

Office of Inspector General

*Report Prepared by Leon Snead & Co., PC
Audit of Grant Award - To the West Alabama Chamber
Foundation, Inc., dba West Alabama Works
Grant Number PW-18755-A & PW-18755-B*



**Appalachian
Regional
Commission**

Office of Inspector General

Audit Report: 21-15

August 12, 2021



Office of Inspector General

August 12, 2021

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General

A handwritten signature in blue ink, reading "Philip Heneghan".

SUBJECT: Audit Report 21-15 – West Alabama Chamber Foundation, Inc, dba West Alabama Works

This memorandum transmits the Leon Snead & Co. PC, report for the audit of costs charged to grant numbers PW-18755-A & PW-18755-B, to the West Alabama Chamber Foundation Inc., dba West Alabama Works, project 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 met, not met, or not likely to be met.

Leon Snead & Co. PC, is responsible for the attached audit report and the conclusions expressed in this report. The auditors issued one recommendation in this report.

We do not express any opinion on the conclusions presented in Leon Snead & Co., PC audit report. To fulfill our responsibilities, we:

- Reviewed 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 issuance of the audit report.

We thank your staff for the assistance that was extended to the auditors during this audit. Please contact me at 202-884-7675 if you have any questions regarding the report.



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August 10, 2021

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, N.W.
Washington, DC 20009

Leon Snead & Company, P.C. completed audits of grant numbers PW-18755-A and PW-18755-B awarded by the Appalachian Regional Commission (ARC) to the West Alabama Chamber Foundation, Inc., dba West Alabama Works, Tuscaloosa, Alabama. The audit was conducted at the request of the ARC Office of Inspector General to assist the office in its oversight of ARC grant funds.

The audit objectives were to determine whether: (1) program 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 grant guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); (5) the matching requirements; and (6) the established performance measures were met.

The recipient's administrative procedures and related internal controls were adequate to manage its ARC grant funds. However, we questioned \$59,524 of indirect costs claimed under PW-18755-A because they were not supported. During discussions on this issue, WAW officials stated that since there was an approved budgeted amount of \$150,000 for indirect cost, they concluded that this amount could be claimed for reimbursement. The grantee stated that the indirect costs were for a portion of its administrative and overhead cost for its executive and administrative staff located in the Chamber Foundation's Tuscaloosa offices.

These explanations do not resolve the issue about the method WAW should use to recover its indirect costs. There are two methods available under 2 CFR 200 for the recipient to recover its indirect cost, an approved overhead rate which the recipient did not have or a 10% de minimis rate. Neither of these two methods were followed by the recipient. Our calculation using the 10% as a default rate showed that the indirect costs were over claimed by the amount of questioned costs.

Performance measures for Grant PW-18755-A were to serve 850 workers/trainees 450 students, and 45 business. In addition, one sustainable energy plan was to be developed. The audit verified that the three performance measures were exceeded and the sustainable energy plan was developed. The performance goal for PW-18755-B was to renovate 36,000 square feet of teaching space on the old Brookwood High School campus. The project involved three buildings. During renovation, one building was demolished for health reasons and two buildings were renovated, resulting in a total of 15,000 square feet of teaching and administrative space.

The recipient's response to our draft report is included as an attachment to this report.

Sincerely,


Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed audits of grant numbers PW-18755-A and PW-18755-B awarded by the Appalachian Regional Commission (ARC) to the West Alabama Chamber Foundation, Inc., dba West Alabama Works, Tuscaloosa, Alabama. The audits were conducted at the request of the ARC Office of Inspector General to assist the office in its oversight of ARC grant funds.

ARC awarded Grant PW-18755-A to the West Alabama Chamber Foundation, Inc., dba West Alabama Works (WAW) to assist with implementation of WAW's 2020 Power Initiative. The WAW 2020 Power Initiative is a regional effort to meet the critical needs of a growing automotive and advanced manufacturing industry by the year 2020, while also responding to the needs of communities that were severely impacted by the downturn in the coal industry. As a part of the 2020 Power Initiative, two building were renovated and one building demolished on the campus of the old Brookwood High School with the addition of funding through Grant PW-18755-B. This additional funding resulted in space to train workers for employment for in-demand positions in healthcare and in hospitality, as well as in automotive mechatronics and advanced manufacturing.

Grant PW-18755-A covered the period January 1, 2017 through December 31, 2020. PW-18755-A provided a budget of \$1,100,810 in ARC funds and required non-ARC matching funds of \$4,773,650 for total project funding of \$5,874,460. The allowable percentage breakout of ARC to non-ARC funding for the project was 19% ARC funds and 81% matching funds.

