



## Office of Inspector General

Appalachian Regional Commission

### **Audit of Grant Award to Innovate Mississippi Grant Number MS-21671**

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Report Prepared by Castro & Co, LLC

Report Number 26-31

May 26, 2026

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



# Office of Inspector General

Appalachian Regional Commission

May 26, 2026

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 26-31 – Innovate Mississippi

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number MS-21671 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 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. MS-21671**

**For the period from March 1, 2024 to June 30, 2025  
Awarded to Innovate Mississippi**

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

**May 22, 2026**

**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 (No.) MS-21671 awarded by the Appalachian Regional Commission (ARC) to Innovate Mississippi (the Grantee) for the period of March 1, 2024 to June 30, 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 Finding 01 related to financial management and Finding 02 related to administrative procedures 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 Innovate Mississippi's management at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1 – Innovate Mississippi'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  
May 22, 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.) MS-21671 awarded to Innovate Mississippi (the Grantee) for the period of March 1, 2024 to June 30, 2025.

ARC awarded Grant No. MS-21671 to Innovate Mississippi to expand a partnership-based accelerator program and include the northeast Mississippi region by adding a partner organization as the eighth regional partner to identify, develop and support their startups through regional events, public pitch competition, and participation in the accelerator. This expansion incorporated startups from Appalachia Mississippi into a statewide program that included access to training, mentors, development resources, and investors to accelerate the growth of startups.

The original period of performance for Grant No. MS-21671 covered the period from March 1, 2024 to December 31, 2025, but was subsequently extended to December 31, 2026. The grant agreement provided a budget of \$240,000 in ARC funds and required non-ARC matching funds of \$204,444 for total project costs of \$444,444. The allowable percentage breakout of ARC to non-ARC funding for the project was 54% ARC funds to 46% matching funds.

We obtained the Standard Form (SF) 270, *Request for Advance or Reimbursement*, for the period covering March 1, 2025 to June 30, 2025 that identified total cumulative ARC costs of \$149,869 (37%) and non-ARC matching costs of \$260,114 (63%) for a total project costs of \$409,983.

## Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC’s Office of Inspector General to conduct a performance audit of Innovate Mississippi to determine compliance with the requirements of the ARC Grant No. MS-21671 for the period of March 1, 2024 to June 30, 2025.

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

| Exhibit A: Schedule of Approved Budget |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Category                               | Federal           | Non-Federal       | Total             |
| Personnel                              | \$ 36,127         | \$ -              | \$ 36,127         |
| Fringe Benefits                        | \$ 13,873         | \$ -              | \$ 13,873         |
| Contractual                            | \$ 142,616        | \$ 164,080        | \$ 306,696        |
| Indirect Costs                         | \$ 47,384         | \$ 40,364         | \$ 87,748         |
| <b>Total</b>                           | <b>\$ 240,000</b> | <b>\$ 204,444</b> | <b>\$ 444,444</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 Innovate Mississippi's system that specifically apply to ARC such as personnel, fringe benefits, contractual, indirect, and match costs. We conducted this performance audit from August 2025 to May 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)<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 (GAO)/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 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 Mr. Tony Jeff, President and CEO, and Ms. Claire Rome, Office Manager, for Innovate Mississippi during the exit conference on May 21, 2026. Innovate Mississippi concurred with our results. Innovate Mississippi's response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1 – Innovate Mississippi's Response**.

## **Summary of Results**

Castro & Co's procedures determined that except for Finding 01 related to financial management and Finding 02 related to administrative procedures as described in **Appendix A**; Innovate Mississippi 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), except for Finding 02.

The Grantee reported a total of \$149,869 in ARC costs and \$260,114 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of June 30, 2025. We noted these matching funds were properly supported and allowable under both Federal and ARC requirements, except for questioned costs of \$85,745 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 determined the Grantee was not subject to the Single Audit requirements under the Uniform Guidance.

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

| Exhibit B: Schedule of Claimed and Audit Recommended Costs |                   |                          |                 |                    |                   |                   |                   |
|--|-------------------|--------------------------|-----------------|--------------------|-------------------|-------------------|-------------------|
| Category   | Claimed           |                          | Questioned Cost |                    | Audit Recommended |                   |                   |
|  | Federal           | Non-Federal <sup>2</sup> | Federal         | Non-Federal        | Federal           | Non-Federal       | Total             |
| Personnel  | \$ 11,041         | \$ 58,108                | \$ -            | \$ (7,374)         | \$ 11,041         | \$ 50,734         | \$ 61,775         |
| Fringe Benefits  | \$ 4,239          | \$ 22,314                | \$ -            | \$ (2,832)         | \$ 4,239          | \$ 19,482         | \$ 23,721         |
| Contractual  | \$ 105,000        | \$ 128,337               | \$ -            | \$ (58,610)        | \$ 105,000        | \$ 69,727         | \$ 174,727        |
| Indirect   | \$ 29,589         | \$ 51,355                | \$ -            | \$ (16,929)        | \$ 29,589         | \$ 34,426         | \$ 64,015         |
| <b>Total</b>   | <b>\$ 149,869</b> | <b>\$ 260,114</b>        | <b>\$ -</b>     | <b>\$ (85,745)</b> | <b>\$ 149,869</b> | <b>\$ 174,369</b> | <b>\$ 324,238</b> |

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<sup>2</sup> Personnel and Fringe Benefits non-Federal match costs were not included in the original budget for non-ARC matching cost share; however, the Grantee's request for a budget revision was submitted to ARC and approved by the State of Mississippi.

