

Office of Inspector General

*Report Prepared by Regis & Associates, PC
Audit of Grant Award to the Foundation for Appalachian Kentucky
Grant Number PW-19712*



**Appalachian
Regional
Commission**

Office of Inspector General



Office of Inspector General

July 25, 2022

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General 

SUBJECT: Audit Report 22-12 – The Foundation for Appalachian Kentucky

This memorandum transmits the Regis & Associates, PC, report for the audit of costs charged to grant number PW-19712, to the Foundation for Appalachian Kentucky project 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 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. The auditors did not issue any recommendations in the 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.

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-19712-IM-19
for the Period from September 2, 2019 to December 31, 2021*

*Awarded to
Foundation for Appalachian Kentucky*

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

Auditee: Foundation for Appalachian Kentucky
As of Date: July 21, 2022


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 of Grant Agreement Number PW-19712-IM-19, awarded by the Appalachian Regional Commission (ARC), to the Foundation for Appalachian Kentucky (the Grantee); with a grant performance period from September 2, 2019, to August 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 September 2, 2019, to December 31, 2021.

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 conducted planning and fieldwork during the period from April 8, 2022 through June 9, 2022. We determined that the Foundation for Appalachian Kentucky’s financial management and administrative procedures and related internal controls were adequate to manage the ARC grant funds. There were no findings and recommendations resulting from the performance of this audit.

We discussed the results of this performance audit with the Foundation for Appalachian Kentucky’s officials, at the conclusion of our fieldwork. Foundation for Appalachian Kentucky’s response has been included as Attachment 1 to this report.

Regis & Associates, PC appreciates the cooperation and assistance received from Foundation for Appalachian Kentucky’s management and ARC staff during this performance audit.

Regis & Associates, PC

Regis & Associates, PC
Washington, DC
July 21, 2022

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

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'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 September 2, 2019, the Appalachian Regional Commission awarded Grant Number PW-19712-IM-19, to Foundation for Appalachian Kentucky, in the amount of \$1,500,000. As a condition of this award, the Grantee was to contribute a matching amount of \$3,276,088. The total matching contribution was to be made in the form of cash, contributed services, or in-kind contributions as approved by ARC; resulting in a total grant budget of \$4,776,088.

The original period of performance for the grant was from September 2, 2019, to September 2, 2021. This period of performance was extended to August 31, 2022, through an amendment that was approved on August 24, 2021. The grant was awarded to the Foundation for Appalachian Kentucky, to help finance a revolving loan fund and technical assistance program to support downtown revitalization efforts and entrepreneurial ecosystems across 10 counties in Southeastern Kentucky.

The goal of the program was to provide short-term, low-interest loans and equity investment to assist property owners, business owners, and developers with downtown real estate development projects. These projects were to reactivate vacant buildings/lots, create new jobs, and support new and growing businesses that had been negatively impacted by the coal economy.

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-19712-IM-19, titled "The ReVitalize, ReInvest and ReDevelop (R3) Appalachia Initiative", which was awarded to Foundation for Appalachian Kentucky. The term of the grant was from September 2, 2019, to August 31, 2022; which included an extension of the period of performance.

The budgeted amounts for the grant are presented below:

Exhibit – A: Schedule of Grant Budget

| Object Class Category | Federal | Non-Federal | Total |
|-----------------------|---------------------|---------------------|---------------------|
| Personnel | \$ 454,374 | \$ 543,794 | \$ 998,168 |
| Fringe Benefits | \$ 142,717 | \$ 157,494 | \$ 300,211 |
| Travel | \$ 12,000 | \$ 94,800 | \$ 106,800 |
| Equipment | \$ - | \$ 30,000 | \$ 30,000 |
| Supplies | \$ - | \$ - | \$ - |
| Contractual | \$ 50,000 | \$ 50,000 | \$ 100,000 |
| Other | \$ 800,000 | \$ 2,400,000 | \$ 3,200,000 |
| Total Direct Charges | \$ 1,459,091 | \$ 3,276,088 | \$ 4,735,179 |
| Indirect Charges | \$ 40,909 | \$ - | \$ 40,909 |
| Total | \$ 1,500,000 | \$ 3,276,088 | \$ 4,776,088 |

The general objectives of the performance audit were to determine whether the Grantee 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 and laws and regulations.

