



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Awards to The Center for Rural Development Grant Nos. KY-18732, KY-18984, KY-19420, KY-19782, and KY-20039

Report Prepared by Castro & Co, LLC

Report Number 24-25

May 29, 2024

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



Office of Inspector General

Appalachian Regional Commission

May 29, 2024

TO: Brandon McBride, Executive Director

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

SUBJECT: Audit Report 24-25 – The Center for Rural Development

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant numbers KY-18732, KY-18984, KY-19420, KY-19782, and KY-20039 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 six 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**

**Grant Nos. KY-18732, KY-18984, KY-19420, KY-19782, and KY-20039
For the period from October 1, 2016 to April 30, 2023
Awarded to the Center for Rural Development**

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

May 23, 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 Numbers KY-18732, KY-18984, KY-19420, KY-19782, and KY-20039 awarded by the Appalachian Regional Commission (ARC) to the Center for Rural Development (CRD or the Grantee) for the period of October 1, 2016 to April 30, 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 Findings 01, 02, 03, and 04 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 CRD's management at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1 – Center for Rural 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
May 23, 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 (OIG) to perform the audit of Grant Nos. KY-18732, KY-18984, KY-19420, KY-19782, and KY-20039 awarded to The Center for Rural Development (CRD or the Grantee) for the period of October 1, 2016 to April 30, 2023.

ARC awarded Grant Nos. KY-18732, KY-18984, KY-19420, KY-19782, and KY-20039 to the Center for Rural Development to partially fund the administrative aspects of construction related to the Eastern Kentucky portion of the Kentucky Information Highway (KIH), also known as Kentucky Wired. The Kentucky Wired project took place across various phases¹: Phase 2 involved oversight of the build-out for the initial connection to over 1,000 Community Anchor Institutions (CAIs); Phase 3 encompassed planning, construction oversight for network segments, and system testing; Phase 4 focused on installation and equipment for 74 access points, with outreach and education efforts; Phase 5 addressed the establishment of final-mile fiber connectivity to state parks, recreational areas, and areas of economic activity; and Phase 6 involved the implementation of final-mile fiber infrastructure, including telecommunications huts or large outdoor cabinets located within towns and/or centers of commerce. Throughout these phases, the Center for Rural Development managed construction oversight, marketing, education, outreach, enhanced video conferencing for higher education instruction delivery, and ongoing support services for the Appalachian portion of the KIH. The Grantee also provided one-on-one consultations for public officials, conducted community information workshops, and collaborated on developing an assistance program to help communities formulate grant requests for locally initiated projects. Finally, the Grantee actively engaged with the telecom/broadband sector to identify partners for unserved communities seeking last-mile facilities.

The original period of performance, amended period end date, and the budgeted amounts per the grant agreement for Grant Nos. KY-18732, KY-18984, KY-19420, KY-19782, and KY-20039 are as follows:

Grant Number	Original Grant Period	Amended Period End	Federal		Non-Federal		Total Budget
			Budget \$	%	Budget \$	%	
KY-18732 (Phase 2)	10/1/2016 - 9/30/2019	11/1/2022	\$ 727,621	80%	\$ 181,905	20%	\$ 909,526
KY-18984 (Phase 3)	9/1/2018 - 8/31/2020	8/30/2024	\$ 4,165,221	80%	\$1,041,300	20%	\$ 5,206,521
KY-19420 (Phase 4)	9/28/2018 - 3/28/2020	11/1/2022	\$ 8,727,621	80%	\$2,181,905	20%	\$ 10,909,526
KY-19782 (Phase 5)	9/1/2019 - 8/31/2020	8/30/2024	\$ 727,621	80%	\$ 181,905	20%	\$ 909,526
KY-20039 (Phase 6)	7/1/2020 - 8/31/2022	11/1/2022	\$ 7,834,958	80%	\$1,958,740	20%	\$ 9,793,698
Total			\$22,183,042		\$5,545,755		\$ 27,728,797

¹ Phase 1 was not part the scope of this audit.

