



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to Sprouting Farms, Corp. Grant Number PW-19721

Report Prepared by Castro & Co, LLC

Report Number 23-17

June 1, 2023

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, Suite 718
Washington, D.C. 20009



Office of Inspector General

Appalachian Regional Commission

June 1, 2023

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit Report 23-17 - Sprouting Farms, Corp.

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number PW-19721 per its agreement with the Appalachian Regional Commission. The objective of the audit was to determine if costs claimed were allowable, allocable, reasonable, and in conformity with the Commission's award terms and conditions and Federal financial assistance requirements. In addition, the audit determined whether the performance measures were reasonable, supported, and fairly represented to the Commission.

Castro & Company, LLC, is responsible for the attached audit report and the conclusions expressed in this report. We do not express any opinion on the conclusions presented in the audit report. To fulfill our responsibilities, we:

- Reviewed the approach to and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings, as necessary;
- Reviewed the draft and final audit reports; and
- Coordinated the issuance of the audit report.

The auditors made two recommendations in the report. Within the next 30 days, please provide me with your management decisions describing the specific actions that you will take to implement the recommendations.

We thank your staff for the assistance that was extended to the auditors during this audit. Please contact me at 202-884-7675 if you have any questions regarding the report.



**Appalachian Regional Commission
Performance Audit Report
of Grant No. PW-19721
For the period from October 1, 2019 to September 30, 2022
Awarded to Sprouting Farms, Corp.**

**Prepared for the Appalachian Regional Commission
Office of Inspector General**

May 31, 2023

Final Report

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Executive Summary

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, NW; Suite 700
Washington, DC 20009

Castro & Company, LLC (Castro & Co) conducted a performance audit of Grant Number PW-19721 awarded by the Appalachian Regional Commission (ARC) to Sprouting Farms, Corp. (the Grantee or Sprouting Farms) for the period of October 1, 2019 to September 30, 2022. The audit was conducted at the request of the ARC Office of Inspector General to assist it in its oversight of ARC grant funds.

The objectives of the performance audit were to determine whether: (1) grant 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 guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with accounting principles generally accepted in the United States of America (or other applicable accounting and reporting requirements); (5) matching requirements were met; and (6) the reported performance measures were fair and reasonable.

We determined that except for Finding 01 related to financial management described in **Appendix A – Findings and Recommendations**; the Grantee’s financial management, administrative procedures, and related internal controls were adequate to manage the ARC grant funds.

We discussed the results of this performance audit with the Grantee’s management at the conclusion of our fieldwork. The Grantee’s response has been included as **Attachment 1 – Sprouting Farms, Corp.’s Response** to this report.

Castro & Co appreciates the cooperation and assistance received from the Grantee and ARC staff during this performance audit.

Castro & Company, LLC

Alexandria, VA
May 31, 2023

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency, representing a unique partnership of Federal, state, and local governments. ARC-funded programs are used to support education and job training; health care; water and sewer systems; housing; highway construction; and other essentials of comprehensive economic development. ARC grants are made to a wide range of entities including local development districts, state ARC offices, state and local governments, educational establishments, nonprofit organizations, and for a variety of economic development projects. Castro & Company, LLC (Castro & Co) was contracted by the ARC's Office of Inspector General (OIG) to perform the audit of Grant No. PW-19721 awarded to Sprouting Farms, Corp. (the Grantee or Sprouting Farms) for the period from October 1, 2019 to September 30, 2022.

ARC awarded Grant No. PW-19721 to Sprouting Farms to provide funding support for the scaling of agricultural production to meet the needs of additional wholesale markets as well as build a workforce development network that creates a pipeline of skilled, reliable workers that are ready to join the ranks of local agribusinesses seeking to meet the growing demand for local foods.

The original period of performance for Grant No. PW-19721 covered the period from October 1, 2019 through September 30, 2022 but was subsequently extended to January 31, 2023. The grant agreement provided a budget of \$1,499,993 in ARC funds and required non-ARC matching funds of \$1,772,923 for total project costs of \$3,272,916. The allowable percentage breakout of ARC to non-ARC funding for the project was 46% ARC funds to 54% matching funds.

We obtained the ARC Form SF 270 *Request for Advance or Reimbursement* for the period covering July 1, 2022 to September 30, 2022 that identified cumulative total ARC costs of \$1,330,567 (43%) and non-ARC matching costs of \$1,769,668 (57%) for a total project cost of \$3,100,235.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of Sprouting Farms to determine compliance with the requirements of the ARC Grant No. PW-19721 for the period from October 1, 2019 to September 30, 2022.