## Appendix A – Findings and Recommendations

### Finding 01 – Unsupported Amount Reported to ARC

#### Condition:

As part of our audit procedures, Castro & Company, LLC (Castro & Co) compared general ledger (GL) detail transactions to cumulative total costs reported by Innovate Mississippi (the Grantee) on the SF 270 for ARC funded and non-ARC matching costs as of June 30, 2025. Castro & Co identified material variances between the reported amounts for non-ARC matching cost share and costs supported by the GL as detailed in the *Table 1* below. We determined, under Title 2 U. S. Code of Federal Regulations Subtitle A Chapter II Part 200 (the Uniform Guidance or 2 CFR Part 200), the questioned costs of \$85,745 for non-ARC funded matching cost share were unsupported.

| Category             | Reported          | Supported by GL   | Unsupported        |
|----------------------|-------------------|-------------------|--------------------|
| Personnel            | \$ 58,108         | \$ 50,734         | \$ (7,374)         |
| Fringe Benefits      | \$ 22,314         | \$ 19,482         | \$ (2,832)         |
| Contractual          | \$ 128,337        | \$ 69,727         | \$ (58,610)        |
| Indirect             | \$ 51,355         | \$ 34,426         | \$ (16,929)        |
| <b>Total Non-ARC</b> | <b>\$ 260,114</b> | <b>\$ 174,369</b> | <b>\$ (85,745)</b> |

#### 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:

Innovate Mississippi stated that an error occurred during the preparation of the SF-270 for a prior reporting period. A correction was submitted to ARC but was not reflected in subsequent reporting periods. Additionally, the Grantee incorrectly reported a contractual cost transaction as both ARC funded and non-ARC match cost in a separate prior reporting period. The Grantee did not have adequate internal controls in place to ensure the cumulative amounts reported to ARC were reconciled to actual costs incurred and recorded in the GL.

#### Effect:

The lack of adequate internal control to ensure the completeness and accuracy of financial information resulted in unsupported costs being reported to ARC. Inaccurate reporting of costs incurred may lead to ARC providing incorrect information to regulatory agencies and stakeholders. As a result, ARC may require the Grantee to exclude \$85,745 in questioned costs for non-ARC matching cost share.

#### Recommendations:

We recommend that the Grantee:

1. Revise policies and procedures for financial reporting to ensure GL costs are reconciled with supporting documents to reflect accurate reporting of financial information.

2. Work with ARC to resolve the questioned costs of \$85,745 for non-ARC matching personnel, fringe benefits, contractual, and indirect costs.

**Grantee's Response:**

Innovate Mississippi acknowledged that certain non-federal matching amounts reported on prior SF-270 submissions were not adequately reconciled to the general ledger and supporting documentation at the time of submission. Specifically, certain costs that had already been charged directly to the ARC award were also inadvertently included within reported non-federal match calculations, resulting in duplicate reporting of otherwise allowable project costs.

Innovate Mississippi noted that the questioned costs identified in the finding did not reflect a lack of available non-federal match supporting the project. The organization stated that they maintained much more than sufficient allowable non-federal expenditures associated with the project during the reporting periods; however, the amounts originally reported as match included transactions that should not have been counted toward the non-federal cost share requirement because those costs had already been applied to the Federal share of the project.

**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 audit procedures, Castro & Co reviewed interim performance progress reports (PPRs) submitted by Innovate Mississippi during the period of March 1, 2024 to June 30, 2025. Based on our review, we noted that four (4) PPRs were not submitted within 30 days from the close of the reporting period, as required by ARC, as detailed in *Table 2* below.

| PPR Coverage Period                   | Due Date          | Submission Date   | # of Days Late |
|---------------------------------------|-------------------|-------------------|----------------|
| March 1, 2024 to June 30, 2024        | July 30, 2024     | September 9, 2024 | 41             |
| July 1, 2024 to October 31, 2024      | November 30, 2024 | February 20, 2025 | 82             |
| November 1, 2024 to February 28, 2025 | March 30, 2025    | May 29, 2025      | 60             |
| March 1, 2025 to June 30, 2025        | July 30, 2025     | September 9, 2025 | 41             |

### Criteria:

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

(b) *Reporting program performance*. The Federal awarding agency must use OMB-approved common information collections, as applicable, when providing financial and performance reporting information.

