



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to Red River Economic Development Grant Number KY-19500

Report Prepared by Castro & Co, LLC

Report Number 23-01

October 13, 2022

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



Office of Inspector General

Appalachian Regional Commission

October 13, 2022

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General 

SUBJECT: Audit Report 23-01 – Red River Economic Development, LLC

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number KY-19500 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. 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.

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 recommendation.

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.



**Appalachian Regional Commission
Performance Audit Report
of Grant No. KY-19500**

**For the period from June 1, 2019 to December 1, 2021
Awarded to Red River Economic Development, LLC**

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

October 12, 2022

Final Report

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Executive Summary

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

Castro & Company, LLC (Castro & Co) conducted a performance audit of Grant Number KY-19500 awarded by the Appalachian Regional Commission (ARC) to Red River Economic Development, LLC (the Grantee or RRED) with a grant performance period of June 1, 2019 to December 1, 2021. 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); (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. However, we identified an Other Matter that requires the Grantee's attention and were reported in **Appendix A**.

We discussed the results of this performance audit with RRED'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
October 12, 2022

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-19500 awarded to Red River Economic Development, LLC (the Grantee or RRED) for the grant performance period from June 1, 2019 to December 1, 2021.

RRED operated as a non-profit legal entity of the Kentucky Chamber Foundation, and arm of the Kentucky Chamber of Commerce from June 1, 2019 to September 30, 2020. The Kentucky Chamber Foundation focuses on research and action to enhance the state's economic, education and workforce efforts. RRED was created to promote tourism and create jobs in the Red River Gorge area. Starting October 1, 2020, RRED separated from the Kentucky Chamber Foundation and began operating as an independent non-profit organization with one part-time staff member.

ARC awarded Grant No. KY-19500 to RRED to provide funding for a master plan and feasibility study for the development of specific project components of a destination resort to be located near the Red River Gorge. The gorge is a natural gateway to Eastern Kentucky with a positive brand among rock climbers and other outdoor recreation enthusiasts.

Grant No. KY-19500 originally covered the period from June 1, 2019 to October 31, 2020 but was subsequently extended through December 1, 2021. The grant provided a budget of \$500,000 in ARC funds and required non-ARC matching funds of \$500,000 for total project costs of \$1,000,000. The allowable percentage breakout of ARC to non-ARC funding for the project was 50% ARC funds to 50% matching funds.

We obtained the ARC Form SF-270 Request for Advance or Reimbursement for the period covering April 1, 2021 to November 30, 2021 that identified total ARC costs of \$468,417 (50%) and non-ARC matching costs of \$468,417 (50%) for a total project cost of \$936,834.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of the Inspector General to conduct a performance audit of RRED to determine compliance with the requirements of the ARC Grant No. KY-19500 for the grant period from June 1, 2019 to December 1, 2021.

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

Exhibit A: Schedule of Grant Budget			
Category	Federal Amount	Non-Federal Amount	Total
Contractual	\$ 400,000	\$ 400,000	\$ 800,000
Other	\$ 100,000	\$ 100,000	\$ 200,000
Total	\$ 500,000	\$ 500,000	\$ 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 RRED’s system that specifically apply to ARC, such as, contractual and other costs. We conducted this performance audit from February 2022 to October 2022 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, equipment, and match costs through reviews of prior audit reports, organization charts, policies and procedures, inquiry of RRED 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 RRED management about their understanding of the risks of fraud related to grant awards,

programs and controls RRED 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 GAO Financial Audit Manual 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 Mr. David Adkisson, Volunteer Project Manager for RRED during the exit conference on October 6, 2022. RRED concurred with our results. RRED's reactions have been incorporated into the report and a copy of RRED's response, in its entirety, can be found in **Attachment 1** of this report.

Summary of Results

Castro & Co's procedures determined RRED 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.

