



Office of Inspector General

Appalachian Regional Commission

**Audit of Grant Award to
Partner Community Capital
(formerly Natural Capital Investment Fund)
Grant Number PW-18497**

Report Prepared by Castro & Company, LLC

Report Number 23-11

March 23, 2023

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



Office of Inspector General

Appalachian Regional Commission

March 23, 2023

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General 

SUBJECT: Audit Report 23-11 – Partner Community Capital (formerly Natural Capital Investment Fund)

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number PW-18497 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 four recommendations 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.



**Appalachian Regional Commission
Performance Audit Report
of Grant No. PW-18497**

**For the period from October 1, 2016 to December 31, 2022
Awarded to Partner Community Capital (formerly Natural
Capital Investment Fund)**

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

March 22, 2023

Final Report

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Executive Summary

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

Castro & Company, LLC (Castro & Co) conducted a performance audit of Grant Number PW-18497 awarded by the Appalachian Regional Commission (ARC) Office of Inspector General to Partner Community Capital (formerly Natural Capital Investment Fund) (the Grantee or PCAP) with a grant performance period of October 1, 2016 to December 31, 2022. 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 except for Findings 01 and 02 related to financial management and related internal controls described in **Appendix A – Findings and Recommendations**; the Grantee’s financial management, administrative procedures, and related internal controls were adequate to manage the ARC grant funds.

We discussed the results of this performance audit with Grantee’s management at the conclusion of our fieldwork. The Grantee’s response has been included as **Attachment 1 – Partner Community Capital’s** Response to this report.

Castro & Co appreciates the cooperation and assistance received from the Grantee and ARC staff during this performance audit.

Castro & Company, LLC

Alexandria, VA
March 22, 2023

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 & Co was contracted by the ARC's Office of Inspector General to perform the audit of Grant No. PW-18497 awarded to Partner Community Capital (formerly Natural Capital Investment Fund) (the Grantee or PCAP) for the grant period from October 1, 2016 to December 31, 2022.

ARC awarded Grant No. PW-18497 to PCAP to provide funding for business startups and expansions in coal impacted communities by providing financing to entrepreneurs. The grant is used to capitalize a revolving loan fund for tourism-related enterprises in southern West Virginia and develop and implement a strategy for a West Virginia-based New Markets Tax Credit Fund. The Coal-Impacted Communities Revolving Loan Fund (CIC RLF) uses funding from ARC as seed capital and leverages additional capital from banks, foundations, and impact investors to create a high-risk loan pool to finance early stage and start-up tourism related businesses in the Hatfield-McCoy Trail Communities in southern West Virginia.

The original period of performance for Grant No. PW-18497 covered the period from October 1, 2016 to September 30, 2019 but was subsequently extended through September 30, 2020. The period of performance of October 1, 2016 to September 30, 2020 solely applies to grant related operating expenses. ARC funding used as lending capital has no end date for capital funding. On April 30, 2020, ARC approved a revision to the scope of grant activities allowing PCAP to repurpose a portion of the revolving loan fund to support Hatfield McCoy tourism-related small businesses impacted by COVID-19 and provide emergency relief lending to help these businesses recover from revenue losses due to trail closures related to COVID-19.

Grant No. PW-18497 provided funding for operating expenses in the amount of \$250,000 in ARC funds and \$253,649 in non-ARC matching funds. The grant also provided funding for loan capital in the amount of \$1,000,000 in ARC funds and \$3,000,000 in non-ARC matching funds. In total, the grant agreement provided a budget of \$1,250,000 in ARC funds and required non-ARC matching funds of \$3,253,649 for total project costs of \$4,503,649. The allowable percentage breakout of ARC to non-ARC funding for the project was 28% ARC funds to 72% matching funds.

We obtained the ARC Form SF-270 Request for Advance or Reimbursement for the period covering October 1, 2022 through December 31, 2022 that identified total ARC costs of \$1,250,000 (27%) and non-ARC matching costs of \$3,834,191 (73%) for a total project cost of \$5,084,191.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of PCAP to determine compliance with the requirements of the ARC Grant No. PW-18497 for the grant period from October 1, 2016 to December 31, 2022.

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
Personnel	\$ 145,280	\$ 201,182	\$ 346,462
Travel	\$ 37,700	\$ -	\$ 37,700
Supplies	\$ 11,132	\$ 29,300	\$ 40,432
Contractual	\$ 25,000	\$ -	\$ 25,000
Other ¹	\$ 1,000,000	\$ 3,000,000	\$ 4,000,000
Indirect	\$ 30,888	\$ 23,167	\$ 54,055
Total	\$ 1,250,000	\$ 3,253,649	\$ 4,503,649

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); and
- Matching requirements were met; and
- Reported performance measures were fair and reasonable.