The total budget amounts by category as approved by ARC for the grants under scope are presented in Exhibit A below. See Appendix B for a detailed schedule of budget amounts and category by Grant Number (No.).

Exhibit A: Schedule of Grant Budget (Phases 2 – 6)			
Category	Federal Amount	Non-Federal Amount	Total
Personnel	\$ 1,831,831	\$ -	\$ 1,831,831
Benefits	\$ 567,241	\$ -	\$ 567,241
Travel	\$ 244,462	\$ -	\$ 244,462
Equipment	\$ 4,740,000	\$ 2,181,905	\$ 6,921,905
Supplies	\$ 2,730,201	\$ -	\$ 2,730,201
Contractual	\$ 872,290	\$ 3,363,850	\$ 4,236,140
Other	\$ 10,149,049	\$ -	\$ 10,149,049
Indirect	\$ 1,047,968	\$ -	\$ 1,047,968
Total	\$ 22,183,042	\$ 5,545,755	\$ 27,728,797

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of the Center for Rural Development to determine compliance with the requirements of the ARC Grant Nos. KY-18732, KY-18984, KY-19420, KY-19782, and KY-20039 for the period of October 1, 2016 to April 30, 2023.

We obtained the Standard Form (SF) 270, *Request for Advance and Reimbursement*, for the grants under scope that identified cumulative total ARC costs and non-ARC matching costs as shown below:

Grant Number	SF 270 Reporting Period	Federal Amount	Non-Federal Amount	Total
KY-18732 (Phase 2)	5/1/2022 to 6/30/2022	\$ 692,752	\$ 181,905	\$ 874,657
KY-18984 (Phase 3)	1/1/2023 to 4/30/2023	\$ 1,026,851	\$ 457,216	\$ 1,484,067
KY-19420 (Phase 4)	5/1/2022 to 6/30/2022	\$ 58,087	\$ 14,522	\$ 72,609
KY-19782 (Phase 5)	1/1/2023 to 4/30/2023	\$ 42,246	\$ 11,821	\$ 54,067
KY-20039 (Phase 6)	3/1/2022 to 6/30/2022	\$ 9,647	\$ 2,163	\$ 11,810
Total		\$ 1,829,583	\$ 667,627	\$ 2,497,210

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 CRD's system that specifically apply to ARC such as personnel, fringe benefits, travel, supplies, contractual, indirect, and other costs. We conducted this performance audit from April 2023 to April 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, travel, supplies, contractual, indirect, other, and match costs through reviews of prior audit reports, organization charts, policies and procedures, 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 Government Accountability Office (GAO)/Council of Inspectors General for 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. Lonnie Lawson, President and CEO, Ms. Vicki Heistand, Director of Finance and Grants Compliance, and Ms. Debbie Quillen, Controller, for CRD during the exit conference on May 9, 2024. The Grantee did not concur with our results. The Grantee's reactions have been incorporated into the report and a copy of CRD's response, in its

entirety, can be found in [Attachment 1 – The Center for Rural Development’s Response](#) of this report. In addition, Castro & Co’s response to CRD’s nonconcurrency can be found in [Appendix A](#) of this report.

Summary of Results

Castro & Co’s procedures determined that except for the matters described in Findings 01, 02, 03, and 04 in [Appendix A](#); CRD 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.

CRD’s financial management, administrative procedures, and internal controls were adequate to account for the funds provided under the ARC grant except for the matters described in Findings 01 and 02. The Grantee’s internal guidelines, including program (internal) controls, were adequate and operating effectively except for the matters described in Findings 01, 02, 03, and 04. 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. We questioned \$13,111 of ARC funds and \$237,990 of non-ARC matching funds as a result of costs claimed for unallowed, unsupported, and an unapproved budget line item.