The budgeted amounts for the grant are presented in Exhibit A below:

Exhibit A: Schedule of Grant Budget			
Category	Federal Amount	Non-Federal Amount	Total
Personnel	\$ 205,000	\$ 41,247	\$ 246,247
Benefits	\$ 50,000	\$ -	\$ 50,000
Travel	\$ 6,963	\$ -	\$ 6,963
Equipment	\$ -	\$ 159,000	\$ 159,000
Supplies	\$ 24,945	\$ 20,000	\$ 44,945
Contractual	\$ 69,000	\$ 69,753	\$ 138,753
Other	\$ 1,090,997	\$ 1,482,923	\$ 2,573,920
Indirect	\$ 53,088	\$ -	\$ 53,088
Total	\$ 1,499,993	\$ 1,772,923	\$ 3,272,916

The objectives of our audit were to determine whether the Grantee used grant funding from the ARC in accordance with its ARC grant agreement and complied with financial management requirements, specifically to determine whether:

- Program funds were managed in accordance with the ARC and Federal grant requirements;
- Grant funds were expended as provided for in the approved grant budget;
- Internal grant guidelines, including program (internal) controls, were adequate and operating effectively;
- Accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements);
- Matching requirements were met; and
- Reported performance measures were fair and reasonable.

The scope of this audit includes those costs addressed in Sprouting Farms' system that specifically apply to ARC, such as personnel, benefits, travel, equipment, supplies, contractual, other, and indirect costs. We conducted this performance audit from September 2022 to May 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit was conducted using the applicable requirements contained in Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the ARC Code, and the Grant Agreement.

To meet the audit objectives, our overall methodology included the following:

- Obtaining an understanding of the Grantee's internal controls and documenting key controls over payroll, cash disbursements, cash receipts, procurement, equipment, and match costs through reviews of policies and procedures, prior audit reports, organization charts, inquiry

of the Grantee's management and other available documentation, assessing control risk, and determining the extent of testing needed based on the control risk assessment;

- Considering fraud risk through a team fraud brainstorming session and inquiries of the Grantee's management about their understanding of the risks of fraud related to grant awards, programs and controls the Grantee has established to mitigate specific fraud risks, and whether management is aware of any allegations of fraud or suspected fraud;
- Selecting a sample of expenditures based on materiality calculated using the Government Accountability Office (GAO)/Council of the Inspectors General on Integrity and Efficiency (CIGIE) Financial Audit Manual (FAM) sections 230.01 through 230.13 and auditing, on a test basis, evidence supporting the grant funds were expended during the grant period, were properly supported and allowable under both Federal and ARC requirements;
- Testing match costs to determine whether match requirements were met, were properly supported and allowable under both Federal and ARC requirements;
- Conducting interviews with the Grantee to evaluate the Grantee's processes for accurately tracking and reporting on the grant performance measures.

Grantee's Response to Audit Results

Our audit results were discussed with Mr. Tj Flexer, Executive Director, Ms. Natasha Sandell, Senior Accountant, and Ms. Rebecca Crispin, Grant Administrator and Educational Coordinator, for Sprouting Farms during the exit conference on May 23, 2023. Sprouting Farms concurred with our results. Sprouting Farms' reactions have been incorporated into the report and a copy of Sprouting Farms' response, in its entirety, can be found in **Attachment 1 - Sprouting Farms, Corp.'s Response** of this report.

Summary of Results

Castro & Co's procedures determined that except for Finding 01 related to financial management described in **Appendix A**; Sprouting Farms managed the grant funds in accordance with the ARC and Federal grant requirements. Grant funds were expended as provided for in the approved grant budget.

Sprouting Farm's financial management, administrative procedures, and internal controls were adequate to account for the funds provided under the ARC grant. The Grantee's internal guidelines, including program (internal) controls, were adequate and operating effectively. We noted the Grantee had written policies and procedures for applicable grant activities, which we considered adequate for administering the grant. Accounting and reporting requirements were implemented in accordance with accounting principles generally accepted in the United States of America (or other applicable accounting and reporting requirements), including ARC requirements, except for the matter described in Finding 01. We questioned \$13,346 of non-Federal match funds as a result of unsupported match costs claimed on behalf of the Grantee's partner organization.

The Grantee had a total of \$1,330,567 in ARC costs and \$1,769,668 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of September 30, 2022. These matching funds were properly supported and allowable under both Federal and ARC requirements

except for the \$13,346 in non-ARC matching costs questioned in Finding 01. We also determined that the Grantee implemented effective policies and procedures to accurately capture, record, and report grant performance measures. Based on our review of the Grantee’s procedures, the performance results reported to ARC were fair and reasonable.

The Exhibit B below presents costs claimed by Sprouting Farms and costs recommended as a result of the grant audit.

