Kaser. We attended numerous meetings and held several conference calls to review the updates on the ARC grants, the Finance Cabinet Preferred Vendor status, the State Parks Memorandum of Agreement on marketing and the Agriculture Development presentation.

ARC

We met with Mark Kaser and Kelly Rodman to review the progress on the ARC grants. We learned from Kelly Rodman that the Kentucky Virtual project did not make the Priority One list of funding for the ARC in initial project review discussions. We discussed the possibility that the governor's office did not want to fund the same project from two sources – the ARC and the Agriculture Development Board. We also discussed the late filing of the application and its negative impact.

We advised that additional options in the ARC existed including the Federal Co-Chair fund controlled by the ARC Federal co-Chairman Jesse White and the ARC Entrepreneurial Initiative Fund. We noted that the co-Chairman fund would require coordination with the office of the Governor. We also

noted that the Entrepreneurial Initiative Fund might require an endorsement from the Kentucky Appalachian Commission.

We sought information on the co-Chair fund and the Entrepreneurial Initiative Fund. We advised Mark Kaser and Kelly Rodman that the office of the Governor was the proper coordinating office with the ARC. We advised Mark Kaser and Kelly Rodman to contact the staff of the Governor if KWPCCC wished to pursue the co-Chair and the Entrepreneurial Initiative Fund.

Agriculture Development Board

We developed the initial message and strategy for the Agriculture Development Board presentation. In several meetings, we met with Mark Kaser to review the questions and the application. We suggested ways of positioning the wood products companies in tobacco counties. We discussed the presentation and its collateral materials. We offered Mark Kaser our advice on addressing the various constituencies that make up the Board during his presentation.

We provided support in editing the grant application. We read and gave comments on the Kentucky Virtual business plan. We examined specific questions and offered our advice on responding to them.

We suggested the use of letters of recommendation to bolster the application. Later, we reviewed various letters of support procured by Kelly Rodman and Mark Kaser. We offered our opinion on including these letters to personalize the application.

We reviewed and updated the final Power Point. We drafted opening remarks for the presentation. We strongly urged that the message of the presentation focus on the positive effects that tobacco farm families could expect from the grant.

We were informed of the progress of the grant during a briefing from Mark Kaser. We advised Mark Kaser and Kelly Rodman on the process that may take place at the staff level. We advised that KWPCCC representatives or Kelly Rodman seek feedback at the staff level and identified key staff in the agency to contact.

We made various suggestions to strengthen the KWPC grant. We suggested that Mark Kaser or Kelly Rodman contact John-Mark Hack to inquire about providing additional letters of support and recommendation. We also suggested that a farm family or farmer be recruited to voice their support. We suggested that KWPC staff create a list of examples showing how a tobacco farm family could benefit from the Kentucky Virtual project. Mark or Kelly Rodman would work at the staff level to gauge their reactions to any or all of these possible suggestions.

We advised Mark Kaser to collect positive news articles on former tobacco farmers utilizing e-commerce to enter new industry sectors.

We advised Mark Kaser to consider the minimal grant amounts needed and the possibility of receiving partial funding. Mark Kaser advised us that he felt confident that at least partial funding was almost certain. We noted that a \$1.6 million award from the board would be very significant. Mark mentioned that \$500,000 was necessary to get the virtual gift shop project off the ground. We advised mark to communicate that number to the Board staff.

Mark Kaser and Kelly Rodman outlined the steps they were taking to communicate with board members.

KEDFA/KREDA/Tax Credits/Loans

We discussed the possible award of \$1.4 million in KREDA tax credits to the Kentucky Virtual project. We discussed possible press strategies.

Federal Grants Reviews

We met with Mark Kaser on two occasions to work on preliminary language for Federal grants. We reviewed applications for Department of Commerce and Small Business Administration grants. We discussed contacts at these sites and potential support that could be attained in the office of the Governor and with key state and federal officials.