The Grantee reported cumulative costs for all phases totaling \$1,829,583 for ARC funds and \$667,627 for non-ARC matching cost share. However, we determined the Grantee did not meet the match requirements as of April 30, 2023 as described in Findings 02, 03, and 04. These matching funds were properly supported and allowable under both Federal and ARC requirements, except for the \$237,990 in non-ARC matching costs questioned in Findings 02, 03, and 04. 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 CRD and noted the Grantee had a Single Audit performed for the years ended June 30, 2020, June 30, 2021, and June 30, 2022. The Single Audit reports did not include any findings or recommendations related to internal control and compliance with the requirements outlined in the OMB Compliance Supplement for the management of federal assistance awards.

Exhibit B below presents costs claimed by Grant No. and costs recommended as a result of the grant audit. Exhibit C below presents costs claimed by Category and costs recommended as a result of the grant audit. See Appendix C for details of claimed and audit recommended costs by Grant No.

Exhibit B: Schedule of Claimed and Audit Recommended Costs by Grant No. (Phases 2 - 6)								
	Claimed		Questioned		Audit Recommended			
Grant No.	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total	Match Req. Met/Not Met
KY-18732 (Phase 2)	\$ 692,752	\$181,905	\$ -	\$(181,905)	\$ 692,752	\$ -	\$ 692,752	Not Met
KY-18984 (Phase 3)	\$ 1,026,851	\$457,216	\$(13,111)	\$ (27,579)	\$1,013,740	\$ 429,637	\$ 1,443,377	Met
KY-19420 (Phase 4)	\$ 58,087	\$ 14,522	\$ -	\$ (14,522)	\$ 58,087	\$ -	\$ 58,087	Not Met
KY-19782 (Phase 5)	\$ 42,246	\$ 11,821	\$ -	\$ (11,821)	\$ 42,246	\$ -	\$ 42,246	Not Met
KY-20039 (Phase 6)	\$ 9,647	\$ 2,163	\$ -	\$ (2,163)	\$ 9,647	\$ -	\$ 9,647	Not Met
Total	\$ 1,829,583	\$667,627	\$(13,111)	\$(237,990)	\$1,816,472	\$ 429,637	\$ 2,246,109	Not Met

Exhibit C: Schedule of Claimed and Audit Recommended Costs by Category (Phases 2 - 6)							
	Claimed		Questioned		Audit Recommended		
Category	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ 949,300	\$ -	\$ -	\$ -	\$ 949,300	\$ -	\$ 949,300
Benefits	\$ 263,641	\$ -	\$ -	\$ -	\$ 263,641	\$ -	\$ 263,641
Travel	\$ 14,365	\$ -	\$ -	\$ -	\$ 14,365	\$ -	\$ 14,365
Supplies	\$ 8,950	\$ -	\$ -	\$ -	\$ 8,950	\$ -	\$ 8,950
Contractual	\$ 89,307	\$ 181,905	\$ (4,151)	\$(181,905)	\$ 85,156	\$ -	\$ 85,156
Other	\$ 347,599	\$ 193,463	\$ -	\$ -	\$ 347,599	\$ 193,463	\$ 541,062
Indirect	\$ 156,421	\$ 292,259	\$ (8,960)	\$(56,085)	\$ 147,461	\$ 236,174	\$ 383,635
Total	\$ 1,829,583	\$ 667,627	\$ (13,111)	\$(237,990)	\$ 1,816,472	\$ 429,637	\$ 2,246,109

Appendix A – Findings and Recommendations

Finding 01 – Unallowable ARC Funded Contractual Costs

Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) reviewed supporting documentation from the Center for Rural Development (CRD or the Grantee) for ARC funded costs incurred during the grant period. Under Grant No. KY-18984 (Phase 3), the Grantee claimed \$28,989 in contractual costs for professional services to complete administrative tasks. However, the Grantee did not have sufficient documentation to support the methodology and reasonableness of contractual costs paid. We noted the supporting invoices and documentation did not indicate a set payment schedule or rate that was used to bill for the task activities and determine whether costs were allowable and reasonable. Therefore, 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), costs totaling \$4,151 were deemed unallowable ARC funded costs.

