



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to Opportunity Alabama, Inc.

Grant Number PW-19707

Report Prepared by Regis & Associates

Report Number 23-18

June 13, 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 13, 2023

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit Report 23-18 – Opportunity Alabama, Inc.

This memorandum transmits the Regis & Associates, PC, report for the audit of costs charged to grant number PW-19707, to Opportunity Alabama, Inc. 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.

Regis & Associates, PC, is responsible for the attached audit report and the conclusions expressed in this report. We do not express any opinion on the conclusions presented in Regis & Associate, PC's 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 one recommendation 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 that was extended to the auditors during this audit. Please contact me at 202-884-7675 if you have any questions regarding the report.

*Report on Performance Audit
of
Appalachian Regional Commission
Grant Number PW-19707
for the Period from January 1, 2020, to April 30, 2022*

*Awarded to
Opportunity Alabama, Inc.*

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

Auditee: *Opportunity Alabama, Inc.*

As of Date: May 23, 2023

**REGIS**
ASSOCIATES, PC
MANAGEMENT CONSULTANTS &
CERTIFIED PUBLIC ACCOUNTANTS
1420 K Street, NW
Suite 910
Washington, DC 20005

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EXECUTIVE SUMMARY

Office of Inspector General
Appalachian Regional Commission
1666 Connecticut Avenue, NW; Suite 700
Washington, DC 20009

We conducted a performance audit (the audit) of grant agreement number PW-19707, awarded by the Appalachian Regional Commission (ARC) to Opportunity Alabama, Inc. (the Grantee); with a grant performance period of January 1, 2020, to December 31, 2022. We conducted this performance audit at the request of the ARC Office of Inspector General, to assist it in its oversight of ARC grant funds. This performance audit engagement covers the period from January 1, 2020, to April 30, 2022.

The objectives of the performance audit were to determine whether: (1) program funds were managed in accordance with 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; (6) the reported performance measures were fair and reasonable; and 7) if the requirements for the performance of a Single Audit were met, the Grantee conducted such an audit and appropriately addressed any noted findings and recommendations related to the management of Federal awards.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

We conducted planning and fieldwork phases of the audit during the period from October 17, 2022, through February 10, 2023. We determined that, except for the matters identified as Finding 2020-001 in the accompanying Findings, Recommendations, and Grantee's Response section of this report; Opportunity Alabama, Inc.'s financial management, administrative procedures, and related internal controls, were adequate to manage ARC's grant funds.

We discussed the results of this performance audit with Opportunity Alabama, Inc.'s officials at the conclusion of our fieldwork. Opportunity Alabama's response has been included as Attachment 1 to this report. Regis & Associates, PC appreciates the cooperation and assistance received from Opportunity Alabama, Inc., and ARC staff during this performance audit.

Regis & Associates, PC
Washington, DC
May 23, 2023

1420 K Street, NW Suite 910, Washington, DC 20005; Tel 202-296-7101; Fax: 202-296-7284; www.regisepa.com

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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; healthcare; water and sewer systems; housing; highway construction; and other essentials of comprehensive economic development. ARC's staff is responsible for program development; policy analysis and review; grant development; technical assistance to states; and management and oversight. 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.

On June 25, 2020, the Appalachian Regional Commission awarded Grant Number PW-19707, in the amount of \$733,150, to Opportunity Alabama, Inc. As a condition of this award, the Grantee was required to contribute a matching amount of \$509,477. The total matching contribution was to be made in the form of cash, contributed services, or in-kind contributions; as approved by ARC. The original period of performance of the grant was from January 1, 2020, through December 31, 2021. On November 4, 2021, ARC approved an amendment to Grant Number PW-19707, to extend the grant's period of performance to December 31, 2022. This performance audit engagement covers the period from January 1, 2020, to April 30, 2022. The original award and amendment resulted in a total grant budget of \$1,242,627.

The grant was awarded to Opportunity Alabama, Inc., to aid in a project titled "Creating Opportunity for Alabama (COAL) Initiative." This program funded the creation of an Opportunity Zones-based funding and business development ecosystem in Alabama's Appalachian counties. Opportunity Alabama was to collaborate with a team of local, state, and national partners; in three phases. In phase one, Opportunity Alabama was to work to identify local investment opportunities and build local capacity to take advantage of Opportunity Zone investment, by prioritizing rural areas. In phase two, Opportunity Alabama was to use ARC funds to acquire products; such as demand studies, environmental assessments, and construction cost estimates. Phase two was to help move investment opportunities closer towards implementation and attract over \$100 million in investment. In phase three, Opportunity Alabama was required to develop and implement an impact investment data collection and analysis process.

Objective, Scope, and Methodology

Objective

The Appalachian Regional Commission, Office of Inspector General, under Order Number ARC21P050, dated February 25, 2022; engaged Regis & Associates, PC to conduct a performance audit of Grant Number PW-19707, titled "Creating Opportunity for Alabama (COAL) Initiative", which was awarded to the Grantee. The term of the grant was from January 1, 2020, through December 31, 2021. However, the grant was extended to December 31, 2022.

