
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Center for Rural Entrepreneurship
Christiansburg, Virginia**

**Final Report Number: 20-04
Grant Number: PW-18729**

December 2019

Prepared by:

Leon Snead & Company, P.C.



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December 20, 2019

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, N.W.
Washington, DC 20009

Leon Snead & Company, P.C. completed an audit of grant number PW-18729 awarded by the Appalachian Regional Commission (ARC) to the Center for Rural Entrepreneurship (the Center). The grant was administered by LOCUS Impact Investing (LOCUS). The audit was conducted at the request of the ARC Office of Inspector General to assist the office in its oversight of ARC grant funds.

The audit objectives were to determine whether: (1) program 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 grant guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); (5) the matching requirements and (6) the goals and objectives of the grant were met.

The ARC expenditures of \$379,631 and the match of \$117,553 tested for the grant were properly supported and allowable. The matching contribution was on track to be met. Financial and project performance reports were submitted to ARC timely and accurately. LOCUS had an adequate process in place for obtaining and recording performance data related to the overall goals of the grant. However, we identified one area that requires management attention. We determined that LOCUS's written financial management policies and procedures did not fully comply with 2 CFR 200 requirements. This matter and the corresponding recommended corrective action are discussed in the Finding and Recommendation section of this report.

A draft report was provided to LOCUS on December 2, 2019, for comments. LOCUS provided a response on December 18, 2019, which is included in this report as an Appendix.

Leon Snead & Company appreciates the cooperation and assistance received from LOCUS officials during the audit.

Sincerely,


Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number PW-18729 awarded by the Appalachian Regional Commission (ARC) to the Center for Rural Entrepreneurship (the Center). The grant was administered by LOCUS Impact Investing (LOCUS). The audit was conducted at the request of the ARC Office of Inspector General to assist the office in its oversight of ARC grant funds.

ARC awarded \$1,747,806 and required a matching contribution of \$513,977. The total estimated project cost is \$2,261,783. The initial period of performance for the grant was November 1, 2016 through September 30, 2019. The ending date was subsequently extended to March 31, 2020 via amendment.

The project is Building Entrepreneurial Communities: The Foundation of an Economic Transition for Appalachia. LOCUS is the lead partner for the project, which includes community development organizations from the states of Kentucky, Ohio, and West Virginia. They will provide training and coaching support for each of the three community development organizations. These organizations will target communities and focus on community engagement and team development at the local level to adapt the Entrepreneurial Communities framework and process in Central Appalachia. This will involve establishing entrepreneurial support systems that can identify new and developing entrepreneurs, assist new and expanding business development entrepreneurial skills, prepare for investment, and make connections with existing sources.

The grant was made under the Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative, which is an integrated, multi-agency effort to align and invest federal economic and workforce development resources in communities and regions negatively impacted by changes in the coal economy.

Objectives, Scope, and Methodology

The audit objectives were to determine whether: (1) program 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 grant guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements and (6) the established performance measures were met.

At the time of the audit, ARC funding of \$1,247,448 had been expended and matching contributions were \$372,049. We reviewed \$379,631 of the expenditures and \$117,553 of the matching contributions to determine whether they were properly supported and allowable.

We reviewed documentation provided by LOCUS and interviewed personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed written policies and administrative procedures to determine if they complied with federal requirements and were adequate to administer the grant. We reviewed financial and project performance reports to determine if they were submitted in accordance with

requirements. We evaluated grant results discussed in the project performance reports to determine if the planned performance goals and objectives were met.

The on-site fieldwork was performed at the LOCUS office in Christiansburg, Virginia during the period of October 28 through November 1, 2019. The audit results were discussed with LOCUS officials at the conclusion of the on-site visit. The grantee was in general agreement with the results.

The primary criteria used in performing the audit were 2 CFR 200, the ARC Code, the grant agreement, and the Memorandums of Understanding between LOCUS and the three community development organizations. The audit was performed in accordance with Generally Accepted Government Auditing Standards.

Summary of Audit Results

The ARC expenditures of \$379,631 and the match of \$117,553 tested for the grant were properly supported and allowable. LOCUS’s matching contribution was on track to be met. Financial and project performance reports were submitted to ARC timely and accurately. LOCUS had an adequate process in place for obtaining and recording performance data related to the overall goals of the grant.

