



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to University of Alabama Center for Economic Development Grant Number AL-19981

Report Prepared by Castro & Co, LLC

Report Number 24-03

November 16, 2023

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



Office of Inspector General

Appalachian Regional Commission

November 16, 2023

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit Report 24-03 – University of Alabama Center for Economic Development

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number AL-19981 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 three 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 recommendation.

We thank your staff for the assistance 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. AL-19981**

**For the period from August 1, 2020 to July 31, 2022
Awarded to the University of Alabama Center for Economic
Development**

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

November 14, 2023

Final Report

Table of Contents

Executive Summary 1

Background..... 2

Objectives, Scope, and Methodology 2

Summary of Results..... 4

Appendix A – Findings and Recommendations 6

Attachment 1 – University of Alabama Center for Economic Developments’ Response 9

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 AL-19981 awarded by the Appalachian Regional Commission (ARC) to the University of Alabama Center for Economic Development (UACED or the Grantee) for the period of August 1, 2020 to July 31, 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 Findings 01 and 02 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 UACED’s management at the conclusion of our fieldwork. The Grantee’s response has been included as **Attachment 1 – University of Alabama Center for Economic Development’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
November 14, 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 to perform the audit of Grant No. AL-19981 awarded to the University of Alabama Center for Economic Development (UACED or the Grantee) for the period of August 1, 2020 to July 31, 2022.

ARC awarded Grant No. AL-19981 to UACED to provide funding for services, training, and strategic plans to assist communities throughout the four-county, I-22 Corridor in Northwest Alabama and strengthen the area's tourism economy. The project will be primarily executed by UACED, who will provide the staff, materials and equipment, meeting space, etc. to facilitate the various components of the project. The Grantee had two project partners (West Alabama Regional Commission, and Northwest Alabama Council of Local Governments) who assisted with the assessments, drafting of strategic plans, and implementation of priority projects.

The original period of performance for Grant No. AL-19981 covered the period from August 1, 2020 to July 31, 2021 but was subsequently extended to October 31, 2022. The grant agreement provided a budget of \$192,621 in ARC funds and required non-ARC matching funds of \$102,872 for total project costs of \$295,493. The allowable percentage breakout of ARC to non-ARC funding for the project was 65% ARC funds to 35% matching funds.

We obtained the ARC Standard Form (SF) 270, *Request for Advance or Reimbursement*, for the period covering April 1, 2022 to July 31, 2022 that identified cumulative total ARC costs of \$113,910 (45%) and non-ARC matching costs of \$139,464 (55%) for a total project cost of \$253,374.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of UACED to determine compliance with the requirements of the ARC Grant No. AL-19981 for the period from August 1, 2020 to July 31, 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	\$ 79,284	\$ 70,848	\$ 150,132
Fringe Benefits	\$ 25,371	\$ 22,672	\$ 48,043
Contractual	\$ 75,000	\$ -	\$ 75,000
Indirect Cost	\$ 12,966	\$ 9,352	\$ 22,318
Total	\$ 192,621	\$ 102,872	\$ 295,493

The objectives of our audit were to determine whether the Grantee used grant funding from 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 UACED’s system that specifically apply to ARC such as personnel, fringe benefits, contractual, and indirect costs. We conducted this performance audit from March 2023 to November 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 cash disbursements, cash receipts, personnel, fringe benefits, indirect, and match costs through reviews of policies and procedures, prior audit reports, organization charts, inquiry of UACED 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 UACED management about their understanding of the risks of fraud related to grant

awards, programs and controls UACED 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 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 Ms. Jennifer Camp, Associate Vice President, Mr. Arturo Menefee, Interim Executive Director, Ms. Sally Brown, Administrative Coordinator, Ms. Sarah Rust, Assistant Accountant Fiscal Compliance, Mr. Zack Summy, Accountant, for UACED during the exit conference on November 6, 2023. UACED partially concurred with our results. UACED's reactions have been incorporated into the report and a copy of UACED's response, in its entirety, can be found in **Attachment 1 – University of Alabama Center for Economic Development's Response** of this report.

Summary of Results

Castro & Co's procedures determined that UACED 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 except for the matters described in Findings 01 and 02 in **Appendix A**.

UACED'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 matters described in Findings 01 and 02. We questioned \$1,517 of ARC funds and \$1,216 of non-ARC matching funds as a result of costs claimed for an unapproved budget line item.

The Grantee reported a total of \$113,910 in ARC costs and \$139,464 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of July 31, 2022. These matching funds were properly supported and allowable under both Federal and ARC requirements except for the \$1,216 in non-ARC matching costs questioned in Finding 01. Based on our review of the Grantee's procedures, the performance results reported to ARC were fair and reasonable.