Legislative Tracking

To keep up to speed on any possible legislation, we began a daily tracking system of wood products related bills. We followed the progress of legislation and agreed report to The Commonwealth Group any information we gleaned.

Second Quarter 2001

April, May, June 2001

We worked on Federal grants.

Federal Grant Reviews

We targeted specific SBA, HUD and Department of Commerce grants for the KWPC to pursue. We met with staff of the Governor's office, the Director of Intergovernmental Affairs, to seek his advice on pursuing Federal grants.

We provided the director of Intergovernmental Affairs with a briefing on KWPC and the work it does on behalf of its industry members.

We met with Mark Kaser to lay out a strategy to involve more advocates for KWPC – particularly at the Federal level.

We set up a meeting with Mark Kaser and the KY Intergovernmental Affairs director to review specifics concerning grants. Mark explained the Kentucky virtual project and discussed the two grants that KWPC was seeking assistance with. We discussed ways in which Intergovernmental Affairs could be helpful in securing these grants.

Intergovernmental Affairs reported its advocacy of KWPC in calls made to the SBA and the Department of Commerce. Additionally, the director agreed to discuss the project with Congressman Ron Lewis's office since his district would house a potential distribution center.

We made follow-up inquiries to assess the status and progress the Intergovernmental Affairs office was making.

Third Quarter 2001

July, August, September 2001

Agriculture Development Board

We met with Mark Kaser and discussed Agriculture Development Board selection process. We outlined the levels of staff review and selection, group review by three board members – called a project review committee, and finally the full board review for selection.

KWPCC received a \$250,000 award with milestones and requirements necessary to receive an additional \$250,000.

We assisted in the press announcement of the funding for KentuckyVirtual.com after the Agriculture Development Board grant was officially awarded in August. We wrote and edited press releases and offered input on language for the annual report.

ARC

A wood industry company in Monroe County was awarded \$200,000 from the ARC.

Marketing Projects

During a conversation with Mark Kaser, we discussed the need for a major marketing strategy to grow Kentucky Virtual and make it successful. We discussed the reality that incremental funding from state sources and the lack of other resources was a serious setback. Mark Kaser noted that what was really needed to grow Kentucky Virtual was by implementing a larger scale marketing campaign, but at present KWPCC lacked resources.

We spent several weeks on calls and in meetings discussing a larger strategy to market wood products and boost sales. We recognized that a marketing and advertising component could give the high profile necessary to drive sales. This could also be a catalyst to grow sales on the Kentucky virtual website.

We researched several other successful efforts to market agricultural products – particularly produce, cheese and other commodities – under a state brand. We explored the possibility of creating a “Kentucky Made” brand that could extend beyond produce and include wood products.

After several false starts, we arrived at the “Kentucky’s Best” concept. This would be a Kentucky produced product that met certain standards. We discussed the possibility of a private company developing the brand and partnering with KWPC, commodities farmers, crafts people, etc.

We agreed that a more stable and established way of getting to this end would be through a partnership with an existing Kentucky-centric company. This would also bring the experience in marketing and distribution that would make the KWPC a good fit. Wood products, crafts, vegetable, and other products would be branded with the “Kentucky’s Best” seal and sold in Kentucky as well as all across the globe using the KentuckyVirtual.com Web site.

We discussed folding former tobacco growers into the project as a way to generate initial interest. The “turning over a new leaf” and using e-commerce and “Kentucky’s Best” as leverage would generate excitement around this new project. This would subsequently drive eyeballs to the Kentucky Virtual website.

We met on numerous occasions to locate a suitably experienced executive or company. We searched the Internet and e-commerce sector for candidates.

We also advised Mark Kaser of a unique opportunity to market Kentucky wood products during the Southern Governors’ Association conference in Lexington. We suggested Mark put together marketing materials that could be included in gift bags for conference attendees including southern state Governors and their staff.

