

Office of Inspector General

Report Prepared by Castro & Company, LLC

Desk Review of Matching Funds

Grant Number PW-20078



**Appalachian
Regional
Commission**

Office of Inspector General

Audit Report: 22-03


December 21, 2021



Office of
Inspector General

December 21, 2021

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General 

SUBJECT: Desk Review of Matching Funds, Report Number 22-03

This memorandum transmits the final report of a review performed by Castro & Company, LLC, of matching funds related to grant number PW-20078. The objective of the review was to determine if Appalachian Growth Capital had adhered to the matching fund requirements under the grant agreement.

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 this report.

We do not express any opinion on the conclusions presented in the report. To fulfill our responsibilities, we:

- Reviewed 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 issuance of the audit report.

Please contact me at 202-884-7675 if you have any questions regarding the report.

December 20, 2021

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, N.W.
Washington, DC 20009

Subject: Desk Review on Appalachian Growth Capital, LLC, Grant No. PW-20078

Castro & Company, LLC (Castro) completed a desk review for Grant No. PW-20078 awarded by the Appalachian Regional Commission (ARC) to the Appalachian Growth Capital, LLC (AGC). The desk review was conducted at the request of the ARC Office of Inspector General (OIG) to assist the office in the oversight of ARC grant funds.

The desk review objectives were to verify that the grantee (AGC) complied with matching funds requirements in accordance with the grant agreement from the date of grant approval through the date of our review of documentation on October 19, 2021.

AGC is a Certified Development Finance Institution (CDFI) and a subsidiary of Appalachian Partnership, Inc. (API), along with API's subsidiaries Ohio SE and Appalachian Wood Products, LLC providing services to increase access to credit on commercially reasonable terms to small businesses across all Appalachian Ohio counties. AGC provides technical assistance under Grant No. PW-20078-A (Operations/Tech Assistance) and capital to businesses under Grant No. PW-20078-B (Capital/Loan Fund).

During our desk review, we noted the following:

- For Grant No. PW-20078-A (Operations/Tech Assistance), AGC met the matching requirements as outlined in the grant agreement from the date of grant approval of September 14, 2020 through October 19, 2021.
- For Grant No. PW-20078-B (Capital/Loan Fund), AGC did not meet the matching requirements as outlined in the grant agreement from the date of grant approval of September 14, 2020 through October 19, 2021. We noted AGC submitted Form 270 Request to ARC for Reimbursement on March 10, 2021 for the period of October 1, 2020 through January 31, 2021 in the amount of \$337,631 from ARC. We verified AGC had matching funds available as of March 31, 2021; however, on April 19, 2021, AGC returned the loan funds to JobsOhio that were used to meet the grant match requirements, and therefore no longer met the matching requirements as outlined in the grant agreement. We also noted AGC did not return funds to ARC until September 17, 2021, one day after ARC OIG notified AGC that ARC OIG was initiating a desk review of matching funds associated with Grant No. PW-20078.

The grantee's response to our desk review results indicates non-concurrence with issues described above that were identified as part of our desk review procedures. We have included as an attachment AGC's response to the issues identified above as well as Castro's rebuttal to AGC's response.

Sincerely,

Castro & Company, LLC

Alexandria, VA

Appendix A - Appalachian Growth Capital, LLC's Response

From: Glenda Bumgarner <gbumgarner@apppart.org>
Sent: Tuesday, December 14, 2021 9:31 AM
To: Liza Olmedo
Cc: Rhonda Tumbow; Nicole Vorst; Jane Dunnington
Subject: AGC Response to ARC Grant Number PW-20078 - Grant Desk Review Letter Draft
Attachments: Grant Desk Review Letter Draft - Grant No. PW-20078 AGC.pdf; ARC_Grants_Manual.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

Liza,

Thank you for reviewing and discussing the details and status of the above noted grant and I appreciate the opportunity to provide comments.

Part A - I concur with your findings of match compliance for operating funds.

Part B - I do not concur with your findings of non-compliance for the loan match funds and here are the reasons:

- 1) We were unaware the funds needed to be returned within a specific timeframe as the ARC Operating Manual is silent on that guidance (see attached - page 11). Neither does our agreement with the ARC mention a specific period of time to return funds.
- 2) We were required to obtain approval from the program manager for any significant budget changes. During a couple of conversations with the program manager, we advised the JobsOhio funds were returned because the AGC was never positioned to make the payments required, which was a commitment that my predecessor made before my arrival. We advised that we were working with JobsOhio to secure a grant or other source of funds, along with our private bankers on our board, and also kicked off a capital campaign. After hearing our plan the program manager did not stipulate an immediate return of the funds during those conversations.
- 3) The funds that we received from ARC for the reimbursement were returned back to the dedicated bank account that we use for those specific funds. None of those dollars were used for any purpose and there were no transactions associated with the funds as we understood the need to return if we were unsuccessful in our private fundraising efforts.

We would never knowingly violate the expectations and rules of the ARC program. We are thankful for the ARC's teams helpful guidance and support these several months, and are committed to a strong and healthy partnership so that together we may serve the businesses in the Appalachian region.

Sincerely,

Glenda Bumgarner



Appendix B – Castro & Company, LLC’s Response

Castro & Company, LLC (Castro) has reviewed Appalachian Growth Capital, LLC (AGC)’s response provided to Castro on December 14, 2021 regarding issues identified during our desk review of Grant No. PW-20078. In consideration of those views, Castro noted that AGC’s response did not alter our results. In accordance with the *Uniform Guidance*, 2 CFR § 200.308, recipients must request prior approval from Federal awarding agencies for changes in the approved cost sharing or matching provided by the non-Federal entity. Recipients are also required to demonstrate that the funds are committed or available at the time of, and for the duration of, the award; however, since AGC returned the matching loan funds to JobsOhio on April 19, 2021, AGC no longer met the matching requirements as outlined in the grant agreement.