



## Office of Inspector General

Appalachian Regional Commission

# Audit of Grant Award to New River Valley Regional Commission Grant Number VA-18525

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Report Prepared by Castro & Co, LLC

Report Number 24-01

November 8, 2023

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



# Office of Inspector General

Appalachian Regional Commission

November 8, 2023

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General 

SUBJECT: Audit Report 24-01 – New River Valley Regional Commission

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number VA-18525 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. The auditors did not issue any recommendations in the 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 two 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 recommendation.

We thank your staff for the assistance 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. VA-18525**

**For the period from February 1, 2017 to June 30, 2022  
Awarded to New River Valley Regional Commission**

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

**November 8, 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 VA-18525 awarded by the Appalachian Regional Commission (ARC) to New River Valley Regional Commission (NRVRC or the Grantee) for the period from February 1, 2017 to June 30, 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 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 the Grantee’s management at the conclusion of our fieldwork. The Grantee’s response has been included as **Attachment 1 – New River Valley Regional Commission’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  
November 8, 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 & Company, LLC (Castro & Co) was contracted by the ARC's Office of Inspector General to perform the audit of Grant No. VA-18525 awarded to New River Valley Regional Commission (NRVRC or the Grantee) for the period from February 1, 2017 to June 30, 2022.

ARC awarded Grant No. VA-18525 to NRVRC to provide funding for the renovation of a portion of the former Prices Fork elementary school. This ARC project is part of a larger historic preservation project that created senior housing in the Prices Fork neighborhood of Montgomery County. The scope of ARC-funded activities included construction of a shared-use, commercial incubator kitchen (1,600 ft<sup>2</sup>) and build-out of client/tenant spaces for food entrepreneurs (2,000 ft<sup>2</sup>).

The original period of performance for Grant No. VA-18525 covered the period from February 1, 2017 to July 31, 2018 but was subsequently extended to June 30, 2022. The grant agreement provided a budget of \$500,000 in ARC funds and required non-ARC matching funds of \$875,842 for total project costs of \$1,375,842. The allowable percentage breakout of ARC to non-ARC funding for the project was 36% ARC funds to 64% matching funds.

We obtained the ARC Basic Agency Closeout Summary Report dated September 28, 2022 that identified total ARC final accepted costs of \$500,000 (13%) and non-ARC matching costs of \$3,214,670 (87%) for a total project cost of \$3,714,670.

## Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of NRVRC to determine compliance with the requirements of the ARC Grant No. VA-18525 for the period from February 1, 2017 to June 30, 2022.

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

<b>Exhibit A: Schedule of Grant Budget</b>			
<b>Category</b>	<b>Federal Amount</b>	<b>Non-Federal Amount</b>	<b>Total</b>
Administrative	\$ 30,000	\$ -	\$ 30,000
Construction	\$ 302,927	\$ 762,342	\$ 1,065,269
Architectural & Engineering (A&E)	\$ 25,000	\$ 65,500	\$ 90,500
Equipment	\$ 89,000	\$ -	\$ 89,000
Other	\$ 53,073	\$ 48,000	\$ 101,073
<b>Total</b>	<b>\$ 500,000</b>	<b>\$ 875,842</b>	<b>\$ 1,375,842</b>

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 NRVRC’s system that specifically apply to ARC such as administrative, construction, architectural and engineering, equipment, and other costs. We conducted this performance audit from December 2022 to November 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.

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 cash disbursements, cash receipts, procurement, and match costs through reviews of policies and procedures, prior audit reports, organization charts, inquiry of the Grantee’s 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 the Grantee’s 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 Government Accountability Office (GAO)/Council of Inspectors General on Integrity and Efficiency (CIGIE) Financial Audit Manual (FAM) 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. Kevin Byrd, Executive Director, Ms. Jennifer Wilsie, Director of Housing and Grant Manager, and Ms. Jessica Barrett, Finance Director for NRVRC during the exit conference on November 2, 2023. NRVRC concurred with our results. NRVRC’s reactions have been incorporated into the report and a copy of NRVRC’s response, in its entirety, can be found in **Attachment 1 – New River Valley Regional Commission’s Response** of this report.

### Summary of Results

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

The Grantee’s financial management, administrative procedures, and internal controls were adequate to account for the funds provided under the ARC grant. The Grantee’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. 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 \$91,573 of ARC funds and \$28,798 of non-ARC matching funds as a result of unsupported cost claims on behalf of the Grantee’s partner organization.

The Grantee reported a total of \$500,000 in ARC costs and \$3,214,670 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of June 30, 2022. These matching funds were properly supported and allowable under both Federal and ARC requirements except for the \$28,798 in non-ARC matching costs questioned in Finding 01. 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.

We reviewed Single Audit reports available on the Federal Audit Clearinghouse for NRVRC and noted the Grantee had Single Audits performed for the years ended June 30, 2019 through June 30, 2022. The Single Audit reports did not include findings or recommendations related to internal control and compliance with the requirements outlined in the OMB Compliance Supplement for the management of federal assistance awards.