The scope of this audit includes those costs addressed in PCAP's system that specifically apply to ARC, such as, personnel, travel, supplies, contractual, loan capital, and indirect costs. We conducted this performance audit from October 2021 to March 2023 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.

¹ The ARC approved budget category "Other" represents the Loan Capital amount approved for funding.

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, ARC Access to Capital Guidelines, 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, travel, and match costs through reviews of prior audit reports, organization charts, policies and procedures, inquiry of Grantee 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 Grantee management about their understanding of the risks of fraud related to grant awards, programs, and controls the Grantee 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. Nicholas Allen, xxx and Ms. Rosalind Black, sss, for PCAP during the exit conference on March 20, 2023. PCAP concurred with our results. PCAP’s reactions have been incorporated into the report and a copy of PCAP’s response, in its entirety, can be found in **Attachment 1 – Partner Community Capital’s Response** of this report.

Summary of Results

Castro & Co’s procedures determined that except for Findings 01 and 02 related to financial management and internal controls described in **Appendix A**; PCAP managed the grant funds in accordance with the ARC and Federal grant requirements. Except for financial management issues described in Findings 02, grant funds were expended as provided for in the approved grant budget.

The Grantee’s internal guidelines, including program (internal) controls, were adequate and operating effectively, except for the internal control issues described in Findings 01 and 02. We noted the Grantee had written policies and procedures for applicable grant activities except for procurement of property or services as required by the Uniform Guidance. However, PCAP established and implemented a Board approved Procurement policy on March 4, 2021 which

conforms to Federal regulations and provides for a system of internal control. We consider the Grantee’s written policies and procedures adequate for administering the grant.

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, except for the matters described in Findings 01 and 02. We questioned \$913 of ARC funded costs as a result of unsupported costs claimed and costs not expended according to the approved budget.

The Grantee had a total of \$1,250,000 in ARC costs and \$3,834,191 in non-ARC costs; therefore, we determined the Grantee met the match requirements as of December 31, 2022. 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.

Exhibit B below presents costs claimed by the PCAP 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
Personnel	\$ 145,280	\$ 236,972	\$ -	\$ -	\$ 145,280	\$ 236,972	\$ 382,252
Travel	\$ 37,700	\$ -	\$ 337	\$ -	\$ 37,363	\$ -	\$ 37,363
Supplies	\$ 11,132	\$ 2,768	\$ 576	\$ -	\$ 10,556	\$ 2,768	\$ 13,324
Contractual	\$ 25,000	\$ -	\$ -	\$ -	\$ 25,000	\$ -	\$ 25,000
Other	\$ 998,459	\$ 3,558,970	\$ -	\$ -	\$ 998,459	\$ 3,558,970	\$ 4,557,429
Indirect	\$ 32,429	\$ 35,481	\$ -	\$ -	\$ 32,429	\$ 35,481	\$ 67,910
Total	\$ 1,250,000	\$ 3,834,191	\$ 913	\$ -	\$ 1,249,087	\$ 3,834,191	\$ 5,083,278

Appendix A – Statement of Condition and Recommendations

Finding 01 - Unsupported ARC Funded Questioned Costs

Condition: As part of our procedures, we tested a sample of 99 ARC funded disbursement transactions for a total of \$236,249 tested. We reviewed receipts and other supporting documentation submitted for ARC funded expenses incurred during the grant period. Partner Community Capital (formerly Natural Capital Investment Fund) (the Grantee or PCAP) claimed the following ARC funded costs; however, under 2 CFR Title 2 Subtitle A Chapter II Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance or 2 CFR Part 200), these costs incurred were deemed as unsupported expenses:

- For three of 99 samples tested, receipts for meal costs did not include sufficient detail to verify whether costs incurred were allowable which resulted in questioned costs of \$337.

Criteria:

2 CFR Part 200.1, Definitions, states:

Improper payment means:

- (1) Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.
- (ii) When an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment should also be considered an improper payment.

2 CFR Part 200.403, Factors affecting allowability of costs, states:

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (g) Be adequately documented.

Cause:

PCAP did not have adequate controls in place to ensure unsupported costs incurred were excluded from the claimed ARC funded expenses.

Effect:

The absence of adequate controls prevented PCAP from identifying and removing unsupported costs and ensuring compliance with the grant requirements prior to requesting reimbursements from ARC. Therefore, ARC could require the Grantee to reimburse ARC for total questioned costs in the amount of \$337.