We discussed the possibility of including wood industry materials in gift bags with the staff of the Governor. We arranged for coordination to begin with event staff and KWPC.

Wood Factory of the Future

We met with Mark Kaser to discuss his ideas for a new project, the Wood Factory of the Future. He outlined his ideas for a high-tech wood finishing facility. He discussed ideas on involving the U of K, the Kentucky Natural Resources Cabinet, and possibly the Department of Energy. Mark Kaser told us that this informational meeting was to keep us informed as the concept was under development. No action steps were outlined.

We discussed with Mark Kaser the possibility of attracting a large manufacturer of furniture, like Kimball, to partner with KWPC on the project.

A second meeting to discuss the development was scheduled for October.

Fourth Quarter 2001

October, November, December 2001

We met in October with Mark Kaser to discuss the Wood Factory of the Future. Again, Mark Kaser briefed us on the broader concepts that were under development. We discussed ways to attract Kimball to invest in such a facility. We suggested that it would be necessary to register as lobbyists in order to pursue this project for Mark Kaser.

We met again with Mark Kaser to review our thoughts from the October meeting. Mark discussed his funding goal of \$5-6 million coming from a variety of sources. We discussed the possible need to register as lobbyists.

In December, we registered as lobbyists for KWPC.

Marketing Projects

On the recommendation of Peter Malin, we began researching a local company, A Taste of Kentucky. We reviewed the web site and discussed options on approaching the executive team at the company.

We met with the leadership of A Taste of Kentucky and began to develop the idea of partnering KWPC. We reviewed the web sites of both potential partners and discussed the ability to merge or form a mutual alliance.

We began to draw up draft business plans and strategies that would leverage the two entities strengths – retail and catalogue sales and an e-commerce site serving a statewide network of wood finishing companies.

We met and began developing ideas for marketing a unified “Kentucky’s Best” brand in conjunction with the Internet and retail sales. We discussed the possibility that other entities were also working on similar projects.

On numerous calls and in meetings, we discussed partnering with the Department of Agriculture who had long expressed interest in marketing Kentucky products using a similar over-arching strategy. Their concept remained undeveloped but was becoming a higher priority.

We continued to rewrite and refine ideas and a business plan to incorporate or merge the KentuckyVirtual web site with the retail and catalogue business of A Taste of Kentucky.

We met with the Agriculture Development Board executive director John-Mark Hack and his chief deputy Gordan Duke to discuss the broad outlines for a project that combined e-commerce, retail, catalogue and direct sales. We outlined various scenarios to gauge the level of interest in such a project.

We were briefed on the Board’s mission and goals as it related to tobacco farmers. We were questioned on the role that tobacco farmer’s would play in the project. We were quizzed about the possible economic benefits to tobacco farm families.

We agreed to continue to broaden the concept and return with a structured business plan that incorporated e-commerce, tobacco farmers and retail.

We worked to refine the plan and develop a business model. Through numerous drafts, we worked to integrate all the various components.

We also brainstormed with Mark Kaser about a woodland’s buyout project. We met with Mark Kaser and discussed a possible program to allow farmers to receive up-front payments in return for allowing trees on their property

to mature for future harvest. We discussed the effect this could have on marketing by increasing the quality of wood available from Kentucky.

We discussed the idea with the Agriculture Development board executive director to gather his thoughts on a woodlands buyout.

First Quarter 2002

January, February, March 2002

Marketing Project

We met with Mark Kaser in our office and presented him with the concept for a branding, marketing, and advertising plan that would enhance KentuckyVirtual.

We discussed with Mark Kaser the creation of a private entity to develop the "Kentucky's Best" brand. Mark Kaser expressed pleasure at the hard work and creativity we exhibited in developing this proposal and project. We discussed the possibility of having a KWPC representative on the board of the new entity. We discussed the possibility that a representative of the Agriculture Development Board would also be represented.