The Exhibit B below presents costs claimed by NRVRC and costs recommended as a result of the grant audit.

Exhibit B: Schedule of Claimed and Audit Recommended Costs							
Category	Claimed		Questioned Cost <sup>1</sup>		Audit Recommended		
	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Administrative	\$ 30,000	\$ 95,534	\$ -	\$ -	\$ 30,000	\$ 95,534	\$ 125,534
Construction <sup>2</sup>	\$322,345	\$ 2,683,383	\$ -	\$ -	\$ 322,345	\$ 2,683,383	\$ 3,005,728
A/E	\$ 23,380	\$ 88,741	\$ -	\$ -	\$ 23,380	\$ 88,741	\$ 112,121
Equipment	\$ 71,573	\$ 191,008	\$ 71,573	\$ 28,798	\$ -	\$ 162,210	\$ 162,210
Other	\$ 52,702	\$ 156,004	\$ 20,000	\$ -	\$ 32,702	\$ 156,004	\$ 188,706
<b>Total</b>	<b>\$500,000</b>	<b>\$ 3,214,670</b>	<b>\$ 91,573</b>	<b>\$ 28,798</b>	<b>\$ 408,427</b>	<b>\$ 3,185,872</b>	<b>\$ 3,594,299</b>

<sup>1</sup> As a result of our audit, questioned costs were identified. For further explanation of the questioned costs identified, refer to Appendix A – Findings and Recommendations.

<sup>2</sup> The costs incurred for Construction exceeded the budget by \$19,418; however, the amount does not exceed \$137,584 or 10% of the project’s total approved budget. Therefore, prior ARC approval was not required.

## Appendix A – Findings and Recommendations

### Finding 01 – Unsupported Non-ARC Match Funded Questioned Costs

#### Condition:

As part of our procedures, we reviewed supporting documentation for non-ARC match costs incurred during the grant period. New River Valley Regional Commission (NRVRC or the Grantee) claimed the following costs on behalf of multiple sub-grantees in accordance with their sub-grantee agreements; 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 unsupported non-Federal match costs. We noted the Grantee was not able to provide invoices and proof of payment for equipment costs including a natural gas kettle and natural gas tilt skillet which resulted in questioned costs of \$28,798.

#### Criteria:

2 CFR 200.306, *Cost sharing or matching*, states:

(b) For all Federal awards, any shared costs or matching funds and all contributions, including cash and third-party in-kind contributions, must be accepted as part of the non-Federal entity's cost sharing or matching when such contributions meet all of the following criteria:

(1) Are verifiable from the non-Federal entity's records;

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:

As the pass-through entity, NRVRC is responsible for ensuring the sub-grantee follows ARC and Federal grant regulations. NRVRC established policies and procedures for managing, monitoring, and performing financial oversight of sub-grantees in accordance with the Uniform Guidance. The contract between NRVRC and the sub-grantee included metrics for performance monitoring, identified tasks with timeframes for completion, budget amounts, and clarified ARC grant funding would be provided for a portion of the costs incurred on tasks. The sub-grantee did not sufficiently comply with contract requirements and as a result, the contract with the sub-grantee was terminated effective May 24, 2019. NRVRC worked with the U.S. Department of Agriculture (USDA) to perform an inventory of equipment purchased by the sub-grantee and confirmed it was on-site on November 18, 2019. USDA completed their inventory of equipment purchased and the corresponding orders, shipping notices, and payments were documented on January 2, 2020. NRVRC stated the sub-grantee's former Executive Director left the organization and records that were subject to retention requirements of the contract were lost.

#### Effect:

Despite NRVRC's best efforts, the sub-grantee's noncompliance with contract terms including not submitting adequate documentation and not observing document retention requirements led to insufficient documentation of invoices and proof of payment for costs claimed under ARC Grant No. VA-18525 awarded to NRVRC.

**Recommendations:**

We recommend that the Grantee:

1. Update the Basic Agency Monitoring Report (BAMR) and ARC Basic Agency Closeout Summary to exclude the unsupported non-ARC matching funds in the amount of \$28,798.

**Grantee's Response:**

The New River Valley Regional Commission (NRVRC) takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Number VA-18525 for the period from February 1, 2017 to June 30, 2022.

The NRVRC concurs with the recommendation by the audit firm regarding Finding 01, Unsupported Non-ARC Matching Funds which will result in an adjusted Basic Agency Monitoring Report (BAMR) and ARC Basic Agency Closeout Summary to exclude the unsupported non-ARC matching funds in the amount of \$28,798. However, it should be noted, these funds were considered accepted and closed by the federal funding agency, USDA-Rural Development, prior to the commencement of this audit.

**Auditor's Response:**

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

## **Finding 02 – Lack of Evidence for Procurement and Cost Reasonableness**

### **Condition:**

As part of our procedures, we reviewed receipts and supporting documentation submitted for ARC funded costs incurred during the grant period. NRVRC requested reimbursement of ARC funds on behalf of their sub-grantee for equipment and other costs including a commercial kitchen hood, walk-in freezer, and consultant services incurred. However, supporting procurement documentation including bids/price quotes and justification for contract/purchase selection was not provided for the reasonableness of costs incurred through a competitive procurement process in accordance with the requirements of the Uniform Guidance. As a result, the following costs incurred were deemed unsupported ARC funded costs:

- Equipment costs which resulted in questioned costs of \$71,573; and
- Other costs including consulting costs which resulted in questioned costs of \$20,000.

