



## Office of Inspector General

Appalachian Regional Commission

**Audit of Grant Award to  
AL Department of Economic & Community Affairs  
Grant Number AL-7805-C40**

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Report Prepared by Castro & Co, LLC

Report Number 24-30

June 6, 2024

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



# Office of Inspector General

Appalachian Regional Commission

June 6, 2024

TO: Brandon McBride, Executive Director

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

SUBJECT: Audit Report 24-30 – AL Department of Economic & Community Affairs

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number AL-7805-C40 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. The auditors did not issue any recommendations. 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.

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-7805-C40**

**For the period from October 1, 2021 to March 31, 2023  
Awarded to the Alabama Department of Economic and  
Community Affairs**

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

**June 6, 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 AL-7805-C40 awarded by the Appalachian Regional Commission (ARC) to the Alabama Department of Economic and Community Affairs (ADECA or the Grantee) for the period of October 1, 2021 to March 31, 2023. The audit was conducted at the request of the ARC's 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 the Grantee's financial management, administrative procedures, and related internal controls were adequate to manage the ARC grant funds. There were no findings and recommendations resulting from this performance audit engagement.

We discussed the results of this performance audit with the ADECA's management at the conclusion of our fieldwork.

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

*Castro & Company, LLC*

Alexandria, VA  
June 6, 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. AL-7805-C40 awarded to the Alabama Department of Economic and Community Affairs (ADECA or the Grantee) for the period of October 1, 2021 to March 31, 2023.

ARC awarded Grant No. AL-7805-C40 to ADECA to provide funding to help ADECA conduct ARC program activities in 37 counties including technical assistance to eight Local Development Districts, with a focus on devising local projects eligible for ARC funding and capacity building in Macon, Alabama's distressed county. ADECA staff provided direct assistance, such as project packaging or referral services to local communities.

The original period of performance for Grant No. AL-7805-C40 covered the period from October 1, 2021 to September 30, 2022 but was subsequently extended to March 31, 2023. The grant agreement provided a budget of \$225,000 in ARC funds. The State of Alabama requested a waiver for the matching requirements on behalf of ADECA and was approved by ARC. Therefore, the project was 100% ARC funded.

We obtained the Standard Form (SF) 270, *Request for Advance or Reimbursement*, for the period covering October 1, 2021 to March 31, 2023 that identified cumulative total ARC funded project costs of \$172,808.

## Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC's Office of Inspector General to conduct a performance audit of the ADECA to determine compliance with the requirements of the ARC Grant No. AL-7805-C40 for the period of October 1, 2021 to March 31, 2023.

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

Exhibit A	
Cost Category	Budget Total
Personnel	\$ 128,168
Fringe Benefits	\$ 55,984
Travel	\$ 18,000
Supplies	\$ 5,000
Other	\$ 1,848
Indirect	\$ 16,000
<b>Total</b>	<b>\$ 225,000</b>

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 ADECA's system that specifically applied to ARC such as costs for personnel, fringe benefits, travel, supplies, indirect, and other costs. We conducted this performance audit from September 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, cash disbursements, cash receipts, and procurement 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 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. Crystal Talley, Division Chief, Mr. Kenneth Boswell, Director, Ms. Lisa North Pierson, Senior Accountant, and Mr. Jimmie Baker, Accountant Technician for ADECA during the exit conference on May 22, 2024. ADECA concurred with our results.

### Summary of Results

Castro & Co's procedures determined ADECA 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.

ADECA'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.

The Grantee reported a total of \$172,808 in ARC costs. ARC approved the State of Alabama's request for the use of discretionary authority to waive the match requirements for Grant No. AL-7805-C40. Therefore, the Grantee was not required to provide funds for non-ARC funded match cost share. 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 the State of Alabama (AL) and noted the Grantee a Single Audit performed for the period October 1, 2021 through September 30, 2022. The Single Audit report identified a material weakness and significant deficiencies in internal control over compliance requirements as outlined in the OMB Compliance Supplement for several AL state agencies; however, the Single Audit report did not identify deficiencies in internal control over financial reporting or compliance specific to ADECA. Therefore, we determined the prior year's findings do not impact the Grantee's financial reporting of expended grant funds to ARC.

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

<b>Exhibit B: Schedule of Claimed and Audit Recommended Costs</b>			
<b>Cost Category</b>	<b>Claimed</b>	<b>Questioned</b>	<b>Audit Recommended Total</b>
Personnel	\$ 109,994	\$ -	\$ 109,994
Fringe Benefits	\$ 49,751	\$ -	\$ 49,751
Travel	\$ 4,422	\$ -	\$ 4,422
Supplies <sup>1</sup>	\$ 5,895	\$ -	\$ 5,895
Indirect	\$ 2,746	\$ -	\$ 2,746
<b>Total</b>	<b>\$ 172,808</b>	<b>\$ -</b>	<b>\$ 172,808</b>

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<sup>1</sup> The total ARC funded cost category Supplies exceeded the budget amount by \$895; however, the amount does not exceed \$22,500, or ten percent of the overall budget. Therefore, prior ARC approval was not required.