

Office of Inspector General

Report Prepared by Leon Snead and Company, P.C.

Audit of Grant Award – Wise County Industrial Development Authority

Grant Number – PW-18657



Office of Inspector General

APPALACHIAN REGIONAL COMMISSION

Audit Report: 20-20

August 28, 2020



August 28, 2020

TO: Charles Howard, Interim Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit of Grant Award – Wise County Industrial Development Authority
Report Number 20-20

This memorandum transmits the Leon Snead & Company, P.C. report for the audit of costs charged by the Wise County Industrial Development Authority, Virginia per its agreement with the Appalachian Regional Commission for Grant Number PW-18657. 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 met, not met, or not likely to be met.

OIG Oversight of the Audit

Leon Snead & Company, P.C. 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 Leon Snead & Company, P.C.'s audit report. To fulfill our responsibilities, we:

- Reviewed Leon Snead & Company, P.C.'s 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 with Leon Snead & Company, P.C., as necessary, to discuss audit progress, findings, and recommendations;
- Reviewed the audit report prepared by Leon Snead & Company, P.C.; and
- Coordinated issuance of the audit report.

We thank your staff for the assistance that was extended to the auditors during this audit. If you have any questions regarding this report, please contact me at 202-884-7675.

Attachment

**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Wise County Industrial Development Authority
Wise, Virginia**

**Final Report Number: 20-20
Grant Number: PW-18657**

March 2020

Prepared by:

Leon Snead & Company, P.C.



**LEON SNEAD
& COMPANY, P.C.**

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March 20, 2020

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-18657 awarded by the Appalachian Regional Commission (ARC) to the Industrial Development Authority of Wise County, Virginia (Wise County IDA). 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); and (5) the matching requirements and (6) the established performance goals were met.

We questioned about \$1.2 of the \$1.3 million of claimed costs because the documented support for the expenditures was not adequate and many of the items of equipment and services paid for were not delivered. Also, there were serious weaknesses in the accounting and internal control systems that render the overall financial and project management systems presently inadequate for managing funds under the ARC grant award.

The grant recipient did not have written policies and procedures that documented its accounting, procurement and internal control systems. In addition, the project was not being managed properly. There was no assurance that the equipment and services paid for were received. The Project Director for the grant appears to have a conflict of interest with: 1) oversight responsibilities for the project, and 2) a vendor supplying equipment and services. His company, Drone Airspace Management, LLC, is one of the vendors for many of the items that were paid for but never delivered.

In its response dated March 6, 2020 to our draft audit report, the recipient concurred with the findings and indicated that several actions had been taken or were in process to address the findings. Since many of these actions will be completed on a future date, we recommend that the findings remain open until the corrective actions are completed. A copy of the response is included as an attachment to the report.

Sincerely,

Leon Snead & Company, P.C.
Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number PW-18657 awarded by the Appalachian Regional Commission (ARC) to the Industrial Development Authority of Wise County, Virginia (Wise County IDA). 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 grant provided ARC funding to support the Partnership for Opportunity and Workforce and Economic Revitalization (POWER) initiative, which is an ARC and multi-agency effort to invest economic and workforce resources in regions and communities negatively impacted by changes in the coal economy. Grant PW-18657 provided ARC funding to the Wise County IDA to participate in the Virginia Emerging Drone Industry Cluster project, with the primary purpose of providing workforce development for an emerging drone industry based in Southwest Virginia, particularly counties served by the Mountain Empire Community College (MECC). Initially, the idea was to train local and corporate personnel through coursework offerings in the operation, maintenance, and repair of large and small drones and to operate some of the attachments made for drones such as sensors and cameras.

