



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to SEDA – Council of Governments Grant Number PA-8290-C41

Report Prepared by Castro & Co, LLC

Report Number 25-05

October 23, 2024

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



Office of Inspector General

Appalachian Regional Commission

October 23, 2024

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 25-05 – SEDA – Council of Governments

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number PA-8290-C41 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 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 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.



**Appalachian Regional Commission
Performance Audit Report
of Grant No. PA-8290-C41**

**For the period from July 1, 2022 to June 30, 2023
Awarded to SEDA-Council of Governments**

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

October 22, 2024

Final Report

Table of Contents

Executive Summary 1

Background..... 2

Objectives, Scope, and Methodology 2

Summary of Results..... 4

Appendix A: Findings and Recommendations 6

Attachment 1: SEDA-Council of Governments Response 8

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 PA-8290-C41 awarded by the Appalachian Regional Commission (ARC) to SEDA-Council of Governments (SEDA-COG or the Grantee) for the period of July 1, 2022 to June 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 Finding 01 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 SEDA-COG's management at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1: SEDA-Council of Governments Response** to this report.

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

Castro & Company, LLC

Alexandria, VA
October 22, 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. PA-8290-C41 awarded to SEDA-Council of Governments (SEDA-COG or the Grantee) for the period of July 1, 2022 to June 30, 2023.

ARC awarded Grant No. PA-8290-C41 to SEDA-COG to continue a technical assistance program made up of three core components: business finance assistance, export promotion, and procurement technical assistance. Peripheral activities associated with this project included transportation infrastructure technical assistance, community development, and administration of the Keystone Opportunity Zone.

The period of performance for Grant No. PA-8290-C41 covered the period from July 1, 2022 to June 30, 2023. The grant agreement provided a budget of \$400,000 in ARC funds and required non-ARC matching funds of \$433,333 for total project costs of \$833,333. The allowable percentage breakout of ARC to non-ARC funding for the project was 48% ARC funds to 52% matching funds.

We obtained ARC Standard Form (SF) 270, *Request for Advance or Reimbursement*, for the period covering April 1, 2023 to June 30, 2023 that identified cumulative total ARC costs of \$400,000 (47%) and non-ARC matching costs of \$455,163 (53%) for a total project cost of \$855,163.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC's Office of Inspector General to conduct a performance audit of SEDA-COG to determine compliance with the requirements of the ARC Grant No. PA-8290-C41 for the period of July 1, 2022 to June 30, 2023.

The budgeted amounts for the grant are presented in Exhibit A below:

Exhibit A: Schedule of Grant Budget			
Category	Federal	Non-Federal	Total
Personnel	\$ 194,824	\$ 211,059	\$ 405,883
Fringe Benefits	\$ 99,185	\$ 107,449	\$ 206,634
Travel	\$ 2,830	\$ 3,067	\$ 5,897
Equipment	\$ 199	\$ 216	\$ 415
Supplies	\$ 815	\$ 883	\$ 1,698
Contractual	\$ 2,294	\$ 2,585	\$ 4,879
Other	\$ 4,195	\$ 4,449	\$ 8,644
Indirect Charges	\$ 95,658	\$ 103,625	\$ 199,283
Total	\$ 400,000	\$ 433,333	\$ 833,333

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 SEDA-COG's system that specifically applied to ARC such as personnel, fringe benefits, travel, equipment, supplies, contractual, indirect, and other costs. We conducted this performance audit from November 2023 to September 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 disbursement, cash receipts, procurement, equipment, 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 the 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. Jamie Carnes, Fiscal Controller for SEDA-COG, during the exit conference on October 8, 2024. SEDA-COG concurred with our results. SEDA-COG's response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1: SEDA-Council of Governments Response** of this report.

Summary of Results

Castro & Co's procedures determined that except for Finding 01 related to financial management as described in **Appendix A**; SEDA-COG 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 except as described in Finding 01. We questioned \$13,013 of ARC funded costs as a result of costs not in compliance with the approved budget.

SEDA-COG'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 SEDA-COG 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 reviewed Single Audit reports available on the Federal Audit Clearinghouse for SEDA-COG and noted the Grantee had a Single Audit performed for the years ended June 30, 2023, June 30, 2022, and June 30, 2021. The Single Audit report for the year ended June 30, 2023, identified three (3) material weaknesses and one (1) significant deficiency in internal control over financial reporting related to improper capitalization of contract costs as prepaid expenses, review of journal entries, grant revenue not recognized when loan funds were disbursed, and prepaid expenses not based on premiums paid. The Single Audit report did not identify deficiencies in internal control over compliance requirements as outlined in the OMB Compliance Supplement; therefore, we determined that the prior years' findings do not impact the Grantee's financial reporting of expended grant funds to ARC.

The Grantee reported a total of \$400,000 in ARC costs and \$455,163 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of June 30, 2023. These matching funds were properly supported and allowable under both Federal and ARC requirements. Based on our review of the Grantee's procedures, the performance results reported to ARC were fair and reasonable.

