



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to East Tennessee State University Grant Number PW-19723

Report Prepared by Castro & Co, LLC

Report Number 24-21

April 25, 2024

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



Office of Inspector General

Appalachian Regional Commission

April 25, 2024

TO: Brandon McBride, Executive Director

FROM: Rhonda L. Turnbow, Acting Inspector General *Rhonda Turnbow*

SUBJECT: Audit Report 24-21 – East Tennessee State University

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number PW-19723 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 four 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. PW-19723**

**For the period from October 1, 2019 to January 31, 2023
Awarded to East Tennessee State University**

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

April 25, 2024

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-19723 awarded by the Appalachian Regional Commission (ARC) to East Tennessee State University (the Grantee or ETSU) for the period of October 1, 2019 to January 31, 2023. 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 and Findings 02 and 03 related to administrative procedures as 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 ETSU’s management at the conclusion of our fieldwork. The Grantee’s response has been included as **Attachment 1 – East Tennessee State University’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
April 25, 2024

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. PW-19723 awarded to East Tennessee State University (the Grantee or ETSU) for the period from October 1, 2019 to January 31, 2023.

ARC awarded Grant No. PW-19723 to ETSU to provide funding to establish a micro-enterprise incubator and professional development center, called Create Appalachia Arts & Technology Center (CAAT). The center's focus is to support the launch and continued success of artists and makers working with digital technologies, particularly in the areas of animation, game design, 3D visualization, visual effects for cinema and video, web and interactive design, music, product design, e-commerce, and social media marketing. Multiple types of professional workspaces in the CAAT accommodate a diverse range of business needs, including meeting rooms, offices, collaboration spaces, open workspaces, and access to CAAT resources.

The original period of performance for Grant No. PW-19723 covered the period from October 1, 2019 to October 31, 2022 but was subsequently extended to May 30, 2024. The grant agreement provided a budget of \$727,815 in ARC funds and required non-ARC matching funds of \$625,101 for total project costs of \$1,352,916. The allowable percentage breakout of ARC to non-ARC funding for the project was 54% ARC funds to 46% matching funds.

We obtained Standard Form (SF) 270, *Request for Advance or Reimbursement*, for the period covering October 1, 2022 to January 31, 2023 that identified cumulative total ARC costs of \$543,190 (76%) and non-ARC matching costs of \$168,334 (24%) for a total project cost of \$711,524.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of ETSU to determine compliance with the requirements of the ARC Grant No. PW-19723 for the period from October 1, 2019 to January 31, 2023.

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	\$ -	\$ 265,680	\$ 265,680
Fringe Benefits	\$ -	\$ 103,231	\$ 103,231
Travel	\$ -	\$ 3,819	\$ 3,819
Equipment	\$ 211,756	\$ -	\$ 211,756
Supplies	\$ 62,664	\$ -	\$ 62,664
Contractual	\$ 128,430	\$ -	\$ 128,430
Other	\$ 324,965	\$ 215,480	\$ 540,445
Indirect Charges	\$ -	\$ 36,891	\$ 36,891
Totals	\$ 727,815	\$ 625,101	\$ 1,352,916

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 included those costs addressed in ETSU’s system that specifically applied to ARC such as personnel, fringe benefits, equipment, supplies, contractual, and other costs. We conducted this performance audit from April 2023 to March 2024 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 ETSU 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 had established to mitigate specific fraud risks, and whether management was 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. Lori Dunn, Grant Accountant, Ms. Kristy Buchanan, Assistant Dean of Fiscal Affairs, and Ms. Cheryl Cornett, Project Principle for Development of Create Appalachian Centers, for ETSU during the exit conference on April 23, 2024. ETSU concurred with our results. ETSU's response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1 – East Tennessee State University's Response**.

Summary of Results

Castro & Co's procedures determined that except for Finding 01 related to financial management and Findings 02 and 03 related to administrative procedures as described in **Appendix A**, ETSU 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.

ETSU'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 except for the matters described in Finding 02 and 03. 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 \$424 of non-ARC matching funds as a result of a duplication of cost claimed by the Grantee.

We reviewed Single Audit reports available on the Federal Audit Clearinghouse for ETSU and noted the Grantee had Single Audit(s) performed for the years ended June 30, 2020 through June 30, 2022. The Single Audit report for the year ended June 30, 2022, identified a significant deficiency in internal control over financial reporting related monitoring eligibility of Title IV financial aid recipients. The Single Audit report identified deficiencies in internal control over compliance requirements as outlined in the OMB Compliance Supplement that could impact the Grantee’s financial reporting of expended grant funds to ARC.