We reviewed Single Audit reports available on the Federal Audit Clearinghouse for UACED and noted the Grantee had Single Audits performed for the years ended September 30, 2020, September 30, 2021, and September 30, 2022. The Single Audit report for the year ended September 30, 2022, identified a significant deficiency in internal control over financial reporting related to unrealized gains in fiduciary fund financial statements. The Single Audit report did not identify deficiencies in internal control over compliance requirements as outlined in the OMB Compliance Supplement; therefore, we determined that the prior year’s finding does not impact the Grantee’s financial reporting of expended grant funds to ARC.

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

Exhibit B: Schedule of Claimed and Audit Recommended Costs							
Category	Claimed		Questioned Cost/ Audit Adjustments		Audit Recommended		
	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ 99,048	\$ 99,450	\$ (90,650) ¹	\$ (8,930) ¹	\$ 8,398	\$ 90,520	\$ 98,918
Fringe Benefits	\$ 2,990	\$ 26,119	\$ -	\$ -	\$ 2,990	\$ 26,119	\$ 29,109
Travel	\$ 1,517	\$ 1,216	\$ (1,517) ²	\$ (1,216) ²	\$ -	\$ -	\$ -
Contractual	\$ -	\$ -	\$ 90,650 ¹	\$ 8,930 ¹	\$ 90,650	\$ 8,930	\$ 99,580
Indirect Cost	\$ 10,355	\$ 12,679	\$ -	\$ -	\$ 10,355	\$ 12,679	\$ 23,034
Total	\$113,910	\$139,464	\$ (1,517)	\$ (1,216)	\$ 112,393	\$ 138,248	\$ 250,641

¹ Contractual costs were misclassified and inaccurately reported within Personnel costs on the SF-270 for the period covering April 1, 2022 to July 31, 2022, which is noted as an Adjustment to reported amounts. For further explanation of the audit adjustments, refer to Finding 02 in Appendix A – Findings and Recommendations. In addition, the cost category for ARC funded Contractual costs exceeded the budget amount by \$15,650. The amount does not exceed \$29,549 or ten percent of the project’s total approved budget; therefore, prior 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 Finding 01 in Appendix A – Findings and Recommendations.

Appendix A – Findings and Recommendations

Finding 01 – Costs Claimed under New Budget Line Prior to ARC Approval

Condition:

As part of our procedures, we compared the grant budget costs approved by the Appalachian Regional Commission (ARC) with cumulative total ARC costs incurred and reported on Standard Form (SF) 270, *Request for Advance and Reimbursement*, for the period covering April 1, 2022 to July 31, 2022. The University of Alabama Center for Economic Development (UACED or the Grantee) claimed \$1,517 of ARC funds and \$1,216 of non-ARC matching funds for travel expenses that were not included in the grant budget approved by ARC.

Criteria:

ARC Grants Administration Manual for ARC Non-Construction Grants (February 2020)

“Prior ARC approval is required for changes to major line items when the grant amount exceeds \$100,000 and the total proposed transfer exceeds ten percent of the project’s total approved budget. To request a budget change, submit a budget revision worksheet and narrative justification to the ARC project coordinator and State Program Manager. Note that the 10 percent cap on budget changes is cumulative over the life of the project and that new budget line items cannot be created. The State Program Manager must concur with the request before ARC will consider a budget change request. Budget changes that involve substantial revision to the scope of work or objectives of the project regardless of the grant amount or amount of money being moved always require prior ARC approval.”

Cause:

The Grantee emailed ARC on several occasions beginning on April 15, 2021 to submit a budget revision with their request for a grant extension and did not receive a response from ARC until July 30, 2021. ARC approved Amendment 1 on July 30, 2021 in response to UACED’s request for an extension to the period of performance; however, the amendment did not address the budget revision request. Subsequently, UACED submitted a request for reimbursement for the period ending July 31, 2021 that included \$1,517 of ARC funded travel costs that was approved by the ARC Project Coordinator. However, the Grantee and ARC have no record of ARC formally approving the requested budget revision. Additionally, the Grantee’s budget revision request included a line item for travel cost under non-ARC matching cost but not for travel cost under ARC funded cost.

Effect:

UACED claimed costs under a travel budget line item prior to receiving approval from ARC which resulted in total questioned costs in the amount of \$1,517 for ARC funded and \$1,216 for non-ARC matching cost share.

Recommendation:

We recommend that the Grantee:

1. Reimburse ARC in the amount of \$1,517 for ARC funded travel costs not approved by ARC.
2. Revise the SF-270 to exclude the total questioned costs in the amount of \$1,517 from the total ARC funds and \$1,216 from the total non-ARC match funds.

Grantee's Response:

The University of Alabama (UA) takes exception to and disagrees with Castro & Company, LLC's Finding 01 presented in the audit report of Grant Number AL-19981 for the period from August 1, 2020 through July 31, 2022.

Regarding Finding 01 – Costs Claimed under New Budget Line Prior to ARC Approval, The University of Alabama takes exception to and disagrees with Castro & Company, LLC's finding for the following reasons:

The UA Center for Economic Development formally submitted an extension request to ARC on April 15, 2021, which explicitly included a revised budget for the extension period. UA sent follow-up inquiries regarding this request to ARC on April 21, May 24, June 25, and July 20, 2021. The ARC representative did not respond until July 30, 2021 at which time he stated that the request was awaiting final approval from the division director. UA subsequently received an amendment from ARC that extended the period of performance.

