



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to North Carolina Department of Information Technology

Grant Number PW-20069

Report Prepared by Castro & Co, LLC

Report Number 23-19

June 22, 2023

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



Office of Inspector General

Appalachian Regional Commission

June 22, 2023

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General *Philip Heneghan*

SUBJECT: Audit Report 23-19 – North Carolina Department of Information Technology

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number PW-20069 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. The auditors did not issue any recommendations in the 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.

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. PW-20069**

**For the period from November 1, 2020 to June 30, 2022
Awarded to North Carolina Department of Information
Technology**

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

June 20, 2023

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 PW-20069 awarded by the Appalachian Regional Commission (ARC) to North Carolina Department of Information Technology (the Grantee or NCDIT) with a performance period of November 1, 2020 to June 30, 2022. The audit was conducted at the request of the ARC 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 the Grantee's financial management, administrative procedures, and related internal controls were adequate to manage the ARC grant funds. There were no findings and recommendations resulting from this performance audit engagement.

We discussed the results of this performance audit with NCDIT's management at the conclusion of our fieldwork.

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

Castro & Company, LLC

Alexandria, VA
June 20, 2023

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 (OIG) to perform the audit of Grant No. PW-20069 awarded to North Carolina Department of Information Technology (the Grantee or NCDIT) for the grant performance period from November 1, 2020 to June 30, 2022.

ARC awarded Grant No. PW-20069 to NCDIT to provide funding for the partnership between the NCDIT, the Broadband Infrastructure Office (BIO), the North Carolina Department of Health and the Human Services (DHHS) Office of Rural Health (ORH) to develop a comprehensive, innovative, multi-faceted telehealth program with regional and local partners to increase access to healthcare for vulnerable populations and disadvantaged groups while simultaneously increasing the economic viability and digital skills for residents seeking to re-enter the workforce and those currently employed.

The original period of performance for Grant No. PW-20069 covered the period from November 1, 2020 to October 31, 2022 but was subsequently extended to October 31, 2023. The grant agreement provided a budget of \$633,940 in ARC funds and required non-ARC matching funds of \$485,513 for total project costs of \$1,119,453. 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 Form SF 270 *Request for Advance or Reimbursement* for the period covering March 1, 2022 to June 30, 2022 that identified cumulative total ARC costs of \$307,152 (49%) and non-ARC matching costs of \$324,249 (51%) for a total project cost of \$631,401; however, Castro & Co identified differences of \$220 in ARC costs and \$286 in non-ARC matching costs between costs reported on the ARC Form SF 270 *Request for Advance or Reimbursement* and costs recorded in the general ledger which the Grantee states were due to ARC.net reporting system errors. NCDIT subsequently corrected the differences and reported a cumulative total of \$307,372 (49%) in ARC costs and \$323,963 (51%) in non-ARC matching costs for a total cumulative cost of \$631,335 for the period from November 1, 2020 to June 30, 2022.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of NCDIT to determine compliance with the requirements of the ARC Grant No. PW-20069 for the period from November 1, 2020 to June 30, 2022.

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

Exhibit A: Schedule of Grant Budget			
Category	Federal Amount	Non-Federal Amount	Total
Personnel	\$ 141,750	\$ 306,678	\$ 448,428
Fringe Benefits	\$ 39,690	\$ 58,115	\$ 97,805
Travel	\$ 15,000	\$ 7,520	\$ 22,520
Equipment	\$ 150,000	\$ 16,000	\$ 166,000
Supplies	\$ 10,150	\$ -	\$ 10,150
Contractual	\$ 277,350	\$ -	\$ 277,350
Other	\$ -	\$ 97,200	\$ 97,200
Total	\$ 633,940	\$ 485,513	\$ 1,119,453

The objectives of our audit were to determine whether the Grantee used grant funding from 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 NCDIT's system that specifically apply to ARC such as, personnel, fringe benefits, travel, equipment, supplies, contractual, and other costs. We conducted this performance audit from September 2022 to June 2023 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 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 payroll, cash disbursements, travel, cash receipts, procurement, equipment, 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 Inspectors General on 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. Landon Perry, Director of Internal Audit, and Mr. Mark Swan, Accounting Director, for NCDIT during the exit conference on June 14, 2023. NCDIT concurred with our results.

Summary of Results

Castro & Co’s procedures determined NCDIT 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.

NCDIT’s financial management, administrative procedures, and internal controls were adequate to account for the funds provided under the ARC grant. 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 \$307,372 in ARC costs and \$323,963 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of June 30, 2022. These matching funds were properly supported and allowable under both Federal and ARC requirements. We also determined that the Grantee implemented effective policies and procedures to accurately capture, record, and report grant performance measures. Based on our review of the Grantee’s procedures, the performance results reported to ARC were fair and reasonable.

The Exhibit B below presents costs claimed by NCDIT 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
Personnel	\$ 18,350	\$ 202,142	\$ -	\$ -	\$ 18,350	\$ 202,142	\$ 220,492
Fringe Benefits	\$ -	\$ 39,183	\$ -	\$ -	\$ -	\$ 39,183	\$ 39,183
Travel	\$ 1,117	\$ 950	\$ -	\$ -	\$ 1,117	\$ 950	\$ 2,067
Equipment	\$ 126,399	\$ 10,080	\$ -	\$ -	\$ 126,399	\$ 10,080	\$ 136,479
Supplies	\$ 1,212	\$ -	\$ -	\$ -	\$ 1,212	\$ -	\$ 1,212
Contractual	\$ 160,294	\$ -	\$ -	\$ -	\$ 160,294	\$ -	\$ 160,294
Other	\$ -	\$ 71,608	\$ -	\$ -	\$ -	\$ 71,608	\$ 71,608
Total	\$ 307,372	\$ 323,963	\$ -	\$ -	\$ 307,372	\$ 323,963	\$ 631,335