Scope and Methodology

We conducted this performance audit 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.

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 program’s reported performance measures were fair and reasonable.
- Conducting other test procedures deemed necessary, based on our professional judgment.

Results

Upon conclusion of our performance audit, we determined that:

- 1) The grant funds were managed in accordance with ARC and Federal grant requirements.
- 2) The grant funds were expended, as provided for in the approved grant budget. Below, we have presented a Schedule of Claimed and Audit Recommended Cost, as of December 31, 2021, which reflects the results of our audit.

**Exhibit – B: Schedule of Claimed and Audit Recommended Cost
 as of December 31, 2021**

| Object Class Category | Claimed Cost | | Questioned Cost | | Audit Recommended | | Total |
|-----------------------|---------------------|---------------------|-----------------|-------------|---------------------|---------------------|---------------------|
| | Federal | Non-Federal | Federal | Non-Federal | Federal | Non-Federal | |
| Personnel | \$ 360,725 | \$ 468,577 | \$ - | - | \$ 360,725 | \$ 468,577 | \$ 829,302 |
| Fringe Benefits | 115,780 | 135,400 | - | - | 115,780 | 135,400 | 251,180 |
| Travel | 1,622 | 7,570 | - | - | 1,622 | 7,570 | 9,192 |
| Equipment | - | 23,697 | - | - | - | 23,697 | 23,697 |
| Supplies | - | - | - | - | - | - | - |
| Contractual | 48,652 | 31,024 | - | - | 48,652 | 31,024 | 79,676 |
| Other | 640,000 | 5,218,000 | - | - | 640,000 | 5,218,000 | 5,858,000 |
| Total Direct Charges | \$ 1,166,779 | \$ 5,884,268 | \$ - | \$ - | \$ 1,166,779 | \$ 5,884,268 | \$ 7,051,047 |
| Indirect Charges | 27,678 | - | - | - | 27,678 | - | 27,678 |
| Total | \$ 1,194,457 | \$ 5,884,268 | \$ - | \$ - | \$ 1,194,457 | \$ 5,884,268 | \$ 7,078,725 |

- 3) Internal guidelines, including program (internal) controls, were adequate and operating effectively. The Grantee had written policies and procedures for applicable grant activities, which we considered adequate for administering the grant.
- 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.
- 6) We observed that the Grantee attained a total match of \$5,884,268 as of December 31, 2021; and, therefore, had met and exceeded the grant matching requirement of \$3,276,088. These matching funds were properly supported and allowable under both Federal and ARC requirements. We determined that the Grantee implemented effective policies and procedures to accurately capture, record, and report grant performance measures below:
 - Businesses improved.
 - Businesses served.
 - Communities improved.
 - Communities served.
 - Jobs Created and Jobs Retained.
 - Leveraged Private Investment.
 - Participants improved and Participants served.
 - Revenues increased.

Based on our review, the performance results reported to ARC were fair and reasonable.



606-439-1357
420 Main Street
Hazard, KY 41701
appalachianky.org

MEMORANDUM

Date: July 21, 2022

To: Fidel Wambura, Senior Manager, Regis and Associates, PC

From: Gerry F. Roll, CEO, Foundation For Appalachian Kentucky

Subject: Audit of ARC Grant No. PW- 19712

The Foundation For Appalachian Kentucky staff has reviewed the draft report for Appalachian Region Commission grant number PW- 19712 prepared and presented to us by Regis & Associates, PC on July 21, 2022.

We concur with the report that was submitted for our review.

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

Sincerely,

A handwritten signature in blue ink that reads "Gerry F. Roll". The signature is written in a cursive style with a clear, legible script.