



Office of Inspector General

Appalachian Regional Commission

**Audit of Grant Award to
Friends of Southwest Virginia
Grant Numbers PW-18728-IM-A and PW-18728-IM-B**

Report Prepared by Castro & Co, LLC

Report Number 26-04

October 21, 2025

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



Office of Inspector General

Appalachian Regional Commission

October 21, 2025

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 26-04 – Friends of Southwest Virginia

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant numbers PW-18728-IM-A and PW-18728-IM-B 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 one recommendation in the report. Within the next 30 days, please provide me with your management decision describing the specific action 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
Grant Nos. PW-18728-IM-A and PW-18728-IM-B
For the period from January 1, 2017 to July 31, 2024
Awarded to the Friends of Southwest Virginia**

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

October 16, 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 Numbers PW-18728-IM-A and PW-18728-IM-B awarded by the Appalachian Regional Commission (ARC) to the Friends of Southwest Virginia (Friends of SWVA or the Grantee) for the period of January 1, 2017 to July 31, 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 Finding 01 related to administrative procedures described in **Appendix A – Finding and Recommendation**; 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 Friends of SWVA's management at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1 – Friends of SWVA'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
October 16, 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 Numbers (Nos.) PW-18728-IM-A and PW-18728-IM-B awarded to Friends of Southwest Virginia (Friends of SWVA or the Grantee) for the period of January 1, 2017 to July 31, 2024.

ARC awarded Grant Number PW-18728-IM-A to the Friends of SWVA to provide funding for an effort to target the outdoor recreation industry by improving and enhancing existing assets and maximizing the economic potential between the assets and their nearby towns and cities. The Grantee was the initiator and lead implementer for the initiative and provided on-the-ground oversight of the construction activities in Grant Number PW-18728-IM-B. Administrative expenses for two (2) staff members, the policy analyst and the community development facilitator, and a project developer were also included. The Grantee handled all reporting and accounting requirements for Grant Nos. PW-18728-IM-A and PW-18728-IM-B. The project included funding for three (3) trail technicians to coordinate and manage the 30-mile multi-use trail, and improved trailheads, access roads, parking areas, and other trail amenities. The remaining activity was the development of a guide for future development and to link assets to new outdoor recreation businesses that were opening.

Additionally, ARC awarded Grant Number PW-18728-IM-B to the Friends of SWVA to provide funding for the development of an outdoor recreation industry cluster in Southwest Virginia by developing assets to make the sector more accessible, connecting to surrounding communities and downtowns and supporting related entrepreneur and business development. The project involved four primary locations that were unified and marketed under one brand to create a larger and more compelling narrative than if done in isolation.

The original period of performance, amended period end date, budget amounts, and the percentage match requirement per the grant agreements for Grant Nos. PW-18728-IM-A and PW-18728-IM-B are as follows:

Grant Number	Original Grant Period	Amended Period End	Federal		Non-Federal		Total Budget
			Budget \$ and % Match Requirement		Budget \$ and % Match Requirement		
PW-18728-IM-A	1/1/2017 – 12/31/2019	6/30/2024	\$ 538,000	75%	\$ 175,000	25%	\$ 713,000
PW-18728-IM-B	1/1/2017 – 12/31/2019	12/31/2024	\$ 2,833,350	63%	\$ 1,630,800	37%	\$ 4,464,150
Total			\$ 3,371,350		\$ 1,805,800		\$ 5,177,150

The total budget amounts by category as approved by ARC for the grants under scope are presented

in Exhibits A1 and A2 below:

Exhibit A1: Schedule of Grant Budget PW-18728-IM-A			
Cost Category	Federal	Non-Federal	Total
Personnel	\$ 197,998	\$ 175,000	\$ 372,998
Travel	\$ 15,000	\$ -	\$ 15,000
Contractual	\$ 297,372	\$ -	\$ 297,372
Other	\$ 27,630	\$ -	\$ 27,630
Total Grant PW-18728-IM-A	\$ 538,000	\$ 175,000	\$ 713,000