The Grantee stated the vendor was not paid based on an hourly rate and that the vendor was assigned tasks and the completed tasks would be reviewed and approved for payment.

Criteria:

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:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

2 CFR Part 200.459, Professional service costs, states:

(b) In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

- (7) The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-federally funded activities.
- (8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).

CRD Procurement Policy and Procedures Part I Section 6, Documentation, states in part:

At a minimum, source document data must be sufficient to establish the basis for selection, basis for cost (including the reasonableness of cost) and basis for payment.

Cause:

The Grantee stated the agreement for professional services was initiated to compensate for loss of staff during the COVID-19 pandemic with the intention that the services would be temporary. The

Grantee did not have adequate controls in place to ensure that sufficient documentation to support the methodology and reasonableness of contractual costs paid was maintained.

Effect:

The absence of adequate controls prevented CRD from maintaining sufficient documentation to support the allowability and reasonableness of contractual costs prior to reporting claimed costs to ARC. Therefore, ARC could require the Grantee to exclude total questioned costs in the amount of \$4,151 from the total ARC funds.

Recommendation:

We recommend:

1. The Grantee work with ARC to resolve the questioned costs totaling \$4,151 under Grant No. KY-18984 (Phase 3) ARC funded Contractual cost.

Grantee's Response:

CRD firmly believes we complied with grant guidelines regarding the Sharon Hickman contractual agreement. CRD will work with ARC to resolve the questioned costs totaling \$4,151 under Grant No. 18984 (Phase 3) ARC funded Contractual cost.

Auditor's Response:

Castro & Co has reviewed CRD's response. In consideration of those views, Castro noted that CRD's response did not alter our results.

Castro & Co reviewed Sharon Hickman's contractual agreement and noted the contract did not include a basis for cost or sufficient source document data to establish the basis for cost (including the reasonableness of cost) and basis for payment in accordance with CRD's Procurement Policy and Procedures. CRD was not able to provide documentation to establish the reasonableness of costs as required by CRD's policy and procedures and the Uniform Guidance.

Finding 02 – Unallowable ARC Funded Indirect Costs and Non-ARC Matching Unrecovered Indirect Costs

Condition:

As part of our procedures, we performed a recalculation of the ARC funded indirect cost and non-ARC matching unrecovered indirect cost claimed for ARC Grant No. KY-18984 (Phase 3). We noted the Grantee did not correctly calculate the indirect cost base in accordance with the approved Nonprofit Indirect Cost Rate Agreement (NICRA). The NICRA included an indirect cost rate of 40.78% and allowed for the indirect cost base amount to include total direct costs excluding capital expenditures (building, individual items of equipment; alterations and renovations), and that portion of each subaward in excess of \$25,000. However, the indirect cost base calculated by the Grantee included \$89,600 of ARC funded subaward costs in excess of the allowable \$25,000 per subaward which resulted in total questioned costs of \$8,960 for ARC funded indirect cost and \$27,579 for non-ARC matching unrecovered indirect cost. A summary of the audit recommended indirect cost base and unallowable questioned costs is presented in the tables below.

Description	Claimed	Excess Amount Claimed	Audit Recommended
Indirect Cost Base	\$ 856,898	\$ (89,600)	\$ 767,298

Description	Claimed	Questioned Cost	Audit Recommended
ARC Funded (10%)	\$ 85,690	\$ (8,960)	\$ 76,730
Match cost share (30.78%)	\$ 263,753	\$ (27,579)	\$ 236,174
Total	\$ 349,443	\$ (36,539)	\$ 312,904

Criteria:

2 CFR Part 200.1, Definitions, states:

Modified Total Direct Cost (MTDC) means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

2 CFR Part 200.402, Composition of costs, states:

The total cost of a Federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits.

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:

(b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.

Cause:

CRD did not have adequate controls in place to ensure the indirect cost base was calculated in accordance with the Uniform Guidance and the NICRA.

