



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to Millwald Theatre Inc. Grant Number VA-20108

Report Prepared by Castro & Co, LLC

Report Number 25-27

June 30, 2025

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



Office of Inspector General

Appalachian Regional Commission

June 30, 2025

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 25-27 – Millwald Theatre Inc.

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number VA-20108 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 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-20108**

**For the period from January 1, 2021 to December 31, 2023
Awarded to Millwald Theatre, Inc.**

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

June 24, 2025

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-20108 awarded by the Appalachian Regional Commission (ARC) to Millwald Theatre, Inc. (Millwald Theatre or the Grantee) for the period of January 1, 2021 to December 31, 2023. 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 03 related to financial management and Finding 02 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 Grantee's management at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1 - Millwald Theatre, Inc.'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
June 24, 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-20108 awarded to Millwald Theatre, Inc. (Millwald Theatre or the Grantee) for the period of January 1, 2021 to December 31, 2023.

ARC awarded Grant No. VA-20108 to Millwald Theatre for the renovation of the Millwald Theatre in downtown Wytheville, Virginia to be used as a multi-purpose, entertainment, education, and community engagement venue. The renovations included extensive exterior and interior restoration, the replacement of electrical, plumbing, and HVAC systems, new kitchen and concessions equipment, stage lighting and sound systems, and new seating.

The period of performance for Grant No. VA-20108 covered the period from January 1, 2021 to December 31, 2023. The grant agreement provided a budget of \$500,000 in ARC funds and required non-ARC matching funds of \$2,604,310 for total project costs of \$3,104,310. The allowable percentage breakout of ARC to non-ARC funding for the project was 16% ARC funds to 84% matching funds.

We obtained the Final Automated Standard Drawdown Payment (ASAP) Drawdown Request dated June 5, 2023 that identified total ARC costs of \$500,000 (11%) and non-ARC matching costs of \$4,246,706 (89%) for a total project cost of \$4,746,706.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC's Office of Inspector General to conduct a performance audit of Millwald Theatre to determine compliance with the requirements of the ARC Grant No. VA-20108 for the period from January 1, 2021 to December 31, 2023.

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

Exhibit A: Schedule of Grant Budget			
Budget Category	Federal	Non-Federal	Total
Construction	\$ 500,000	\$ 2,604,310	\$ 3,104,310
Total	\$ 500,000	\$ 2,604,310	\$ 3,104,310

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 Millwald Theatre's system that specifically apply to ARC such as construction costs. We conducted this performance audit from April 2024 to May 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)¹, 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

¹ The applicable version of the Uniform Guidance was published on January 1, 2024.

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 (FAO)/Council of the Inspectors General for 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. Donnie Bales, Executive Director, Mr. David Manley, Board Chair, Mr. David Carpenter, Treasurer, and Mr. Mark Bloomfield, President of the Board and Project Manager, for Millwald Theatre during the exit conference on June 3, 2025. Millwald Theatre did not concur with our results. Millwald Theatre's response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1 – Millwald Theatre, Inc.'s Response**.

Summary of Results

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

The Grantee's internal guidelines, including program (internal) controls, were adequate and operating effectively except for as described in Findings 01 and 03. We noted the Grantee did not have written policies and procedures for applicable grant activities as described in Finding 02. 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 matter described in Finding 03. We questioned \$693,374 of non-ARC matching funds as a result of unsupported costs claimed.

The Grantee reported a total of \$500,000 in ARC costs and \$4,246,706 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of December 31, 2023. These matching funds were properly supported and allowable under both Federal and ARC requirements except for non-ARC match construction costs of \$693,374 questioned in Finding 01. Based on our review of the Grantee's procedures, the performance results reported to ARC were fair and reasonable.

We determined the Grantee was not subject to the Single Audit requirements under the Uniform Guidance.

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

Exhibit B: Schedule of Claimed and Audit Recommended Costs							
	Claimed		Questioned		Audit Recommended		
Budget Category	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Construction	\$ 500,000	\$ 4,246,706	\$ -	\$ (693,374)	\$ 500,000	\$3,553,332	\$ 4,053,332
Total	\$ 500,000	\$ 4,246,706	\$ -	\$ (693,374)	\$ 500,000	\$3,553,332	\$ 4,053,332

Appendix A – Findings and Recommendations

Finding 01 – Lack of Evidence of Procurement and Cost Reasonableness

Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) reviewed supporting documentation provided by Millwald Theatre, Inc. (Millwald Theatre or the Grantee) for ARC funded and non-ARC match construction costs incurred during the grant period and reported to ARC. We noted that for five (5) vendors, Millwald Theatre was not able to provide sufficient documentation to establish proper procurement procedures were performed in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Subtitle A Chapter II Part 200 (2 CFR 200 or the Uniform Guidance); therefore, non-ARC match construction costs of \$693,374 may not be reasonable. Specifically:

- For three (3) vendors, no procurement documentation was available or provided.
- For two (2) vendors, a quote from each vendor was provided; however, competing quotes or the basis for their selection was not provided.

Castro & Co determined the Grantee's procurement process did not comply with the Uniform Guidance requirements which resulted in questioned cost totaling \$693,374.

