



## Office of Inspector General

Appalachian Regional Commission

### **Audit of Grant Award to Appalachian Community Capital Grant Number CO-19944**

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Report Prepared by Castro & Co, LLC

Report Number 25-37

August 27, 2025

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



# Office of Inspector General

Appalachian Regional Commission

August 27, 2025

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 25-37 – Appalachian Community Capital

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number CO-19944 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. CO-19944**

**For the period from April 1, 2020 to June 30, 2024  
Awarded to Appalachian Community Capital**

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

**August 26, 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 CO-19944 awarded by the Appalachian Regional Commission (ARC) to Appalachian Community Capital (ACC or the Grantee) for the period of April 1, 2020 to June 30, 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 Findings 01 and 02 related to administrative procedures, 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 ACC's management, at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1 – Appalachian Community Capital'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  
August 26, 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.) CO-19944 awarded to Appalachian Community Capital (ACC or the Grantee) for the period of April 1, 2020 to June 30, 2024.

ARC awarded Grant No. CO-19944 to ACC to provide funding to strengthen and stabilize the region's Community Development Financial Institutions (CDFIs) and other mission-driven development finance lenders by covering operational costs and offsetting some of the income these organizations lost by suspending or reducing payments from their borrowers during the COVID-19 pandemic. ACC administered the program, identified awardees, disbursed funds, and monitored progress of the awardees. Eligible uses of funding consisted of operational support and direct technical assistance to Appalachian small businesses and non-profit borrowers.

The original period of performance for Grant No. CO-19944 covered the period from April 1, 2020 to March 31, 2021 but was subsequently extended to June 30, 2024. The grant agreement provided a budget of \$3,750,000 in ARC funds. ACC requested a waiver for the matching requirements on and was approved by ARC. Therefore, the project was 100% ARC funded.

We obtained the ARC Standard Form (SF) 270, *Request for Advance or Reimbursement*, for the period covering January 1, 2024 to June 30, 2024 that identified total cumulative ARC funded project costs of \$3,750,000.

## Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC's Office of Inspector General to conduct a performance audit of ACC to determine compliance with the requirements of the ARC Grant No. CO-19944 for the period of April 1, 2020 to June 30, 2024.

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

Exhibit A: Schedule of Grant Budget	
Category	Budget Total
Personnel	\$ 35,000
Contractual	\$ 155,089
Other	\$ 3,559,911
<b>Total</b>	<b>\$ 3,750,000</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 ACC's system that specifically apply to ARC such as personnel, contractual, and other costs. We conducted this performance audit from May 2024 to August 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 payroll, cash disbursements, cash receipts, procurement, and other 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

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

grant period, 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. Donna Gambrell, President and CEO for ACC during the exit conference on August 25, 2025. ACC concurred with our results. ACC's response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1 – Appalachian Community Capital's Response**.

## **Summary of Results**

Castro & Co's procedures determined that except for Findings 01 and 02 related to administrative procedures as described in **Appendix A**; ACC 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 matter 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, except for the matter described in Finding 02.

The Grantee reported a total of \$3,750,000 in ARC costs. ARC approved ACC's request to waive the match requirements for Grant No. CO-19944. Therefore, the Grantee was not required to provide funds for non-ARC funded match cost share. 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 Appalachian Community Capital and noted the Grantee had a Single Audit performed for the year(s) ended December 31, 2021, 2022, and 2023. The Single Audit report for the year ended December 31, 2023 did not include any findings or recommendations related to internal control and compliance with the requirements outlined in the OMB Compliance Supplement for the management of federal assistance awards.

The Exhibit B below presents costs claimed by the ACC and costs recommended as a result of the grant audit.



Exhibit B: Schedule of Claimed and Audit Recommended Costs			
Category	Claimed	Questioned	Audit Recommended Total
Personnel	\$ 35,000	\$ -	\$ 35,000
Contractual	\$ 155,089	\$ -	\$ 155,089
Other	\$ 3,559,911	\$ -	\$ 3,559,911
<b>Total</b>	<b>\$ 3,750,000</b>	<b>\$ -</b>	<b>\$ 3,750,000</b>

## Appendix A – Findings and Recommendations

### Finding 01 – Inadequate Sub-recipient Oversight

#### Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) inspected agreements executed by the Appalachian Community Capital (ACC or the Grantee) with their sub-recipients under ARC Grant No. CO-19944 during the period of April 1, 2020 to June 30, 2024. We noted the sub-recipient agreements executed by ACC did not include the Federal Award Identification Number (FAIN) as required by 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* (2 CFR 200 or the Uniform Guidance). Additionally, we noted the sub-recipient awards were made on a fixed amount basis; however, ACC did not obtain final certifications of the performance progress from their sub-recipient as required by the Uniform Guidance.

#### Criteria:

2 CFR 200.332, *Requirements for pass-through entities*, states,

All pass-through entities must:

- (a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the passthrough entity must provide the best information available to describe the Federal award and subaward.
  - (1) Federal award identification.
  - (iii) Federal Award Identification Number (FAIN).