Effect:

The absence of adequate controls prevented CRD from identifying errors in the calculation of the indirect cost base. As a result, ARC could require the Grantee to exclude total questioned costs in the amount of \$8,960 from the total ARC funds and \$27,579 from the total non-ARC matching cost.

Recommendations:

We recommend:

2. The Grantee implement process to ensure indirect costs are calculated in accordance with the Uniform Guidance and the Nonprofit Rate Agreement (NICRA).
3. The Grantee work with ARC to resolve the questioned costs totaling \$8,960 for ARC funded indirect costs and \$27,579 for non-ARC unrecovered indirect costs.

Grantee's Response:

The CRD makes every effort to ensure the indirect costs are calculated in accordance with the Uniform Guidance and the Nonprofit Agreement (NICRA). We concur with Castro & Company that an error was made on this calculation. Therefore, the questioned cost of \$8,960 for ARC funded indirect costs have since been corrected with a journal entry as of October 2023. The questioned cost of \$27,579 of non-ARC unrecovered indirect costs was approved with Amendment 3 to the grant award.

Auditor's Response:

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

Finding 03 – Unsupported Non-ARC Matching Contractual Costs

Condition:

As part of our procedures, Castro & Co reviewed supporting documentation from CRD for non-ARC match costs incurred during the grant period. The Grantee claimed \$181,905 in contractual costs under ARC Grant No. KY-18732 (Phase 2); 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), costs totaling \$181,905 were deemed unsupported non-ARC match costs. The Grantee provided a letter of commitment dated July 14, 2022 from the contractor stating the total amount of matching cost, but CRD was not able to provide the underlying source documentation such as invoices, receipts, purchase orders, proof of payment to support the non-ARC match costs. A summary of the unsupported questioned costs is presented in the table below.

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 200.403, *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:

CRD did not maintain adequate documentation to support non-ARC match contractual costs including invoices, receipts, purchase orders, proof of payment. Additionally, CRD did not have adequate controls in place for ensuring the non-ARC match costs were adequately supported by source documentation.

Effect:

The absence of adequate controls prevented CRD from identifying unsupported costs to ensure compliance with the Federal grant requirements prior to reporting claimed costs to ARC. When questioned costs were excluded from the CRD claimed costs, the Grantee did not meet the match requirements as of April 30, 2023. ARC could require the Grantee to exclude total questioned costs in the amount of \$181,905 from the total non-Federal match funds as a result of not complying with the ARC match requirements.

Recommendations:

We recommend:

4. The Grantee revise its policies and procedures to ensure that costs claimed are adequately supported by source documents in accordance with the regulations.
5. The Grantee work with ARC to resolve the questioned costs totaling \$181,905 for non-ARC matching contractual costs under ARC Grant No. KY-18732 (Phase 2).

Grantee's Response:

CRD acknowledges the finding in the audit. We have a match letter from the Commonwealth of Kentucky and we also had access to the entire body of work that the contractor used to track expenses. CRD contends that there was more than adequate match available and we monitored the detail on a regular basis. All of the documentation is available and we are happy to work with the auditors or ARC to obtain documentation necessary to satisfy this requirement. CRD will also review its policies and procedures to ensure that all costs claimed are adequately supported by source documents in accordance with the regulations.

Auditor's Response:

Castro & Co has reviewed CRD's response. In consideration of those views, Castro noted that CRD's response did not alter our results.

In accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Section 200.306, any shared costs or matching funds and all contributions, including cash and third-party in-kind contributions must be adequately documented and supported by the same methods used internally by the non-Federal entity. CRD provided a match letter of commitment from the Commonwealth of Kentucky; however, CRD did not provide Castro & Co sufficient underlying source documentation such as invoices, receipts, purchase orders, proof of payment to support the reported non-ARC match costs. CRD stated that all documentation is available; however, despite multiple attempts in working with CRD to obtain supporting documentation since August 2023, Castro & Co did not receive the requested information.

