



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to Upper Cumberland Development District Grant Number PW-19315

Report Prepared by Regis & Associates, PC

Report Number 24-33

July 8, 2024

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



Office of Inspector General

Appalachian Regional Commission

July 8, 2024

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 24-33 – Upper Cumberland Development District

This memorandum transmits the Regis & Associates, PC, report for the audit of costs charged to grant number PW-19315 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.

Regis & Associates, PC, 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 recommendations.

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.

*Report on Performance Audit
of
Appalachian Regional Commission
Grant Number PW-19315-IM-B-18*

for the Period from October 1, 2018, to May 31, 2023

*Awarded to
Upper Cumberland Development District*

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

Auditee: Upper Cumberland Development District
As of Date: June 21, 2024


MANAGEMENT CONSULTANTS &
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EXECUTIVE SUMMARY

Office of Inspector General
Appalachian Regional Commission
1666 Connecticut Avenue, NW; Suite 700
Washington, DC 20009

We conducted a performance audit (the audit) of grant agreement, number PW-19315-IM-B-18, awarded by the Appalachian Regional Commission (ARC) to Upper Cumberland Development District (the Grantee); with a grant performance period of October 1, 2018, to May 31, 2023. We conducted this performance audit at the request of the ARC Office of Inspector General, to assist it in its oversight of ARC grant funds. This performance audit engagement covers the period from October 1, 2018, to May 31, 2023.

The objectives of the performance audit were to determine whether: (1) program funds were managed in accordance with 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; (6) the reported performance measures were fair and reasonable; and 7) if the requirements for the performance of a Single Audit were met, the Grantee conducted such an audit and appropriately addressed any noted findings and recommendations related to the management of Federal awards.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

We conducted the planning and fieldwork phases of the audit during the period from March 15, 2023, through November 30, 2023. We determined that, except for the matters identified as findings 2023-001 and 2023-002, in the accompanying Findings, Recommendations, and Grantee's Response section of this report; Upper Cumberland District's financial management, administrative procedures, and related internal controls, were adequate to manage ARC's grant funds.

We discussed the results of this performance audit with Upper Cumberland Development District's officials at the conclusion of our fieldwork. Upper Cumberland Development District's response has been included as Attachment 1 to this report. Regis & Associates, PC appreciates the cooperation and assistance received from Upper Cumberland Development District's and ARC's staff during this performance audit.

Regis & Associates, PC

Regis & Associates, PC
Washington, DC
June 21, 2024

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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, healthcare, water and sewer systems, housing, highway construction, and other essentials of comprehensive economic development. ARC's staff is responsible for program development; policy analysis and review; grant development; technical assistance to states; and management and oversight. 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.

On September 25, 2018, the Appalachian Regional Commission awarded Grant Number PW-19315-IM-B-18, in the amount of \$500,000 to Upper Cumberland Development District. The original period of performance of the grant was from October 1, 2018 to September 30, 2021. As a condition of this award, the Grantee was to contribute a matching amount of \$1,786,000. The total matching contribution was to be made in the form of cash, contributed services, or in-kind contributions as approved by ARC.

On June 7, 2021, ARC approved an amendment that increased the grant by \$500,000, bringing the total grant amount to \$1,000,000; and also extended the grant's period of performance to December 31, 2021. On November 12, 2021, ARC approved a second amendment, extending the grant performance period to September 30, 2022. On September 18, 2022, ARC approved a third amendment, extending the period of performance to December 31, 2022; and on December 10, 2022, ARC approved a fourth amendment extending the performance period to May 31, 2023. The original grant amount and subsequent amendments resulted in a total grant budget of \$2,786,000. This performance audit engagement covers the period from October 1, 2018, to May 31, 2023.

The grant was awarded to Upper Cumberland Development District; to aid in a project titled, "Volunteer Energy Cooperative Innovation Ecosystem Project". This project was to enable the deployment of electric "smart" meters that communicate vital electric systems information to utility headquarters, over a fiber optic backbone. This technology was geared at helping the electric utility companies provide more reliable electric service to customers in power-sensitive industries, like cold storage facilities and data centers; while, at the same time, extending high-speed broadband service to rural entrepreneurs.

