



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to City of Beattyville Grant Number KY-19665

Report Prepared by Castro & Co, LLC

Report Number 23-27

September 26, 2023

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



Office of Inspector General

Appalachian Regional Commission

September 26, 2023

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit Report 23-27 – City of Beattyville

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number KY-19665 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. KY-19665**

**For the period from September 1, 2019 to August 31, 2022
Awarded to the City of Beattyville**

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

September 25, 2023

Final Report

Table of Contents

Executive Summary	1
Background.....	2
Objectives, Scope, and Methodology	2
Summary of Results.....	4

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 KY-19665 awarded by the Appalachian Regional Commission (ARC) to the City of Beattyville (the Grantee) with a grant performance period of September 1, 2019 to August 31, 2022. The audit was conducted at the request of the ARC Office of Inspector General (OIG) 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 the City of Beattyville'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
September 25, 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. KY-19665 awarded to the City of Beattyville (the Grantee) for the grant performance period from September 1, 2019 to August 31, 2022.

ARC awarded Grant No. KY-19665 to the City of Beattyville to provide funding to reduce the inflow and infiltration within the waste water system, provide for reliable sewer services to businesses and residents, extend the operating life of the sewer system, reduce costs to the City of Beattyville, and improve energy efficiency.

The period of performance for Grant No. KY-19665 covered the period from September 1, 2019 to August 31, 2022. The grant agreement provided a budget of \$1,000,000 in ARC funds. The State of Kentucky requested a waiver for the matching requirements on behalf of the City of Beattyville which was approved by ARC. Therefore, the project was 100% ARC funded.

We obtained the Automated Standard Application for Payments (ASAP) Drawdown Request for the period covering September 1, 2019 to August 31, 2022 that identified cumulative total ARC funded project costs of \$1,000,000.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of the City of Beattyville to determine compliance with the requirements of the ARC Grant No. KY-19665 for the grant period from September 1, 2019 to August 31, 2022.

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

Exhibit A: Schedule of Grant Budget		
Cost Category	Amount	Total
Administrative & Legal	\$ 43,475	\$ 43,475
Architectural & Engineering	\$ 119,000	\$ 119,000
Project Inspection	\$ 48,000	\$ 48,000
Construction	\$ 789,525	\$ 789,525
Total	\$ 1,000,000	\$ 1,000,000

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 City of Beattyville’s system that specifically apply to ARC such as costs for administrative and legal expenses, architectural and engineering fees, project inspection fees, and construction. We conducted this performance audit from February 2023 to September 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 cash disbursements, cash receipts, and procurement 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;
- 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 Mayor Edward Scott Jackson, and Sally Gilbert, City Clerk, for the City of Beattyville during the exit conference on September 25, 2023. The City of Beattyville concurred with our results.

Summary of Results

Castro & Co’s procedures determined the City of Beattyville 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 City of Beattyville’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.

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

The Grantee reported a total of \$1,000,000 in ARC costs. ARC approved the State of Kentucky’s request for discretionary authority to waive the match requirements for Grant No. KY-19665. Therefore, the Grantee was not required to provide 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.

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

Exhibit B: Schedule of Claimed and Audit Recommended Costs				
Cost Category	Claimed	Questioned	Audit Recommended Total	
Administrative & Legal ¹	\$ 45,290	\$ -	\$ 45,290	\$ 45,290
Architectural & Engineering ¹	\$ 132,000	\$ -	\$ 132,000	\$ 132,000
Project Inspection ¹	\$ 60,877	\$ -	\$ 60,877	\$ 60,877
Construction	\$ 761,833	\$ -	\$ 761,833	\$ 761,833
Total	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 1,000,000

¹ The cost categories Administrative & Legal, Architectural & Engineering, and Project Inspection exceeded the budget amount by \$1,815, \$13,000, and \$12,877, respectively; however, the amount does not exceed \$100,000 or ten percent of the project’s total approved budget; therefore, prior ARC approval was not required.