Finding 04 – Costs Claimed under Budget Line Not Approved by ARC

Condition:

As part of our procedures, we compared the grant budget costs approved by ARC with total cumulative ARC funded and non-ARC match costs reported on the SF 270 for the period covering October 1, 2016 to April 30, 2023. The Grantee claimed \$28,506 of non-ARC matching funds for unrecovered indirect costs that were not included in the grant budget approved by ARC. The following unrecovered indirect costs incurred were deemed unallowable match expenses:

Grant No.	Claimed	Questioned Cost	Audit Recommended
KY-19420 (Phase 4)	\$ 14,522	\$ (14,522)	\$ -
KY-19782 (Phase 5)	\$ 11,821	\$ (11,821)	\$ -
KY- 20039 (Phase 6)	\$ 2,163	\$ (2,163)	\$ -
Total	\$ 28,506	\$ (28,506)	\$ -

Criteria:

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

“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.”

2 CFR 200.306, Cost sharing or matching, states:

(c) Unrecovered indirect costs, including indirect costs on cost sharing or matching may be included as part of cost sharing or matching only with the prior approval of the Federal awarding agency. Unrecovered indirect cost means the difference between the amount charged to the Federal award and the amount which could have been charged to the Federal award under the non-Federal entity's approved negotiated indirect cost rate.

Cause:

CRD reported unrecovered indirect costs as non-ARC match cost share based on a verbal communication with the ARC Project Coordinator. CRD submitted a request to ARC for approval to claim unrecovered indirect costs as non-ARC matching costs; however, CRD did not have official record of ARC formally approving the requested budget revision. In addition, the ARC approved budget did not contain indirect costs nor unrecovered indirect costs as non-ARC match cost share.

Effect:

CRD claimed costs under an indirect costs budget line item prior to receiving approval from ARC which resulted in total questioned costs in the amount of \$28,506 for non-ARC matching cost share.

Recommendation:

We recommend:

6. The Grantee work with ARC to resolve the total questioned costs in the amount of \$28,506 for unrecovered indirect costs claimed as non-ARC match funds.

Grantee's Response:

CRD had verbal conversations with its program manager to allow CRD to utilize unrecovered indirect costs in the event there was a shortfall from any of the contractors. However, CRD agrees that we did not obtain written documentation from the program manager before he left his position. CRD will work with ARC to resolve the total questioned costs in the amount of \$28,506 for unrecovered indirect costs claimed as non-ARC match funds.

Auditor's Response:

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

Appendix B – Detailed Budget Information Supporting Exhibit A

Detailed Budget Information Supporting Exhibit A													
ARC Grant	KY-18732 (Phase 2)		KY-18984 (Phase 3)		KY-19420 (Phase 4)		KY-19782 (Phase 5)		KY-20039 (Phase 6)		Total (All Phases)		
Cost Category	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$426,643	\$ -	\$ 272,325	\$ -	\$ 437,025	\$ -	\$335,571	\$ -	\$ 360,267	\$ -	\$ 1,831,831	\$ -	\$ 1,831,831
Benefits	\$117,580	\$ -	\$ 87,144	\$ -	\$ 139,848	\$ -	\$107,383	\$ -	\$ 115,286	\$ -	\$ 567,241	\$ -	\$ 567,241
Travel	\$ 6,142	\$ -	\$ 52,960	\$ -	\$ 79,440	\$ -	\$ 52,960	\$ -	\$ 52,960	\$ -	\$ 244,462	\$ -	\$ 244,462
Equipment	\$ -	\$ -	\$ -	\$ -	\$4,440,000	\$ 2,181,905	\$ -	\$ -	\$ 300,000	\$ -	\$ 4,740,000	\$ 2,181,905	\$ 6,921,905
Supplies	\$ 1,401	\$ -	\$ 7,200	\$ -	\$2,689,200	\$ -	\$ 10,800	\$ -	\$ 21,600	\$ -	\$ 2,730,201	\$ -	\$ 2,730,201
Contractual	\$ 56,776	\$ 181,905	\$ 126,072	\$ 1,041,300	\$ 477,306	\$ -	\$106,068	\$ 181,905	\$ 106,068	\$ 1,958,740	\$ 872,290	\$ 3,363,850	\$ 4,236,140
Other	\$ 58,356	\$ -	\$3,246,287	\$ -	\$ 112,082	\$ -	\$ 54,116	\$ -	\$6,678,208	\$ -	\$10,149,049	\$ -	\$10,149,049
Indirect	\$ 60,723	\$ -	\$ 373,233	\$ -	\$ 352,720	\$ -	\$ 60,723	\$ -	\$ 200,569	\$ -	\$ 1,047,968	\$ -	\$ 1,047,968
Total	\$727,621	\$ 181,905	\$4,165,221	\$ 1,041,300	\$8,727,621	\$ 2,181,905	\$727,621	\$ 181,905	\$7,834,958	\$ 1,958,740	\$22,183,042	\$ 5,545,755	\$27,728,797

