



Office of Inspector General

Appalachian Regional Commission

**Audit of Grant Award to
Southern Highlands Community Mental Health Center, Inc.
Grant Number PW-20058**

Report Prepared by Castro & Co, LLC

Report Number 24-40

September 9, 2024

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



Office of Inspector General

Appalachian Regional Commission

September 9, 2024

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 24-40 – Southern Highlands Community Mental Health Center, Inc.

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number PW-20058 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 issued two recommendations in the 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 five 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-20058**

**For the period from October 1, 2020 to September 30, 2023
Awarded to Southern Highlands Community Mental Health
Center, Inc.**

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

September 9, 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-20058 awarded by the Appalachian Regional Commission (ARC) to Southern Highlands Community Mental Health Center, Inc. (Southern Highlands or the Grantee) for the period of October 1, 2020 to September 30, 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 except for Findings 01 and 02 related to financial management 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 Southern Highlands management at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1 – Southern Highlands Community Mental Health Center, Inc. Response**.

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

Castro & Company, LLC

Alexandria, VA
September 9, 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 Number (No.) PW-20058 awarded to Southern Highlands Community Mental Health Center, Inc. (Southern Highlands or the Grantee) for the period from October 1, 2020 to September 30, 2023.

ARC awarded Grant No. PW-20058 to Southern Highlands to provide funding for the creation of a peer navigator/recovery coach (PN/RC) program, which provided outreach and linkage to integrated care for substance use disorder (SUD), mental health, and drug use-related chronic infections. The program supports behavioral and physical health treatments necessary for pursuing and sustaining job training and education.

The period of performance for Grant No. PW-20058 covered the period from October 1, 2020 to September 30, 2023. The grant agreement provided a budget of \$480,000 in ARC funds and required non-ARC matching funds of \$120,000 for total project costs of \$600,000. The allowable percentage breakout of ARC to non-ARC funding for the project was 80% ARC funds to 20% matching funds.

We obtained ARC Standard Form (SF) 270, *Request for Advance or Reimbursement*, for the period covering November 1, 2021 to November 30, 2022 and ARC Final Payment / Closeout Summary that identified cumulative total ARC costs of \$314,484 (73%) and non-ARC matching costs of \$117,397 (27%) for a total project cost of \$431,881.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC's Office of Inspector General to conduct a performance audit of Southern Highlands to determine compliance with the requirements of the ARC Grant No. PW-20058 for the period from October 1, 2020 to September 30, 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	\$ 160,520	\$ 107,873	\$ 268,393
Fringe Benefits	\$ 21,496	\$ 10,054	\$ 31,550
Equipment	\$ 33,333	\$ -	\$ 33,333
Supplies	\$ 14,150	\$ -	\$ 14,150
Contractual	\$ 175,000	\$ -	\$ 175,000
Other	\$ 28,000	\$ 2,073	\$ 30,073
Indirect	\$ 47,501	\$ -	\$ 47,501
Total	\$ 480,000	\$ 120,000	\$ 600,000

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 Southern Highlands’s system that specifically apply to ARC such as personnel, fringe benefits, equipment, supplies, contractual, indirect, and other costs. We conducted this performance audit from January 2024 to August 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, indirect, and match costs through reviews of policies and procedures, prior audit reports, organization charts, inquiry of Southern Highlands 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. Lisa Jones, Chief Executive Officer (CEO), and Ms. Angela Peterson, Chief Financial Officer (CFO) for Southern Highlands during the exit conference on August 29, 2024. Southern Highlands partially concurred with our results. Southern Highlands’s response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1 – Southern Highlands Community Mental Health Center, Inc. Response**.

Summary of Results

Castro & Co’s procedures determined that except for Findings 01 and 02 related to financial management as described in **Appendix A**; Southern Highlands 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.

Southern Highlands’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 Finding 01. 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. We questioned \$20,083 of ARC funded costs and \$7,303 of non-ARC matching cost share as a result of unallowable and unsupported expenses incurred.

The Grantee reported a total of \$314,484 in ARC costs and \$117,397 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of September 30, 2023. These

matching funds were properly supported and allowable under both Federal and ARC requirements except for questioned costs totaling \$7,303 described in Finding 02. 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 Southern Highlands and noted the Grantee had Single Audits performed for the years ended June 30, 2021, June 30, 2022, and June 30, 2023. 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.