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.

2 CFR 200.320(b)(2) *Proposals* states:

This is a procurement method used when conditions are not appropriate for using sealed bids. This procurement method may result in either a fixed-price or cost-reimbursement contract. They are awarded in accordance with the following requirements:

- (i) Requests for proposals require public notice, and all evaluation factors and their relative importance must be identified. Proposals must be solicited from multiple qualified entities. To the maximum extent practicable, any proposals submitted in response to the public notice must be considered.
- (ii) The recipient or subrecipient must have written procedures for conducting technical evaluations and making selections.

- (iii) Contracts must be awarded to the responsible offeror whose proposal is most advantageous to the recipient or subrecipient considering price and other factors; and
- (iv) The recipient or subrecipient may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby the offeror's qualifications are evaluated, and the most qualified offeror is selected, subject to negotiation of fair and reasonable compensation. The method, where the price is not used as a selection factor, can only be used to procure architectural/engineering (A/E) professional services. The method may not be used to purchase other services provided by A/E firms that are a potential source to perform the proposed effort.

Cause:

The Grantee did not have written policies and procedures in place to ensure that the procurement process aligned with the Uniform Guidance requirements and that sufficient documentation was retained to establish the basis for selection of vendors.

Effect:

The absence of adequate policies and procedures prevented Millwald Theatre from properly documenting vendors selection in accordance with the Uniform Guidance requirements. Therefore, ARC could require the Grantee to exclude questioned costs totaling \$693,374 for non-ARC match construction costs from the total amount reported to ARC.

Recommendation:

We recommend that the Grantee:

1. Work with ARC to resolve the costs questioned totaling \$693,374 for non-ARC match construction costs.

Grantee's Response:

The grant was awarded for construction costs only through Virginia's Department of Housing and Community Development (DHCD). It was the organization's understanding in working with DHCD that Federal requirements applied only to activities where the ARC grant funds were used. In our case only one vendor, which is the general contractor was paid with ARC funds.

The organization conducted a competitive sealed bid process to select the general contractor.

Auditor's Response:

Castro & Co has reviewed Millwald Theatre's response. In consideration of those views, Castro & Co noted that Millwald Theatre's response did not alter our results.

The Grantee stated that it was Millwald Theatre's understanding in working with DHCD that Federal requirements applied only to activities where the ARC grant funds were used. In accordance with the Uniform Guidance, Section 200.306, non-Federal matching cost share expenditures are also subject to Subpart D, Post Federal Award Requirements, as applicable. Millwald Theatre did not provide Castro & Co with documentation to support procurement procedures or cost reasonableness for non-ARC match construction costs as required under 2 CFR 200 Subpart D; therefore, questioned costs of \$693,374 was reported.

Finding 02 – Lack of written policies and procedures

Condition:

As part of our procedures, Castro & Co requested Millwald Theatre’s internal guidelines, policies, and procedures that were effective during the grant period of January 1, 2021 to December 31, 2023. We noted the Grantee did not have written policies and procedures.

Criteria:

2 CFR 200.302, *Financial management*, states,

(b) The financial management system of each non-Federal entity must provide for the following:

(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, financial obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

(4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § 200.303.

(5) Comparison of expenditures with budget amounts for each Federal award.

(6) Written procedures to implement the requirements of §200.305.

(7) Written procedures for determining the allowability of costs in accordance with subpart E of this part [§§ 200.400 – 200.476] and the terms and conditions of the Federal award.

2 CFR 200.303, *Internal controls*, states,

The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

(a) The non-Federal entity must have and use documented procurement procedures, consistent with State, local, and tribal laws and regulations and the standards of this section, for the acquisition of property or services required under a Federal award or subaward. The non-Federal entity's documented procurement procedures must conform to the procurement standards identified in §§ 200.317 through 200.327.

Cause

The Grantee stated they did not establish written financial management policies due to the organization being founded for the specific purpose of purchasing, restoring, and operating the Historic Millwald Theatre.

Effect:

The establishment of written, formal policies and procedures is critical in assuring that a system of internal controls is followed. The lack of monitoring compliance with established procedures can increase the risk that grant funding may not be utilized in accordance with grant terms and the Uniform Guidance.

Recommendation:

We recommend that the Grantee:

2. Develop policies and procedures for determining the allowability and allocability of costs, record retention, and procurement standards as required under the Uniform Guidance.

Grantee's Response:

The Millwald was paid on a reimbursement basis, reported all expenditures to DHCD, and supported them with copies of invoices that were signed and approved by architect and the chairman of the board along with copies of payment checks. These invoices and checks are recorded in our general ledger.

Auditor's Response:

Castro & Co has reviewed Millwald Theatre's response. In consideration of those views, Castro & Co noted that Millwald Theatre's response did not alter our results.

Although the Millwald Theatre provided supporting documentation of expenditures, Millwald Theatre is also required to establish and implement written policies and procedures to comply with the Uniform Guidance. It is ultimately the Grantee's responsibility to ensure full compliance with both the ARC Grant Agreement and the Uniform Guidance.