Objective, Scope, and Methodology

Objective

The general objectives of the performance audit were to determine whether Upper Cumberland Development District expended grant funds in accordance with applicable requirements; and to report any resulting findings and questioned cost relating to internal controls, program performance, and compliance with provisions of the grant agreement, laws, and regulations.

Scope and Methodology

The Appalachian Regional Commission, Office of Inspector General, under Order Number ARC21P050, dated March 17, 2021; engaged Regis & Associates, PC to conduct a performance audit of Grant Number PW-19315-IM-B-18, titled "Volunteer Energy Cooperative Innovation Ecosystem Project", which was awarded to the Grantee. The term of the grant was from October 1, 2018, to September 30, 2021. However, the grant was extended to May 31, 2023. This performance audit engagement covers the period from October 1, 2018, to May 31, 2023.

The budgeted amounts for the grant are presented below:

Exhibit – A: Schedule of Grant Budget			
Object Class Category	Federal	Non-Federal	Total
Personnel	\$ 27,000	\$ -	\$ 27,000
Contractual	973,000	1,786,000	2,759,000
Total Direct Charges	\$ 1,000,000	\$ 1,786,000	\$ 2,786,000
Total	\$ 1,000,000	\$ 1,786,000	\$ 2,786,000

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Our audit procedures included:

- Obtaining an understanding of the Grantee’s internal controls; assessing control risk; and determining the extent of testing needed, based on the control risk assessment.
- Reviewing written fiscal policies and administrative procedures for applicable grant activities.
- Assessing, on a test basis, evidence supporting the amounts; and the Grantee’s data and records.
- Assessing the accounting principles and significant estimates made by the Grantee.
- Evaluating the overall evidence and presentation of the records.
- Assessing whether the grant’s reported performance measures were fair and reasonable.
- Conducting other test procedures deemed necessary, based on our professional judgment.

Results

Based on the results of our testing and analysis on this performance audit, we determined that:

- 1) The grant funds were not managed in accordance with ARC and Federal grant requirements.
- 2) As of May 31, 2023, the Grantee had expended \$2,695,167 of the grant’s budgeted amount of \$2,786,000. We questioned \$1,700,941 of these costs, as detailed in Finding 2023-001; in the accompanying Findings, Recommendations, and Grantee’s Response section of this report. This resulted in total audit recommended cost of \$994,226.

Below, we have presented a Schedule of Claimed and Audit Recommended Cost, as of May 31, 2023, which reflects the results of our audit.

Exhibit – B: Schedule of Claimed and Audit Recommended Cost

as of May 31, 2023

Object Class Category	Claimed Cost		Questioned Cost		Audit Recommended		
	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ 20,000	\$ -	\$ -	\$ -	\$ 20,000	\$ -	\$ 20,000
Contractual	974,226	1,700,941	-	1,700,941	974,226	-	974,226
Total Direct Charges	\$ 994,226	\$ 1,700,941	\$ -	\$ 1,700,941	\$ 994,226	\$ -	\$ 994,226
Total	\$ 994,226	\$ 1,700,941	\$ -	\$ 1,700,941	\$ 994,226	\$ -	\$ 994,226

- 3) Internal guidelines, including program (internal) controls, were not adequate or operating effectively. The Grantee had written policies and procedures for applicable grant activities, although these were not implemented and/or operating effectively, as described in findings 2023-001 and 2023-002, in the accompanying Findings, Recommendations, and Grantee's Response section of this report.
- 4) Accounting and reporting requirements were not implemented, in accordance with accounting principles generally accepted in the United States of America (or other applicable accounting and reporting requirements), including ARC requirements, as described in finding 2023-002; in the accompanying Findings, Recommendations, and Grantee's Response section of this report.
- 5) The Grantee did not maintain records to support any of the \$1,700,941 of matching funds reported as of May 31, 2023. Therefore, we were unable to verify whether these matching expenses were properly supported, or allowable under both Federal and ARC requirements. Additionally, we were unable to verify whether the grant's matching requirements were met, as described in finding 2023-001, in the accompanying Findings, Recommendations, and Grantee's Response section of this report.
- 6) We determined that the Grantee implemented effective policies and procedures to accurately, capture, and record, grant performance measures (i.e. number of entrepreneurs and small businesses trained, and new jobs created.) However, we noted that the Grantee did not report these performance measures to ARC, in the frequency required by ARC. This is described in finding 2023-002, in the accompanying Findings, Recommendations, and Grantee's Response section of this report.
- 7) We verified that the Grantee had a Single Audit performed for the period ended June 30, 2022. The audit report did not have any findings or recommendations, related to the Grantee's management of Federal assistance awards.