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

Exhibit B: Schedule of Claimed and Audit Recommended Costs							
Category	Claimed		Questioned		Audit Recommended		
	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ 81,946	\$ 103,968	\$(20,083)	\$ (4,738)	\$ 61,863	\$ 99,230	\$ 161,093
Fringe Benefits	\$ 12,951	\$ 8,791	\$ -	\$ -	\$ 12,951	\$ 8,791	\$ 21,742
Equipment	\$ 33,333	\$ -	\$ -	\$ -	\$ 33,333	\$ -	\$ 33,333
Supplies	\$ 8,808	\$ -	\$ -	\$ -	\$ 8,808	\$ -	\$ 8,808
Contractual	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000	\$ -	\$ 150,000
Other	\$ 4,407	\$ 4,638	\$ -	\$ (2,565)	\$ 4,407	\$ 2,073	\$ 6,480
Indirect	\$ 23,039	\$ -	\$ -	\$ -	\$ 23,039	\$ -	\$ 23,039
Total	\$ 314,484	\$ 117,397	\$(20,083)	\$ (7,303)	\$ 294,401	\$ 110,094	\$ 404,495

Appendix A – Findings and Recommendations

Finding 01 – Unallowable ARC Funded Personnel Costs

Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) reviewed supporting documentation from Southern Highlands Community Mental Health Center, Inc. (Southern Highlands or the Grantee) for ARC funded personnel costs incurred during the grant period. The Grantee claimed \$81,946 in personnel costs; 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 \$20,083 were deemed unallowable ARC funded costs.

Specifically, we noted Southern Highlands utilized ARC grant funds to pay amounts in excess of the base salary for their Chief Executive Officer (CEO) and Director of Substance Use in the amount of \$14,083 and \$6,000, respectively, instead of using ARC funds as a reimbursement of the CEO and Director’s base salary incurred during the grant period. The Uniform Guidance states that amounts paid above the base salary are only allowable as part of an organization’s incentive compensation plan; however, these payments made to the CEO and Director were not considered incentive compensation or part of the Grantee’s established incentive compensation plan.

We also noted that the grant application included a cap of \$13,000 for the CEO and \$6,000 for the Director of Substance Use; however, Southern Highlands exceeded the cap for the CEO by \$1,083 and received ARC funds in the amount of \$14,083 for CEO support as mentioned above. The excess of \$1,083 claimed by the Grantee is included within the \$14,083 deemed as unallowable above; therefore, no additional questioned cost will be reported. We also noted the Grantee did not claim costs above the overall total personnel cost budget amount.

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.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.

2 CFR Part 200.430, *Compensation – Personal Service*, states:

- (f) *Incentive compensation.* Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., is allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the non-Federal entity

and the employees before the services were rendered, or pursuant to an established plan followed by the non-Federal entity so consistently as to imply, in effect, an agreement to make such payment.

(i) Standards for Documentation of Personnel Expenses

(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities;

Cause:

The Grantee did not have adequate controls in place to ensure unallowable costs were excluded from the claimed ARC funded expenses. The grant application included Personnel costs to support the CEO and Director of Substance Use equal to 10% of their base salary and was not meant to pay the CEO and Director in excess of their base salary.

Effect:

The absence of adequate controls prevented Southern Highlands from identifying unallowable costs to ensure compliance with the Federal grant requirements prior to reporting claimed costs to ARC. Therefore, ARC could require the Grantee to reimburse questioned costs totaling \$20,083 of ARC funded personnel expenses.

Recommendation:

We recommend that the Grantee:

1. Work with ARC to resolve the questioned cost totaling \$20,083 for ARC funded personnel cost.
2. Revise policies and procedures to ensure payments made with federal funds are allowable in accordance with the grant agreements terms and requirements of the Uniform Guidance.

Grantee Response:

Southern Highlands disagrees that the first finding regarding unallowable ARC-funded personnel costs was due to an internal control issue. The organization maintains that it has effective controls in place to ensure unallowable costs are excluded from ARC-funded expenses. The payments to the CEO and the Director of Substance Use were primarily a result of unclear language in the original ARC application concerning the time and effort required for these positions. Furthermore, the CEO and CFO of Southern Highlands had multiple conversations with ARC after the award was granted, requesting a budget revision to remove the line items associated with these payments. We were informed that a budget revision was not permitted, and at no point did ARC indicate that these payments would be deemed unallowable. As a result, Southern Highlands proceeded with the payments, as it became evident that reallocating these funds was not an option.

