



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to Town of Lebanon Grant Number VA-20397

Report Prepared by Castro & Co, LLC

Report Number 25-18

February 26, 2025

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



Office of Inspector General

Appalachian Regional Commission

February 26, 2025

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 25-18 – Town of Lebanon

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number VA-20397 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 five 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 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-20397**

**For the period from August 1, 2021 to June 24, 2024
Awarded to the Town of Lebanon**

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

February 26, 2025

Final Report

Table of Contents

Executive Summary	1
Background.....	2
Objectives, Scope, and Methodology	2
Summary of Results.....	4
Appendix A – Findings and Recommendations	6
Attachment 1 – Town of Lebanon’s Response	12

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-20397 awarded by the Appalachian Regional Commission (ARC) to the Town of Lebanon (Grantee) for the period of August 1, 2021 to June 24, 2024. The audit was conducted at the request of the ARC's 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 Finding 03 related to administrative procedures, as 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 Town of Lebanon's management at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1 – Town of Lebanon Response**.

During our audit, we noted certain matters involving internal control and other operational matters that are intended to improve internal control or result in other operating efficiencies. We have communicated these matters to the Grantee and, where appropriate, will report on them separately.

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

Castro & Company, LLC

Alexandria, VA
February 26, 2025

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 Number (No.) VA-20397 awarded to the Town of Lebanon (Grantee) for the period from August 1, 2021 to June 24, 2024.

ARC awarded Grant No. VA-20397 to the Town of Lebanon to complete the renovation of the historic theater in downtown Lebanon, Virginia. The town purchased a 5,590-square-foot theater in 2019. The project scope consisted of interior renovations to the theater, including theater seating, stage construction, lighting and sound equipment, bathrooms, concession stand, ticket booth, and other related interior fixtures and finishes. Upon completion of the project, the Town hired full-time and part-time employees to operate the theater in accordance with the ARC-funded business plan.

The period of performance for Grant No. VA-20397 covered the period from August 1, 2021 to August 1, 2022, but was subsequently extended to June 24, 2024. The grant agreement provided a budget of \$500,000 in ARC funds and required non-ARC matching funds of \$1,043,853 for total project costs of \$1,543,853. The allowable percentage breakout of ARC to non-ARC funding for the project was 32% ARC funds to 68% matching funds.

We obtained the Final Basic Agency Monitoring Report (BAMR) dated December 21, 2023 and the Basic Agency Closeout Summary dated July 11, 2024 that identified cumulative total ARC costs of \$500,000 (26%) and non-ARC matching costs of \$1,389,895 (74%) for a total project cost of \$1,889,895.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC's Office of Inspector General to conduct a performance audit of the Town of Lebanon to determine compliance with the requirements of the ARC Grant No. VA-20397 for the period from August 1, 2021 to June 24, 2024.

The budgeted amounts are presented in Exhibit A below as approved by ARC:

Exhibit A: Schedule of Grant Budget			
Cost Category	Federal Amount	Non-Federal Amount	Total
Administrative and Legal	\$ 30,000	\$ -	\$ 30,000
Architectural and Engineering	\$ -	\$ 99,898	\$ 99,898
Demolition and Removal	\$ -	\$ 15,500	\$ 15,500
Construction	\$ -	\$ 928,455	\$ 928,455
Equipment	\$ 470,000	\$ -	\$ 470,000
Total	\$ 500,000	\$ 1,043,853	\$ 1,543,853

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 included those costs addressed in Town of Lebanon's system that specifically applied to ARC such as administration and legal, architectural and engineering (A&E), construction, equipment, and other costs. We conducted this performance audit from April 2024 to January 2025 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 Subtitle A Chapter II 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, equipment, and match costs through reviews of policies and procedures, prior audit reports, organization charts, inquiry of the Town of Lebanon'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 had established to mitigate specific fraud risks, and whether management was 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 the 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 Drew Short, Town Manager, and Beverly Stinson, Financial Officer, for the Town of Lebanon during the exit conference on February 24, 2025. The Town of Lebanon concurred with our results. The Town of Lebanon's response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1 – Town of Lebanon Response**.

Summary of Results

Castro & Co's procedures determined that except for Findings 01 and 02 related to financial management and Finding 03 related to administrative procedures, as described in **Appendix A**; the Town of Lebanon 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 as described in Finding 02.

The Town of Lebanon's financial management, administrative procedures, and internal controls were adequate to account for the funds provided under the ARC grant except as described in Finding 03. The Grantee's internal guidelines, including program (internal) controls, were adequate and operating effectively. We noted the Town of Lebanon 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.

The Grantee reported a total of \$500,000 in ARC costs and \$1,389,895 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of June 24, 2024. The claimed matching funds were properly supported and allowable under both Federal and ARC requirements except for questioned costs totaling \$74,176 described in Findings 01 and 02. 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 the Town of Lebanon and noted the Grantee had a Single Audit performed for the year ended June 30, 2022. The Grantee was not subject to Single Audit requirements under the Uniform Guidance in 2023. The Single Audit report for the year ended June 30, 2022 did not include any 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.