### **Criteria:**

2 CFR Part 200.318, *General procurement standards*, states:

- (i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: Rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

2 CFR 200.320, *Methods of procurement to be followed*, states:

- (a)(2)(i) *Small purchase procedures*. The acquisition of property or services, the aggregate dollar amount of which is higher than the micro-purchase threshold but does not exceed the simplified acquisition threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources as determined appropriate by the non-Federal entity.

### **Cause:**

As the pass-through entity, NRVRC is responsible for ensuring the sub-grantee follows ARC and Federal grant regulations. NRVRC established policies and procedures for managing, monitoring, and performing financial oversight of sub-grantees in accordance with the Uniform Guidance. The contract between NRVRC and the sub-grantee included metrics for performance monitoring, identified tasks with timeframes for completion, budget amounts, and clarified ARC grant funding would be provided for a portion of the costs incurred on tasks. The sub-grantee did not sufficiently comply with contract requirements and as a result, the contract with the sub-grantee was terminated effective May 24, 2019. NRVRC worked with the U.S. Department of Agriculture (USDA) to perform an inventory of equipment purchased by the sub-grantee and confirmed it was on-site on November 18, 2019. USDA completed their inventory of equipment purchased and the corresponding orders, shipping notices, and payments were documented on January 2, 2020. NRVRC stated the sub-grantee's former Executive Director left the organization and records that were subject to retention requirements of the contract were lost.

**Effect:**

Despite NRVRC's best efforts, the sub-grantee's noncompliance with contract terms including not submitting adequate documentation and not observing document retention requirements led to insufficient documentation of invoices and proof of payment for costs claimed under ARC Grant No. VA-18525 awarded to NRVRC.

**Recommendation:**

We recommend that the Grantee:

2. Reimburse ARC in the amount of \$91,573 for the costs lacking evidence of procurement and cost reasonableness.

**Grantee's Response:**

The New River Valley Regional Commission (NRVRC) takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Number VA-18525 for the period from February 1, 2017 to June 30, 2022.

With respect to Finding 02, Lack of Evidence of Procurement and Cost Reasonableness, the Regional Commission agrees, policies and procedures were in place and followed by the grantee (NRVRC); however, during execution of the project it became apparent the sub-awardee did not have adequate administrative performance which led to the Regional Commission terminating the sub-awardees contract during the project performance period. Just prior to the exit conference with the auditing firm, the sub-awardee discovered additional documentation to support the consultancy procurement process and demonstrated steps taken to ensure cost reasonableness in their equipment purchasing. These items will be provided to the Appalachian Regional Commission when discussing the auditor's results regarding this award.

**Auditor's Response:**

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

# Attachment 1 – New River Valley Regional Commission’s Response



6580 Valley Center Drive | Suite 124 | Radford, VA 24141 | 540-639-9313

**N R V R C . O R G**

November 7, 2023

Castro & Company, LLC  
1635 King Street  
Alexandria, VA 22314  
(703) 229-4440

Subject: New River Valley Regional Commission (NRVRC) Response to Castro & Company, LLC’s Performance Audit of Grant Number VA-18525

The New River Valley Regional Commission (NRVRC) takes no exception to and agrees with Castro & Company, LLC’s findings presented in the audit report of Grant Number VA-18525 for the period from February 1, 2017 to June 30, 2022.

The NRVRC concurs with the recommendation by the audit firm regarding Finding 01, Unsupported Non-ARC Matching Funds which will result in an adjusted Basic Agency Monitoring Report (BAMR) and ARC Basic Agency Closeout Summary to exclude the unsupported non-ARC matching funds in the amount of \$28,798. However, it should be noted, these funds were considered accepted and closed by the federal funding agency, USDA-Rural Development, prior to the commencement of this audit.

With respect to Finding 02, Lack of Evidence of Procurement and Cost Reasonableness, the Regional Commission agrees, policies and procedures were in place and followed by the grantee (NRVRC); however, during execution of the project it became apparent the sub-awardee did not have adequate administrative performance which led to the Regional Commission terminating the sub-awardees contract during the project performance period. Just prior to the exit conference with the auditing firm, the sub-awardee discovered additional documentation to support the consultancy procurement process and demonstrated steps taken to ensure cost reasonableness in their equipment purchasing. These items will be provided to the Appalachian Regional Commission when discussing the auditor’s results regarding this award.

The Regional Commission appreciates Castro & Company’s collaborative approach to reviewing this highly complex project.

Sincerely,

Kevin R. Byrd, AICP  
Executive Director

**Counties**  
Floyd | Giles  
Montgomery | Pulaski

**City**  
Radford

**Towns**  
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Floyd | Narrows | Pearisburg  
Pembroke | Pulaski | Rich Creek

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