The grant was awarded on September 27, 2016, and covered the period from August 1, 2016 to September 30, 2020. It provided \$2,220,000 in ARC funding and initially identified \$880,000, which was revised in January 2018, to \$1,233,750 in non-ARC matching funds. An amendment to the grant in early February 2018 removed the large drone component of the project and replaced it with enhanced Visual Line of Sight (VLOS) and Beyond Visual Line of Sight (BVLOS) small drone training components and outreach to former coal industry workers and their families. The grant was still open at the time of the audit. The Wise County IDA had received \$1,365,165 and expended \$1,363,618 in grant funding as of October 11, 2019.

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 goals were met.

We reviewed documentation provided by the Wise County IDA, including documents received from Drone Airspace Management, LLC and MECC, visited the MECC campus to identify the location of equipment in order to confirm the amount of equipment received and to inspect the tagging and condition of equipment, and interviewed the Wise County IDA to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We also interviewed MECC personnel in order to obtain an overall understanding of the grant activities. We reviewed project progress, performance, and financial reports to determine if they were submitted to ARC in accordance with requirements. We reviewed the recipient's most recent annual financial statement audit report to identify any issues impacting the ARC grant and our audit.

The primary criteria used in performing the audit were the grant agreement, applicable Office of Management and Budget (OMB) Circulars, and the ARC Code. The audit was performed in accordance with *Government Auditing Standards*.

The on-site fieldwork was performed at Wise County IDA offices and MECC facilities during July and October, 2019. The preliminary results were not discussed with Wise County IDA staff and officers during and at the conclusion of the on-site visits because additional audit work was deemed necessary. The additional audit work was planned to take place at Drone Airspace Management, LLC offices, but it was not performed because officials of Drone Airspace Management, LLC could not be reached to obtain their agreement to meet with us. Thus, this report has been prepared without further discussion of the results with the recipient.

Summary of Audit Results

We questioned about \$1.2 of the \$1.3 million of claimed costs because the documented support for the expenditures was not adequate and many of the items of equipment and services paid for were not delivered. Also, there were serious weaknesses in the accounting and internal control systems that render the overall financial and project management systems presently inadequate for managing funds under the ARC grant award.

The grant recipient did not have written policies and procedures that documented its accounting, procurement and internal control systems. These policies and procedures are needed to provide a guide for employees in operating these systems to ensure compliance with the federal and grant requirements in managing ARC grant funds.

In addition, the project was not being managed properly. There was no assurance that the equipment and services paid for were received. The Project Director for the grant appears to have a conflict of interest with: 1) oversight responsibilities for the project, and 2) a vendor supplying equipment and services. His company, Drone Airspace Management, LLC, is one of the vendors for many of the items that were paid for but never delivered. The Project Director was not available to meet with the auditors to clarify discrepancies noted with the invoices and deliveries. Several attempts were made but none were successful.

Two of the three performance goals were being met. We recommend that the third performance goal be revisited to determine if it should be revised to something that is more doable by the recipient.

The audit results were not discussed with Wise County IDA staff because we did not get input from the Project Director on the findings. The Project Director's input will be helpful in addressing the discrepancies between payments and deliveries. We did not have an official exit conference at the completion of the audit.

Findings & Recommendations

A. Unsupported Costs

The Wise County IDA claimed costs of \$1,363,618 associated with this grant. We found that it had spent that amount as well. We have questioned \$1,216,477 of these costs because the Wise County IDA did not have supporting documentation to show that the equipment and services paid for were received.

Payments of \$855,000 were made to Drone Airspace Management, LLC, of which we questioned \$823,150. We were informed that the vendor never delivered many of the items of equipment and services billed for. However, we found that MECC had received four drones billed at \$7,000 each and 14 drones billed at \$275 each. MECC staff identified the drones, but they were not marked in any way to identify them as drones that were purchased with grant funds. Several attempts were made during the audit to visit with the vendor and verify the discrepancies between billed amounts for equipment and what equipment was received by MECC, but our requests were refused.

An additional \$393,327 was paid to Learning Hirer, Inc. for equipment, educational content & curriculum development, but we were informed that nothing had been received from Learning Hirer, Inc. We questioned the amount of the Learning Hirer, Inc. invoice totals because we concluded that they were unsupported.

