



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to Fentress County Grant Number TN-20346

Report Prepared by Castro & Co, LLC

Report Number 25-08

November 22, 2024

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



Office of Inspector General

Appalachian Regional Commission

November 22, 2024

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 25-08 – Fentress County

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number TN-20346 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. The auditors issued two recommendations in the 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. TN-20346**

**For the period from July 1, 2021 to December 11, 2023
Awarded to Fentress County**

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

November 21, 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 TN-20346 awarded by the Appalachian Regional Commission (ARC) to Fentress County (the Grantee) with a grant performance period of July 1, 2021 to December 11, 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 described in **Appendix A – Finding and Recommendation**; 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 Fentress County management at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1 - Fentress County's 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
November 21, 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 Number (No.) TN-20346 awarded to Fentress County (the Grantee) for the period of July 1, 2021 to December 11, 2023.

ARC awarded Grant No. TN-20346 to Fentress County to expand the vocational program facilities at Clarkrange High School. The expansion allowed the school to accommodate the increasing number of students who want to improve their workforce skills and obtain jobs locally post-graduation. The project constructed a new 5,748 square foot vocational center that will include a health sciences classroom/lab, a culinary arts "commercial kitchen" lab, a welding shop, and cosmetology studio as well as additional classrooms that can be converted to lab space. The facility housed the existing programs in health sciences (a Certified Nurse Assistant program and an Emergency Medical Technician paramedics program), welding, farm management, and culinary arts. The upgraded and expanded space allowed the center to add an industrial maintenance program, cosmetology, and to expand the health sciences program.

The period of performance for Grant No. TN-20346 covered the period from July 1, 2021 to June 30, 2024. The grant agreement provided a budget of \$350,000 in ARC funds and required non-ARC matching funds of \$1,277,000 for total project costs of \$1,627,000. The allowable percentage breakout of ARC to non-ARC funding for the project was 22% ARC funds to 78% matching funds.

We obtained the Automated Standard Application for Payments (ASAP) Drawdown Request dated October 27, 2023 and the Final Basic Agency Monitoring Report (BAMR) dated December 11, 2023 that identified total cumulative ARC costs of \$350,000 (13%) and non-ARC matching costs of \$2,407,000 (87%) for a total project cost of \$2,757,000.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC's Office of Inspector General to conduct a performance audit of Fentress County to determine compliance with the requirements of the ARC Grant No. TN-20346 for the period of July 1, 2021 to December 11, 2023.

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

Exhibit A: Schedule of Grant Budget			
Contract Category	Federal	Non-Federal	Total Amount
Administrative and Legal	\$ -	\$ 62,000	\$ 62,000
Architectural and Engineering (A&E)	\$ -	\$ 110,000	\$ 110,000
Other A&E Fees	\$ -	\$ 10,000	\$ 10,000
Project Inspection Fees	\$ -	\$ 35,000	\$ 35,000
Site Work	\$ -	\$ 175,000	\$ 175,000
Construction	\$ 350,000	\$ 780,000	\$ 1,130,000
Contingencies	\$ -	\$ 105,000	\$ 105,000
Total	\$ 350,000	\$ 1,277,000	\$ 1,627,000

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 Fentress County’s system that specifically apply to ARC such as construction costs. We conducted this performance audit from April 2024 to October 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 (FAO)/Council of the Inspectors General for 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 Mr. Jimmy Johnson, County Executive, Mr. Tyler Arms, Finance Director, and Ms. Amanda Mainord, Grant Manager, for Fentress County during the exit conference on November 18, 2024. Fentress County concurred with our results. Fentress County's response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1 – Fentress County's Response**.

Summary of Results

Castro & Co's procedures determined that except for Finding 01 related to financial management as described in **Appendix A**; Fentress County 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 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.

The Grantee reported a total of \$350,000 in ARC costs and \$2,407,000 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of December 11, 2023. These matching funds were properly supported and allowable under both Federal and ARC requirements except for construction cost totaling \$116,808 that were inaccurately reported to ARC as described in Finding 01. Based on our review of the Grantee's procedures, the performance results reported to ARC were fair and reasonable.

We reviewed Single Audit reports available on the Federal Audit Clearinghouse for Fentress County and noted the Grantee had Single Audits performed for the years ended June 30, 2023 and June 30, 2022. The Single Audit report for the years ended June 30, 2023, identified material weaknesses and significant deficiencies in internal control over financial reporting in accordance with *Government Auditing Standards* related to a lack of management oversight and inaccurate accounting records. 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 findings for the year ended June 30, 2023 do not impact the Grantee’s financial reporting of expended grant funds to ARC. However, the Single Audit report for the year ended June 30, 2022 included findings related to the construction contract for the vocational facilities at Clarkrange High School which is the subject of ARC Grant No. TN-20346. The independent auditor noted the procurement process performed by Fentress County did not fully align with their policies and procedures. Castro & Co obtained and inspected documentation for the procurement process and inquired about the Grantee’s response to the findings. We determined the procurement process met the minimum requirements set forth in the Uniform Guidance and no finding is noted.

