



Office of Inspector General

Appalachian Regional Commission

**Audit of Grant Award to
Southwest Virginia Higher Education Center Foundation
Grant Number VA-21610**

Report Prepared by Castro & Co, LLC

Report Number 26-30

May 18, 2026

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



Office of Inspector General

Appalachian Regional Commission

May 18, 2026

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 26-30 – Southwest Virginia Higher Education Center Foundation

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number VA-21610 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 therein. 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-21610**

**For the period from October 1, 2023 to May 30, 2025
Awarded to the Southwest Virginia Higher Education Center
Foundation**

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

May 15, 2026

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-21610 awarded by the Appalachian Regional Commission (ARC) to the Southwest Virginia Higher Education Center Foundation (SWVHEC Foundation or the Grantee) for the period of October 1, 2023 to May 30, 2025. 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 and 02 related to financial management and Finding 03 related to administrative procedures 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 SWVHEC Foundation's management at the conclusion of our fieldwork. The Grantee's response has been included as **Attachment 1 – Southwest Virginia Higher Education Center Foundation'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
May 15, 2026

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-21610 awarded to the Southwest Virginia Higher Education Center Foundation (SWVHEC Foundation or the Grantee) for the period of October 1, 2023 to May 30, 2025.

ARC awarded Grant No. VA-21610 to SWVHEC Foundation to provide funding support for a nursing and allied health project that will create a shared, state-of-the-art multidisciplinary lab, including medical simulation manikins and equipment to create opportunities for healthcare students and medical residents to develop their clinical decision-making skills in a controlled, life-like environment to advance their educational and career pathway.

The period of performance for Grant No. VA-21610 covered the period from October 1, 2023 to December 31, 2025. The grant agreement provided a budget of \$300,000 in ARC funds and required non-ARC matching funds of \$1,300,000 for total project costs of \$1,600,000. The allowable percentage breakout of ARC to non-ARC funding for the project was 19% ARC funds to 81% matching funds.

We obtained the Standard Form (SF-270), *Request for Advance or Reimbursement*, for the period covering February 1, 2025 to May 30, 2025 that identified total cumulative ARC costs of \$191,448 (23%) and non-ARC matching costs of \$642,275 (77%) for a total project cost of \$833,723.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC's Office of Inspector General to conduct a performance audit of SWVHEC Foundation to determine compliance with the requirements of the ARC Grant No. VA-21610 for the period of October 1, 2023 to May 30, 2025.

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

Exhibit A: Schedule of Approved Budget			
Category	Federal	Non-Federal	Total
Personnel	\$ -	\$ 100,000	\$ 100,000
Equipment	\$ 188,133	\$ 664,406	\$ 852,539
Supplies	\$ 111,867	\$ 175,000	\$ 286,867
Other	\$ -	\$ 360,594	\$ 360,594
Total	\$ 300,000	\$ 1,300,000	\$ 1,600,000

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 SWVHEC Foundation’s system that specifically apply to ARC such as equipment, supplies, and other costs. We conducted this performance audit from May 2025 to April 2026 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 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;

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

- 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. David Matlock, Executive Director, Mr. James Blevins, Program Administrator & Fiscal Specialist, Ms. Joy Burton, Director of Strategic Initiatives for SWVHEC Foundation during the exit conference on May 14, 2026. SWVHEC Foundation concurred with our results. SWVHEC Foundation's response has been incorporated into the report and a copy of the response, in its entirety, can be found in **Attachment 1 – Southwest Virginia Higher Education Center Foundation's Response**.

Summary of Results

Castro & Co's procedures determined that except for Finding 01 and 02 related to financial management and Finding 03 related to administrative procedures as described in **Appendix A**; SWVHEC Foundation 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 the matters described in Finding 01, 02, and 03. 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). We questioned \$27,098 in non-ARC match costs as a result of unsupported costs incurred.