Grant PW-18755-A was administered and managed by WAW. An ARC reimbursement Request Worksheet for the period through December 31, 2020, the end of the grant period of performance, identified total ARC costs of \$1,054,765 and matching costs of \$9,238,714 for a total project cost of \$10,293,478.

Grant PW-18755-B covered the period November 1, 2016 through June 30, 2020. It provided a budget of ARC funds of \$400,000 for WAW to restore 36,000 square feet of teaching space on the old Brookwood High School campus, now called the Brookwood Technical High School. The non-ARC matching effort was budgeted for \$1,671,514 and it was to be provided by the State, the Tuscaloosa County School System and other in-kind donations from local businesses. The allowable percentage breakout of ARC to non-ARC funding for the project was also 19% ARC funds and 81% matching funds.

Grant PW-18755-B was administered and managed by the Alabama Department of Economic Development and Community Affairs. It was administratively closed out on September 3, 2020. The resulting ARC costs totaled \$389,440 and matching costs were \$1,627,386 in order to meet the percentage requirements of ARC funds to non-ARC funds for a total project cost of \$2,016,826.

Objectives, Scope, and Methodology

The audit objectives were to determine whether: (1) program 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 grant guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable

accounting and reporting requirements); and (5) the matching requirements; and (6) the established performance measures were met.

We interviewed the Executive Director and Director of Finance and Operations for WAW to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed applicable written financial and administrative policies and procedures to determine if they complied with Federal requirements and were adequate to administer the grants. We also examined supporting information on the total reported matching costs on both grants to verify they were properly supported and allowable. Further, we reviewed the two most recent annual financial statement audit reports to identify any issues that could significantly impact the ARC grant costs and this audit.

For Grant PW-18755-A, we tested \$743,419 (75%) of the \$1,054,765 ARC fund expenditures and all (\$9,238,714) of the matching contributions to determine if they were properly supported and allowable.

For Grant PW-18755-B, we tested all (\$389,440) ARC fund expenditures and all (\$1,627,386) of the matching contributions to determine if they were properly supported and allowable.

Criteria used in performing the audit were 2 CFR 200, the ARC Code, the grant agreements and the proposals submitted by WAW. In addition, criteria also used for Grant PW-18755-B included the Memorandum of Understanding between the Alabama Department of Economic and Community Affairs and the ARC, and the Registered State Basic Agency Grant Administration Manual.

The audit was performed in accordance with Generally Accepted Government Auditing Standards.

The on-site fieldwork was performed at the West Alabama Chamber Foundation in Tuscaloosa, Alabama and the Brookwood Workforce Center in Brookwood, Alabama. A site visit was also made to the Brookwood Technical High School during our audit fieldwork. The preliminary audit results were discussed with the Executive Director and the Director of Finance and Operations for WAW during and at the conclusion of the on-site fieldwork on May 27, 2021.

Summary of Audit Results

Overall, WAW, with assistance from the Alabama Department of Economic and Community Development and the Tuscaloosa County School System, managed program funds in accordance with the ARC and Federal grant requirements. The recipient's financial management and administrative procedures and related internal controls were adequate to account for and control the funds provided under the ARC grants. Financial and project reports were submitted in accordance with ARC accounting and reporting requirements. Except for the indirect cost indicated below, the ARC and the matching costs tested were supported and reasonable.

We questioned \$59,524 of indirect costs claimed under Grant PW-18755-A for inadequate support, which is covered in more detail in the finding and recommendation section of the report. Based on our audit tests, we concluded that all cost incurred, under grant 18775-B, for the demolition and renovation work completed at the Brookwood Technical High School were reasonable, supported, and allowable.

We concluded that three of the proposed performance measures for Grant PW-18755-A were exceeded and one was met. Performance measures for the grant were to serve 850 workers/trainees, 450 students, and 45 businesses. In addition, one sustainable energy plan was to be developed. WAW reported and we confirmed that 1,774 workers/trainees found employment, 1,919 students received a credential, and 78 businesses were served by this project. We concluded that these three performance measures were exceeded. We also found that the sustainable energy plan was developed. The sustainable energy plan is a secure website that automobile manufacturers can access that contains information on best practices and ideas posted by graduate students that are researching ideas to attain zero waste in the automobile industry.

The performance measure of renovating 36,000 square feet of space on the campus of the old Brookwood High School campus was only partially met for Grant PW-18755-B. The performance was to renovate 36,000 square feet in three of the old Brookwood High School buildings for use as technological training facilities. Due to problems with one of the buildings planned for renovation, it had to be demolished. As a result, only two buildings were renovated which totals 15,000 square feet. The renovated buildings now contain highly technical educational facilities for teaching its healthcare, hospitality, and the automotive mechatronics and advanced automotive manufacturing programs. The third building was demolished due to previously unknown problems with asbestos, mold, electrical and other construction issues.