(c) (1) The non-Federal entity must submit performance reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. Intervals must be no less frequent than annually nor more frequent than quarterly...

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.

### Cause:

The Grantee did not have adequate policies and procedures in place to ensure that quarterly PPRs were prepared and submitted to ARC within 30 days of the close of each reporting period. The Grantee stated that the delays occurred because the ARC grant operated on a four-month reporting cycle that did not align with the Grantee's standard quarterly financial close and grant compliance checklist. As a result, reporting deadlines required manual tracking, which led to reports being submitted after the required due dates. The Grantee further stated that it has implemented corrective measures, including automated reminders and updates to internal checklists to align with the ARC reporting cycle.

**Effect:**

Without adequate policies and procedures to ensure timely quarterly reporting, inaccurate financial and performance information may be reported to ARC.

**Recommendation:**

We recommend that the Grantee:

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

**Grantee's Response:**

Innovate Mississippi acknowledges that several quarterly performance progress reports were submitted after the required due dates during the audit period. The delays primarily resulted from the ARC grant's four-month reporting cycle differing from the organization's standard quarterly grant reporting and financial close calendar, which required manual tracking of reporting deadlines.

Innovate Mississippi noted that the delays were administrative in nature and did not result in any known misuse of grant funds or material inaccuracies in reported program activities. Nevertheless, the organization recognizes the importance of timely reporting under 2 CFR 200.329 and ARC grant administration requirements.

**Auditor's Response:**

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

## Attachment 1 – Innovate Mississippi’s Response



May 20, 2026

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

Subject: Innovate Mississippi’s Response to Castro & Company, LLC’s Performance Audit of Grant Number MS-21671

Innovate Mississippi appreciates the professionalism and cooperation of Castro & Company, LLC during the performance audit of Grant Number MS-21671 for the period March 1, 2024 through June 30, 2025. Innovate Mississippi generally concurs with the findings and recommendations identified in the report and has implemented corrective actions to strengthen internal controls and reporting procedures.

### Response to Finding 01 – Unsupported Amount Reported to ARC

Innovate Mississippi acknowledges that certain non-federal matching amounts reported on prior SF-270 submissions were not adequately reconciled to the general ledger and supporting documentation at the time of submission. Specifically, certain costs that had already been charged directly to the ARC award were also inadvertently included within reported non-federal match calculations, resulting in duplicate reporting of otherwise allowable project costs.

Innovate Mississippi notes that the questioned costs identified in the finding do not reflect a lack of available non-federal match supporting the project. The organization maintained much more than sufficient allowable non-federal expenditures associated with the project during the reporting periods; however, the amounts originally reported as match included transactions that should not have been counted toward the non-federal cost share requirement because those costs had already been applied to the Federal share of the project.

In response to this finding, Innovate Mississippi has implemented revised internal control and financial reporting procedures designed to strengthen compliance with 2 CFR Part 200 and ARC reporting requirements. Corrective actions include:

- Implementation of a formal reconciliation process between cumulative SF-270 reports, supporting schedules, and the general ledger prior to submission;

- Assignment of secondary review responsibilities to the Office Manager to independently verify the allowability, support, and non-duplication of all reported matching costs;
- Additional management review procedures to confirm that all matching costs meet the allowability and documentation standards of 2 CFR 200.306 and 2 CFR 200.403 prior to submission to ARC.

Innovate Mississippi will continue working cooperatively with ARC to resolve the questioned match amounts and will provide documentation supporting alternative allowable non-Federal matching expenditures incurred during the grant period.

#### Response to Finding 02 – Untimely Quarterly Progress Reporting

Innovate Mississippi acknowledges that several quarterly performance progress reports were submitted after the required due dates during the audit period. The delays primarily resulted from the ARC grant's four-month reporting cycle differing from the organization's standard quarterly grant reporting and financial close calendar, which required manual tracking of reporting deadlines.

Innovate Mississippi notes that the delays were administrative in nature and did not result in any known misuse of grant funds or material inaccuracies in reported program activities. Nevertheless, the organization recognizes the importance of timely reporting under 2 CFR 200.329 and ARC grant administration requirements.

To address this issue, Innovate Mississippi has implemented corrective actions including:

- Updating internal grant compliance calendars and reporting checklists to align specifically with ARC reporting deadlines;
- Establishing automated calendar reminders and deadline notifications for programmatic and financial reporting requirements;
- Assigning responsibility for monitoring ARC reporting due dates to designated administrative personnel;
- Incorporating supervisory review procedures to ensure reports are prepared and submitted within required timeframes.

Innovate Mississippi believes these corrective measures will strengthen compliance with ARC reporting requirements and prevent recurrence of untimely submissions.

Sincerely,



James A. (Tony) Jeff, Jr.  
President and CEO