



Office of Inspector General

Appalachian Regional Commission

**Audit of Grant Award to
The Hub of McDowell, Inc.
Grant Number NC-21643**

Report Prepared by Castro & Co, LLC

Report Number 26-20

February 25, 2026

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



Office of Inspector General

Appalachian Regional Commission

February 25, 2026

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 26-20 – The Hub of McDowell, Inc.

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number NC-21643 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 therein. 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 five 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. NC-21643**

**For the period from April 1, 2024 to March 31, 2025
Awarded to The Hub of McDowell, Inc.**

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

February 24, 2026

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 – The Hub of McDowell, Inc.’s Response 10

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 (No.) NC-21643 awarded by the Appalachian Regional Commission (ARC) to The Hub of McDowell, Inc. (The Hub or the Grantee) for the period of April 1, 2024 to March 31, 2025. 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, 02, and 03 related to financial management 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 The Hub's management at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1 – The Hub of McDowell, Inc.'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
February 24, 2026

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.) NC-21643 awarded to The Hub of McDowell, Inc. (The Hub or the Grantee) for the period of April 1, 2024 to March 31, 2025.

ARC awarded Grant No. NC-21643 to The Hub for the purchase of culinary kitchen and restaurant equipment to establish a social enterprise commercial kitchen and restaurant. The kitchen and restaurant will offer culinary and hospitality classes as well as services and after-school programming such as housing counseling, food assistance sign-up, and health and well-being courses. ARC funds supported equipment and supplies needed for the project.

The period of performance for Grant No. NC-21643 covered the period from April 1, 2024 to December 31, 2025. The grant agreement provided a budget of \$300,000 in ARC funds and required non-ARC matching funds of \$307,000 for total project costs of \$607,000. The allowable percentage breakout of ARC to non-ARC funding for the project was 49% ARC funds to 51% matching funds.

We obtained the ARC Standard Form (SF) 270, *Request for Advance or Reimbursement*, for the period covering December 1, 2024 through March 31, 2025, which identified total cumulative ARC costs of \$260,521 (85%) and non-ARC matching costs of \$44,547 (15%), for total project costs of \$305,068. However, Castro noted that the Grantee subsequently submitted a corrected reimbursement table to ARC reducing the reported non-ARC matching costs by \$8,000. As a result, the revised total cumulative costs were \$260,521 (88%) for ARC costs, \$36,547 (12%) for non-ARC matching costs, and \$297,068 for total project costs.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC's Office of Inspector General to conduct a performance audit of The Hub to determine compliance with the requirements of the ARC Grant No. NC-21643 for the period of April 1, 2024 to March 31, 2025.

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

Exhibit A: Schedule of Approved Budget			
Category	Federal	Non-Federal	Total
Equipment	\$ 300,000	\$ 161,025	\$ 461,025
Supplies	\$ -	\$ 145,975	\$ 145,975
Total	\$ 300,000	\$ 307,000	\$ 607,000

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 The Hub’s system that specifically apply to ARC such as supplies and equipment costs. We conducted this performance audit from April 2025 to February 2026 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)¹, 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

¹ The applicable version of the Uniform Guidance was published January 1, 2024.

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. Kristen Waddle, Food Service Director and Hub Developer, for The Hub during the exit conference on February 19, 2026. The Hub concurred with our results. The Hub's response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1 – The Hub of McDowell, Inc.'s Response**.

Summary of Results

Castro & Co's procedures determined that except for Findings 01, 02 and 03 related to financial procedures as described in **Appendix A**; The Hub 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 Findings 01, 02 and 03. 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). We questioned \$1,336 in ARC funded costs as a result of unallowable cost claimed.

The Grantee reported a total of \$260,521 in ARC costs and \$36,547 in non-ARC matching costs; therefore, we determined the Grantee did not meet the match requirements as of March 31, 2025. We also noted that as of March 31, 2025, the grant had not yet closed. These matching funds were properly supported and allowable under both Federal and ARC requirements except for questioned cost of \$36,547 described under Finding 01. Based on our review of the Grantee's procedures, the performance results reported to ARC were fair and reasonable.

We determined the Grantee was not subject to the Single Audit requirements under the Uniform Guidance.

The Exhibit B below presents costs claimed by The Hub 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
Equipment	\$260,521	\$ 36,547	\$(1,336) ²	\$ (36,547)	\$259,185	\$ -	\$259,185
Total	\$260,521	\$ 36,547	\$(1,336)	\$ (36,547)	\$259,185	\$ -	\$259,185

² Finding 01 questioned cost was allocated to ARC funded and non-ARC Matching cost in the amounts of \$36,547 and \$276, respectively, due to inadequate financial records (see Finding 01).

Appendix A – Findings and Recommendations

Finding 01: Unsupported Amount Reported to ARC

Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) obtained general ledger (GL) detail from The Hub of McDowell, Inc. (The Hub or the Grantee) to reconcile with the amounts reported under ARC Grant No. NC-21643 during the period of April 1, 2024 to March 31, 2025. The Grantee reported ARC funded and non-ARC match equipment costs of \$297,068; however, upon review of financial records and supporting documentation, actual costs incurred by the Grantee were \$260,245. We noted, 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), costs totaling \$36,823 were deemed unsupported costs.