Findings, Recommendations, and Grantee's Responses

Finding 2023-001 - Lack of Adequate Documentation to Support Matching Funds

Condition:

We observed that the Grantee claimed and reported a matching contribution of \$1,700,941, which was provided by a project partner. However, the Grantee did not maintain adequate documentation to support the matching expenses.

Questioned Costs:

We questioned the \$1,700,941 of matching expenses, due to a lack of adequate documentation to support these costs.

Criteria:

In accordance with 2 CFR 200.306 9 (b) (1); 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 a contribution is verifiable from the non-Federal entity's records.

Cause:

The Grantee was not able to obtain sufficient documentation from the project partner to support the entire matching expenses claimed. According to the Grantee, the expenses incurred included Department of Defense programs to which the project partner was unable to disclose further details about without causing a breach of security and legal liability to the Grantee. The Grantee obtained a letter from the project partner, attesting that they incurred expenses in the amount of \$1,700,941, to meet the matching requirement and also a summary of the incurred match expenses. However, this letter and the summary of expenses provided were not sufficient to support or verify the matching expenses incurred.

Effect:

Failure to obtain and review adequate documentation supporting matching costs, increases the risk of inadequate funding of projects; and thus, an increased probability of the projects not achieving their intended outcomes. This condition also increases the risk of inaccurate financial reporting to ARC. The matching requirements for the grant were not met; and as a result, we questioned the entire matching expense amount of \$1,700,941.

Recommendations:

Recommendation 1: We recommend that the Grantee implement its processes and procedures relating to matching expenditures; to ensure that all matching transactions are properly supported, prior to submitting the financial report to ARC; and that they have met the matching requirements, as required by ARC.

Recommendation 2: We recommend that the Grantee work with ARC to resolve the \$1,700,941 of questioned costs noted.

Grantee's Response:

The Grantee disagrees with finding 2023-001. In its response, the Grantee noted that it submitted two signed letters from the project partner confirming that a match amount of \$1,700,941 was provided through similar projects. The first letter, dated August 22, 2023, indicated that the project partner provided the matching amount of \$1,700,941. The second letter, dated June 4, 2024, also confirmed that the matching amount of

\$1,700,941 was provided but mentioned that further details could not be disclosed due to the involvement of Department of Defense contract programs, which the project partner was unable to discuss.

The Grantee also indicated that further efforts to obtain redacted supporting documents for the matching amounts were unsuccessful as this conflicted with their project partner's internal policies. Additionally, the Grantee noted that throughout the grant period, the ARC program specialist assigned to this project received periodic updates with matching information from the project partner that supported the reimbursement requirements. The ARC program specialist was aware of the documentation issues and deemed the partner's letters as sufficient support throughout the project.

Auditor's Response:

The Grantee made efforts to obtain supporting documentation in order to validate matching expenses from the project partner. While the letters from the project partner confirm that the project partner provided a matching amount of \$1,700,941, they do not provide sufficient audit evidence. Additionally, while expenses incurred for Defense contracts may have confidentiality requirements that may not be openly disclosed, the partner is still expected to provide verifiable supporting documentation while maintaining both the integrity and privacy of the shared documentation in order to comply with the requirements of the grant agreement. Therefore, the finding and related recommendations still remain.

