



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to Dickenson County Grant Number VA-19056

Report Prepared by Castro & Co, LLC

Report Number 23-26

September 26, 2023

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



Office of Inspector General

Appalachian Regional Commission

September 26, 2023

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General 

SUBJECT: Audit Report 23-26 – Dickenson County

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number VA-19056 per its agreement with the Appalachian Regional Commission. The objective of the audit was to determine if costs claimed were allowable, allocable, reasonable, and in conformity with the Commission's award terms and conditions and Federal financial assistance requirements. In addition, the audit determined whether the performance measures were reasonable, supported, and fairly represented to the Commission.

Castro & Company, LLC, is responsible for the attached audit report and the conclusions expressed in this report. The auditors did not issue any recommendations in the report. We do not express any opinion on the conclusions presented in the audit report. To fulfill our responsibilities, we:

- Reviewed the approach to and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings, as necessary;
- Reviewed the draft and final audit reports; and
- Coordinated the issuance of the audit report.

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-19056**

**For the period from July 1, 2017 to March 24, 2023
Awarded to Dickenson County**

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

September 25, 2023

Final Report

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Executive Summary

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, NW; Suite 700
Washington, DC 20009

Castro & Company, LLC (Castro & Co) conducted a performance audit of Grant Number VA-19056 awarded by the Appalachian Regional Commission (ARC) to Dickenson County (the Grantee) for the period of July 1, 2017 to March 24, 2023. The audit was conducted at the request of the ARC Office of Inspector General to assist it in its oversight of ARC grant funds.

The objectives of the performance audit were to determine whether: (1) grant funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended, as provided for in the approved grant budget; (3) internal guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with accounting principles generally accepted in the United States of America (or other applicable accounting and reporting requirements); (5) matching requirements were met; and (6) the reported performance measures were fair and reasonable.

We determined that the Grantee's financial management, administrative procedures, and related internal controls were adequate to manage the ARC grant funds. There were no findings and recommendations resulting from this performance audit engagement.

We discussed the results of this performance audit with Dickenson County's management at the conclusion of our fieldwork.

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

Castro & Company, LLC

Alexandria, VA
September 25, 2023

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency, representing a unique partnership of Federal, state, and local governments. ARC-funded programs are used to support education and job training; health care; water and sewer systems; housing; highway construction; and other essentials of comprehensive economic development. ARC grants are made to a wide range of entities including local development districts, state ARC offices, state and local governments, educational establishments, nonprofit organizations, and for a variety of economic development projects. Castro & Company, LLC (Castro & Co) was contracted by the ARC's Office of Inspector General to perform the audit of Grant No. VA-19056 awarded to Dickenson County (the Grantee) for the period from July 1, 2017 to March 24, 2023.

ARC awarded Grant No. VA-19056 to Dickenson County to provide funding for the replacement of three deteriorating below-ground pump stations with above-ground facilities to eliminate safety hazards for maintenance employees, increase capacity, and provide supply of water to support economic development. The three pump stations, located in Dickenson County, provide water to 408 households and six businesses in Dickenson County, 163 households and four businesses in an isolated community in neighboring Buchanan County, and nine businesses in the Breaks Interstate Park.

The original period of performance for Grant No. VA-19056 covered the period from July 1, 2017 to June 30, 2020 but was subsequently extended to June 30, 2023. The grant agreement provided a budget of \$441,740 in ARC funds and required non-ARC matching funds of \$252,260 for total project costs of \$694,000. The allowable percentage breakout of ARC to non-ARC funding for the project was originally approved at 64% ARC funds to 36% matching funds but was subsequently adjusted to 65% ARC funds and 35% matching funds under a pro-rata cost share waiver approved by ARC on May 26, 2023.

We obtained the Automated Standard Application for Payments (ASAP) Drawdown Request for the period covering August 10, 2021 to March 24, 2023 that identified cumulative total ARC costs of \$441,740 (65%) and non-ARC matching costs of \$241,178 (35%) for a total project cost of \$682,918.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of Dickenson County to determine compliance with the requirements of the ARC Grant No. VA-19056 for the period from July 1, 2017 to March 24, 2023.

