

Office of Inspector General

*Report Prepared by Leon Snead & Co., PC
Audit of Grant Award - to West Alabama Chamber
Foundation, Inc., dba West Alabama Works*

Grant Number PW-19482



**Appalachian
Regional
Commission**

Office of Inspector General

Audit Report: 21-14

August 12, 2021



Office of Inspector General

August 12, 2021

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General

A handwritten signature in blue ink, reading "Philip M. Heneghan".

SUBJECT: Audit Report 21-14 – West Alabama Chamber Foundation, Inc., dba West Alabama Works

This memorandum transmits the Leon Snead & Co. PC, report for the audit of costs charged to grant number PW-19482, to the West Alabama Chamber Foundation, Inc., dba West Alabama Works 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 were met, not met, or not likely to be met.

Leon Snead & Co. PC, is responsible for the attached audit report and the conclusions expressed in this report. The auditors issued one recommendation in this report.

We do not express any opinion on the conclusions presented in Leon Snead & Co., PC audit 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.

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.



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August 10, 2021

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

Leon Snead & Company, P.C. completed an audit of grant number PW-19482 awarded by the Appalachian Regional Commission (ARC) to the West Alabama Chamber Foundation, Inc., dba West Alabama Works, Tuscaloosa, Alabama. The audit was conducted at the request of the ARC Office of Inspector General to assist the office in its oversight of ARC grant funds.

The audit objectives were to determine whether: (1) program 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 grant guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); (5) the matching requirements; and (6) the established performance measures were met.

The recipient's administrative procedures and related internal controls were adequate to manage its ARC grant funds. However, we questioned \$45,324 of indirect costs claimed because they were not supported. WAW officials pointed out that the indirect costs claimed were for administrative and overhead costs of WAW offices located in the West Alabama Chamber Foundation building in Tuscaloosa, AL. However, they did not provide support for those costs. Support was considered adequate for the remained cost tested.

In its response to our draft report WAW officials stated that \$123,935 for indirect costs is included in its ARC approved budget. However, this does not resolve the issue about the method WAW should use to recover its indirect costs. There are two methods available under 2 CFR 200 for the recipient to recover its indirect cost, an approved overhead rate which the recipient did not have or a 10% de minimis rate. Neither of these two methods were followed by the recipient. Our calculation using the 10% as a default rate showed that the indirect costs were over claimed by the amount of questioned costs.

WAW has reached its performance goals with regard to serving 50 businesses. However, it may be a challenge to reach its projected outcome of workers/trainees improved of 1,615. Because these measures may be met by enrollment into the WAW program, we concluded that WAW is on track to meet both performance outcomes by the grant's expiration date.

The recipient's response to our draft report is included as an attachment to this report.

Sincerely,


Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number PW-19482 awarded by the Appalachian Regional Commission (ARC) to the West Alabama Chamber Foundation, Inc., dba West Alabama Works, Tuscaloosa, Alabama. The audit was conducted at the request of the ARC Office of Inspector General to assist the office in its oversight of ARC grant funds.

ARC awarded Grant PW-19482 to the West Alabama Chamber Foundation, Inc., dba West Alabama Works (WAW) to assist with implementation of WAW's Power 2 Expand Initiative. The WAW Power 2 Expand Initiative is a regional effort focusing on two program areas: 1) bridging high school graduates into advanced training, credentials, and livable wage employment within a viable career path, and 2) re-engaging individuals that lack the skills, certificates, and credentials to benefit from Alabama's strong economy.

Grant PW-19482 originally covered the period January 1, 2019 through December 31, 2021, but was subsequently extended through December 31, 2022. It provided a budget of \$1,459,335 in ARC funds and required non-ARC matching funds of \$1,540,634 for total project costs of \$2,999,969. The allowable percentage breakout of ARC to non-ARC funding for the project was 49% ARC funds and 51% matching funds.

Grant PW-19482 was administered and managed by WAW. An ARC reimbursement Request Worksheet for the period through December 31, 2020, half way through the grant period of performance, was provided to us by WAW on May 20, 2021 that identified total ARC costs of \$609,938 (43%) and matching costs of \$789,499 (57%) for a total project cost of \$1,399,437.

Objectives, Scope, and Methodology

The audit objectives were to determine whether: (1) program 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 grant guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements; and (6) the established performance measures were met.

We interviewed the Executive Director and Director of Finance and Operations for WAW and the Project Director for the ARC grants to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed applicable written financial and administrative policies and procedures to determine if they complied with Federal requirements and were adequate to administer the grants. Further, we reviewed the two most recent annual financial statement audit reports to identify any issues that could significantly impact the ARC grant costs and this audit.

We tested 87% of ARC fund expenditures and all of the matching contributions to determine if they were properly supported and allowable. We also examined supporting information on the total reported matching costs to verify they were properly supported and allowable.

The on-site fieldwork was performed at the West Alabama Chamber Foundation in Tuscaloosa, Alabama, and the Brookwood Workforce Center in Brookwood Alabama. A site visit was also made to the Brookwood Technical High School during our audit fieldwork. The preliminary audit results were discussed with the Executive Director and the Director of Finance and Operations for WAW during the on-site visit and at the exit conference May 27, 2021.

Criteria used in performing the audit were 2 CFR 200, the ARC Code and the grant agreements. The audit was performed in accordance with Generally Accepted Government Auditing Standards.

Summary of Audit Results

Overall, WAW managed program funds in accordance with the ARC and Federal grant requirements. The recipient's financial management and administrative procedures and related internal controls were adequate to account for and control the funds provided under the ARC grants. Financial and project reports were submitted in accordance with ARC accounting and reporting requirements. Except for the indirect cost indicated below, the ARC and the matching costs tested were supported and reasonable.