The budgeted amounts for the grant are presented below:

Exhibit – A: Schedule of Grant Budget			
<u>Object Class Category</u>	<u>Federal</u>	<u>Non-Federal</u>	<u>Total</u>
Personnel	\$ 21,700	\$ 242,227	\$ 263,927
Fringe Benefits	-	7,250	7,250
Travel	-	-	-
Contractual	666,480	260,000	926,480
Total Direct Charges	\$ 688,180	\$ 509,477	\$ 1,197,657
Indirect Charges	44,970	-	44,970
Total	\$ 733,150	\$ 509,477	\$ 1,242,627

The general objectives of the performance audit were to determine whether Opportunity Alabama, Inc. expended grant funds in accordance with applicable requirements; and to report any resulting findings and questioned cost relating to internal controls, program performance, and compliance with provisions of the grant agreement, laws, and regulations.

Scope and Methodology

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Our audit procedures included:

- Obtaining an understanding of the Grantee’s internal controls; assessing control risk; and determining the extent of testing needed, based on the control risk assessment.
- Reviewing written fiscal policies and administrative procedures for applicable grant activities.
- Assessing, on a test basis, evidence supporting the amounts; and the Grantee’s data and records.
- Assessing the accounting principles and significant estimates made by the Grantee.
- Evaluating the overall evidence and presentation of the records.
- Assessing whether the grant’s reported performance measures were fair and reasonable.
- Conducting other test procedures deemed necessary, based on our professional judgment.

Results

Based on the results of our testing and analysis on this performance audit, we determined that:

- 1) The grant funds were managed in accordance with ARC and Federal grant requirements, except for the matters described in finding 2020-001 in the accompanying Findings, Recommendations, and Grantee’s Response section of this report.
- 2) As of April 30, 2022, the Grantee had expended \$1,009,751 of the grant budgeted amount of \$1,242,627.

Below, we have presented a Schedule of Claimed, and Audit Recommended Cost as of April 30, 2022, which reflects the results of our audit.

**Exhibit – B: Schedule of Claimed and Audit Recommended Cost
as of April 30, 2022**

Object Class Category	Claimed Cost		Questioned Cost		Audit Recommended		
	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ 152,404	\$ 319,911	\$ 1,716	\$ 4,423	\$ 150,688	\$ 315,488	\$ 466,176
Fringe Benefits	821	1,640	\$ (3,196)	\$ (2,622)	4,017	4,262	8,279
Travel	570	2,950	\$ -	\$ 149	570	2,801	3,371
Contractual	428,334	82,501	\$ 123	\$ 3,195	428,211	79,306	507,517
Total Direct Charges	\$ 582,129	\$ 407,002	\$ (1,357)	\$ 5,145	\$ 583,486	\$ 401,857	\$ 985,343
Indirect Charges	24,260	-	(148)	-	24,408	-	24,408
Total	\$ 606,389	\$ 407,002	\$ (1,505)	\$ 5,145	\$ 607,894	\$ 401,857	\$ 1,009,751

- 3) Internal guidelines, including program (internal) controls, were not adequate and operating effectively. The Grantee did not have adequate policies and procedures over the financial management of Federal grants; as described in finding 2020-001 in the accompanying Findings, Recommendations, and Grantee’s Response section of this report.
- 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), including ARC requirements.
- 5) We determined that the Grantee had contributed \$401,857 of the required match amount of \$509,477, as of April 30, 2022. These matching funds were properly supported and allowable under both Federal and ARC requirements.
- 6) We determined that the Grantee implemented effective policies and procedures to accurately capture, record, and report grant performance measures (i.e., the number of businesses created, improved, and served, and the number of communities improved and served). Based on our review of the Grantee’s procedures, the performance results reported to ARC were fair and reasonable.
- 7) We verified that the Grantee was not subject to the Single Audit requirements, under the Uniform Guidance.

Findings, Recommendations, and Grantee’s Response

2020-001 - Lack of Proper Controls and Written Policies and Procedures for Federal Awards

Condition:

During our testing of reimbursements, we found that the Grantee did not always properly calculate Grantee personnel hours, matching percentages, or contractor expenses. We also identified instances where the Grantee misclassified matching expenses as grant expenses. Details of the differences, as identified in the SF-270 reports, are shown in the table below.