Exhibit A2: Schedule of Grant Budget PW-18728-IM-B			
Cost Category	Federal	Non-Federal	Total
Administrative and Legal Fees	\$ 2,500	\$ -	\$ 2,500
Land, Structures, Appraisals, etc.	\$ 2,500	\$ 1,068,300	\$ 1,070,800
Architectural & Engineering	\$ 235,800	\$ 12,500	\$ 248,300
Site Work	\$ 141,000	\$ -	\$ 141,000
Demolition and Removal	\$ 18,000	\$ -	\$ 18,000
Construction	\$ 2,239,950	\$ 500,000	\$ 2,739,950
Equipment	\$ 122,000	\$ 50,000	\$ 172,000
Contingencies	\$ 71,600	\$ -	\$ 71,600
Total Grant PW-18728-IM-B	\$ 2,833,350	\$ 1,630,800	\$ 4,464,150

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC's Office of Inspector General to conduct a performance audit of the Friends of SWVA to determine compliance with the requirements of the ARC Grant Nos. PW-18728-IM-A and PW-18728-IM-B for the period of January 1, 2017 to July 31, 2024.

We obtained the ARC Standard Form (SF) 270, *Request for Advance and Reimbursement*, and ARC Closeout Summary for Grant No. PW-18728-IM-A as of June 30, 2024, and the Automated Standard Application for Payments (ASAP) Drawdown request for PW-18728-IM-B as of July 31, 2024 that identified cumulative total ARC costs and non-ARC matching costs as shown below:

Grant Number	Reporting Period	Federal Amount	%	Non-Federal Amount	%	Total
PW-18728-IM-A	7/1/2021 - 6/30/2024	\$ 538,000	75%	\$ 175,000	25%	\$ 713,000
PW-18728-IM-B	7/1/2024 - 7/31/2024	\$ 2,833,350	47%	\$ 3,200,171	53%	\$ 6,033,521
Total		\$ 3,371,350		\$ 3,375,171		\$ 6,746,521

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 Friends of SWVA's system that specifically apply to ARC such as personnel, travel, contractual, and other costs. We conducted this performance audit from November 2024 to September 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, travel, procurement, and match costs through reviews of prior audit reports, organization charts, policies and procedures, 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 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.

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

Grantee's Response to Audit Results

Our audit results were discussed with Kim Davis, Executive Director, Paula Hurt, Director of Finance and Administration, and Ryana DeArmond, Director of Strategic Initiatives, for the Friends of SWVA during the exit conference on October 8, 2025. The Friends of SWVA concurred with our results. The Friends of SWVA's response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1 – Friends of SWVA's Response**.

Summary of Results

Castro & Co's procedures determined that except for Finding 01 related to administrative procedures as described in **Appendix A**; Friends of SWVA 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. 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 matter described in Finding 01.

For ARC Grant No. PW-18728-IM-A, the Grantee reported a total of \$538,000 in ARC costs and \$175,000 in non-ARC matching costs; therefore, we determined the Grantee has met the match requirements as of June 30, 2024 when the grant was closed. These matching funds were properly supported and allowable under both Federal and ARC. Based on our review of the Grantee's procedures, the performance results reported to ARC were fair and reasonable.

For ARC Grant No. PW-18728-IM-B, the Grantee reported a total of \$2,833,350 in ARC costs and \$3,200,171 in non-ARC matching costs; therefore, we determined the Grantee has met the match requirements as of July 31, 2024. These matching funds were properly supported and allowable under both Federal and ARC. 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 Friends of SWVA and noted the Grantee had a Single Audit performed for the year ended June 30, 2024. The Single Audit report 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.

The Exhibits B1 and B2 below present costs claimed by Grant Number, Category, and costs recommended as a result of the grant audit.

Exhibit B1: Schedule of Claimed and Audit Recommended Costs PW-18728-IM-A							
	Claimed		Questioned		Audit Recommended		
Category	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Personnel	\$ 197,998	\$ 175,000	\$ -	\$ -	\$ 197,998	\$ 175,000	\$ 372,998
Travel	\$ 14,441	\$ -	\$ -	\$ -	\$ 14,441	\$ -	\$ 14,441
Contractual ²	\$ 297,931	\$ -	\$ -	\$ -	\$ 297,931	\$ -	\$ 297,931
Other	\$ 27,630	\$ -	\$ -	\$ -	\$ 27,630	\$ -	\$ 27,630
Total	\$ 538,000	\$ 175,000	\$ -	\$ -	\$ 538,000	\$ 175,000	\$ 713,000