Mark Kaser agreed that this was the next and logical step for KentuckyVirtual. We discussed the growth strategy for the e-commerce site. He discussed with us the effects of a possible purchase of KentuckyVirtual by the new entity. We discussed an acquisition of the site by the new entity and a possible frontloaded buyout. We agreed that the revenue generated from a buyout could aid in other KWPC projects. Mark mentioned that with this proposed buyout, more time could be freed up to develop the Wood Factory of the Future and Kimball's possible involvement.

We continued to develop the business plan and kept Mark Kaser up to speed on the progress. We conducted lengthy discussions and numerous meetings with executives at A Taste of Kentucky. We produced a draft business plan. In February, we met again with the Agriculture Board director and his chief deputy to apprise them of our progress.

In March, we met with Mark Kaser and briefed him on the pace of discussions concerning the business plan.

Wood Factory of the Future

In January, we met with Agriculture Development Board senior staff to discuss the possibilities involving a proposal with Kimball. We briefed them on our ideas and sought their input. We made follow-up calls to gauge their interest, and reported back to Mark Kaser.

In March, we met with Mark Kaser and agreed to take the Kimball project to the whole Board and discuss possible funding.

Agriculture Development Board

The second round of funding for the KWPC was meeting resistance. We spoke by conference call with Mark Kaser and discussed the project to date. We agreed to meet Mark and discuss the possible issues. Separately, we spoke with Agriculture Development Board staff to discuss the project to date.

Mark Kaser then called us to request a meeting with John-Mark Hack to discuss the second round of funding. We set that meeting and suggested a pre-meeting with Mark Kaser in order to prepare for the meeting with John-Mark Hack.

In March, we met with Mark Kaser to discuss the problems concerning the funding of the next phase. We agreed to go with Mark Kaser and discuss the needed steps to secure funding.

We spoke to John-Mark Hack who informed us that matching fund requirements were the source of the problem. He outlined that Mark Kaser was fully aware of this, and walked us through the steps that needed to be taken to meet the requirements and qualify to receive the second phase of funding. He mentioned that Mark Kaser knew of these steps already.

KWPCC

Mark Kaser informed us at a separate March meeting that his budget had “hit a snag.” He explained that there were competing interests for his state dollars. Mark Kaser repeated to us that we were paid from a separate fund

of non-state dollars, and were not part of the budget snag. We asked if KWPC would resume timely payments.

Second Quarter 2002

April May June 2002

Agriculture Development Board

In April, we met with Mark Kaser and John-Mark Hack to attempt to resolve any questions surrounding the second round of funding. John-Mark Hack walked us through the steps needed to reach the milestones necessary to attain the next \$250,000 grant.

We also discussed the woodlands project and the Kimball project and received John-Mark Hack's feedback.

Wood Factory of the Future

In April we met with Mark Kaser to devise a strategy concerning the Kimball project. Mark Kaser discussed presenting the project to Governor Patton and UK President Lee Todd. We discussed forming a delegation to attract Kimball. We discussed the role of potential players: Economic Development Cabinet, the Governor's office, and U of K. Mark Kaser told us he would get back to us on the plans.

Third Quarter 2002

July August September 2002

Agriculture Development Board

In an August meeting with Debbie Goldberg, we outlined the matching funds difficulty concerning the second round of funding.

Fourth Quarter 2002

October November December 2002

Agriculture Development Board

The second round of funding, \$250,000, was approved by the Agriculture Development Board. We telephoned Debbie Goldberg to congratulate her.

Legislative

David Rowlette called and spoke to Stephanie Bell in our office. He asked her about the possible budget negotiations that might take place in the 2003 session. He asked her opinion of the funding situation and the revenue shortfall projections. He asked specific budget questions relating to different legislators involved and the possible options for the Governor's office. David Rowlette listened as Stephanie Bell outlined the information she knew concerning these possible budget and revenue scenarios. The call lasted at least twenty minutes.

After the call, Stephanie Bell contacted us to report having spoken to David Rowlette about the budget.