On July 29, 2021 we issued a draft report containing the finding and recommendation to the recipient for comments. The recipient's response dated August 4, 2021 is included as an attachment to the report.

Finding & Recommendation

A. Unsupported Indirect Costs

We questioned \$59,524 of the indirect cost claimed by West Alabama Works due to a lack of support.

2 CFR 200 classifies costs as direct and indirect. Section 2 CFR 200.414 of the Administrative Requirements provides that indirect costs can be claimed by classifying facilities and administration costs as indirect. Also, it permits the recipient to recover its indirect cost using an approved indirect cost rate (2 CFR.414(c) or a standard 10% rate under the de minimis rate provision of 2 CFR 414(f). The recipient cannot use both and the selected method must be consistently use to recover its indirect cost on current and future grants.

ARC's most recently approved budget for the grant PW-18755-A includes \$150,000 for indirect cost. During our discussion on this issue, the Executive Director and the Director of Finance and Operations stated that since there was an approved budgeted amount for indirect cost, they concluded that \$150,000 could be claimed for reimbursement without further documentation. Accordingly, WAW divided the \$150,000 in equal sums of \$16,667 to be claimed on payment vouchers during the first three years of the grant performance period.

The recipient did not have an approved indirect cost rate. As a result, the 10% de minimis rate under 2 CFR 214 (f) would be available to recover its indirect costs. Under 2 CFR 214 (f), the recipient must calculate the amount for reimbursement by applying the 10% rate to its modified total direct cost (MTDC).

WAW total costs claimed were \$1,054,765, which includes \$150,000 of indirect cost. Deducting the \$150,000 from the total costs claimed, the direct cost would amount to \$904,765. We noted that the MTDC for the grant equaled the direct costs of \$904,765 claimed by WAW on its final Reimbursement Request Worksheet.

By applying the 10% de minimis rate we determine that the appropriate amount of indirect cost for reimbursement is \$90,476. As a result, WAW's claim for indirect costs was overstated by \$59,524.

Recommendation

We recommend that WAW reduce its final claim to ARC by \$59,527 to compensate for the excess indirect costs claimed previously, or reimburse to ARC the \$59,527 that was paid based on the excess claimed amount.

Recipient's Response

In September 2016, we submitted this grant to ARC, with a total grant request of \$1,500,810.00, clearly indicating an indirect cost of \$150,000.00. We negotiated outcomes and the final budget. The indirect amount was never questioned. This being our first grant we assumed that the proposed rate was acceptable. ARC gave final approval. The grant was funded. After approval, the grant was divided into part A and Part B. Part A was related to programs and overall grant strategy.

Part B was the reconstruction/rehab of an existing building for a technical training high school, in partnership with Tuscaloosa County School system. We proceeded to meet our outcomes and stay within the budget successfully. We were not aware there was an issue until it came up in the audit. Moving forward, we understand the importance of developing a more comprehensive policy regarding indirect costs. Our goal is to have the new policy in place on or before September 30, 2021.

Auditor's Comments

The response indicates that the recipients will take positive actions to establish a policy for claiming overhead costs. However, the response does not address the rate that will be used to recover its indirect costs. In our opinion, the recipient should either obtain an approved overhead rate from its cognizant agency or use the 10% de minimis rate to recover its indirect costs.



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On June 29, 2021, we received a draft report from the audit performed on Grant PW-18755-A and PW-18755-B by Leon Snead & Company, P.C. In this report it was noted that the indirect cost was not supported. The amount of the indirect cost was in the budget that was approved by the Appalachian Regional Commission (ARC).

In September 2016, we submitted this grant to ARC, with a total grant request of \$1,500,810.00, clearly indicating an indirect cost of \$150,000.00. We negotiated outcomes and the final budget. The indirect amount was never questioned. This being our first grant we assumed that the proposed rate was acceptable. ARC gave final approval. The grant was funded. After approval, the grant was divided into part A and Part B. Part A was related to programs and overall grant strategy. Part B was the reconstruction/rehab of an existing building for a technical training high school, in partnership with Tuscaloosa County School system. We proceeded to meet our outcomes and stay within the budget successfully. We were not aware there was an issue until it came up in the audit.

Moving forward, we understand the importance of developing a more comprehensive policy regarding indirect costs. Our goal is to have the new policy in place on or before September 30, 2021.

Donny Jones
Executive Director
West Alabama Works