We compared the planned performance measures with the actual performance measures reported by the grantee on the most recent project performance report. These results were confirmed by the grantee. As shown below, LOCUS has met or exceeded four of the five performance measures and is on track to meet the fifth performance measure.

Performance Measure	Planned Outputs	Actual Outputs*	Planned Outcomes	Actual Outcomes*
Communities Served	16	16	0	0
Participants Served	160	202	0	0
Plans/Reports Developed	16	6	0	0
Communities Served	0	0	16	16
Participants Improved	0	0	80	134

**As of September 30, 2019*

However, we identified one area that requires management attention. We determined that LOCUS’s written financial management policies and procedures did not fully comply with 2 CFR 200 requirements. This matter and the corresponding recommended corrective action are discussed in the Finding and Recommendation section of this report.

Finding and Recommendation

A. Financial Management

LOCUS's written policies and procedures did fully comply with 2 CFR 200 requirements for financial management. Our review of LOCUS's financial and internal control procedures determined they did not include written procedures for making payments and ensuring the allowability of costs are in accordance with the cost principles for federal awards.

2 CFR 200, Uniform Administrative Procedures, Cost Principles, and Audit Requirements for Federal Awards, requires grantees to comply with all applicable federal regulations, including financial management. Specifically, 2 CFR 200.302, Financial Management, requires grantees to have written procedures:

- (1) to implement 2 CFR 200.305 requirements for payments; and
- (2) for determining the allowability of costs in accordance with 2 CFR 200, Subpart E, Cost Principles for Federal Awards.

2 CFR.200.305 requires that payment methods must minimize the time elapsing between the receipt and disbursement of federal funds. It further states that:

1. In order to receive advance payments, grantees must maintain or demonstrate the willingness to maintain (1) written procedures that minimize the time elapsing between the receipt and disbursement of funds; and (2) financial management systems that meet the standards for fund control and accountability.
2. Advance payments must be limited to the minimum amounts needed and be timed in accordance with the actual, immediate cash needs of the grantee.
3. The timing and amount of advance payments must be as close as administratively feasible to the actual disbursement.

Recommendation

LOCUS should modify its existing written financial management policies and procedures to ensure they fully comply with the 2 CFR 200 requirements listed above.

Grantee's Response

The grantee responded that they concur with the recommendation. They stated that the Organization will enhance its current policies and procedures to incorporate detailed language on the compliance with 2 CFR 200, including, but not limited to, requirements for payment methods in accordance with 2 CFR 200.305 and determining the allowability of costs as required by 2 CFR 200, Subpart E. Policies will be updated no later than April 30, 2020.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.

Leon Snead & Company

From: Ashley Coleman <AColeman@vccva.org>
Sent: Wednesday, December 18, 2019 9:46 AM
To: leonsnead.companypc@erols.com
Cc: Wendy Jay-Locus; Deb Markley
Subject: RE: Draft Report - ARC Grant No. PW-18729

We concur with the recommendation. One thing I noticed throughout the report was that you had Locus in lowercase, it is actually LOCUS. Below is the management response.

The Organization will enhance its current policies and procedures to incorporate detailed language on the compliance with 2 CFR 200, including, but not limited to, requirements for payment methods in accordance with 2 CFR 200.305 and determining the allowability of costs as required by 2 CFR 200, Subpart E. Policies will be updated no later than April 30, 2020.

Let me know if you need anything else. When you have a final report, please include me on the distribution. We plan to present the final report to our Audit Committee in January.

Thanks
Ashley



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From: Leon Snead & Company < >
Sent: Monday, December 2, 2019 2:41 PM
To: Deb Markley <deb@locusimpactinvesting.org>
Subject: Draft Report - ARC Grant No. PW-18729

[CAUTION: This email originated from outside the organization. Use caution when clicking links or opening attachments.]

Good Afternoon Ms. Markley,

Attached is a copy of the draft report on the above referenced audit for your review and comments. Please provide your comments by December 20, 2019. Please indicate whether you concur or nonconcur with the recommendation in

Appendix

the report and state what actions have been taken or are contemplated to implement the recommendation. If you have any questions, please call or e-mail me.

Please confirm your receipt of the attached report and request for comments. Thanks very much for your assistance.

Leon Snead
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