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

Exhibit A: Schedule of Grant Budget			
Category	Federal Amount	Non-Federal Amount	Total
Administrative	\$ 24,000	\$ -	\$ 24,000
Engineering/Inspection/Permits	\$ -	\$ 120,000	\$ 120,000
Construction	\$ 417,740	\$ 132,260	\$ 550,000
Total	\$ 441,740	\$ 252,260	\$ 694,000

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 Dickenson County’s system that specifically apply to ARC such as costs for administration, engineering, inspection, permits, and construction. We conducted this performance audit from December 2022 to September 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit was conducted using the applicable requirements contained in Title 2 U. S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the ARC Code, and the Grant Agreement.

To meet the audit objectives, our overall methodology included the following:

- Obtaining an understanding of the Grantee’s internal controls and documenting key controls over cash disbursements, cash receipts, procurement, and match costs through reviews of policies and procedures, prior audit reports, organization charts, inquiry of the Grantee’s management and other available documentation, assessing control risk, and determining the extent of testing needed based on the control risk assessment;

- Considering fraud risk through a team fraud brainstorming session and inquiries of the Grantee’s management about their understanding of the risks of fraud related to grant awards, programs and controls the Grantee has established to mitigate specific fraud risks, and whether management is aware of any allegations of fraud or suspected fraud;
- Selecting a sample of expenditures based on materiality calculated using Government Accountability Office (GAO)/Council of 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 Larry Barton, County Administrator, Crystal Phillips, Assistant Director Dickenson County Public Service Authority (PSA), Kathi Boatright, Virginia Department of Housing and Community Development (VA DHCD) Program Manager and Kelly Charapich VA DHCE Program Staff for Dickenson County during the exit conference on September 25, 2023. Dickenson County concurred with our results.

Summary of Results

Castro & Co’s procedures determined Dickenson County 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.

Dickenson County’s financial management, administrative procedures, and internal controls were adequate to account for the funds provided under the ARC grant. The Grantee’s internal guidelines, including program (internal) controls, were adequate and operating effectively. We noted the Grantee had written policies and procedures for applicable grant activities, which we considered adequate for administering the grant. Accounting and reporting requirements were implemented in accordance with accounting principles generally accepted in the United States of America (or other applicable accounting and reporting requirements), including ARC requirements.

The Grantee reported a total of \$441,740 in ARC costs and \$241,178 in non-ARC matching costs; however, ARC approved a pro-rata cost share waiver which allows the final proportionality for ARC funding to be 64.68%. Therefore, we determined the Grantee met the match requirements as of March 24, 2023. The matching funds through March 24, 2023 were properly supported and allowable under both Federal and ARC requirements. 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 (FAC) website for Dickenson County and noted the Grantee had Single Audits performed for the years ended June 30, 2017 through June 30, 2022. The Single Audit report for the year ended June 30, 2022, identified a material weakness in internal control over financial reporting related to year-end adjusting entries on the Grantee’s financial statements and was a repeat finding since the year ended June 30, 2017. The Single Audit report did not identify deficiencies in internal control over compliance requirements as outlined in the OMB Compliance Supplement; therefore, we determined that the prior years’ finding does not impact the Grantee’s financial reporting of expended grant funds to ARC.

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

Exhibit B: Schedule of Claimed and Audit Recommended Costs							
Category	Claimed		Questioned Cost		Audit Recommended		
	Federal	Non-Federal	Federal	Non-Federal	Federal	Non-Federal	Total
Administrative	\$ 24,000	\$ -	\$ -	\$ -	\$ 24,000	\$ -	\$ 24,000
Engineering/Inspection/Permits	\$ -	\$ 110,000	\$ -	\$ -	\$ -	\$ 110,000	\$ 110,000
Construction	\$ 417,740	\$ 131,178	\$ -	\$ -	\$ 417,740	\$ 131,178	\$ 548,918
Total	\$ 441,740	\$ 241,178	\$ -	\$ -	\$ 441,740	\$ 241,178	\$ 682,918