Furthermore, The Hub's financial records were not adequate to determine the source of funding for the unsupported costs; therefore, the questioned cost of \$36,823 was allocated to non-ARC match equipment cost in the amount of \$36,547 and ARC funded equipment cost in the amount of \$276.

Criteria:

2 CFR 200.403, Factors affecting allowability of costs, states:

- (g) Be adequately documented.
- (h) Cost must be incurred during the approved budget period.

Cause:

The Hub stated funds were transferred to the vendor as a credit balance from which the invoice amounts would be deducted; however, as of March 31, 2025, the full credit balance had not been utilized. The Grantee did not have adequate procedures in place to ensure the amount reported to ARC was for actual cost incurred.

Effect:

The lack of adequate procedures prevented the Grantee from reconciling actual cost incurred with the credit balance paid to the vendor prior to reporting cost to ARC. Inaccurate reporting of cost incurred may lead to ARC providing incorrect information to regulatory agencies and stakeholders. Additionally, when questioned costs were excluded from the non-ARC matching cost share, the Grantee did not meet the matching requirements as of March 31, 2025. ARC could require the Grantee to reimburse or exclude the questioned cost of \$36,547 for non-ARC match cost and \$276 for ARC funded costs.

Recommendation:

We recommend that the Grantee:

1. Revise policies and procedures for financial reporting to ensure costs are tracked and reported accurately and timely.
2. Work with ARC to resolve the questioned cost of \$36,547 for non-ARC matching equipment cost.
3. Work with ARC to resolve the questioned cost of \$276 of ARC funded equipment cost.

Grantee's Response:

The Hub takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Number NC-21643 with a grant performance period of April 1, 2024 to March 31, 2025.

Auditor's Response:

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

Finding 02: Unallowable ARC Funded Cost

Condition:

As part of our audit procedures, Castro & Co examined supporting documentation for both ARC and non-ARC match costs incurred by The Hub during the period of April 1, 2024 to March 31, 2025. The Grantee claimed equipment costs totaling \$41,234 which included \$1,060 for a warranty charge that is unallowable in accordance with the Uniform Guidance.

Criteria:

2 CFR 200.447, Insurance and indemnification, states:

(b) Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations:

(2) Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government property are unallowable except to the extent that the Federal awarding agency has specifically required or approved such costs.

Cause:

The Grantee did not have adequate controls in place to verify the reported equipment costs did not include unallowable costs in accordance with the Uniform Guidance.

Effect:

The absence of adequate controls prevented The Hub from identifying and removing unallowable costs prior to reporting ARC and non-ARC match cost share amounts to ARC. Therefore, ARC could require the Grantee to reimburse the questioned cost totaling \$1,060 of ARC funded equipment cost.

Recommendation:

We recommend that the Grantee:

4. Establish and implement internal controls to review expenditures for allowability in accordance with the Uniform Guidance and exclude unallowable cost from the amounts reported.
5. Work with ARC to resolve the questioned cost totaling \$1,060 of ARC funded equipment cost.

Grantee's Response:

The Hub takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Number NC-21643 with a grant performance period of April 1, 2024 to March 31, 2025.

Auditor's Response:

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

Finding 03: Inaccurate Reporting of Financial Progress

Condition:

As part of our procedures, Castro & Co performed a reconciliation of The Hub's expenditures to the most recent SF 270 as of the period ending March 31, 2025. We noted 14 transactions totaling \$178,283 that were incurred subsequent to the SF 270 reporting period end. We noted the Grantee received an advance of funds for grant project costs which were incorrectly reported as costs incurred on the SF 270 as of March 31, 2025.

Criteria:

2 CFR 200.403, Factors affecting allowability of costs, states:

(h) Cost must be incurred during the approved budget period.

Cause:

The Grantee did not have adequate policies and procedures in place to ensure expenses incurred during the reporting period were accurately and timely reported to ARC.

Effect:

The lack of adequate policies and procedures prevented The Hub from identifying the amounts within the reporting period accurately and reporting the costs to ARC timely.

Recommendation:

See Recommendation #1 in Finding 01.

Grantee's Response:

The Hub takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Number NC-21643 with a grant performance period of April 1, 2024 to March 31, 2025.

Auditor's Response:

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

Attachment 1 – The Hub of McDowell, Inc.’s Response



263 Barnes Rd, Marion, NC 28752
www.gotothehub.org

2/19/2026

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

Subject: The Hub of McDowell, Inc. (The Hub) Response to Castro & Company, LLC’s Performance Audit of Grant Number NC-21643.

The Hub takes no exception to and agrees with Castro & Company, LLC’s findings presented in the audit report of Grant Number NC-21643 with a grant performance period of April 1, 2024 to March 31, 2025.

Sincerely,

Kristen Waddle
Hub Development