The Grantee reported a total of \$191,448 in ARC costs and \$642,275 in non-ARC matching costs; therefore, we determined the Grantee did not meet the match requirements as of May 30, 2025, but the grant was still ongoing. These matching funds were properly supported and allowable under both Federal and ARC requirements except for the matters noted 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 determined the Grantee was not subject to the Single Audit requirements under the Uniform Guidance.

The Exhibit B below presents costs claimed by the Southwest Virginia Higher Education Center Foundation and costs recommended as a result of the grant audit.

Exhibit B: Schedule of Claimed and Audit Recommended Costs							
Category	Claimed		Questioned		Audit Recommended		
	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Equipment	\$ 188,133	\$ 607,806	\$ -	\$ (21,381)	\$ 188,133	\$ 586,425	\$ 774,558
Supplies	\$ 3,315	\$ 12,969	\$ -	\$ 1,485	\$ 3,315	\$ 14,454	\$ 17,769
Other	\$ -	\$ 21,500	\$ -	\$ (7,202)	\$ -	\$ 14,298	\$ 14,298
Total	\$ 191,448	\$ 642,275	\$ -	\$ (27,098)	\$ 191,448	\$ 615,177	\$ 806,625

Appendix A – Findings and Recommendations

Finding 01 - Lack of Evidence for Procurement and Cost Reasonableness

Condition:

As part of our procedures, Castro & Company, LLC (Castro & Co) reviewed receipts and supporting documentation submitted for ARC funded and non-ARC match costs incurred during the grant period. The Southwest Virginia Higher Education Center Foundation (SWVHEC Foundation or the Grantee) claimed non-ARC match equipment costs of \$13,480; however, supporting procurement documentation including bids/price quotes and justification for contract/purchase selection was not provided to support the reasonableness of costs incurred or competitive procurement process in accordance with the requirements of the 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). As a result, total questioned costs of \$13,480 were identified due to lack of supporting procurement documentation.

The Grantee stated that the vendor was exempt from procurement requirements because the item purchased was used equipment. However, no procurement documentation was provided to support compliance with federal procurement standards. Under federal regulations, the purchase of used equipment is not exempt from procurement requirements.

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) *Informal procurement methods*. When the value of the procurement for property or services under a Federal award does not exceed the *simplified acquisition threshold (SAT)*, as defined in § 200.1, or a lower threshold established by a non-Federal entity, formal procurement methods are not required. The non-Federal entity may use informal procurement methods to expedite the completion of its transactions and minimize the associated administrative burden and cost. The informal methods used for procurement of property or services at or below the SAT include:

- (2) *Small purchases* –

- (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.
 - (b) *Formal procurement methods*. When the value of the procurement for property or services under a Federal financial assistance award exceeds the SAT, or a lower threshold established by a non-Federal entity, formal procurement methods are required. Formal procurement methods require following documented procedures. Formal procurement

methods also require public advertising unless a non-competitive procurement can be used in accordance with § 200.319 or paragraph (c) of this section.

Cause:

The Grantee did not ensure that procurement documentation was properly maintained and retained for all transactions, including those believed to be exempt or conducted through pre-qualified or “On-Demand” vendor arrangements.

Effect:

Due to inadequate procurement documentation, compliance with federal procurement requirements and cost reasonableness could not be verified. As a result, the \$13,480 in equipment costs is considered unsupported and questioned, which may lead to disallowance and affect the Grantee’s cost share requirements.

Recommendation:

We recommend that the Grantee:

1. Work with ARC to resolve the questioned costs of \$13,480 for non-ARC match cost share.

Grantee’s Response:

SWVHEC Foundation takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of ARC Grant Number VA-21610 with a grant performance period of October I, 2023 to May 30, 2025.

Auditor’s Response:

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

Finding 02 - Inaccurate Financial Reporting for Non-ARC Matching Cost Share

Condition:

As part of our audit procedures, we obtained general ledger (GL) transaction details from SWVHEC Foundation in order to reconcile with the amounts reported to ARC for ARC funded and non-ARC match costs. We noted the total non-ARC match cost share reported to ARC was \$642,275; however, the actual costs incurred as of May 30, 2025 totaled \$628,657, resulting in a variance of \$13,618 that could not be supported by the Grantee's records.

