



## Office of Inspector General

Appalachian Regional Commission

### **Desk Review of Matching Funds to The Center for Rural Development Grant Nos. KY-18731, KY-18983, and KY-19783**

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Report Prepared by Castro & Co, LLC

Report Number 24-26

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: Desk Review of Matching Funds, Report Number 24-26

This memorandum transmits the final report of a review performed by Castro & Company, LLC, of matching funds related to grant numbers KY-18731, KY-18983, and KY-19783. The objective of the review was to determine if The Center for Rural Development had adhered to the matching fund requirements under the grant agreement.

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 two 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.

May 23, 2024

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

Subject: Desk Review on the Center for Rural Development, ARC Grant Numbers KY-18731, KY-18983, and KY-19783

Castro & Company, LLC (Castro & Co) completed a desk review for Grant Numbers (Nos.) KY-18731, KY-18983, and KY-19783 awarded by the Appalachian Regional Commission (ARC) to the Center for Rural Development (herein referred to as CRD or “the Grantee”). The desk review was conducted at the request of the ARC Office of Inspector General to assist the office in the oversight of ARC grant funds.

The desk review objectives were to verify that the Grantee complied with matching funds requirements in accordance with the grant agreements from the date of grant approval through the end of the grant period of performance for Grant Nos. KY-18731, KY-18983 and the end of our fieldwork of March 12, 2024 for Grant No. KY-19783.

The CRD located in Somerset, Kentucky is a 501c (3) nonprofit organization that provides leadership to stimulate innovative and sustainable economic development solutions and a better way of life for the citizens in a 45-county primary service area in Southern and Eastern Kentucky. CRD’s programs and services center around four focus areas: Public Safety, Arts & Culture, Leadership, and Technology. CRD also has a state-of-the-art meeting and convention facility. Grant No. KY-18731 (Phase 2) provides funding for construction costs related to portions of the Eastern Kentucky network in the distressed counties of Bell, Harlan, Knox, Letcher, and Whitley, and the at-risk county of Pike. Grant No. KY-18983 (Phase 3) provides funding for construction costs related to portions of the Eastern Kentucky network in distressed counties McCreary and Whitley, and the at-risk county Pulaski. The Grant No. KY-19783 (Phase 5) provides funding to run laterals from the KY-Wired fiber backbone to five state parks in Eastern Kentucky including Lake Cumberland State Resort Park, Cumberland Falls State Resort Park, Dale Hollow State Resort Park, Carter Caves State Resort Park and Kingdom Come State Park.

As part of our procedures, Castro & Co reviewed supporting documentation for non-ARC match construction costs incurred for Grant Nos. KY-18731, KY-18983, and KY-19783. CRD provided a letter from the Commonwealth of Kentucky committing to provide the match funds for the project; however, 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. Specifically, we noted the following:

- For Grant No. KY-18731 (Phase 2), CRD did not comply with matching funds requirements as of the end of the grant period of May 31, 2020, in accordance with the grant agreement. CRD did not maintain adequate documentation to support \$2,000,000 of the total \$2,000,000 match cost share amount reported to ARC.

- For ARC Grant No. KY-18983 (Phase 3), CRD did not comply with matching funds requirements as of the end of the grant period of December 31, 2021. CRD did not maintain adequate documentation to support \$858,000 of the total \$1,140,600 match cost share amount reported to ARC.

We also noted that for Grant No. KY-19783 (Phase 5), CRD did not incur or request reimbursement from ARC for costs as of the end of our fieldwork of March 12, 2024.

As a result of our review, we are issuing two recommendations as follows:

Recommendation 1: We recommend the Grantee work with ARC to resolve the questioned costs totaling \$2,000,000 for non-ARC match costs under Grant No. KY-18731 (Phase 2).

Recommendation 2: We recommend the Grantee work with ARC to resolve the questioned costs totaling \$858,000 for non-ARC match costs under Grant No. KY-18983 (Phase 3).

The Grantee's response to our desk review results indicates non-concurrence with issues described above that were identified as part of our desk review procedures. We have included as an attachment CRD's response to the issues identified above as well as Castro & Co's rebuttal to CRD's response.

Sincerely,

  
Alexandria, VA

Attachments:

Attachment 1 – The Center for Rural Development's Response

Attachment 2 – Castro & Company, LLC's Response

## 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 Desk Review on The Center for Rural Development, ARC Grant Numbers KY-18731, KY18983, and KY-19783.

The Center for Rural Development (CRD) takes exception to Castro & Company, LLC's findings presented in the Desk Review Letter of Grant Numbers KY-18731, KY18983, and KY-19783.

Reasonings for objection to each finding below with detailed explanation.

**Finding 1 – CRD obtained a match letter from the Commonwealth of Kentucky that more than adequately covers the match. All documentation is available and CRD will work with the auditors and/or ARC to provide suitable documentation for these costs. CRD will work with ARC to resolve any questioned cost totaling \$2,000,000 for non-match costs under Grant No. KY-18731(Phase 2).**

**Finding 2 - CRD obtained a match letter from the Commonwealth of Kentucky that more than adequately covers the match. All documentation is available and CRD will work with the auditors and/or ARC to provide suitable documentation for these costs. CRD will work with ARC to resolve the questioned cost totaling \$1,140,600 for non-match costs under Grant No. KY-18983 (Phase 3).**

Sincerely,

Lonnie Lawson  
President & CEO

## **Attachment 2 – Castro & Company, LLC's Response**

Castro & Company, LLC (Castro & Co) has reviewed Center for Rural Development (CRD)'s response provided to Castro & Co. on May 13, 2024 regarding issues identified during our desk review of ARC Grant Numbers KY-18731, KY-18983, and KY-19783 (Nos). 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 July 2023, Castro & Co did not receive the requested information.