1. The revised budget was enclosed with the extension request submitted to ARC (one PDF document).
2. The extension request letter signed by the UACED Executive Director referenced the new budget.
3. ARC did not address the budget request separately.

Therefore, UA interpreted the ARC amendment to include all aspects of the extension request, including the revised budget. To further support this interpretation, UA submitted financial report #3 to ARC on October 7, 2021, which included reporting of travel expenditures. ARC approved financial report #3 on October 13, 2021 and did not question the travel costs.

Documentation to support the above-referenced timeline was provided to Castro & Company, LLC during the audit. Thank you in advance for your consideration.

Auditor's Response:

Castro & Company, LLC (Castro & Co) received documentation referencing UACED's statements above and included that information in Finding 01. However, as stated in Finding 01, the Grantee and ARC have no record of ARC formally approving the requested budget revision and the Grantee's budget revision request included a line item for travel cost under non-ARC matching cost but not for travel cost under ARC funded cost. While Castro & Co was aware of and understood UACED's interpretation of the events, Finding 01 remains unchanged.

Finding 02 – Misclassification of Reported Costs

Condition:

As part of our procedures, we compared the cumulative costs reported on SF 270, *Request for Advance and Reimbursement*, and the ARC Reimbursement and Payment Advance Request Worksheet for the period covering April 1, 2022 to July 31, 2022 with UACED's general ledger (GL) detail. We noted UACED misclassified and inaccurately reported ARC funded Contractual costs in the amount of \$90,650 and non-ARC match Contractual costs in the amount of \$8,930 within the Personnel costs budget category line on the ARC Reimbursement and Payment Advance Request Worksheet.

Criteria:

ARC Grants Administration Manual for ARC Non-Construction Grants (February 2020)

“Payment requests must include the following documents:

Standard Form 270 - Request for Advance or Reimbursement and an ARC Reimbursement and Payment Advance Request Worksheet that summarizes actual expenditures by approved budget line items”.

Cause:

Per UACED, the former Project Director was responsible for reporting costs to ARC on the required forms and included costs incurred for Contractual expenditures in the Personnel cost category in error.

Effect:

Failure to ensure expended grant costs are classified and reported correctly on reimbursement requests by approved budget category resulted in inaccurate reporting of costs to ARC which can prevent ARC from adequately monitoring costs expended per budget category.

Recommendation:

We recommend that the Grantee:

3. Revise the ARC Reimbursement and Payment Advance Request Worksheet to correct the misclassified ARC funded and non-ARC match Contractual costs reported.

Grantee's Response:

UA takes no exception to and agrees with Castro & Company, LLC's Finding 02 presented in the audit report. The misclassification of reported costs will be revised and resubmitted to ARC in accordance with the report recommendation.

Auditor's Response:

UACED concurred with the finding; therefore, no further response is necessary.

Attachment 1 – University of Alabama Center for Economic Developments’ Response



November 10, 2023

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

Subject: The University of Alabama Response to Castro & Company, LLC’s Performance Audit of Grant Number AL-19981

To Whom It May Concern,

The University of Alabama (UA) takes exception to and disagrees with Castro & Company, LLC’s **Finding 01** presented in the audit report of Grant Number AL-19981 for the period from August 1, 2020 through July 31, 2022. UA takes no exception to and agrees with Castro & Company, LLC’s **Finding 02** presented in the audit report. The misclassification of reported costs will be revised and resubmitted to ARC in accordance with the report recommendation.

Regarding Finding 01 – Costs Claimed under New Budget Line Prior to ARC Approval, The University of Alabama takes exception to and disagrees with Castro & Company, LLC’s finding for the following reasons:

The UA Center for Economic Development formally submitted an extension request to ARC on April 15, 2021, which explicitly included a revised budget for the extension period. UA sent follow-up inquiries regarding this request to ARC on April 21, May 24, June 25, and July 20, 2021. The ARC representative did not respond until July 30, 2021 at which time he stated that the request was awaiting final approval from the division director. UA subsequently received an amendment from ARC that extended the period of performance.

1. The revised budget was enclosed with the extension request submitted to ARC (one PDF document)
2. The extension request letter signed by the UACED Executive Director referenced the new budget
3. ARC did not address the budget request separately

Therefore, UA interpreted the ARC amendment to include all aspects of the extension request, including the revised budget. To further support this interpretation, UA submitted financial report #3 to ARC on October 7, 2021, which included reporting of travel expenditures. ARC approved financial report #3 on October 13, 2021 and did not question the travel costs.

Documentation to support the above-referenced timeline was provided to Castro & Company, LLC during the audit. Thank you in advance for your consideration.

Sincerely,

A handwritten signature in blue ink that reads "Jennifer R. Camp".

Jennifer R. Camp, CRA
Associate VP for Research Administration