Further, the Wise County IDA did not review and document that grant and matching costs were being monitored, recorded, and allocated as required. We did not question the costs claimed by MECC of \$116,291 because the invoices submitted were properly supported in accordance with 2 CFR 200.302(a), but the Wise County IDA had not decided whether these costs incurred by MECC were properly allocable to the grant and not to the matching funds of its two other sources of funds. We made a recommendation regarding this finding in Section B. Financial Management.

The details for the costs questioned are provided in the schedule and notes below.

Date	Payee	Description	Cost Claimed	Cost Questioned	Notes
10/21/16	Drone Airspace Mgmt., LLC	Licensing Fee – Curriculum Dev. & Delivery	\$180,000	\$180,000	A
7/14/17	Drone Airspace Mgmt., LLC	Demo Day Costs & delivery of drones to MECC	64,000	34,350	B
9/11/17	Drone Airspace Mgmt., LLC	Train the Trainer Sessions 1-3 & delivery of drones to MECC	89,500	87,575	C
12/6/17	Drone Airspace Mgmt., LLC	Train the Trainer Sessions 2-3 & delivery of one drone	15,874	15,599	D
2/21/18	Drone Airspace Mgmt., LLC	Feasibility analysis of obtaining FAA Waivers for drone operation	75,626	75,626	E
6/1/18	Drone Airspace Mgmt., LLC	BVLOS Curriculum License	250,000	250,000	F
6/1/18	Drone Airspace Mgmt., LLC	Tower Inspections & equipment	180,000	180,000	G
6/6/18	Mountain Empire CC	21 computers	47,673	0	
10/23/18	Learning Hirer, Inc.	Phase I Learning Content	53,327	53,327	H

Date	Payee	Description	Cost Claimed	Cost Questioned	Notes
2/8/19	Learning Hirer, Inc.	Learning Management System & VR Equipment	340,000	340,000	I
4/2/19	Mountain Empire CC	Payroll and Fringe Benefits for drone class Instructors	68,618	0	
Total			\$1,363,618	\$1,216,477	

Notes:

A. The senior drone program instructor at MECC stated that no license was received and that he developed the curriculum himself. Cost considered unsupported because nothing was received for the payment.

B. We questioned the costs related to items that were not delivered because these costs were considered unsupported. We did not question parts of the invoice related to six quadcopters (drones) @ \$275 (\$1,650) and four quadcopters @ \$7,000 (\$28,000) received by MECC. 2 CFR 200.302(a) requires: "...the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award."

C. We questioned the costs related to items that were not delivered because these costs were not supported. We did not question seven quadcopters @ \$275 (\$1,925) received by MECC. 2 CFR 200.302(a) requires: "...the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award."

D. We questioned the items on the invoice that were not received because the payment was considered unsupported. We did not question one quadcopter @ \$275 received by MECC. 2 CFR 200.302(a) requires: "...the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award."

E. We considered this cost unsupported because no feasibility analysis, or report, or FAA waiver was received. Again, refer to 2 CFR 200.302(a) for the required support of expenditures.

F. The senior drone program instructor at MECC stated that no BVLOS license was received and that he developed the curricula for all courses taught at MECC himself. The costs billed for these are considered unsupported.

G. The senior drone program instructor at MECC said that they did not conduct tower inspections, nor did MECC receive any equipment associated with tower inspections from Drone Airspace Management, LLC. The Executive Director of the Wise County IDA also confirmed that he had no knowledge of any tower inspections being conducted. We considered these costs were unsupported because no completion report on tower inspections was found and no associated equipment was received by MECC.

H. The senior drone program instructor at MECC said that no learning content was received from Learning Hirer, Inc. As a result, we considered the costs on this payment invoice to be unsupported. 2 CFR 200.302(a) requires: "...the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award."

I. The senior drone instructor at MECC stated that no Learning Management System or VR equipment was received from Learning Hirer, Inc. The costs billed for these goods and services are considered unsupported. 2 CFR 302(a) requires: "...the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award."