Appendix C – Detailed Cost Information Supporting Exhibit C

KY-18732 Phase 2							
	Claimed		Questioned		Audit Recommended		
Category	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ 426,643	\$ -	\$ -	\$ -	\$ 426,643	\$ -	\$ 426,643
Benefits	\$ 117,581	\$ -	\$ -	\$ -	\$ 117,581	\$ -	\$ 117,581
Travel	\$ 6,142	\$ -	\$ -	\$ -	\$ 6,142	\$ -	\$ 6,142
Supplies	\$ 1,401	\$ -	\$ -	\$ -	\$ 1,401	\$ -	\$ 1,401
Contractual	\$ 56,776	\$ 181,905	\$ -	\$ (181,905)	\$ 56,776	\$ -	\$ 56,776
Other	\$ 23,858	\$ -	\$ -	\$ -	\$ 23,858	\$ -	\$ 23,858
Indirect	\$ 60,351	\$ -	\$ -	\$ -	\$ 60,351	\$ -	\$ 60,351
Total	\$ 692,752	\$ 181,905	\$ -	\$ (181,905)	\$ 692,752	\$ -	\$ 692,752

KY-18984 Phase 3							
	Claimed		Questioned		Audit Recommended		
Category	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ 446,356	\$ -	\$ -	\$ -	\$ 446,356	\$ -	\$ 446,356
Benefits	\$ 126,535	\$ -	\$ -	\$ -	\$ 126,535	\$ -	\$ 126,535
Travel	\$ 7,991	\$ -	\$ -	\$ -	\$ 7,991	\$ -	\$ 7,991
Supplies	\$ 7,549	\$ -	\$ -	\$ -	\$ 7,549	\$ -	\$ 7,549
Contractual	\$ 28,989	\$ -	\$ (4,151)	\$ -	\$ 24,838	\$ -	\$ 24,838
Other	\$ 323,741	\$ 193,463	\$ -	\$ -	\$ 323,741	\$ 193,463	\$ 517,204
Indirect	\$ 85,690	\$ 263,753	\$ (8,960)	\$ (27,579)	\$ 76,730	\$ 236,174	\$ 312,904
Total	\$ 1,026,851	\$ 457,216	\$ (13,111)	\$ (27,579)	\$ 1,013,740	\$ 429,637	\$ 1,443,377

KY-19420 Phase 4							
	Claimed		Questioned		Audit Recommended		
Category	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ 41,854	\$ -	\$ -	\$ -	\$ 41,854	\$ -	\$ 41,854
Benefits	\$ 10,713	\$ -	\$ -	\$ -	\$ 10,713	\$ -	\$ 10,713
Travel	\$ 193	\$ -	\$ -	\$ -	\$ 193	\$ -	\$ 193
Contractual	\$ 46	\$ -	\$ -	\$ -	\$ 46	\$ -	\$ 46
Indirect	\$ 5,281	\$ 14,522	\$ -	\$ (14,522)	\$ 5,281	\$ -	\$ 5,281
Total	\$ 58,087	\$ 14,522	\$ -	\$ (14,522)	\$ 58,087	\$ -	\$ 58,087