The Grantee reported a total of \$543,190 in ARC costs and \$168,334 in non-ARC matching costs. As described in Finding 01, we noted in-kind rent and utilities in the amount of \$150,929 were included in the Performance Progress Reports but were not reported to ARC as match costs on the SF 270; therefore, we determined the Grantee did not meet the match requirements as of January 31, 2023. The claimed matching funds were properly supported and allowable under both Federal and ARC requirements except for questioned costs totaling \$424 described in Finding 01. Based on our review of the Grantee’s procedures, the performance results reported to ARC were fair and reasonable.

Exhibit B below presents costs claimed by the ETSU 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	\$ -	\$ 115,632	\$ -	\$ 385	\$ -	\$ 115,247	\$ 115,247
Benefits	\$ -	\$ 37,399	\$ -	\$ -	\$ -	\$ 37,399	\$ 37,399
Equipment	\$ 187,782	\$ -	\$ -	\$ -	\$ 187,782	\$ -	\$ 187,782
Supplies	\$ 40,208	\$ -	\$ -	\$ -	\$ 40,208	\$ -	\$ 40,208
Contractual	\$ 45,600	\$ -	\$ -	\$ -	\$ 45,600	\$ -	\$ 45,600
Other	\$ 269,600	\$ -	\$ -	\$ -	\$ 269,600	\$ -	\$ 269,600
Indirect	\$ -	\$ 15,303	\$ -	\$ 39	\$ -	\$ 15,264	\$ 15,264
Total	\$ 543,190	\$ 168,334	\$ -	\$ 424	\$ 543,190	\$ 167,910	\$ 711,100

Appendix A – Findings and Recommendations

Finding 01 – Inaccurate Reporting of Financial Progress

Condition:

As part of our procedures, we obtained general ledger (GL) detail from East Tennessee State University (ETSU or the Grantee) to reconcile with amounts for ARC funding and Match cost share reported to the Appalachian Regional Commission (ARC) on the SF-270, *Request for Advance or Reimbursement* as of January 31, 2023. While completing the reconciliation, we noted the following:

- Personnel and Indirect match costs reported included duplicate costs totaling \$385 and \$39, respectively, for a total of \$424. The Grantee inadvertently claimed the same hours worked by an intern on two reporting periods.
- Other match costs for in-kind rent and utilities totaling \$150,929 were included in the Performance Progress Reports, but were not reported to ARC as match costs on the SF 270. As a result, these costs were not subject to our audit procedures and the Grantee did not meet the match requirements as of January 31, 2023.

Criteria:

2 CFR Part 200.1, *Definitions*, states in part:

Advance payment means a payment that a Federal awarding agency or pass-through entity makes by any appropriate payment mechanism, including a predetermined payment schedule, before the non-Federal entity disburses the funds for program purposes.

The ARC *Grant Administration Manual for ARC Non-Construction Grants*, dated February 2020, states in part:

Financial Reports and Payment Requests

Requesting a Reimbursement

Payment requests must include the following documents:

An ARC Reimbursement and Payment Advance Request Worksheet that summarizes actual expenditures by approved budget line items.

Grant Agreement Part II Article 11, *Method of Payment*, states in part:

All disbursements shall be for obligations incurred, after the effective date, in the performance of this Agreement, and shall be supported by contracts, invoices, vouchers and other data, as appropriate, evidencing the disbursements.

Cause:

ETSU did not have adequate controls in place to ensure accurate reporting of financial information to the ARC to (1) distinguish between subrecipient advance requests and actual costs incurred, and (2) correct errors prior to financial report submission.

Effect:

The absence of adequate controls caused ETSU to submit inaccurate financial information to ARC, which may result in incorrect ARC financial reporting to outside parties, including regulatory entities. ARC was unable to monitor the use of funds provided to the subrecipient for estimated costs due to the Grantee inaccurately requesting reimbursement, which was limited to actual expenditures incurred. Additionally, the absence of adequate controls prevented ETSU from identifying and removing duplicated costs from the reported Match cost share claimed. Therefore, ARC could require the Grantee to exclude total questioned costs in the amount of \$424 from the total non-Federal match funds.