Table 1 – Differences Between the GL and SF270 Report

Period	GL		SF270 Report		Differences between GL & SF270 Over/(Under)		Explanations
	Grant Expense	Matching Expense	Grant Expense	Matching Expense	Grant Expense	Matching Expense	
P1 (Jan 2020- Apr 2020)	\$ 40,335	\$ 57,757	\$ 40,245	\$ 57,757	\$ (90)	\$ -	Understatement of grant expenses by \$90 in the SF270 due to manual keying errors while entering data into the report.
P2 (May 2020- Aug 2020)	\$ 150,154	\$ 33,518	\$ 155,100	\$ 31,258	\$ 4,946	\$ (2,260)	Overstatement of grant expenses by \$4,946 in the SF270 due to misclassification of matching expenses as grant expenses in the general ledger. Understatement of matching expenses by \$2,260 in the SF70 due to incorrect allocation of the grantees' personnel expenses.
P3 (Sep 2020- Dec 2020)	\$ 126,892	\$ 43,340	\$ 121,932	\$ 45,601	\$ (4,960)	\$ 2,260	Correction of the error in period 2 (P2)
P4 (Jan 2021- Apr 2021)	\$ 116,523	\$ 47,049	\$ 125,060	\$ 46,167	\$ 8,537	\$ (882)	Overstatement of grant expenses by \$8,537 in the SF270 due to reporting of expenses in an improper period. Understatement of matching expenses by \$882 in the SF270 due a rounding error in the cost share rate applied to contractual expenses.
P5 (May 2021- Aug 2021)	\$ 57,146	\$ 69,527	\$ 50,631	\$ 103,886	\$ (6,515)	\$ 34,359	Understatement of expenses by \$6,515 in the SF270 and overstatement in the SF270 grant matching expenses by \$34,359 in the SF70 due to incorrect determination of contractual hours worked on this grant.
P6 (Sep 2021- Dec 2021)	\$ 46,090	\$ 94,082	\$ 47,842	\$ 88,708	\$ 1,752	\$ (5,374)	Overstatement of expenses by \$1,752 in the SF70 and understatement of grant matching expenses by \$5,374 in the SF270 due to incorrect determination of contractual hours worked on this grant, omission of transactions in the GL, and misclassification of matching expenses as grant expenses in the general ledger.
P7 (Jan 2022- April 2022)	\$ 70,754	\$ 56,583	\$ 65,579	\$ 33,625	\$ (5,175)	\$ (22,958)	Understatement of expenses by \$5,175 in the SF270 and understatement of matching expenses by \$22,959 in the SF270 due to incorrect determination of contractual hours worked on this grant.
Total	\$ 607,894	\$ 401,856	\$ 606,389	\$ 407,002	\$ (1,505)	\$ 5,145	

As a result of the condition noted above, we questioned a net amount of \$3,640, which includes \$(1,505) of Federal costs and \$5,145 non-Federal costs, as shown in table 1. These costs were subsequently corrected by the Grantee in the final SF 270 report during the performance of this audit.

Criteria:

Pursuant to 2 CFR section 200.303(a), “a non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Cause:

The grantee did not have adequate policies or procedures in place to mitigate the risk of errors created by the lack of segregation of duties; and did not perform sufficient reconciliations to properly account and report grant expenditures.

Effect:

This resulted in overstatements and understatements of grant expenditures in six of the seven Forms SF-270 reports submitted to ARC.

Recommendation:

We recommend that the Grantee develop policies and procedures over the financial management of Federal grants, which should include reconciliation of the general ledger expenses to the Form SF 270 prior to submission and segregation of duties to the extent possible.

Grantee's Response:

Opportunity Alabama, Inc. has concurred with the recommendation and has implemented policies and procedures to address the financial management of federal grants. The Grantee's corrective actions have included hiring additional staff as a means of improving its segregation of duties.

Auditor's Response:

Since the Grantee concurred with this finding, no additional comment is necessary.

Attachment 1: Grantee's Response



May 23, 2023

Regis & Associates, PC
1420 K Street
NW Suite 910
Washington, DC 20005

RE: Response to Finding 2020-001 from the audit report for ARC Grant #PW-19707

To Whom it May Concern,

Opportunity Alabama, Inc. has reviewed the Report on Performance Audit draft of Appalachian Regional Commission Grant Number PW-19707 for the Period from Jan. 1, 2020, to April 30, 2022. We have taken your recommendation seriously and have put into place policies and procedures to address the financial management of federal grants within our institution and have hired additional staff to enable more appropriate segregation of duties. Below you will find a more detailed explanation of the measures taken to address your recommendation.

Recommendation 2020-001:

Regis & Associates, PC recommends that the Grantee develop policies and procedures over the financial management of Federal grants, which should include reconciliation of the general ledger expenses to the Form SF 270 prior to submission and segregation of duties to the extent possible.

Response:

As noted above, a procedure is in place to ensure that the financial management of our awarded federal grants is compliant with the grant documents and federal guidelines. It includes reconciliation of all financial grant reports to the general ledger for each grant's reporting period. This policy was in place before this audit was initiated. The audit was for the period of Jan. 1, 2020, to April 30, 2022, during which, we had a very limited staff and only one employee qualified to manage the financial element of our awarded grants. At the end of March 2022, we were able to hire an additional employee to focus on grant compliance, grant financial management and preparation of our grant financial reports. This has allowed us to segregate the duties involved in preparing and reviewing our grant financial reports. The financial reporting policy reads as follows:

"The DOA is responsible for maintaining all financial records pertaining to each grant. For each reporting period, the DOA will prepare the periodic financial reports (in the format required by each grantor's provided guidance or in Form SF 425) in a timely manner. These financial reports will be reconciled to the general ledger before being reviewed by the CEO. The CEO will verify the accuracy of the report and will work with the DOA to resolve any discrepancies found in the report. The CEO is responsible for signing and submitting the financial report to the grantor by the due date."

Thank you for the opportunity to review and respond to the draft report.

Sincerely,

DocuSigned by:

Alexander D. Flachsbart
CEO and Founder