Finding 2023-002 - Lack of Compliance with SF-270 Reporting Requirements

Condition:

The Grantee's submission of all thirteen SF-270 financial and quarterly progress reports, which include performance measures did not follow the frequency and reporting periods required to be covered by those reports. A summary of the periods covered and dates the reports were submitted, is as follows:

SF 270 and Progress Reports Sequence	Periods Covered By Reports	Number of Days Covered by Reports	Date of Submission to ARC
1	10/1/2018 - 3/31/2019	181	4/1/2019
2	10/1/2018 - 9/30/2019	364	8/23/2019
3	10/1/2018 - 2/29/2020	516	12/10/2019
4	12/1/2019 - 6/30/2020	212	3/5/2020
5	10/1/2018 - 8/31/2020	700	5/14/2020
6	10/1/2018 - 12/31/2020	822	9/15/2020
7	9/1/2020 - 9/31/2020	29	11/6/2020
8	10/1/2020 - 5/31/2021	242	5/4/2021
9	5/1/2019 - 12/31/2021	975	9/1/2021
10	9/1/2021 - 4/30/2022	241	2/7/2021
11	1/1/2019 - 8/31/2022	1338	7/18/2022
12	5/1/2022 - 9/30/2022	152	7/25/2022
13	5/1/2022 - 12/31/2022	244	12/20/2022

Questioned Costs: None

Criteria:

Per 2 CFR 200.329(c), *Monitoring and Reporting Program Performance*: “the non-federal entity must submit performance reports at the interval required by Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity.”

Per Part I, Section 3, of the ARC of the grant agreement between ARC and the Grantee; and the “Reports” section of the grant manual, “a progress report is required to be completed for each 120-day period. If program activities did not start within this period, or if the project is delayed any time during the reporting period, narrative and financial progress reports are still required, explaining the reasons for the delay and how any problems are being resolved.”

Cause:

According to the Grantee, the infrequent submission of the reports was due to delays encountered when the Grantee requested information from its subrecipients, which it needed to prepare both the SF 270 and progress reports required to be submitted to ARC.

Effect:

The practice of not submitting the required reports at the required frequency deprives ARC of the ability to provide effective oversight of the project being implemented and may also hinder the Grantee's ability to obtain additional funding from ARC.

Recommendation:

Recommendation 3: We recommend that Upper Cumberland Development District's management implement its reporting policies, to ensure that the SF-270 and quarterly progress reports are prepared and submitted to ARC in the frequency required.

Grantee's Response:

The grantee concurred with this finding.

Auditor's Response:

Since the Grantee concurred with our audit result, no additional comment is necessary.

Attachment 1: Grantee's Response



MEMORANDUM

DATE: June 21, 2024
TO: Fidel Wambura, CPA, Senior Manager, Regis & Associates, PC
FROM: Mark Farley, Executive Director
SUBJECT: Audit of ARC Grant No PW-19315-IM-B-18

FINDING 2023-001: Lack of Adequate Documentation to Support Matching Funds

We disagree with finding 2023-001. Upper Cumberland Development District submitted two separate signed letters from the project partner attesting that match in the amount of \$1,700,941 was provided through efforts with similar projects. We did ask the project partner to provide source documents to review during monitoring. However, they stated due to the fact the match was provided through Department of Defense contracts they could not share these with our agency. The letter provided on 6/4/2024 does support the fact that they would not disclose any additional documentation to us. We have reached out to them to see if they would be willing to redacted any sensitive information, but they stated this went against their internal policies. In addition, our ARC program specialist was receiving periodic spreadsheets with matching information that satisfied what he required for reimbursements throughout the course of the grant. We had reached out to our ARC program specialist to let him know the issues we were having trying to review supporting documentation from the project partner, and he felt the letter would be sufficient due to the established nature of the project partner.

FINDING 2023-002: Lack of Compliance with SF-270 Reporting Requirements

We agree that quarterly reports were not submitted timely. We had difficulty getting information in order to submit reports by deadlines. The subrecipients had talked directly to the program specialist to keep him up to date on the project/grant progress.

Sincerely,

A handwritten signature in blue ink that reads "Mark Farley".

Mark Farley
Executive Director, UCDD

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