KY-19782 Phase 5							
	Claimed		Questioned		Audit Recommended		
Category	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ 27,476	\$ -	\$ -	\$ -	\$ 27,476	\$ -	\$ 27,476
Benefits	\$ 7,394	\$ -	\$ -	\$ -	\$ 7,394	\$ -	\$ 7,394
Travel	\$ 39	\$ -	\$ -	\$ -	\$ 39	\$ -	\$ 39
Contractual	\$ 3,496	\$ -	\$ -	\$ -	\$ 3,496	\$ -	\$ 3,496
Indirect	\$ 3,841	\$ 11,821	\$ -	\$ (11,821)	\$ 3,841	\$ -	\$ 3,841
Total	\$ 42,246	\$ 11,821	\$ -	\$ (11,821)	\$ 42,246	\$ -	\$ 42,246

KY-20039 Phase 6							
	Claimed		Questioned		Audit Recommended		
Category	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ 6,971	\$ -	\$ -	\$ -	\$ 6,971	\$ -	\$ 6,971
Benefits	\$ 1,418	\$ -	\$ -	\$ -	\$ 1,418	\$ -	\$ 1,418
Indirect	\$ 1,258	\$ 2,163	\$ -	\$ (2,163)	\$ 1,258	\$ -	\$ 1,258
Total	\$ 9,647	\$ 2,163	\$ -	\$ (2,163)	\$ 9,647	\$ -	\$ 9,647

Attachment 1 – The Center for Rural Development’s Response



May 13, 2024

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

Subject: The Center for Rural Development Response to Castro & Company, LLC’s Performance Grants Audit of ARC Grant Nos. KY-18732, KY-18984, KY-19420, KY-19782, and KY-20039.

The Center for Rural Development (CRD) appreciates the efforts of Castro and Company during the audit of CRD’s Appalachian Regional Commission, however, CRD takes exception to and disagrees with some of Castro & Company, LLC’s findings presented in the audit report of Grant Numbers KY-18732, KY-18984, KY-19420, KY-19782, and KY-20039 with a grant performance period of October 1, 2016 to April 30, 2023.

Finding 1 – CRD firmly believes we complied with grant guidelines regarding the Sharon Hickman contractual agreement. CRD will work with ARC to resolve the questioned costs totaling \$4,151 under Grant No. 18984 (Phase 3) ARC funded Contractual cost.

Finding 2 – The CRD makes every effort to ensure the indirect costs are calculated in accordance with the Uniform Guidance and the Nonprofit Agreement (NICRA). We concur with Castro and Company that an error was made on this calculation. Therefore, the questioned cost of \$8,960 for ARC funded indirect costs have since been corrected with a journal entry as of October 2023. The questioned cost of \$27,579 of non-ARC unrecovered indirect costs was approved with Amendment 3 to the grant award.

Finding 3 – CRD acknowledges the finding in the audit. We have a match letter from the Commonwealth of Kentucky and we also had access to the entire body of work that the contractor used to track expenses. CRD contends that there was more than adequate match available and we monitored the detail on a regular basis. All of the documentation is available and we are happy to work with the auditors or ARC to obtain documentation necessary to satisfy this requirement. CRD will also review its policies and procedures to ensure that all costs claimed are adequately supported by source documents in accordance with the regulations.

Finding 4 – CRD had verbal conversations with its program manager to allow CRD to utilize unrecovered indirect costs in the event there was a shortfall from any of the contractors. However, CRD agrees that we did not obtain written documentation from the program manager before he left his position. CRD will work with ARC to resolve the total questioned costs in the amount of \$28,506 for unrecovered indirect costs claimed as non-ARC match funds.

Sincerely,


Lonnie Lawson
President & CEO

