



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to SC Appalachian Council of Governments Grant Number SC-709-C55

Report Prepared by Castro & Co, LLC

Report Number 23-25

August 30, 2023

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




Office of Inspector General

Appalachian Regional Commission

August 30, 2023

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General 

SUBJECT: Audit Report 23-25 – SC Appalachian Council of Governments

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number SC-709-C55 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. SC-709-C55**

**For the period from January 1, 2022 to December 31, 2022
Awarded to SC Appalachian Council of Governments**

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

August 28, 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 SC-709-C55 awarded by the Appalachian Regional Commission (ARC) to South Carolina (SC) Appalachian Council of Governments (the Grantee) with a performance period of January 1, 2022 to December 31, 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); and (5) matching requirements were met.

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 SC Appalachian Council of Governments' 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
August 28, 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 to perform the audit of Grant No. SC-709-C55 awarded to SC Appalachian Council of Governments (the Grantee) for the grant performance period from January 1, 2022 to December 31, 2022.

ARC awarded Grant No. SC-709-C55 to SC Appalachian Council of Governments to provide assistance for the Grantee to establish and expand economic development services in its service area and support programs that are consistent with the policy and guidelines for local development districts; including activities and project development related to ARC's Strategic Plan - *Appalachia Envisioned: A New Era of Opportunity, FY 2022 – 2026*.

The period of performance for Grant No. SC-709-C55 covered the period from January 1, 2022 to December 31, 2022. The grant agreement provided a budget of \$220,284 in ARC funds and required non-ARC matching funds of \$94,407 for total project costs of \$314,691. The allowable percentage breakout of ARC to non-ARC funding for the project was 70% ARC funds to 30% matching funds.

We obtained the Standard Form (SF) 425, *Federal Financial Report*, dated December 31, 2022 that identified cumulative total ARC costs of \$220,284 (70%) and non-ARC matching costs of \$94,407 (30%) for a total project cost of \$314,691.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of SC Appalachian Council of Governments to determine compliance with the requirements of the ARC Grant No. SC-709-C55 for the period from January 1, 2022 to December 31, 2022.

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

| Exhibit A: Schedule of Grant Budget | | | |
|-------------------------------------|-------------------|------------------|-------------------|
| Category | Federal | Non-Federal | Total |
| Personnel | \$ 107,009 | \$ 44,824 | \$ 151,833 |
| Fringe Benefits | \$ 41,276 | \$ 17,940 | \$ 59,216 |
| Travel | \$ 2,975 | \$ 1,525 | \$ 4,500 |
| Contractual | \$ 31,675 | \$ 13,825 | \$ 45,500 |
| Other | \$ 325 | \$ 175 | \$ 500 |
| Indirect | \$ 37,024 | \$ 16,118 | \$ 53,142 |
| Total | \$ 220,284 | \$ 94,407 | \$ 314,691 |

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); and
- Matching requirements were met.

The scope of this audit includes those costs addressed in SC Appalachian Council of Governments' system that specifically apply to ARC such as personnel, fringe benefits, travel, contractual, indirect, and other costs. We conducted this performance audit from February 2023 to August 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, cash receipts, procurement, indirect, 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 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; and
- Testing match costs to determine whether match requirements were met, were properly supported, and allowable under both Federal and ARC requirements.

Grantee’s Response to Audit Results

Our audit results were discussed with Mr. Steven Pelissier, Executive Director, Mr. Chip Bentley, Deputy Director, Mr. Don Zimmer, Finance Director, and Ms. Arlene Young, Grants Services Director, for SC Appalachian Council of Governments during the exit conference on August 15, 2023. SC Appalachian Council of Governments concurred with our results.

Summary of Results

Castro & Co’s procedures determined SC Appalachian Council of Governments 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 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 SC Appalachian Council of Governments 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 had a Single audit performed for the year ended June 30, 2022. The audit report did not have any findings or recommendations related to the management of federal assistance awards.

The Grantee reported a total of \$220,284 in ARC costs and \$94,407 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of December 31, 2022. These matching funds were properly supported and allowable under both Federal and ARC requirements.

The Exhibit B below presents costs claimed by SC Appalachian Council of Governments 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 | Federal | Non-Federal | Federal | Non-Federal | Total |
| Personnel | \$ 107,009 | \$ 35,409 | \$ - | \$ - | \$ 107,009 | \$ 35,409 | \$ 142,418 |
| Fringe Benefits | \$ 41,276 | \$ 5,233 | \$ - | \$ - | \$ 41,276 | \$ 5,233 | \$ 46,509 |
| Travel ¹ | \$ 2,975 | \$ 7,343 | \$ - | \$ - | \$ 2,975 | \$ 7,343 | \$ 10,318 |
| Contractual ¹ | \$ 31,675 | \$ 25,715 | \$ - | \$ - | \$ 31,675 | \$ 25,715 | \$ 57,390 |
| Other | \$ 325 | \$ 9,442 | \$ - | \$ - | \$ 325 | \$ 9,442 | \$ 9,767 |
| Indirect | \$ 37,024 | \$ 11,265 | \$ - | \$ - | \$ 37,024 | \$ 11,265 | \$ 48,289 |
| Total | \$ 220,284 | \$ 94,407 | \$ - | \$ - | \$ 220,284 | \$ 94,407 | \$ 314,691 |

¹ Total costs incurred for Travel and Contractual exceeded the budget by \$5,818 and \$11,890, respectively. However, the amount does not exceed \$31,469 or ten percent of the project's total approved budget; therefore, prior ARC approval was not required.