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

Exhibit B: Schedule of Claimed and Audit Recommended Costs							
Cost Category	Claimed		Questioned		Audit Recommended		
	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Administrative and Legal	\$ 30,000	\$ 75,960	\$ -	\$ -	\$ 30,000	\$ 75,960	\$ 105,960
Architectural and Engineering	\$ -	\$ 142,879	\$ -	\$(15,510)	\$ -	\$ 127,369	\$ 127,369
Demolition and removal	\$ -	\$ 952	\$ -	\$ -	\$ -	\$ 952	\$ 952
Construction	\$ -	\$ 1,169,114	\$ -	\$(58,666)	\$ -	\$ 1,110,448	\$ 1,110,448
Equipment	\$470,000	\$ 990	\$ -	\$ -	\$470,000	\$ 990	\$ 470,990
Total	\$500,000	\$ 1,389,895	\$ -	\$(74,176)	\$500,000	\$ 1,315,719	\$ 1,815,719

Appendix A – Findings and Recommendations

Finding 01 - Duplicate Non-ARC Matching Funds Claimed

Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) reviewed supporting documentation from the Town of Lebanon (the Grantee) for non-ARC match Architectural & Engineering (A&E) costs claimed during the grant period of August 1, 2021 to June 24, 2024. Castro & Co identified duplicate A&E match costs in the amount of \$15,510. As a result, Castro & Co questioned costs totaling \$15,510 of non-ARC A&E matching funds.

Criteria:

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

(b) For all Federal awards, the Federal agency or pass-through entity must accept any cost sharing funds (including cash and third-party in-kind contributions, and also including funds committed by the recipient, subrecipient, or third parties) as part of the recipient's or subrecipient's contributions to a program when the funds:

- (1) Are verifiable in the recipient's or subrecipient's records;
- (2) Are not included as contributions for any other Federal award;
- (3) Are necessary and reasonable for achieving the objectives of the Federal award.

Cause:

The transaction details for the invoice number and amount were duplicated from two (2) other transactions for the same vendor and erroneously included in the accounting records by the Grantee. The Town of Lebanon did not have adequate internal controls in place to identify and correct the duplicated transaction in their accounting records prior to reporting financial progress to the State Basic Agency and ARC.

Effect:

Failure to ensure that accounting records for non-ARC matching costs used to report financial progress are complete and accurate may result in inaccurate reporting to the State Basic Agency and ARC. ARC may require the Grantee to revise the final Basic Agency Monitoring Report (BAMR) and Basic Agency Closeout Summary to exclude the questioned cost of \$15,510 for A&E fees from the amount reported as non-ARC matching cost share.

Recommendations:

We recommend that the Grantee:

1. Revise their policies and procedures to improve internal controls in place over maintenance of accounting records to ensure costs incurred for Federal awards are accurately recorded and supported by documentation prior to reporting financial information.
2. Work with ARC to resolve the questioned cost totaling \$15,510 for A&E fees claimed as non-ARC matching cost.

Grantee's Response:

With the findings of the duplication, the Town recognizes there is a need to revise policies and procedures to improve the internal controls when dealing with maintenance of accounting records. The cost should have been only listed once, but due to human error duplication was made. The Town will ensure that maintenance records and reports are kept in a system for better tracking, therefore cutting out the possibility of human error with imputing of information. The Town will work with ARC to resolve the issue of the duplication of the cost for the \$15,510.00 funds. The Town will clarify and make changes or improvements needed to better address the evolving need for the grant award.

Auditor's Response:

The Town of Lebanon concurred with the finding; therefore, no further response is necessary.

Finding 02 – Cost Claimed under Budget Line Not Approved by ARC

Condition:

As part of our procedures, Castro & Co reviewed supporting documentation from the Town of Lebanon for non-ARC match construction costs claimed during the grant period. The construction costs included expenditures for renovations to building facades as part of the Downtown Revitalization Project. We inspected supporting documentation and noted separate contracts for façade renovations for the theater and a group of locations labeled “Group B.” Based on the ARC approved grant description and budget, Castro & Co determined the façade renovations for Group B were not included in the scope of work and budgeted amount under ARC Grant No. VA-20397. As a result, Castro & Co questioned costs totaling \$58,666 of non-ARC A&E matching funds related to the Group B façade renovations.

Criteria:

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

- (b) For all Federal awards, the Federal agency or pass-through entity must accept any cost sharing funds (including cash and third-party in-kind contributions, and also including funds committed by the recipient, subrecipient, or third parties) as part of the recipient's or subrecipient's contributions to a program when the funds:
 - (3) Are necessary and reasonable for achieving the objectives of the Federal award...
 - (6) Are provided for in the approved budget when required by the Federal agency

Cause:

The Grantee did not have adequate internal controls in place to ensure costs reported as non-ARC matching cost share were included in the scope of work and budget for ARC Grant No. VA-20397.

Effect:

Failure to ensure that in-scope non-ARC matching costs for ARC Grant No. VA-20397 are properly tracked by the Grantee may result in inaccurate reporting to the State Basic Agency and ARC. ARC may require the Grantee to revise the final Basic Agency Monitoring Report (BAMR) and Basic Agency Closeout Summary to exclude the questioned cost of \$58,666 for construction cost from the amount reported as non-ARC matching cost share.