Exhibit B below presents costs claimed by SEDA-COG 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 ¹	\$ 223,798	\$ 238,398	\$(13,013)	\$ -	\$ 210,785	\$ 238,398	\$449,183
Fringe Benefits	\$ 89,791	\$ 102,419	\$ -	\$ -	\$ 89,791	\$ 102,419	\$192,210
Travel	\$ 1,221	\$ 3,147	\$ -	\$ -	\$ 1,221	\$ 3,147	\$ 4,368
Equipment	\$ -	\$ 1,116	\$ -	\$ -	\$ -	\$ 1,116	\$ 1,116
Supplies	\$ -	\$ 513	\$ -	\$ -	\$ -	\$ 513	\$ 513
Contractual	\$ -	\$ 15,705	\$ -	\$ -	\$ -	\$ 15,705	\$ 15,705
Other	\$ 3,556	\$ 11,209	\$ -	\$ -	\$ 3,556	\$ 11,209	\$ 14,765
Indirect Costs	\$ 81,634	\$ 82,656	\$ -	\$ -	\$ 81,634	\$ 82,656	\$164,290
Total	\$ 400,000	\$ 455,163	\$(13,013)	\$ -	\$ 386,987	\$ 455,163	\$842,150

¹ The amount claimed for ARC funded Personnel exceeded the approved budget amount by \$28,974; however, the excess is less than \$83,333 or 10% of the total grant budget. Of the ARC funded Personnel claimed, a total of \$13,013 was questioned due to SEDA-COG not requesting approval from ARC for a budget revision to adjust the salary percentage allocation method for the Personnel costs. See Finding 01 in Appendix A for further detail.

Appendix A: Findings and Recommendations

Finding 01: ARC Funded Costs not Expended According to Approved Budget

Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) reviewed supporting documentation from SEDA-Council of Governments (SEDA-COG or the Grantee) for ARC funded personnel costs incurred during the grant period. Castro & Co selected a sample of 60 ARC funded personnel transactions from the Grantee's general ledger (GL) for testing. We noted exceptions in 50 of the 60 personnel transactions tested where the salary allocation percentage charged to the grant was more than the allocation percentage submitted in the approved grant application and budget narrative. Therefore, costs totaling \$13,013 were deemed unallowable ARC funded personnel costs.

Criteria:

2 CFR Part 200.308, Revision of budget and program plans, states.

(a) The approved budget for the Federal award summarizes the financial aspects of the project or program as approved during the Federal award process. It may include either the Federal and non-Federal share (see definition for Federal share in § 200.1) or only the Federal share, depending upon Federal awarding agency requirements. The budget and program plans include considerations for performance and program evaluation purposes whenever required in accordance with the terms and conditions of the award.

(b) Recipients are required to report deviations from budget or project scope or objective and request prior approvals from Federal awarding agencies for budget and program plan revisions, in accordance with this section.

Grant Agreement Article 5. Budget, states:

“Costs will be determined in general accord with the budget submitted on 8/17/2022, which is hereby incorporated into this agreement as Supplement B to Part I, subject to the terms of this Grant Agreement and pertinent ARC Code Provisions.”

Cause:

SEDA-COG stated that the Grantee did not hire the additional personnel positions that were planned in the grant application budget; therefore, a higher salary percentage allocation was used. Additionally, SEDA-COG did not request approval from ARC for a budget revision to adjust the salary percentage allocation method for the grant personnel costs.

Effect:

The absence of adequate controls and financial management process to ensure funds are expended in accordance with the grant approved budget may result in inaccurate payments to the Grantee. Therefore, ARC could require the Grantee to reimburse total questioned costs of \$13,013.

Recommendation:

We recommend that the Grantee:

1. Develop policies and procedures to ensure that grant funds are expended in accordance with the approved budget.

2. Work with ARC to resolve the questioned cost of \$13,013 for ARC funded personnel cost.

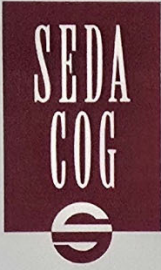
Grantee Response:

SEDA-COG takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Number PA-8290-C41 for the period of July 1, 2022 to June 30, 2023. Moving forward, staff allocations will be reviewed in addition to comparing budgeted line items to actual expenditures. Budget modification requests will be submitted for all changes.

Auditor Response:

SEDA-COG concurred with the finding; therefore, no further response is necessary.

Attachment 1: SEDA-Council of Governments Response



October 7th, 2024

Castro & Company, LLC

1635 King Street
Alexandria, VA 22314
(703) 229-4440

Subject: SEDA Council of Governments (SEDA-COG) Response to Castro & Company, LLC's Performance Audit of Grant Number PA-8290-C41.

SEDA-COG takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Number PA-8290-C41 with a grant performance period of July 1, 2022 to June 30, 2023. Moving forward, staff allocations will be reviewed in addition to comparing budgeted line items to actual expenditures. Budget modification requests will be submitted for all changes.

Sincerely,

A handwritten signature in blue ink that reads 'Jamie Carnes'.

Jamie Carnes
Fiscal Controller