Criteria:

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.

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.

Cause:

The Grantee did not have adequate controls in place to track the costs incurred and perform reconciliations throughout the grant period to ensure complete and accurate financial information was reported to ARC.

Effect:

The lack of adequate controls prevented the Grantee from identifying a variance of \$13,618 in reported non-ARC matching costs. As a result, ARC may require the Grantee to exclude the \$13,618 in questioned costs from the reported cost share.

Recommendation:

We recommend that the Grantee:

2. Establish a process to reconcile actual expenditures to the reported expenditures to ensure accurate reporting in accordance with the Uniform Guidance and exclude unsupported costs from the amounts reported.
3. Work with ARC to resolve the questioned cost totaling \$13,618 of non-ARC matching cost share.

Grantee's Response:

SWVHEC Foundation takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of ARC Grant Number VA-21610 with a grant performance period of October 1, 2023 to May 30, 2025.

Auditor's Response:

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

Finding 03 - Untimely Quarterly Progress Reporting

Condition:

As part of our procedures, Castro & Co reviewed interim and final Performance Progress Reports (PPR) submitted by SWVHEC Foundation during the grant period of October 1, 2023 to May 30, 2025. Based on our review, we noted that the following three PPRs were submitted more than 30 days after the close of the reporting period, as required in the grant agreement. Specifically:

- The PPR dated for the period ended January 31, 2024 was submitted 27 days late.
- The PPR dated for the period ended September 30, 2024 was submitted 15 days late.
- The PPR dated for the period ended January 31, 2025 was submitted 5 days late.

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 awarding agency must use OMB-approved common information collections, as applicable, when providing financial and performance reporting information.

(c) (1) The non-Federal entity must submit performance reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. Intervals must be no less frequent than annually nor more frequent than quarterly except in unusual circumstances, for example where more frequent reporting is necessary for the effective monitoring of the Federal award or could significantly affect program outcomes.

Cause:

The Grantee did not have adequate policies and procedures in place to ensure quarterly PPRs were prepared and submitted to ARC for all reporting periods within 30 days from the close of the reporting period. The Grantee stated that the delays were due to a lack of reminders from ARC grant management and changes in ARC project coordinators. The Grantee noted that it has implemented the use of a calendar reminder to ensure reports are submitted by the due dates to prevent late submissions of reports in the future.

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:

4. Establish policies and procedures to ensure timely preparation and submission of financial and progress reports in accordance with the Uniform Guidance and ARC grant agreement requirements.

Grantee's Response:

SWVHEC Foundation takes no exception to and agrees with Castro & Company, LLC's findings presented in the audit report of ARC Grant Number VA-21610 with a grant performance period of October 1, 2023 to May 30, 2025.

Auditor's Response:

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

Attachment 1 – Southwest Virginia Higher Education Center Foundation’s Response

May 12, 2026

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

**Subject: Southwest Virginia Higher Education Center Foundation’s (SWVHEC Foundation)
Response to Castro & Company, LLC’s Performance Audit of ARC Grant Number
VA-21610**

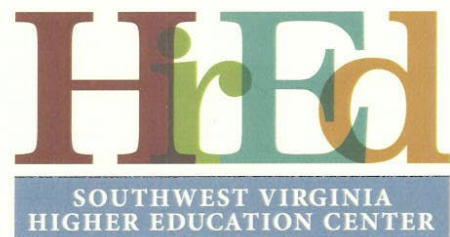
SWVHEC Foundation takes no exception to and agrees with Castro & Company, LLC’s findings presented in the audit report of ARC Grant Number VA-21610 with a grant performance period of October 1, 2023 to May 30, 2025.

Sincerely,



David N. Matlock
Agency Head and Executive Director

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