Recommendation:

We recommend that the Grantee:

3. Revise policies and procedures to ensure expenditures incurred and reported align with the approved scope of work and budget of the grant project.
4. Work with ARC to resolve the total questioned costs in the amount of \$58,666 of non-ARC matching construction cost.

Grantee's Response:

As part of the findings of the cost claimed under budget not approved by ARC, the Town recognizes the need for improvement with policies and procedures when dealing with the approved scope of work. The Town will improve communication with the granting authority by creating a clear understanding of the detailed understanding and specific steps to follow. A checklist perhaps to make sure that standards and requirements are being met. The Town will work with ARC to resolve the cost in question .

Auditor's Response:

The Town of Lebanon concurred with the finding; therefore, no further response is necessary.

Finding 03 – Lack of Required Detail for Equipment

Condition:

As part of our procedures, Castro & Co obtained and inspected a listing of fixed assets acquired as part of the ARC Grant No. VA-20397. We noted the listing of fixed assets did not include the required data elements, such as equipment vendor, description, invoice date, invoice number, and fund source.

Criteria:

2 CFR 200.313, *Equipment*, states:

- (d) *Management requirements.* Regardless of whether equipment is acquired in part or its entirety under the Federal award, the recipient or subrecipient must manage equipment (including replacement equipment) utilizing procedures that meet the following requirements::
 - (1) Property records must include a description of the property, a serial number or another identification number, the source of funding for the property (including the FAIN), the title holder, the acquisition date, the cost of the property, the percentage of the Federal agency contribution towards the original purchase, the location, use and condition of the property, and any disposition data including the date of disposal and sale price of the property. The recipient and subrecipient are responsible for maintaining and updating property records when there is a change in the status of the property.

Cause:

The Grantee did not have adequate policies and procedures in place to ensure the property records for fixed assets acquired under ARC Grant No. VA-20397 included the required elements under Title 2 U.S. Code of Federal Regulations Subtitle A Chapter II Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Effect:

The lack of adequate policies and procedures prevented the Grantee from preparing property records with sufficient detail to align with the requirements of the Uniform Guidance. Additionally, the Uniform Guidance includes guidance for the disposal of property acquired using Federal award. Without sufficient detail in the property records, the Grantee will not be able to distinguish items subject to Federal requirements and ensure that disposal requirements are met.

Recommendation:

We recommend the Grantee:

5. Implement policies and procedures to ensure that property records accurately reflect all required data elements included in the Uniform Guidance.

Grantee's Response:

The Town will implement policies and procedures for property record management. Policies and procedures will designate responsible individuals to oversee specific activities. Those responsible for overseeing these activities will have the job of also keeping and maintaining the data elements that are reflected in the Uniform Guidance.

Auditor's Response:

The Town of Lebanon concurred with the finding; therefore, no further response is necessary.

Attachment 1 – Town of Lebanon’s Response

NELSON A. “TONY” DODI, Mayor
DeANNA C. JACKSON, Vice Mayor
ANDREW R. SHORTT, Town Manager
KEVIN D. TILLER, Town Attorney



COUNCIL MEMBERS
SCOTT J. GILMER
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TOWN OF LEBANON

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P.O. Drawer 309

Lebanon, Virginia 24266

February 20, 2025

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

Subject: The Town of Lebanon’s Response to Castro & Company, LLC’s Performance Audit of Grant Number VA-20397.

The Town of Lebanon takes no exception to and agrees with Castro & Company, LLC’s findings presented in the audit report of Grant Number VA-20397 with a grant performance period of August 1, 2021 to June 24, 2024.

Sincerely,

Andrew Shortt
Town Manager

Enclosed: Grantee Response

Town of Lebanon Response:

Finding 01: Duplicate Non-ARC Matching Funds Claimed

With the findings of the duplication the Town recognizes there is a need to revise policies and procedures to improve the internal controls when dealing with maintenance of accounting records. The cost should have been only listed once but due to human error duplication was made. The Town will ensure that maintenance records and reports are kept in a system for better tracking, therefore cutting out the possibility of human error with imputing of information. The Town will work with ARC to resolve the issue of the duplication of the cost for the \$15,510.00 funds. The Town will clarify and make changes or improvements needed to better address the evolving need for the grant award.

Finding 02: Cost Claimed under Budget Line Not Approved by ARC

As part of the findings of the cost claimed under budget not approved by ARC the Town recognizes the need for improvement with policies and procedures when dealing with the approved scope of work. The Town will improve communication with the granting authority by creating a clear understanding of the detailed understanding and specific steps to follow. A checklist perhaps to make sure that standards and requirements are being met. The Town will work with ARC to resolve the cost in question.

Finding 03: Lack of Required Detail for Equipment

The Town will implement policies and procedures for property record management. Policies and procedures will designate responsible individuals to oversee specific activities. Those responsible for overseeing these activities will have the job of also keeping and maintaining the data elements that are reflected in the Uniform Guidance.