Recommendations

1. The Wise County IDA should contact the two vendors that received payments related to our questioned costs and obtain the support for the invoiced amounts.
2. If sufficient support cannot be obtained, the Wise County IDA should refund to ARC the amounts that it is unable to adequately support.

Grantee's Response

On March 2, 2020, we received a package of information from Drone Airspace Management, LLC addressing the questioned costs and providing additional backup for many of the items. I will address each item in the order that it is presented in the Draft Audit Report.

- A. Licensing Fee – Curriculum Dev. & Delivery
 - a. The license was delivered in the package received on March 2. We are reviewing it for completeness.
 - b. I reviewed the curriculum on my visit in February. It is in digital format and approximately 95% complete. We anticipate final receipt of this program by the close of the Grant in September 2020.
- B. Demo Day Costs & Delivery of drones to MECC
 - a. Demo Day was listed as a lump sum item and the cost should not be contested at this time.
- C. Train the Trainer Sessions 1-3 & delivery of drones to MECC
 - a. The Train the Trainer Session 1 took place around October 15, 2017. It was lump sum.
 - b. Part of the grant amendment that added the Demo Day, deleted the additional drones.
- D. Train the Trainer Sessions 2-3 & delivery of one drone
 - a. The Train the Trainer Session 2 took place around March 21, 2018. It was lump sum.
- E. Feasibility analysis of obtaining FAA waivers for drone operation
 - a. A copy of the completed Feasibility analysis was included in the package received on March 2, 2020. We are reviewing it for completeness.
- F. BVLOS Curriculum License
 - a. The license was delivered in the package received on March 2, 2020. We are reviewing it for completeness.
- G. Tower Inspections and equipment
 - a. Documentation of tower inspections was received in the March 2, 2020 package. We are reviewing it for completeness.
- H. Phase 1 Learning Content
 - a. Learning Hirer, Inc. was under the impression that the advance payments were advances to them to complete the requirements by the end of the Grant Period. They anticipate having all deliverables to the County by September 2020.
- I. Learning Management System & VR Equipment
 - a. Learning Hirer, Inc. was under the impression that the advance payments were advances to them to complete the requirements by the end of the Grant Period. They anticipate having all deliverables to the County by September 2020.
 - b. On my visit to Drone Airspace Management, LLC's office I was given the opportunity to view and use the Learning Management System and VR Equipment. The programming is approximately 95% complete.

As was stated in items H and I above, there appears to have been some confusion on the parts of Drone Airspace Management, LLC and Learning Hirer, Inc. about the use of advance money from ARC. We would ask that these vendors be given until September 30, 2020 to complete the outstanding items.

Auditor's Comments

The Wise County Administrator stated that the County needed additional time to review the documents recently received from its vendor, Drone Aerospace Management, LLC. Most of the costs questioned relate to a lack of support for the payments made to DAM for services and products provided to the County. We recommend that the finding remain open until the County completes its review of the additional materials and provides ARC with a more definitive response on the support for the costs that are questioned.

B. Financial Management

The grant recipient used the State's accounting system to record funds received under the grant and to record disbursements of grant funds. These two functions of the accounting process worked well and no exceptions are taken.

However, there were weaknesses in the financial management system that made it inadequate for managing federal funds. We concluded, based on our examination, that the recipient's financial management system does not presently have the capability to manage and control the funds awarded under the ARC grant.

The recipient had no written policies and procedures to provide a frame work for managing the grant funds. As a result, invoices were paid without confirming that the goods and services were received and no one had the responsibility for making this confirmation. The Executive Director of the Wise County IDA stated that when the invoices were submitted, they were paid but he did not verify that the goods had been delivered. During the audit we determined that some of the items paid for were not delivered.

