



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to City of Holly Springs

Grant Number MS-19525

Report Prepared by Castro & Co, LLC

Report Number 24-27

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 24-27 – City of Holly Springs

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number MS-19525 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 three 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. MS-19525**

**For the period from March 1, 2019 to November 7, 2022
Awarded to The City of Holly Springs**

**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 (No.) MS-19525 awarded by the Appalachian Regional Commission (ARC) to the City of Holly Springs (the Grantee) for the period of March 1, 2019 to November 7, 2022. 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 Finding 01 related to financial management and Finding 02 related to administrative procedures 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 the Grantee's management at the conclusion of our fieldwork. The Grantee did not provide a written response to the findings and recommendations for inclusion within the audit report.

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. MS-19525 awarded to the City of Holly Springs (the Grantee) for the period of March 1, 2019 to November 7, 2022.

ARC awarded Grant No. MS-19525 to the City of Holly Springs to provide funds for the improvements to the Springs Economic Development Area and Industrial Park by creating more access roads to the property as well as water and sewer improvements to better serve future industrial development.

The original period of performance for Grant No. MS-19525 covered the period from March 1, 2019 to February 28, 2022 but was subsequently extended to April 15, 2024. The grant agreement provided a budget of \$1,000,000 in ARC funds and required non-ARC matching funds of \$428,571 for total project costs of \$1,428,571. The allowable percentage breakout of ARC to non-ARC funding for the project was 70% ARC funds to 30% matching funds.

We obtained the Automated Standard Application for Payments (ASAP) Drawdown Request for the period ending November 7, 2022 and approved on February 27, 2023 that identified cumulative total ARC costs of \$400,539 (66%) and non-ARC matching costs of \$202,843 (34%) for a total project cost of \$603,382.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of the City of Holly Springs to determine compliance with the requirements of the ARC Grant No. MS-19525 for the period of March 1, 2019 to November 7, 2022.

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
Administrative and Legal	\$ -	\$ 20,500	\$ 20,500
Architectural and Engineering	\$ 95,145	\$ 73,716	\$ 168,861
Construction	\$ 821,795	\$ 334,355	\$ 1,156,150
Contingencies	\$ 83,060	\$ -	\$ 83,060
Total	\$ 1,000,000	\$ 428,571	\$ 1,428,571

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 the City of Holly Springs' system that specifically apply to ARC such as administrative and legal, architectural and engineering, construction, and contingency costs. We conducted this performance audit from April 2023 to March 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 cash disbursements, cash receipts, procurement, and match costs 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 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 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. Sharon Gipson, Mayor for City of Holly Springs, Ms. Angie Duvall, Economic Development Coordinator NEMPDD, Ms. Jerrica Jones, City Clerk for City of Holly Springs, Ms. Eleanor Clayborn, Administrative Assistant for City of Holly Springs, Mr. Justin Hall, Executive Director of the Marshall County Industrial Development Authority, and Ms. Andrea Rose, Director with Appalachian Regional & Southeast Crescent Regional Commissions for the City of Holly Springs during the exit conference on May 16, 2024. During the exit conference, City of Holly Springs stated that it did not concur with the results of the audit; however, the Grantee did not provide a written response to the findings and recommendations for inclusion within the audit report.

Summary of Results

Castro & Co’s procedures determined that except for Finding 01 related to financial management and Finding 02 related to administrative procedures described in [Appendix A](#), the City of Holly Springs 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.

The Grantee’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 except for the matter described in Finding 01. We questioned \$7,935 of non-ARC matching funds as a result of unsupported cost claimed.

We determined the Grantee was not subject to the Single Audit requirements under the Uniform Guidance.

The Grantee reported a total of \$400,539 in ARC costs and \$202,843 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of November 7, 2022. These matching funds were properly supported and allowable under both Federal and ARC requirements except for the \$7,935 in non-ARC matching costs questioned in Finding 01. Based on our review of the Grantee's procedures, the performance results reported to ARC were not fair and reasonable as described in Finding 02.

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

Exhibit B: Schedule of Claimed and Audit Recommended Costs							
	Claimed		Questioned Cost		Audit Recommended		
Category	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Administrative and Legal	\$ -	\$ 7,500	\$ -	\$ -	\$ -	\$ 7,500	\$ 7,500
Architectural and Engineering	\$ 4,853	\$ 34,445	\$ -	\$ -	\$ 4,853	\$ 34,445	\$ 39,298
Construction	\$ 395,686	\$ 141,249	\$ -	\$ 7,935	\$ 395,686	\$ 133,314	\$ 529,000
Contingencies	\$ -	\$ 19,649	\$ -	\$ -	\$ -	\$ 19,649	\$ 19,649
Total	\$ 400,539	\$ 202,843	\$ -	\$ 7,935	\$ 400,539	\$ 194,908	\$ 595,447

Appendix A – Findings and Recommendations

Finding 01 – Unsupported Non-ARC Matching Funds Questioned Costs

Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) reviewed supporting documentation from the City of Holly Springs (the Grantee) for non-ARC match costs incurred during the grant period. The Grantee claimed \$16,250 in construction material 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 \$7,935 were deemed unsupported non-ARC match costs. A summary of the unsupported questioned costs is presented in the table below.