Recommendations:

We recommend:

1. The Grantee reimburse ARC for total questioned costs in the amount of \$337 and revise the final ARC Form SF 270 Request for Advance or Reimbursement to exclude total questioned cost from the total ARC funded amount.
2. The Grantee develop policies and procedures to ensure that costs claimed are adequately supported in accordance with the regulations.

Grantee's Response:

We agree with the auditor's Finding 01. Prior to the beginning of audit fieldwork of Grant Number PW-18497, but subsequent to the beginning of the grant period of performance, PCAP's Board of Directors approved a procurement policy and employee business expense guidelines on March 4, 2021 and May 27, 2021, respectively. The policies were implemented to better mitigate risk associated with Finding 01 and to provide clarity to PCAP staff. The procurement policy outlines Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The employee business expense guidelines outline the business-related expenses of PCAP and the supporting documentation requirements, including itemized receipts for all transactions.

Auditor's Response:

PCAP concurred with the finding; therefore, no further comment is necessary.

Finding 02 – ARC Funded Costs not Expended According to Approved Budget

Condition:

As part of our procedures, we tested a sample of 99 ARC funded disbursement transactions for a total of \$236,249 tested. We reviewed receipts and other supporting documentation submitted for ARC funded expenses incurred during the grant period. For seven of 99 samples tested, PCAP claimed ARC funded costs for cellphone expenses in the amount of \$576; however, phone expenses were classified as match costs on the approved budget.

Criteria:

2 CFR Part 200.308, Revision of budget and program plans, states.

(a) The approved budget for the Federal award summarizes the financial aspects of the project or program as approved during the Federal award process. It may include either the Federal and non-Federal share (see definition for *Federal share* in § 200.1) or only the Federal share, depending upon Federal awarding agency requirements. The budget and program plans include considerations for performance and program evaluation purposes whenever required in accordance with the terms and conditions of the award.

(b) Recipients are required to report deviations from budget or project scope or objective and request prior approvals from Federal awarding agencies for budget and program plan revisions, in accordance with this section.

The ARC Grant Agreement, Article 5. Budget, states:

Costs will be determined in general accord with the budget submitted on 6/7/2016, which is hereby incorporated into this agreement as a supplement to Part I, subject to terms of this Grant Agreement and to pertinent ARC Code Provisions.

Cause:

The Grantee did not have an effective internal controls and financial management processes in place to ensure that the amounts requested for reimbursement were claimed in accordance with the grant's approved budget.

Effect:

The absence of adequate controls and financial management process to ensure funds are expended in accordance with the grant approved budget may result in inaccurate payments to the Grantee.

Recommendations:

We recommend:

3. The Grantee reimburse ARC for total questioned costs in the amount of \$576 and revise the final ARC Form SF 270 Request for Advance or Reimbursement to exclude total questioned cost from the total ARC funded amount.
4. The Grantee develop policies and procedures to ensure that grant funds are expended in accordance with the approved budget.

Grantee's Response:

We agree with the auditor's Finding 02. While management agrees with the finding, management would like it to be noted that with this oversight, PCAP did not exceed the total budget of the grant.

Auditor's Response:

PCAP concurred with the finding; therefore, no further comment is necessary.

Attachment 1 – Partner Community Capital’s Response



*Business lending to advance equity
and help communities flourish.*

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March 20, 2023

Castro & Company, LLC
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(703) 229-4440

Subject: Partner Community Capital (formerly Natural Capital Investment Fund) (the Grantee or PCAP)
Response to Castro & Company, LLC’s Performance Audit of Grant Number PW-18497

PCAP takes no exception to and agrees with Castro & Company, LLC’s findings presented in the audit report of Grant Number PW-18497 with a grant performance period of October 1, 2016 to December 31, 2022.

Management’s Responses to
Finding 01 - Unsupported ARC Funded Questioned Costs

- We agree with the auditor’s *Finding 01*. Prior to the beginning of audit fieldwork of Grant Number PW-18497, but subsequent to the beginning of the grant period of performance, PCAP’s Board of Directors approved a procurement policy and employee business expense guidelines on March 4, 2021 and May 27, 2021, respectively. The policies were implemented to better mitigate risk associated with Finding 01 and to provide clarity to PCAP staff. The procurement policy outlines Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The employee business expense guidelines outline the business-related expenses of PCAP and the supporting documentation requirements, including itemized receipts for all transactions.

Finding 02 - ARC Funded Costs not Expended According to Approved Budget

- We agree with the auditor’s *Finding 02*. While management agrees with the finding, management would like it to be noted that with this oversight, PCAP did not exceed the total budget of the grant.

Sincerely,

A handwritten signature in blue ink that reads "R. Black".

Rosalind Black, CPA
EVP, Chief Financial Officer