2 CFR 200.201, *Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts*, states,

- (a) Fixed amount awards. In addition to the options described in paragraph (a) of this section, Federal awarding agencies, or pass-through entities as permitted in § 200.333, may use fixed amount awards (see Fixed amount awards in § 200.1) to which the following conditions apply:
  - (3) The non-Federal entity must certify in writing to the Federal awarding agency or pass through entity at the end of the Federal award that the project or activity was completed or the level of effort was expended. If the required level of activity or effort was not carried out, the amount of the Federal award must be adjusted.

#### Cause:

The Grantee did not have policies and procedures in place to ensure the subaward agreements included the FAIN and that subgrantees provided the necessary written certification to the Federal awarding agency or pass-through entity at the end of the award period, confirming that the project or activity was completed or the required effort was expended.

**Effect:**

The lack of adequate policies and procedures to ensure that all required elements were included in subrecipient agreements resulted in the omission of the FAIN, rendering the agreements non-compliant with federal requirements. This omission increases the risk of misidentifying the federal award, impairs oversight, and increases the potential for mismanagement of funds. Furthermore, the absence of controls to ensure subrecipients provided the required final written performance certifications for fixed-amount awards increases the risk that federal funds could be disbursed for projects or activities that were incomplete or failed to meet required performance standards, potentially leading to financial adjustments, penalties, and a loss of credibility with the federal awarding agency.

**Recommendations:**

We recommend that the Grantee:

1. Develop and implement formal written policies and procedures to ensure all subaward agreements fully comply with federal requirements, including the inclusion of the Federal Award Identification Number. These procedures should also require that subrecipients provide final written certification to the federal awarding agency or pass-through entity at the conclusion of each federal award, confirming that the project or activity was completed or that the agreed-upon level of effort was expended.
2. Provide staff training on these policies and procedures, and establish a process for periodic internal reviews or monitoring to verify compliance.

**Grantee's Response:**

ACC takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Number CO-19944 with a grant performance period of April 1, 2020 to June 30, 2024.

**Auditor's Response:**

The Grantee concurred with our results. Therefore, no further response is necessary.

## Finding 02 – Untimely Quarterly Progress Reporting

### Condition:

As part of our procedures, Castro & Co reviewed interim performance progress reports (PPR) submitted by ACC during the period of April 1, 2020 to June 30, 2024. Based on our review, we noted quarterly reporting exceptions on the following PPRs outlined in the table below:

- For two (2) PPRs, the progress reporting coverage periods exceeded 120 days or four months as required in the grant agreement.
- For two (2) PPRs, the reports were submitted more than 30 days after the close of the reporting period as required in the grant agreement.

PPR Coverage Period	# of Days Covered on PPR	# of Days Overdue
April 1, 2020 to July 31, 2020		3
May 1, 2022 to December 31, 2023	609	35
January 1, 2024 to June 30, 2024	181	

### Criteria:

The ARC *Grant Administration Manual for ARC Non-Construction Grants*, dated February 2020, states,

#### Reports

##### Reporting Intervals

The reporting period begins with the start date of the grant agreement. ARC requires interim progress reports every 120 days or every four months and a final report at the end of your project's period of performance. Reports are due no later than 30 days after the close of a reporting period.

2 CFR 200.329, *Monitoring and reporting program performance*, states,

(b) Reporting program performance. The Federal agency must use OMB-approved common information collections (for example, Research Performance Progress Reports) when requesting performance reporting information.

(c) (1) The recipient or subrecipient must submit performance reports as required by the Federal award. Intervals must be no less frequent than annually nor more frequent than quarterly except if specific conditions are applied...

### Cause:

The Grantee did not have policies and procedures in place to ensure PPRs were routinely prepared for the 120-day or four month period and submitted to ARC within 30 days from the close of the reporting period as required by the ARC Grant Agreement and the Uniform Guidance.

### Effect:

Without policies and procedures to ensure timely preparation and submission of reports, inaccurate financial and performance information may be reported to ARC.

### Recommendation:

We recommend the Grantee:

3. Establish and implement policies and procedures to ensure timely preparation and submission of financial and progress reports in accordance with the Uniform Guidance and ARC grant agreement requirements.

**Grantee's Response:**

ACC takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Number CO-19944 with a grant performance period of April 1, 2020 to June 30, 2024.

**Auditor's Response:**

The Grantee concurred with our results. Therefore, no further response is necessary.

## Attachment 1 – Appalachian Community Capital’s Response



August 25, 2025

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

Subject: Appalachian Community Capital Response to Castro & Company, LLC’s Performance Audit of Grant Number CO-19944.

Appalachian Community Capital takes no exception to and agrees with Castro & Company, LLC’s findings presented in the audit report of Grant Number CO-19944 with a grant performance period of April 1, 2020, to June 30, 2024.

Sincerely,

A handwritten signature in black ink, appearing to read "Donna Gambrell", is written over a light blue horizontal line.

Donna Gambrell  
President and CEO