



## Office of Inspector General

Appalachian Regional Commission

### **Audit of Grant Award to City of Athens Grant Number AL-20223**

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Report Prepared by Castro & Co, LLC

Report Number 25-23

April 29, 2025

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



# Office of Inspector General

Appalachian Regional Commission

April 29, 2025

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 25-23 – City of Athens

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number AL-20223 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 one recommendation in the report. Within the next 30 days, please provide me with your management decision describing the specific action 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. AL-20223**

**For the period from April 1, 2021 to March 31, 2024  
Awarded to the City of Athens**

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

**April 24, 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 AL-20223 awarded by the Appalachian Regional Commission (ARC) to City of Athens (the Grantee) for the period of April 1, 2021 to March 31, 2024. 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 City of Athens's management at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1 – The City of Athens'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  
April 24, 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.) AL-20223 awarded to the City of Athens (the Grantee) for the period of April 1, 2021 to March 31, 2024.

ARC awarded Grant No. AL-20223 to the City of Athens to extend the sanitary sewer service along Interstate 65 in Athens, Alabama. This project consisted of constructing a new sanitary sewer lift station to serve the facility which included the installation of 26,200 linear feet of 12-inch force main to the existing wastewater treatment plant and 5,810 linear feet of a 12-inch gravity sewer. The new sanitary sewer lift station serves a new business that has created over 300 new jobs.

The period of performance for Grant No. AL-20223 covered the period from April 1, 2021 to March 31, 2024. The grant agreement provided a budget of \$750,000 in ARC funds and required non-ARC matching funds of \$3,326,160 for total project costs of \$4,076,160. The allowable percentage breakout of ARC to non-ARC funding for the project was 18% ARC funds to 82% matching funds.

We obtained the Automated Standard Application for Payments (ASAP) Drawdown Request dated April 5, 2024 and the ARC Basic Agency Closeout Summary that identified total ARC costs of \$750,000 (13%) and non-ARC matching costs of \$5,258,752 (87%) for a total project cost of \$6,008,752.

## Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC's Office of Inspector General to conduct a performance audit of City of Athens to determine compliance with the requirements of the ARC Grant No. AL-20223 for the period of April 1, 2021 to March 31, 2024.

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

Exhibit A: Schedule of Grant Budget			
Category	Federal	Non-Federal	Total
Construction	\$ 750,000	\$ 3,326,160	\$ 4,076,160
<b>Total</b>	<b>\$ 750,000</b>	<b>\$ 3,326,160</b>	<b>\$ 4,076,160</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 City of Athens's system that specifically apply to ARC such as construction costs. We conducted this performance audit from May 2024 to March 2025 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)<sup>1</sup>, 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;

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<sup>1</sup> The applicable version of the Uniform Guidance was published January 1, 2024.

- 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 William Marks, Mayor, Annette Barnes, Finance Director, Holly Hollman, Grant Coordinator, Terry Acuff, Grant Consultant, for the City of Athens and State Basic Agency (SBA) representatives Tammy Rolling, Chief Financial Officer (CFO), Crystal Tally, Division Chief, and Cleandra Jones, Federal Initiatives Supervisor, during the exit conference on March 27, 2025. The City of Athens concurred with our results. The City of Athens's response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1 – The City of Athens's Response** of this report.

## **Summary of Results**

Castro & Co's procedures determined that except for Finding 01 related to financial management described in **Appendix A**; the City of Athens 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 \$750,000 in ARC costs and \$5,258,752 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of March 31, 2024. These matching funds were properly supported and allowable under both Federal and ARC requirements except for questioned costs totaling \$10,000 of non-ARC matching construction costs 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 City of Athens and noted the Grantee had a Single Audit performed for the year ended September 30, 2023. The Single Audit report for the year ended September 30, 2023, identified a significant deficiency in internal control over financial reporting related to the calculation and recording of accrued payable and interest expense. 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 year's finding does not impact the Grantee's financial reporting of expended grant funds to ARC.



The Exhibit B below presents costs claimed by the City of Athens 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
Construction	\$750,000	\$5,258,752	\$ -	\$ (10,000)	\$750,000	\$5,248,752	\$5,998,752
<b>Total</b>	<b>\$750,000</b>	<b>\$5,258,752</b>	<b>\$ -</b>	<b>\$ (10,000)</b>	<b>\$750,000</b>	<b>\$5,248,752</b>	<b>\$5,998,752</b>

## Appendix A - Findings and Recommendations

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

#### Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) performed a reconciliation of the City of Athens's (the Grantee) general ledger (GL) transactions to total cumulative costs reported to ARC and the State Basic Agency (SBA) as of March 31, 2024. Castro & Co noted discrepancies in the construction costs reported to ARC and the SBA. Specifically, total construction costs of \$6,008,752 were reported to ARC; however, the GL transaction listing supported total construction costs of \$5,998,752 as of March 31, 2024. 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 \$10,000 were inaccurately reported as non-ARC matching costs.

#### Criteria:

2 CFR 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;

#### Cause:

The Grantee provided documentation that demonstrated accurate totals were sent to the SBA for the Final Automated Standard Application for Payments (ASAP) Drawdown Request and the Final Budget Summary. The error in the total non-ARC matching cost share amount reported to ARC occurred during the transfer of information from the SBA to ARC.

#### Effect:

Inaccurate reporting of financial results on the grant may have caused ARC to provide inaccurate financial information to stakeholders and regulatory entities. As a result, ARC could require the Grantee and SBA to revise the Final Basic Agency Monitoring Report (BAMR) and Closeout Summary to exclude costs in the amount of \$10,000 from the total non-ARC match construction cost.

#### Recommendations:

We recommend that the Grantee:

1. Work with ARC and the SBA to resolve the reporting discrepancy of \$10,000 for non-ARC matching costs.

#### Grantee's Response:

The City of Athens takes no exception to and agree with Castro & Company, LLC's findings presented in the audit report of Grant Number AL-20223 with a grant performance period of April 1, 2021 to March 31, 2024. The City will work with the State Basic Agency (SBA) to revise the Final Basic Agency Monitoring Report (BAMR) and Closeout Summary Report uploaded into

ARC.net to exclude costs in the amount of \$10,000 from the total non-ARC match construction cost. In addition, the city has implemented procedures within the city and with their grant consultant to avoid this type of misreporting error in the future.

**Auditor's Response:**

The City of Athens concurred with the finding; therefore, no further response is necessary.

## Attachment 1 - The City of Athens's Response



**City of Athens**  
Office of the Mayor  
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April 16, 2025

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

Subject: The City of Athens's Response to Castro & Company, LLC's  
Performance Audit of Grant Number AL-20223

The City of Athens takes no exception to and agree with Castro & Company, LLC's findings presented in the audit report of Grant Number AL-20223 with a grant performance period of April 1, 2021 to March 31, 2024. The city will work with the State Basic Agency (SBA) to revise the Final Basic Agency Monitoring Report (BAMR) and Closeout Summary Report uploaded into ARC.NET to exclude costs in the amount of \$10,000 from the total non-ARC match construction cost. In addition, the city has implemented procedures within the city and with their grant consultant to avoid this type of misreporting error in the future.

We appreciate your assistance in assisting the city in addressing this finding noted in your Performance Audit Report dated April 17, 2025. If you have any questions or need any additional information please contact me or Terry Acuff, Grant Consultant at 256-656-1469.

Sincerely,  
  
William R. Marks  
Mayor

*Athens. Classic. Southern. Character.*