The Exhibit B below presents costs claimed by the Fentress County 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
Construction ¹	\$350,000	\$2,407,000	\$ -	\$(116,808) ²	\$350,000	\$2,290,192	\$2,640,192
Total	\$ 350,000	\$2,407,000	\$ -	\$(116,808)	\$350,000	\$2,290,192	\$2,640,192

¹ Fentress County’s non-Federal costs were recorded as one category or construction costs in the Grantee’s general ledger for reporting purposes.

² The amount of \$116,808 is related to inaccurate reporting of non-Federal construction costs. See Appendix A for further detail.

Appendix A – Finding and Recommendation

Finding 01 – Inaccurate Financial Reporting of Non-ARC Matching Cost Share

Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) reviewed supporting documentation from Fentress County (the Grantee) for construction costs incurred during the grant period. The Grantee reported a total of \$2,757,000 for construction costs; however, the supporting documentation provided showed the total construction cost incurred was \$2,640,192. 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), we determined that construction costs of \$116,808 were inaccurately reported as incurred expenses to ARC.

Criteria:

2 CFR 200.302, Financial management, states:

(b) The financial management system of each non-Federal entity must provide for the following:
(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in 2 CFR 200.328 and 200.329.

Cause:

Fentress County stated a change order to the contract was executed to deduct the amount of an unused allowance; however, the full base bid amount of \$2,757,000 was reported to ARC as incurred construction cost.

Effect:

The lack of adequate internal controls prevented Fentress County from ensuring non-ARC match costs were accurately reported to ARC; therefore, ARC could require the Grantee to exclude costs in the amount of \$116,808 from the total non-ARC match construction cost.

Recommendation:

We recommend that the Grantee:

1. Work with ARC to resolve the inaccurate reporting of \$116,808 for non-ARC match construction cost.
2. Revise policies and procedures for financial reporting of grant costs to include quality control reviews of grant expenses to ensure costs are accurately reported to ARC.

Grantee's Response:

Fentress County takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Number TN-20346 with a grant performance period of July 1, 2021, to December 11, 2023. In response to the grant finding that the final pay application did not match the contract on file: The Board of Education was not aware that the change order was not received by the Finance Office or the ARC office. While the change order and adjusted amounts were listed on the final pay application shared with everyone, the actual change order was not distributed as it should have been. This project presented much new territory for us as it began

under a different administration and had multiple revenue streams from three separate sources. Being a flow-through grant through Fentress County, using local General-Purpose School funds and utilizing federal school ESSER funds presented a challenge as we did not have a precedent to follow. We have conducted a meeting with the Director of Schools and the schools finance administration, the engineer of the project, the ARC grant administrator, the Fentress Finance Director, and Fentress County Mayor to analyze what went wrong and to collaborate on solutions to prevent such issues in the future. We have new procedures in place and have requested an additional signature line on future change orders to ensure the proper parties are aware.

Auditor's Response:

Fentress County concurred with the finding; therefore, no further response is necessary.

Attachment 1 – Fentress County’s Response



Fentress County

101 Main Street • P.O. Box 800
Jamestown, Tennessee 38556

Finance Department

11/18/2024

Phone No. 931-752-8971 • Fax No. 931-752-8970

Castro & Company, LLC
1635 King Street
Alexandria, VA 22314
(703) 229-4440

Subject: Fentress County Response to Castro & Company, LLC’s Performance Audit of Grant Number TN-20346.

Fentress County takes no exception to and agrees with Castro & Company, LLC’s findings presented in the audit report of Grant Number TN-20346 with a grant performance period of July 1, 2021, to December 11, 2023. In response to the grant finding that the final pay application did not match the contract on file: The Board of Education was not aware that the change order was not received by the Finance Office or the ARC office. While the change order and adjusted amounts were listed on the final pay application shared with everyone, the actual change order was not distributed as it should have been. This project presented much new territory for us as it began under a different administration and had multiple revenue streams from three separate sources. Being a flow-through grant through Fentress County, using local General-Purpose School funds and utilizing federal school ESSER funds presented a challenge as we did not have a precedent to follow. We have conducted a meeting with the Director of Schools and the schools finance administration, the engineer of the project, the ARC grant administrator, the Fentress Finance Director, and Fentress County Mayor to analyze what went wrong and to collaborate on solutions to prevent such issues in the future. We have new procedures in place and have requested an additional signature line on future change orders to ensure the proper parties are aware.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tyler Arms", is written over a horizontal line.

Tyler Arms
Fentress County Finance Director

We Are Fentress County ~ Open For Business