Auditor Response:

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

Finding 02 - Unsupported Matching Cost Share

Condition:

As part of our procedures, Castro & Co performed a reconciliation of non-ARC match expenditure transactions incurred during the grant period of October 1, 2020 to September 30, 2023. We noted Southern Highlands reported non-ARC Other (in-kind) match costs in the amount of \$4,638; however, the Grantee's in-kind spreadsheet showed non-ARC Other (in-kind) match costs of \$2,073 which resulted in questioned costs of \$2,656.

Additionally, Castro & Co reviewed supporting documentation from Southern Highlands for non-ARC match costs incurred during the grant period. The Grantee claimed \$103,083 in personnel costs; however, under 2 CFR Part 200, costs totaling \$4,738 were deemed unsupported non-ARC match costs. Specifically, we noted:

- For one sample tested, Southern Highlands reported Personnel costs of \$5,624; however, the supporting documentation showed \$1,236 was incurred during the three-month period which resulted in questioned cost of \$4,388.
- For one sample tested, Southern Highlands reported Personnel costs of \$4,434; however, based on the employee's hourly rate, the supporting documentation showed \$4,084 was incurred during a four-month period which resulted in questioned cost of \$350.

Criteria:

2 CFR 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:

- (1) Are verifiable from the non-Federal entity's records;
- (4) Are allowable under Subpart E of this part;

2 CFR 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:

- (g) Be adequately documented.

Cause:

The Grantee did not have adequate controls in place to identify unsupported costs reported to ARC and exclude costs from the claimed non-Federal match expenses.

Effect:

The lack of controls resulted in Southern Highlands reporting inaccurate non-ARC match cost amounts to ARC; therefore, ARC could require the Grantee to exclude total questioned costs in the amount of \$7,303 from the total non-Federal match funds.

Recommendation:

We recommend that the Grantee:

3. Work with ARC to resolve the questioned cost totaling \$2,565 for unsupported non-ARC Other (in-kind) match costs.
4. Work with ARC to resolve the questioned cost totaling \$4,738 for unsupported non-ARC Personnel match cost.
5. Revise policies and procedures to perform quality control reviews of expenses incurred to ensure match costs reported to ARC are accurately reflected and fully supported by documentation in accordance with the grant agreement terms and the Uniform Guidance.

Grantee Response:

Southern Highlands takes no exception to and agrees with Castro & Company, LLC's second finding presented in the audit report of Grant Number PW-20058 for the period of October 1, 2020 to September 30, 2023 related to unsupported matching cost share.

Auditor Response:

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

Attachment 1 – Southern Highlands Community Mental Health Center, Inc. Response

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200 12th Street Ext
Princeton, WV 24740-2398

September 3, 2024

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

Subject: Southern Highlands Community Mental Health Center, Inc. (Southern Highlands) Response to Castro & Company, LLC's Performance Audit of Grant Number PW-20058

Southern Highlands takes exceptions to and disagrees with Castro & Company, LLC's findings presented in the audit report of Grant Number PW-20058 for the period of October 1, 2020 to September 30, 2023. Southern Highlands disagrees that the first finding regarding unallowable ARC-funded personnel costs was due to an internal control issue. The organization maintains that it has effective controls in place to ensure unallowable costs are excluded from ARC-funded expenses. The payments to the CEO and the Director of Substance Use were primarily a result of unclear language in the original ARC application concerning the time and effort required for these positions. Furthermore, the CEO and CFO of Southern Highlands had multiple conversations with ARC after the award was granted, requesting a budget revision to remove the line items associated with these payments. We were informed that a budget revision was not permitted, and at no point did ARC indicate that these payments would be deemed unallowable. As a result, Southern Highlands proceeded with the payments, as it became evident that reallocating these funds was not an option.

Southern Highlands takes no exception to and agrees with Castro & Company, LLC's second finding presented in the audit report of Grant Number PW-20058 for the period of October 1, 2020 to September 30, 2023 related to unsupported matching cost share.

Southern Highlands greatly appreciates the opportunity to have worked with ARC.

Sincerely,

A handwritten signature in black ink, appearing to read "Lisa Jones".

Lisa Jones, CEO