Finding 03 – Inaccurate Reporting of Financial Progress

Condition:

As part of our procedures, Castro & Co performed a reconciliation of general ledger (GL) transactions to cumulative total costs reported by Millwald Theatre on the Final Drawdown Request for ARC funded and non-ARC match costs as of December 31, 2023. Castro & Co noted the Grantee did not adequately track costs incurred and reconcile GL transactions to amounts reported to ARC to verify the completeness and accuracy of the construction costs incurred. While material discrepancies were identified in the amounts reported to ARC, Millwald's actual incurred costs exceeded those reported; as a result, the costs were not questioned.

Additionally, after further inquiry of the Grantee and State Basic Agency (SBA) regarding the discrepancies, we noted the SBA reported the Grantee's financial information to ARC based on funding received instead of actual costs incurred.

Criteria:

Part II ARC Grant Agreement: General Provisions, Article 11 Method of Payment, states in part:

(3) Final Payment. Upon Grantee's satisfactory completion of the Agreement, Grantee shall receive any balance of funds which may be due under this Agreement.

(4) Disbursements. All disbursements shall be for obligations incurred, after the effective date, in the performance of this Agreement, and shall be supported by contracts, invoices, vouchers and other data, as appropriate, evidencing the disbursements.

2 CFR 200.302, *Financial management*, states:

(b) The financial management system of each non-Federal entity must provide for the following:

(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in 2 CFR 200.328 and 200.329.

(3) Records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, financial obligations, unobligated balances, assets, expenditures, income, and interest and be supported by source documentation.

Cause:

The Grantee does not have a process in place to ensure GL grant expenditures are reconciled with supporting documentation to reflect accurate reporting of financial information. The costs reported to ARC were based on funding sources rather than actual expenditures, as required by ARC and Federal guidelines.

Effect:

The lack of adequate internal controls resulted in the Millwald Theatre inaccurately reporting the ARC funded and non-ARC funded cost incurred to ARC.

Recommendation:

We recommend that the Grantee:

3. Develop policies and procedures to ensure GL grant expenditures are reconciled with supporting documentation to reflect accurate reporting of financial information.
4. Work with ARC to resolve the reporting discrepancies of non-ARC matching cost share expenditures to reflect the total cost incurred.

Grantee's Response:

We believe we had a process in place to ensure that proper management and completion of the project. Our annual financial audits and historic tax credit audit seemed to agree.

We truly believe that we made a good faith effort and complied with all the requirements that were known to us at the time of the project. This organization's leadership takes its fiduciary responsibility seriously, especially as a highly visible non-profit with deep history in Wytheville.

Auditor's Response:

Castro & Co has reviewed Millwald Theatre's response. In consideration of those views, Castro & Co noted that Millwald Theatre's response did not alter our results.

Castro & Co reviewed Millwald Theatre's annual financial audits from prior years and the historic tax credit audit; however, because those audits were of a different scope and did not address compliance with the ARC grant agreement, Uniform Guidance, or applicable Federal regulations, Castro & Co did not rely on them in forming our conclusions.

Attachment 1 – Millwald Theatre, Inc.’s Response



276-284-2958
info@themillwald.org
205 West Main Street
Wytheville, Virginia 24382

June 6, 2025

Castro & Company
1635 King Street
Alexandria, Virginia 22314

Re: Grantee Response to Audit Results
Grant VA-20108

To Whom It May Concern:

Millwald Theatre, Inc., through its board of directors, is grateful to have been awarded a \$500,000 Appalachian Regional Commission (ARC) grant. Completion of the significant project would not have been possible without the grant.

The restored historic Millwald Theatre stands as a testament to the investments of many partners, not the least of which is the Appalachian Regional Commission. This achievement is celebrated in our community, especially as it functions successfully today as a beacon and home for culture and the arts.

Please consider this document our organization’s response to the findings described in the audit report you shared and recently presented to members of our leadership.

Finding 01: Lack of Evidence of Procurement and Cost Reasonableness

The grant was awarded for construction costs only through Virginia’s Department of Housing and Community Development (DHCD). It was the organization’s understanding in working with DHCD that Federal requirements applied only to activities where the ARC grant funds were used. In our case only one vendor, which is the general contractor was paid with ARC funds.

The organization conducted a competitive sealed bid process to select the general contractor.

Finding 02: Lack of Written Policies and Procedures

The Millwald was paid on a reimbursement basis, reported all expenditures to DHCD, and supported them with copies of invoices that were signed and approved by architect and the chairman of the board along with copies of payment checks. These invoices and checks are recorded in our general ledger.

TheMillwald.org



Finding 03: Inaccurate Reporting of Financial Progress

We believe we had a process in place to ensure that proper management and completion of the project. Our annual financial audits and historic tax credit audit seemed to agree.

We truly believe that we made a good faith effort and complied with all the requirements that were known to us at the time of the project. This organization's leadership takes its fiduciary responsibility seriously, especially as a highly visible non-profit with deep history in Wytheville.

Thank you for the opportunity to share our responses to your firm's findings.

Sincerely yours,

David Manley (Jun 23, 2025 13:29 EDT)

David Manley, Chair

Mark Bloomfield, Founding Chair

Donnie Bales, Executive Director