There were no procurement procedures to guide the purchase of goods and services. As a result, purchases were made without competition and there were no inhouse price analyses made to determine if the vendor's prices for the equipment and services were fair and reasonable. In addition, there were no established timeframes for delivery of certain products. There are several federal requirements to consider when developing procurement procedures which includes the following parts of the CFR: (a) General Procurement Standards 2 CFR 200.318, (b) Competition 2 CFR 200.219 and (c) Procurement Methods 2 CFR 200.320.

There were no written standards of conduct covering real or apparent conflicts of interest relative to officials associated with grant operations. As a result, purchases were made from a vendor that is owned by the project director of the grant. At a minimum, these type transactions present the appearance of a conflict of interest. The Federal regulation at 2 CFR 200.318(c)(1) states in part: "The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts. No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract. The officers, employees, and agents of the non-Federal entity may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts. However, non-Federal entities may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value. The standards of conduct must provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the non-Federal entity."

The recipient did not have a sufficient internal control system to ensure that grant funds were spent appropriately. The Wise County IDA had one staff member, the Executive Director, and a small Board of locally appointed members until early 2019 when an assistant to the Executive Director

was hired. It appeared that the board members did not review or question the validity of any payments made. Internal control is a part of management's overall responsibility. However, everyone in the entity has a responsibility for internal control. Internal controls do not need to be complicated or overly costly so long as they accomplish the three key objectives of: 1) effectiveness and efficiency of operations, 2) reliability of reporting for internal and external use, and 3) compliance with applicable laws and regulations (2 CFR 200.61 & 2 CFR 200.303). There was no monitoring of the project to determine if its objectives were being accomplished or that the project director was providing proper oversight of the project. In accordance with 2 CFR 200.328, the recipient is responsible for oversight of the operations of the Federal award support activities. The recipient must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved.

Record keeping was not adequate to maintain control over funds received and disbursed. The Executive Director maintained a manual spreadsheet and recorded the funds received and payments made. Payment invoices were maintained but most did not have sufficient support to determine if the items received matched the payments made. The accounting records did not document any amounts for match costs contributed by the recipient. For example, Mountain Empire Community College (MECC) provided drone instruction at its campus in Big Stone Gap, Virginia prior to and during the period of the Grant. The cost of a portion of the instruction and procurement of computers and software for the drone classes was billed to the ARC grant. This was in accord with the revised budget, but the budget also required that MECC provide \$933,750 in matching costs. Two invoices for \$116,291 were submitted and paid. However, we could not tell if the costs billed should have been incurred as matching costs or ARC grant costs. Article 14 of the grant requires the recipient to ensure all records pertaining to costs, expenses, and funds be maintained in a manner consistent with generally accepted accounting principles and documentation for each accounting action be readily available.

The Executive Director indicated that he relied on the Project Director to keep the details about cost transactions. It did not appear that the Project Director reviewed the invoices submitted by MECC. The Project Director was also the vendor supplying most of the equipment and services. Several attempts were made to visit with the Project Director and obtain support for the expenditures but he refused our requests.

Financial and project reporting requirements were not being met. Reports were not submitted to the ARC on time, interim reports did not fully meet ARC format and content requirements and ARC staff had to provide the recipient considerable assistance in preparing financial reports.

Recommendations

The Wise County IDA should:

1. Develop and implement policies and procedures to guide its employees with the accounting and financial controls of grant funds, and the compliance with Federal requirements.
2. Assign someone the duties of accounting for project funds and costs, to include: the allocation of costs to funding sources, the proper review of invoices, obtaining full support for invoiced amounts, verifying that the equipment and services are received and maintaining budgetary and expense accounts for ARC grants and other funding sources.

Grantee's Response

We also acknowledge the weakness in the accounting and internal controls. These controls have been reviewed, discussed and corrected as needed. Appropriate controls are now in place and will be complied with including additional oversight by myself (County Administrator) and the County Attorney. These policies are being applied to any future invoices that may be part of this project.