Item Description	In-Kind Cost Claimed	Supported Costs Incurred	Unsupported/ Questioned Cost
Tracer Wire	\$ 250	\$ 250	\$ -
Ductile Iron Fittings	\$ 4,000	\$ 4,000	\$ -
3-Way Fire Hydrant	\$ 9,000	\$ 3,270	\$ 5,730
12" Gate Valve	\$ 3,000	\$ 795	\$ 2,205
Total	\$ 16,250	\$ 8,315	\$ 7,935

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:

(1) Are verifiable from the non-Federal entity's records

(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:

(g) Be adequately documented.

2 CFR Part 200.453, *Materials and supplies costs, including costs of computing devices*, states:

(b) Purchased materials and supplies must be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms must be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied. Incoming transportation charges are a proper part of materials and supplies costs.

Cause:

The City of Holly Springs did not retain adequate documentation to support in-kind construction supplies including fair market valuation, inventory records, invoices, and procurement or cost reasonableness documentation. Additionally, the Grantee did not have adequate controls in place

to ensure unsupported costs incurred were excluded from the claimed non-Federal matching expenses.

Effect:

The absence of adequate controls prevented the City of Holly Springs from retaining adequate documentation and identifying unsupported costs to ensure compliance with the Federal grant requirements prior to reporting claimed costs to ARC. Therefore, ARC could require the Grantee to exclude total questioned costs in the amount of \$7,935 from the total non-Federal match funds.

Recommendations:

We recommend:

1. The Grantee revise its policies and procedures to ensure that costs claimed are adequately supported by source documents in accordance with the regulations.
2. The Grantee revise the BAMR Form to exclude total questioned cost in the amount of \$7,935 from the total non-Federal match funds.

Finding 02 – Inaccurate Performance Measures Reported

Condition:

As part of our procedures, we obtained the Grantee’s Basic Agency Monitoring Reports (BAMR) submitted to ARC during the grant period which reports year-to-date performance measures for the grant project including linear feet constructed/repaired and businesses improved. The BAMR reported that 400 out of 11,400 linear feet were constructed/repaired which appears to align with the first phase of construction completed. The BAMR also reported that 136 out of 136 businesses improved; however, since construction has not been completed, we determined it was not reasonable to claim all 136 businesses have been improved.

Criteria:

The ARC Grant Administration Manual for Non-Construction Grants, dated February 2020, states:

Format and Contents of Project Narrative Reports

Progress Made Toward Project Outcomes

Provide any statistical information that helps document the outputs and outcomes of your project to date. Data will vary according to the type of activities you completed. Although it may be difficult to document outcomes (results) at this time, grantees should report progress made to-date. If outputs and/or outcomes will not be attained until after the end of the grant period, predict the likelihood of meeting those original targets—and give a date. You are responsible for accurately tracking and documenting all listed outputs and outcomes from the Approval Memo and the Performance tab in ARCnet.

Cause:

The City of Holly Springs submitted performance measure updates to the State Basic Agency for reporting to ARC. We noted the performance measure updates provided by the Grantee to the State Basic Agency did not include 136 business served; however, the amount was erroneously included in the BAMR that the State Basic Agency submitted to ARC.

Effect:

Without adequate controls to review the accuracy of monitoring reports, incorrect financial and performance information was reported to ARC.

Recommendation:

We recommend:

3. The Grantee revise the BAMR Form to accurately reflect the number of businesses improved to date based on completed construction and provide the likelihood of meeting the original targets for outputs and outcomes with the expected date of completion.

Attachment 1 – The City of Holly Springs’s Response

Castro & Company, LLC (Castro & Co) provided a copy of the audit report with the findings and recommendations to the City of Holly Springs (the Grantee) for review on March 18, 2024. We discussed the results of our audit with Ms. Sharon Gipson, Mayor for City of Holly Springs, Ms. Angie Duvall, Economic Development Coordinator NEMPDD, Ms. Jerrica Jones, City Clerk for City of Holly Springs, Ms. Eleanor Clayborn, Administrative Assistant for City of Holly Springs, Mr. Justin Hall, Executive Director of the Marshall County Industrial Development Authority, and Ms. Andrea Rose, Director with Appalachian Regional & Southeast Crescent Regional Commissions in an exit conference held on May 16, 2024. During the exit conference, City of Holly Springs stated that it did not concur with the results of the audit; however, the Grantee did not provide a written response to the findings and recommendations for inclusion within the audit report.