Exhibit B2: Schedule of Claimed and Audit Recommended Costs PW-18728-IM-B							
	Claimed		Questioned		Audit Recommended		
Category	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Administrative and legal Fees	\$ -	\$ 38,632	\$ -	\$ -	\$ -	\$ 38,632	\$ 38,632
Land, Structures, Appraisals, etc.	\$ -	\$ 251,878	\$ -	\$ -	\$ -	\$ 251,878	\$ 251,878
Architectural & Engineering Fees ³	\$ 389,620	\$ 391,822	\$ -	\$ -	\$ 389,620	\$ 391,822	\$ 781,442
Site Work	\$ 52,000	\$ -	\$ -	\$ -	\$ 52,000	\$ -	\$ 52,000
Construction ³	\$ 2,391,730	\$ 2,517,839	\$ -	\$ -	\$ 2,391,730	\$ 2,517,839	\$ 4,909,569
Total	\$ 2,833,350	\$ 3,200,171	\$ -	\$ -	\$ 2,833,350	\$ 3,200,350	\$ 6,033,521

² Under Grant No. PW-18728-IM-A, the Grantee claimed Contractual cost in excess of the ARC approved budget amount by \$559 which is less than \$71,300 or 10% of the total grant budget. Therefore, prior ARC approval was not required.

³ Under Grant No. PW-18728-IM-B, the Grantee claimed Architectural & Engineering Fees and Construction cost in excess of the ARC approved budget amount by \$153,820 and \$151,780, respectively, which is less than \$446,415 or 10% of the total grant budget. Therefore, prior ARC approval was not required.

Appendix A – Finding and Recommendation

Finding 01 – Non-Compliance with Quarterly Progress Reporting

Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) reviewed interim and final Performance Progress Reports (PPR) submitted by Friends of Southwest Virginia (Friends of SWVA or the Grantee) under ARC Grant No. PW-18728-IM-A during the grant period of January 1, 2017 to June 30, 2024. Based on our review, we noted quarterly reporting exceptions on the following PPRs outlined in the table below:

- For five (5) PPRs, the reporting period exceeded 120 days or four (4) months as required in the grant agreement.
- For three (3) PPRs, the reports were submitted more than 30 days after the close of the reporting period as required in the grant agreement.
- For three (3) PPRs, we were unable to verify the submission date.

PPR Coverage Period	# of Days Covered on PPR	# of Days Overdue	Other Issue
January 1, 2017 to March 31, 2017			Unable to verify submission date
October 1, 2017 to March 30, 2018	180		
April 1, 2018 to June 30, 2018			Unable to verify submission date
January 1, 2019 to June 30, 2019	180		
July 1, 2020 to October 31, 2020		106	
November 1, 2020 to June 30, 2021	241	47	
June 30, 2021 to February 1, 2022	216		Unable to verify submission date
February 2, 2022 to June 30, 2024	879	162	

Criteria:

The ARC *Grant Administration Manual for ARC Non-Construction Grants*, dated February 2020, states,

Reports

Reporting Intervals

The reporting period begins with the start date of the grant agreement. ARC requires interim progress reports every 120 days or every four months and a final report at the end of your project's period of performance. Reports are due no later than 30 days after the close of a reporting period.

2 CFR 200.329, *Monitoring and reporting program performance*, states,

(b) Reporting program performance. The Federal agency must use OMB-approved common information collections (for example, Research Performance Progress Reports) when requesting performance reporting information.

(c) (1) The recipient or subrecipient must submit performance reports as required by the Federal award. Intervals must be no less frequent than annually nor more frequent than quarterly except if specific conditions are applied...

Cause:

The Grantee did not have adequate policies and procedures in place to ensure PPRs were routinely prepared every 120 days or four (4) months, and submitted to ARC within 30 days from the close of the reporting period. In addition, the Grantee stated that ARC allowed deferred reporting on Grant Number PW-18728-IM-A until the final report due to the reporting being completed on the related construction grant (PW-18728-IM-B); however, we were unable to confirm that ARC approved a deferment.

Effect:

Without adequate policies and procedures to ensure timely quarterly reporting, inaccurate financial and performance information may be reported to ARC.