Auditor's Comments

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

C. Project Management

The ARC grant, as amended, required the Wise County IDA to develop a drone program at the Mountain Empire Community College (MECC). The Grant identified the Wise County IDA as the grant recipient and an officer of Drone Airspace Management, LLC, as the Project Director for the grant. MECC had developed several drone courses on its own, but this grant was intended to enhance those courses and to develop new curriculum to provide enhanced training with regard to both VLOS and BVLOS drone flights. Drone Airspace Management, LLC was a major provider of equipment and services under this Grant.

We reviewed all files and documents provided to us by the Executive Director at the Wise County IDA and interviewed the senior drone instructor and his supervisor at MECC in order to obtain information on activities and performance measures associated with this grant. The Project Director was unavailable for interview and participation in providing documentation to assist us at the conclusion of this audit.

We found that no contractual relationship had been established between the grant recipient and its Project Director, a particularly important step where the Project Director for the grant is not associated with the recipient in any other formal way and is an official of one of the vendors.

We believe that establishing a good working relationship with the Project Director is a required step when staff from two unrelated organizations are assigned to an ARC grant. It is essential to formally identify the duties and responsibilities of the Project Director in order to communicate in writing the required documentation needed to support costs incurred, identify reports and who will prepare them, identify activities, services, and equipment and who will be in charge of providing them, and most important of all, addressing any current or potential conflicts of interest that may exist between the grant recipient and officials responsible for grant management.

We concluded that the Project Director, an officer of Drone Airspace Management, LLC, had a conflict of interest by attempting to manage the drone project and the sale of equipment and services for the project through his Company. During a telephone discussion with the auditor, the Project Director stated that he was not responsible for administering grant activities and expending the funds. Rather, he explained his role only as a vendor offering hardware, services and content to the Wise County IDA. 2 CFR 200.318(b) and (c) prohibit conflicts of interest, both real or apparent, and prohibit such conduct; but in this case, it was not specifically spelled out in a document signed between the grant recipient and the project director.

During our discussions we determined that the Wise County IDA Executive Director and Board Chairman were not involved in or very knowledgeable about how the project plan was conceived and developed. It appeared from our discussions that they were not part of critical grant decisions and activities during implementation of the project. The Wise County IDA was approached and requested to submit the grant application as the grant recipient and agreed to do so without fully understanding or taking ownership of the project. That hands-off approach seemed to continue throughout the project's implementation. We believe that project management of the grant could have been done better and more efficiently with the advice and support of the grant recipient. 2 CFR 200.318(b) requires that, "Non-Federal entities must maintain oversight to ensure that

contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders”.

The senior drone instructor at MECC provided an example of how better coordination between the recipient and the school could have assisted in completing the project more cost effectively. The senior drone instructor showed us on his computer that by shopping online for drones, he could obtain drones identical to the ones Drone Airspace Management, LLC provided for less than half the price paid to Drone Airspace Management, LLC by the Wise County IDA.

We did find that a Memorandum of Agreement was signed by the Chairman of the Wise County IDA and the General Counsel of Learning Hirer, Inc. The document provided for Learning Hirer, Inc. to provide learning, training, and workforce development platforms to MECC. This document was used as the justification for \$393,397 in billings to the grant. Because this was not a procurement that took place competitively, we concluded that the proper methods of procurement did not take place with regard to the acquisition of these services. The staff at MECC confirmed that they had not yet received anything of value from Learning Hirer, Inc. as well.

Recommendation

The Wise County IDA should assign the duties and responsibilities of Project Management to an inhouse Project Director. If the Project Director needs specialized assistance in the area of drones and their capabilities, coordinate with ARC to procure the needed assistance.

Grantee's Response

As County Administrator, I have assumed the role of Project Director. Any presumed or apparent conflicts of interest have been reviewed and addressed with the reassignment of personnel. Standards of conduct have been and are being reviewed for application and compliance with Federal Grant regulations.”

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.