We questioned \$45,324 of the indirect costs claimed by WAW because there was no support for these costs. The Executive Director and the Director of Finance and Operations pointed out that the indirect costs claimed were for WAW administrative, managerial, and accounting costs as well as the occupancy costs of WAW offices located in the West Alabama Chamber Foundation building in Tuscaloosa, AL. However, they did not provide support for the portion of those Foundation costs.

We concluded that all proposed performance measures were either exceeded or in the process of being met. WAW has reached its performance outcome of serving 50 business. However, it may be a challenge to reach its projected outcome of workers/trainees improved of 1,615. Because these measures may be met by enrollment into the WAW program, we concluded that WAW is on track to meet both performance outcomes by the grant's expiration date.

On July 29, 2021 we issued a draft report containing the finding and recommendation to the recipient for comments. The recipient's response, dated August 4, 2021, is included as an attachment to the report.

Finding and Recommendation

A. Unsupported Indirect Costs

We questioned \$45,324 of the indirect costs claimed by West Alabama Works for grant PW-19482 due to a lack of support.

2 CFR 200.412 through 2 CFR 200.415 of the Administrative Requirements of Federal grants provide guidance on the treatment of costs as either direct or indirect. Section 2 CFR 200.414(a) of the Administrative Requirements identifies facilities and administration expenses as indirect costs that can be claimed as indirect. We noted that WAW did not claim any costs associated with the operation and occupancy of the facility owned by West Alabama Chamber Foundation and occupied partially by executives and staff of WAW at the time of our fieldwork. Further, it did not claim any costs associated with the administration of this grant by the executives of WAW.

2 CFR 200.414 permits the recipient to recover its indirect cost using a negotiated and approved indirect cost rate under 2 CFR 200.414(c) or a rate of 10% under the provisions of 2 CFR 200.414(f). The recipient cannot use both, and the selected method must be consistently used to recover its indirect costs on current and future grants.

ARC's most recently approved budget for grant PW-19482 includes \$123,935 for indirect costs. During our discussion on this issue, the Executive Director and the Director of Finance and Operations stated that since there was an approved budget for indirect costs, they concluded that \$123,935 could be claimed for reimbursement without further documentation. Accordingly, WAW divided the \$123,935 into nine equal parts and claimed the quotient (\$13,770) as indirect costs on reimbursement requests in equal amounts from January 1, 2019 through December 31, 2020, the first 2 years of the grant performance period.

The recipient did not have a negotiated indirect cost rate. As a result, we concluded that the 10% de minimis rate under 2 CFR 200.414(f) would be the default method to recover its indirect costs. Under 2 CFR 200.414(f), the recipient must calculate the amount for reimbursement by applying the 10% rate to its modified total direct costs (MTDC).

WAW total costs claimed for grant PW-19482 were \$609,938 for the 2 years ended December 31, 2020, which included \$82,620 of indirect costs. Deducting the \$82,620 of indirect costs from the total costs claimed resulted in direct costs of \$527,318. For this grant, we determined that the MTDC as identified in 2 CFR 200.414(f) equaled \$372,956 or \$154,362 less than the direct costs of \$527,318 claimed by WAW on its Reimbursement Request Worksheet for the 4-month period ended December 31, 2020. We determined that the total MDTC should not include the cost of the two mobile workforce vans, which cost a total of \$154,362. Subtracting the cost of the workforce vans from total direct costs resulted in a total MDTC of \$372,956.

By applying the 10% de minimis rate to WAW's MDTC of \$372,956, we determined that the appropriate amount of indirect costs for reimbursement should be \$37,296. As a result, WAW's claim of \$82,620 for indirect costs was overstated by \$45,324. After our fieldwork was completed, WAW presented a cost allocation plan for which the Tuscaloosa offices, and salaries and fringe benefits of the WAW executives were proposed as support for the indirect costs claimed. We could not approve the plan and it was not reviewed.

Recommendation

We recommend that WAW reduce its December 31, 2020 claim to ARC by \$45,324 to compensate for the excess indirect costs claimed previously, or reimburse to ARC the \$45,324 that was paid based on the excess claimed amount.

Recipient's Response

In August 2018, we submitted this grant to ARC with a total grant request of \$1,459,335.00, clearly indicating an indirect cost of \$123,935.00. We negotiated outcomes and the final budget. The indirect amount was never questioned. We assumed that the proposed rate was acceptable. Final approval was given. The grant was funded. We've proceeded to accomplish outcomes and stay within budget successfully. We were not aware there was an issue until it came up in the audit.

Moving forward, we understand the importance of developing a more comprehensive policy regarding indirect costs. Our goal is to have the new policy in place on or before September 30, 2021.

Auditor's Comments

The response indicates that the recipients will take positive actions to establish a policy for claiming overhead costs. However, the response does not address the rate that will be used to recover its indirect costs. In our opinion, the recipient should either obtain an approved overhead rate from its cognizant agency or use the 10% de minimis rate to recover its indirect costs.



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On June 29, 2021, we received a draft report from the audit performed on Grant PW-19482 by Leon Snead & Company, P.C. In this report it was noted that the indirect cost was not supported. The amount of the indirect cost was in the budget that was approved by the Appalachian Regional Commission (ARC).

In August 2018, we submitted this grant to ARC with a total grant request of \$1,459,335.00, clearly indicating an indirect cost of \$123,935.00. We negotiated outcomes and the final budget. The indirect amount was never questioned. We assumed that the proposed rate was acceptable. Final approval was given. The grant was funded. We've proceeded to accomplish outcomes and stay within budget successfully. We were not aware there was an issue until it came up in the audit.

Moving forward, we understand the importance of developing a more comprehensive policy regarding indirect costs. Our goal is to have the new policy in place on or before September 30, 2021.

Donny Jones
Executive Director
West Alabama Works