



## Office of Inspector General

Appalachian Regional Commission

### **Audit of Grant Award to Perry County Fiscal Court Grant Number KY-20197**

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Report Prepared by Castro & Co, LLC

Report Number 25-15

January 22, 2025

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



# Office of Inspector General

Appalachian Regional Commission

January 22, 2025

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 25-15 – Perry County Fiscal Court

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number KY-20197 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 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. KY-20197**

**For the period from December 1, 2020 to November 30, 2023  
Awarded to Perry County Fiscal Court**

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

**January 17, 2025**

**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 KY-20197 awarded by the Appalachian Regional Commission (ARC) to Perry County Fiscal Court (PCFC or the Grantee) for the period of December 1, 2020 to November 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 PCFC management at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1 – Perry County Fiscal Court Response**.

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

*Castro & Company, LLC*

Alexandria, VA  
January 17, 2025

## 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.) KY-20197 awarded to Perry County Fiscal Court (PCFC or the Grantee) for the period of December 1, 2020 to November 30, 2023.

ARC awarded Grant No. KY-20197 to PCFC to provide funding for leasehold improvements/modifications to a 200,000 square foot manufacturing space and support expansion plans for an existing business to add an anodizer line. The anodizer line would complete a process that provides a natural oxide layer on the surface of metal parts. Subsequently, ARC approved an amendment for a major change in scope per the Grantee's request. Due to increased product demand, the need for a second extrusion press was greater than the anodizer line. As a result, the scope of the ARC grant was changed to complete building renovations with the financed cost of the extrusion press being reported as Leveraged Private Investment (LPI).

The original period of performance for Grant No. KY-20197 covered the period from December 1, 2020 to November 30, 2023. The original grant agreement provided a budget of \$1,070,000 in ARC funds and required non-ARC matching funds of \$1,000,000 for total project costs of \$2,070,000. Subsequently, ARC approved an amendment to change the pro-rata cost share to the budgeted amounts of \$1,070,000 in ARC funds and required non-ARC matching funds of \$797,145 for total project costs of \$1,867,145. The allowable percentage breakout of ARC to non-ARC funding for the project was 57% ARC funds to 43% matching funds.

We obtained the ARC Basic Agency Closeout Summary that identified cumulative total ARC costs of \$1,070,000 (57%) and non-ARC matching costs of \$797,145 (43%) for a total project cost of \$1,867,145 as of November 30, 2023.

## Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC's Office of Inspector General to conduct a performance audit of PCFC to determine compliance with the requirements of the ARC Grant No. KY-20197 for the period of December 1, 2020 to November 30, 2023.

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

Exhibit A: Schedule of Grant Budget <sup>1</sup>			
Category	Federal	Non-Federal	Total
Administrative, Architectural, and Construction Costs	\$ 1,070,000	\$ 797,145	\$ 1,867,145
<b>Total</b>	<b>\$ 1,070,000</b>	<b>\$ 797,145</b>	<b>\$ 1,867,145</b>

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 PCFC's system that specifically apply to ARC such as administrative, architectural, and construction costs. We conducted this performance audit from April 2024 to November 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 Subtitle A Chapter II 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

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<sup>1</sup> ARC approved Amendment 4 did not include a revised budget. Therefore, the budget amounts are presented in total.

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. Scott Alexander, Perry County Judge Executive, and Ms. Angelia Hall, Grants Coordinator for PCFC during the exit conference on January 15, 2025. PCFC concurred with our results. PCFC's response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1 – Perry County Fiscal Court's Response**.

### Summary of Results

Castro & Co's procedures determined that except for Finding 01 related to financial management as described in **Appendix A**; PCFC 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 except for the matters described in Finding 01. 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. We questioned \$136,730 of ARC funded costs and \$134,230 of non-ARC matching cost share as a result of unallowable expenses incurred.

The Grantee reported a total of \$1,070,000 in ARC costs and \$797,145 in non-ARC matching costs. These matching funds were properly supported and allowable under both Federal and ARC requirements except for questioned costs totaling \$136,730 of ARC matching costs and \$134,230 of non-ARC matching costs as described in Finding 01. When questioned costs were excluded from the PCFC claimed costs, the Grantee did not meet the match requirements as of November 30, 2023. 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 PCFC and noted the Grantee had Single Audits performed for the years ended June 30, 2022, June 30, 2021, and June 30, 2020. The Single Audit report for the year ended June 30, 2022, identified material weaknesses in the PCFC's overall internal control environment over financial reporting and over compliance requirements as outlined in the OMB Compliance Supplement that could impact the Grantee's financial reporting of expended grant funds to ARC. A disclaimer of opinion was issued due to PCFC's failure to implement and maintain an effective internal control environment which resulted in the failure to maintain accurate and reliable supporting documentation. We obtained PCFC's Corrective Action Plan (CAP) and inquired about progress made to remediate the material weaknesses. Based on the Grantee's responses, it appears they are taking appropriate actions to remedy prior year audit findings.