Recommendation:

We recommend that the Grantee establish policies and procedures for the timely preparation and submission of progress reports in accordance with the Uniform Guidance and grant agreement.

Grantee's Response:

Friends of SWVA takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of Grant Numbers (Nos.) PW-18728-IM-A and PW-18728-IM-B with a grant performance period of January 1, 2017 to July 31, 2024.

Auditor's Response:

The Grantee concurred with our results. Therefore, no further response is necessary.

Attachment 1 –The Friends of SWVA’s Response



October 8, 2025

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

Subject: Friends of Southwest Virginia (Friends of SWVA) Response to Castro & Company, LLC’s Performance Audit of Grant Numbers PW-18728-IM-A and PW-18728-IM-B.

Dear Ms. Donaldson,

On behalf of Friends of Southwest Virginia (Friends), I would like to thank the Appalachian Regional Commission’s Office of Inspector General and Castro & Company, LLC for conducting the recent performance audit of Grant Nos. PW-18728-IM-A and PW-18728-IM-B for the period of January 1, 2017 through July 31, 2024. We appreciate the thoroughness and professionalism with which the audit was conducted, and we are pleased that the report concluded that, with the exception of one finding, Friends of Southwest Virginia managed grant funds in accordance with ARC and federal requirements, maintained adequate internal controls, and met all matching requirements.

Friends takes no exception to and agrees with Castro & Company, LLC’s findings presented in the audit report of Grant Numbers PW-18728-IM-A and PW-18728-IM-B with a grant performance period of January 1, 2017 to July 31, 2024.

We respectfully submit the following response to the audit’s finding and recommendation:

Finding 01 – Non-Compliance with Quarterly Progress Reporting

We acknowledge the identified delays and inconsistencies in the submission of Performance Progress Reports (PPRs) under Grant No. PW-18728-IM-A. While Friends of Southwest Virginia maintained regular communication with ARC staff throughout the life of the project, our internal processes did not consistently align with the reporting intervals outlined in the ARC Grant Administration Manual.

Two factors contributed to this issue:

1. **Leadership Transitions** – During the grant period, Friends of Southwest Virginia experienced leadership changes that resulted in disruptions to reporting oversight and continuity. While financial and programmatic work continued without interruption, transitions in staff responsibilities led to delays in timely report submission.
2. **Part A vs. Part B Final Reporting** – When Grant PW-18728-IM-A entered the final 10% withholding stage, our team mistakenly believed that ongoing reporting requirements were being met through the regular submissions for Grant PW-18728-IM-B. We did not recognize that separate progress reports for Part A were still required on the same schedule, which led to unintentional gaps in the reporting sequence.

Corrective Actions and Policy Improvements

Friends of Southwest Virginia takes the audit's recommendation seriously and has already begun implementing corrective actions to ensure future compliance, including:

1. **Revised Reporting Procedures** – We have adopted a formalized reporting calendar that aligns with ARC's required 120-day intervals. This calendar has been integrated into our grant management system with automated reminders for program and finance staff.
2. **Policy Updates** – Our written grants administration policies have been updated to explicitly require both preparation and submission of all PPRs within 30 days of the close of each reporting period, with clear staff responsibilities assigned.
3. **Staff Training** – Key program and administrative staff have completed refresher training on Uniform Guidance (2 CFR 200.329) and ARC reporting standards. Ongoing training will be scheduled annually.
4. **Oversight & Compliance Monitoring** – We have designated our Executive Director and Director of Finance and Administration as our compliance officers within the organization to review and sign off on all reports prior to submission, ensuring timeliness, accuracy, and documentation of any ARC-approved adjustments.

Commitment to Compliance

Friends remains fully committed to strong stewardship of federal and ARC resources. We appreciate the recognition in the audit report of the adequacy of our internal controls, financial management systems, and the proper use of grant funds. The recommendations provided through this audit have strengthened our capacity to manage current and future ARC awards more effectively.

We thank you for the opportunity to respond and for ARC's continued partnership in advancing the economic and community development of Southwest Virginia. Please do not hesitate to contact me should you require any additional information or clarification regarding our response.

Sincerely,



Kimberly Davis
Executive Director