Except for the Other Matter described in **Appendix A**, RRED's financial management, administrative procedures, and internal controls were adequate to account for the funds provided under the ARC grant. RRED'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; however, these written policies were only in place during June 1, 2019 through September 30, 2020. See paragraph below for more details. 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 noted that from June 1, 2019 to September 30, 2020, while operating under the Kentucky Chamber Foundation and the Kentucky Chamber of Commerce, RRED followed internal guidelines under the Kentucky Chamber of Commerce Finance Policies and Procedures. However, from October 1, 2020 to December 1, 2021 of the grant period, RRED did not have written policies and procedures as an independent entity of the Kentucky Chamber Foundation and the Kentucky Chamber of Commerce and continued to use the Kentucky Chamber of Commerce's policies and processes in managing the ARC grant funds. See **Appendix A** for further detail on an Other Matter that require the Grantee's attention.

The Grantee had a total of \$468,417 in ARC costs and \$468,417 in non-ARC costs; therefore, we determined the Grantee met the match requirements as of December 1, 2021. These matching funds were properly supported and allowable under both Federal and ARC requirements. We also determined that the Grantee implemented effective policies and procedures to accurately capture, record, and report grant performance measures. Based on our review of the Grantee’s procedures, the performance results reported to ARC were fair and reasonable.

The Exhibit B below presents costs claimed by the RRED 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
Contractual	\$ 440,516	\$ 440,516	\$ -	\$ -	\$ 440,516	\$ 440,516	\$ 881,032
Other	\$ 27,901	\$ 27,901	\$ -	\$ -	\$ 27,901	\$ 27,901	\$ 55,802
Total	\$ 468,417	\$ 468,417	\$ -	\$ -	\$ 468,417	\$ 468,417	\$ 936,834

Appendix A – Other Matter

As part of our audit of ARC Grant No. KY-19500 for the Red River Economic Development, LLC's (RRED), we requested RRED's written policies and procedures effective during the grant performance period from June 1, 2019 to December 1, 2021. We noted that from June 1, 2019 to September 30, 2020, while operating under the Kentucky Chamber Foundation and the Kentucky Chamber of Commerce, RRED followed internal guidelines under the Kentucky Chamber of Commerce Finance Policies and Procedures. However, from October 1, 2020 to December 1, 2021 of the grant period, RRED did not have written policies and procedures as an independent entity of the Kentucky Chamber Foundation and the Kentucky Chamber of Commerce and continued to use the Kentucky Chamber of Commerce's policies and processes in managing the ARC grant funds.

RRED stated the same policies were utilized once RRED became an independent entity to ensure continuity in managing the ARC grant funds. All financial transactions were approved by RRED's Board Treasurer and regular financial reports were submitted to the nine-member RRED Board of Directors. In addition, the matching costs were processed by the Kentucky Department of Local Government which was subject to state policies and procedures as a state agency.

Recommendation 1: Castro & Co recommends that RRED establish and maintain written policies and procedures as an independent non-profit entity of the Kentucky Chamber Foundation and the Kentucky Chamber of Commerce to conform to Federal regulations and provide for a system of internal control.

Attachment 1 – Red River Economic Development, LLC’s Response

From: David Adkisson <davida53ky@gmail.com>
Sent: Thursday, October 6, 2022 5:17 PM
To: Liza Olmedo
Cc: Sherri Morgan; Dari Donaldson; Rhonda Turnbow
Subject: Re: ARC Grant No. KY-19500 (RRED) - Discussion Draft Report

Liza, this email will confirm that Red River Economic Development LLC concurs with the results of the audit report. We have no corrections or amendments to suggest. Regarding the audit recommendation relating to RRED's lack of formal policies and procedures during the project phase that RRED was an independent nonprofit, we agree with the recommendation, and I will propose a set of appropriate policies at the next RRED board of directors meeting.

Thank you for your helpfulness during the audit process. We appreciate it very much.

Dave Adkisson, Volunteer Project Manager
Red River Economic Development, LLC