Exhibit B: Schedule of Claimed and Audit Recommended Costs							
Category	Claimed		Questioned Cost		Audit Recommended		
	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ 226,660 ¹	\$ 41,247	\$ -	\$ -	\$ 226,660	\$ 41,247	\$ 267,907
Benefits	\$ 50,000	\$ -	\$ -	\$ -	\$ 50,000	\$ -	\$ 50,000
Travel	\$ 6,963	\$ -	\$ -	\$ -	\$ 6,963	\$ -	\$ 6,963
Equipment	\$ -	\$ 159,000	\$ -	\$ -	\$ -	\$ 159,000	\$ 159,000
Supplies	\$ 21,395	\$ 20,000	\$ -	\$ -	\$ 21,395	\$ 20,000	\$ 41,395
Contractual	\$ 29,763	\$ 69,753	\$ -	\$ -	\$ 29,763	\$ 69,753	\$ 99,516
Other	\$ 942,698	\$1,479,668	\$ -	\$ 13,346 ²	\$ 942,698	\$ 1,466,322	\$ 2,409,020
Indirect Costs	\$ 53,088	\$ -	\$ -	\$ -	\$ 53,088	\$ -	\$ 53,088
Total	\$ 1,330,567	\$1,769,668	\$ -	\$ 13,346	\$ 1,330,567	\$ 1,756,322	\$ 3,086,889

¹ ARC funded Personnel costs of \$226,660 exceeded the budget amount by \$21,659. However, the amount does not exceed \$310,023 or ten percent of the project’s total approved budget; therefore, prior ARC approval was not required.

² As a result of our audit, questioned costs were identified related to this budget category. For further explanation of the questioned costs identified, refer to Appendix A – Findings and Recommendations.

Appendix A – Findings and Recommendations

Finding 01 – Unsupported Non-ARC Matching Funds Questioned Costs

Condition:

As part of our procedures, we reviewed receipts and supporting documentation submitted for non-ARC matching costs incurred during the grant period. Sprouting Farms, Corp. (the Grantee or Sprouting Farms) claimed matching funds on behalf of multiple sub-grantees in accordance with their sub-grantee agreement; however, under 2 CFR Title 2 Subtitle A Chapter II Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance or 2 CFR Part 200), the following costs incurred were deemed unsupported match expenses:

- Legal and professional fees incurred which resulted in questioned costs of \$6,196.
- Supplies and materials costs incurred which resulted in questioned costs of \$7,150.

Criteria:

2 CFR Part 200.306, *Cost sharing or matching*, states:

(b) For all Federal awards, any shared costs or matching funds and all contributions, including cash and third-party in-kind contributions, must be accepted as part of the non-Federal entity's cost sharing or matching when such contributions meet all of the following criteria:

- (3) Are necessary and reasonable for accomplishment of project or program objectives
- (4) Are allowable under subpart E of this part [Auditor's note: Subpart E – *Cost Principles* begins with 2 CFR §200.400]
- (7) Conform to other provisions of this part, as applicable.

(j) For third-party in-kind contributions, the fair market value of goods and services must be documented and to the extent feasible supported by the same methods used internally by the non-Federal entity.

2 CFR Part 200.332, *Requirements for pass-through entities*, states:

All pass-through entities must:

(a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the passthrough entity must provide the best information available to describe the Federal award and subaward. Required information includes:

- (2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award.

2 CFR Part 200.403, *Factors affecting allowability of costs*, states:

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (c) Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity.
- (g) Be adequately documented.

Cause:

As the pass-through entity, Sprouting Farms is responsible for ensuring the sub-grantee follows ARC and Federal grant regulations. Although Sprouting Farms had established sub-grantee agreements that met the Federal requirements for submitting cost claims for grant funding, Sprouting Farms did not have adequate controls in place for verifying the sub-grantee costs were adequately supported by source documentation.

Effect:

The absence of adequate controls prevented Sprouting Farms from identifying and removing unsupported costs and ensuring compliance with the match requirements prior to requesting reimbursements from ARC. Therefore, ARC could require the Grantee to exclude total questioned costs in the amount of \$13,346 from the total non-Federal match funds.

Recommendations:

We recommend:

1. The Grantee revise the final ARC Form SF 270 *Request for Advance or Reimbursement* to exclude total questioned cost in the amount of \$13,346 from the total non-Federal match funds.
2. The Grantee develop policies and procedures to ensure that costs claimed are adequately supported by source documents in accordance with the regulations.

Grantee's Response:

Grantee takes no exception to and agrees with the finding.

Auditor's Response:

Sprouting Farms concurred with the finding; therefore, no further comment is necessary.

Attachment 1 – Sprouting Farms, Corp.’s Response



5/26/23

Castro & Company, LLC
1635 King Street
Alexandria, VA 22314
(703) 229-4440

Subject: Sprouting Farms, Corp. Response to Castro & Company, LLC’s Performance Audit of Grant Number PW-19721

Sprouting Farms, Corp. Response takes no exception to and agrees with Castro & Company, LLC’s findings presented in the audit report of Grant Number PW-19721 for the period from October 1, 2019 through September 30, 2022.

Sincerely,



Thomas Flexer
Executive Director
Sprouting Farms Corp.