Recommendations:

We recommend:

1. The Grantee improve policies and procedures to ensure financial information is accurately reported to ARC including a process for determining whether requests for funds are reimbursements or advances and ensuring costs are not duplicated in between reporting periods.
2. The Grantee work with ARC management to resolve the questioned cost of \$424 in non-ARC match funds.

Grantee's Response:

ETSU takes no exception to and agrees with Castro & Company, LLC's findings.

Auditor's Response:

The Grantee concurred with the finding; therefore, no response is necessary.

Finding 02 – Inadequate Monitoring of Subrecipient

Condition:

As part of our procedures, Castro & Co reviewed the Grantee’s policies and procedures and inquired of the Grantee’s management about actions performed to monitor subrecipient activity including the incurrence of costs. Although the Grantee had established policies and procedures for monitoring subrecipients, we noted ETSU did not require the subrecipient to regularly report actual costs incurred nor reconcile previously advanced funds with new advance requests. In addition, ETSU did not provide a subaward agreement with the subrecipient for review. Castro & Co determined the Grantee did not adequately monitor the subrecipient in accordance with Federal regulations for pass-through entities.

Criteria:

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

(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

(1) Reviewing financial and performance reports required by the pass-through entity.

ETSU Subrecipient Policy issued July 1, 2015, *Roles and Responsibilities*, states in part:

Principal Investigator(s) (PI) have the primary responsibility for monitoring subrecipients to ensure compliance with federal regulations and both prime and subrecipient award terms and conditions.

Cause:

ETSU’s established policies and procedures did not address how a PI was assigned to monitor subrecipient activities. The PI assigned by ETSU to monitor subrecipient activity on the grant was an Associate Professor employed by the Grantee and the Founder and Executive Director of the non-profit organization receiving the subaward. The overlap of roles and responsibilities prevented the Grantee from adequately monitoring subrecipient activity.

Effect:

The absence of adequate policies and procedures prevented ETSU from properly monitoring subrecipient activity, which could have affected the performance and financial information provided to and relied upon by ARC.

Recommendation:

We recommend:

3. The Grantee improve policies and procedures for subrecipients to establish considerations for assigning a PI for subawards including the PI to be independent from the subrecipient organization, define minimum subrecipient monitoring requirements, and provide for secondary review of PI monitoring activities.

Grantee’s Response:

ETSU takes no exception to and agrees with Castro & Company, LLC’s findings.

Auditor's Response:

The Grantee concurred with the finding; therefore, no response is necessary.

Finding 03 – Untimely Quarterly Progress Reporting

Condition:

As part of our procedures, we reviewed interim and final performance progress reports (PPR) submitted by the Grantee during the grant period from October 1, 2019 to January 31, 2023. Based on our review, we noted the following:

- In three (3) instances, the Grantee submitted PPRs after 30 days from the close of the reporting period.

Criteria:

The ARC *Grant Administration Manual for ARC Non-Construction Grants*, dated February 2020, states,

Reports

Reporting Intervals

The reporting period begins with the start date of the grant agreement. ARC requires interim progress reports every 120 days or every four months and a final report at the end of your project's period of performance. Reports are due no later than 30 days after the close of a reporting period.

Cause:

ETSU did not have policies and procedures in place to ensure the quarterly PPRs were submitted to ARC within 30 days from the close of the reporting period.

Effect:

Without policies and procedures to ensure timely quarterly progress reporting, inaccurate financial and performance information may be reported to ARC.

Recommendation:

We recommend:

4. We recommend the Grantee develop policies and procedures to ensure performance progress reports are submitted to ARC no later than 30 days after the close of a reporting period.

Grantee's Response:

ETSU takes no exception to and agrees with Castro & Company, LLC's findings.

Auditor's Response:

The Grantee concurred with the finding; therefore, no response is necessary.

Attachment 1 – East Tennessee State University’s Response



EAST TENNESSEE STATE
UNIVERSITY

4/22/2024

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

Subject: East Tennessee State University (ETSU) Response to Castro & Company, LLC’s Performance
Audit of Grant Number PW-19723

ETSU takes no exception to and agrees with Castro & Company, LLC’s findings presented in the audit
report of Grant Number PW-19723 with a grant performance period of October 1, 2019 to January 31,
2023.

Sincerely,

Shawnee Shuler
Director of Grant Accounting