The Exhibit B below presents costs claimed by the PCFC 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
Administrative and Legal Expenses	\$ 6,488	\$ -	\$ -	\$ -	\$ 6,488	\$ -	\$ 6,488
Architectural and Engineering	\$ 91,585	\$ 92,732	\$ -	\$ -	\$ 91,585	\$ 92,732	\$ 184,317
Project Inspection Fees	\$ 29,324	\$ 30,676	\$ -	\$ -	\$ 29,324	\$ 30,676	\$ 60,000
Construction	\$ 942,603	\$ 673,737	\$ (136,730)	\$ (134,230)	\$ 805,873	\$ 539,507	\$ 1,345,380
<b>Total</b>	<b>\$ 1,070,000</b>	<b>\$ 797,145</b>	<b>\$ (136,730)</b>	<b>\$ (134,230)</b>	<b>\$ 933,270</b>	<b>\$ 662,915</b>	<b>\$ 1,596,185</b>

## Appendix A – Findings and Recommendations

### Finding 01 – Improper Procurement Procedures for ARC Funded and Non-ARC Matching Cost Share Contractual Costs

#### Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) obtained and inspected supporting documentation provided by Perry County Fiscal Court (PCFC or the Grantee) for selected ARC funded and non-ARC matching cost share expenses incurred during the period and reported to ARC. Castro & Co noted PCFC incurred professional services related to construction costs totaling \$270,960 through a contract that was procured as a result of a Request for Proposals (RFP) selection in accordance with the Grantee's policies and procedures; however, the RFP selection process did not consider price as a factor as required by Title 2 U.S. Code of Federal Regulations Subtitle A Chapter II Part 200 (2 CFR 200 or the Uniform Guidance). The Uniform Guidance allows for qualifications-based procurement of architectural/engineering (A/E) professional services and cannot be used to purchase other types of services. As a result, Castro & Co determined the Grantee's procurement process did not comply with Uniform Guidance requirements and the questioned cost totaling \$270,960 (\$136,730 for ARC funded costs and \$134,230 of non-ARC Matching cost share) may not be considered reasonable.

#### Criteria:

2 CFR Part 200.320(b)(2), *Proposals*, states:

A procurement method in which either a fixed price or cost-reimbursement type contract is awarded. Proposals are generally used when conditions are not appropriate for the use of sealed bids. They are awarded in accordance with the following requirements:

- (iv) The non-Federal entity may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby offeror's qualifications are evaluated and the most qualified offeror is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services through A/E firms that are a potential source to perform the proposed effort.

#### Cause:

The Grantee did not have adequate policies and procedures in place to ensure that the procurement process for professional services aligned with the Uniform Guidance requirement that price is considered as a factor in the evaluation criteria for selecting a contractor.

#### Effect:

The absence of adequate policies and procedures prevented PCFC from properly procuring professional services in accordance with the Uniform Guidance requirements. Additionally, the Grantee reported costs to ARC that may not be reasonable. When questioned costs were excluded from the PCFC claimed costs, the Grantee did not meet the match requirements as of November 30, 2023. Therefore, ARC could require the Grantee to reimburse questioned costs totaling \$136,730 of ARC funded contractual costs and exclude questioned costs totaling \$134,230 of non-ARC Matching cost share from the total amount reported to ARC.

**Recommendation:**

We recommend that the Grantee:

1. Revise its policies and procedures to align with the Uniform Guidance requirement for price to be considered as a factor in evaluating proposals for professional services other than A/E services.
2. Work with ARC to resolve the questioned cost totaling \$136,730 for ARC funded construction cost.
3. Work with ARC to resolve the questioned cost totaling \$134,230 for non-ARC Matching cost share construction cost.

**Grantee's Response:**

Perry County Fiscal Court takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Number KY-20197 with a grant performance period of December 1, 2020 to November 30, 2023.

Staff considered Construction Management Services to fall under Professional Services, and, as such, did not consider cost as a procurement basis. I have revised our procurement policies and procedures to include cost as a basis for anything with the exception of Architect/Engineering Professional Services. The revised policies and procedures are already being implemented.

Further, we will work with ARC to resolve the cost questioned.

**Auditor's Response:**

The Grantee concurred with the finding; therefore, no further response is necessary.

## Attachment 1 – Perry County Fiscal Court’s Response

Office of the County Judge – Executive  
Scott Alexander



P.O. Drawer 210  
HAZARD, KENTUCKY 41701  
(606) 436-4513  
TDD: 1-800-648-6057

December 23, 2024

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

Subject: Perry County Fiscal Court Response to Castro & Company, LLC’s Performance Audit of Grant Number KY-20197.

To Whom It May Concern:

Perry County Fiscal Court takes no exception to and agrees with Castro & Company, LLC’s findings presented in the audit report of Grant Number KY-20197 with a grant performance period of December 1, 2020 to November 30, 2023.

Staff considered Construction Management Services to fall under Professional Services, and, as such, did not consider cost as a procurement basis. I have revised our procurement policies and procedures to include cost as a basis for anything with the exception of Architect/Engineering Professional Services. The revised policies and procedures are already being implemented.

Further, we will work with ARC to resolve the cost questioned.

Sincerely,

A handwritten signature in blue ink that reads "Scott Alexander".

Scott Alexander  
County Judge Executive

Equal opportunity employer and provider