D. Performance Measures

The Wise County IDA revised its performance measures at the time it revised its budget and dropped the large drone part of the drone project. The revised project has three performance goals to demonstrate the results and measure value of the Grant with its revised scope. Those are: 1) a planned output of 165 students/workers served (enrolled); 2) a planned outcome of 125 students/workers improved (graduated), and 3) a planned outcome of 120 students/workers improved (getting job or interview).

We obtained and reviewed enrollment data from MECC and determined that 208 students had successfully completed one or more drone courses at MECC since the beginning of the Grant period. The Instructor of the drone courses at MECC and the Education Specialist that we interviewed stated that enrollment figures only included students that successfully completed the courses in which they were enrolled, not those who withdrew or unsuccessfully took the courses. We concluded that performance measures 1) and 2) were met.

When asked about the performance measure of the number of students getting a job or an interview for a job related to the operation of drones and their cameras and other sensors, the MECC representatives stated that MECC does not attempt to gather that information. However, they told the auditor that one graduate of the program specializes in providing clients with aerial photography of special occasions, and regular business film to be used in their businesses. Those include real estate professionals to whom he provides aerial film of properties for sale. They also said that he provided the aerial film used by MECC in its website, MECC.edu. We concluded that MECC does not have the resources to gather information on this third performance measurement.

Recommendation

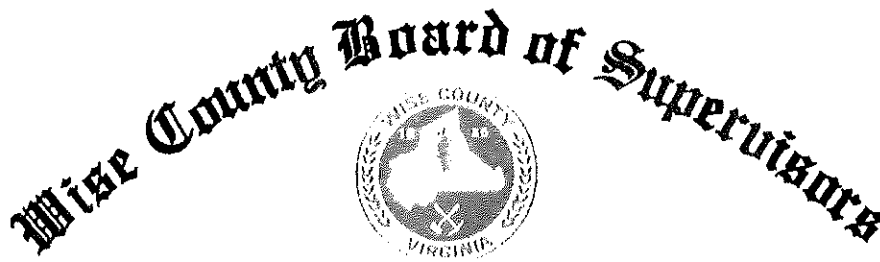
The Wise County IDA should work with MECC to determine how it can provide information on the students that have successfully completed its drone coursework and what success they have had in using their knowledge of drones to obtain work in that field. Based on what MECC can provide, the Wise County IDA should propose to the ARC a revision of the third performance measure regarding the number of students/workers improved to align it with what data MECC can provide regarding the success of its drone students.

Grantee's Response

We are working with MECC to implement a monitoring plan to verify project objectives are being met and the goals of the project are achieved. Specifically included are record keeping, familiarity with generally accepted accounting principles, allocation of costs to funding sources, proper review of invoices, supporting documentation, and verification of receipt of equipment and services.

Auditor's Comments

The recipient is in the process of implementing plans to better monitor, document and report on its performance. We recommend that the finding remain open until the recipient reports to ARC that these actions are completed and it is capable of reporting in compliance with the grant requirements.



OFFICE OF COUNTY ADMINISTRATOR

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March 6, 2020

Mr. Leon Snead
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Rockville, MD 20850

Re: Grant PW-18657
Draft Audit of Grant Award
Wise County Industrial Development Authority

Dear Mr. Snead:

On behalf of Wise County (County) and the Wise County Industrial Development Authority (IDA), I would like to give you an update on the costs questioned in the Draft Audit Report received by our office January 2, 2020. I met with Avery Brown of Drone Aerospace Management (DAM) at their Arlington Virginia office on February 6, 2020. In addition to this there has been considerable email correspondence between Drone Aerospace Management and the County to resolve these issues.

On March 2, 2020, we received a package of information from DAM addressing the questioned cost and providing addition backup for many of the items. I will address each item in the order that it is presented in the Draft Audit. The letters below correspond to the letters in the notes' column of the Draft Audit:

- A. Licensing Fee – Curriculum Dev. & Delivery
 - a. The license was delivered in the package received on March 2. We are reviewing it for completeness.
 - b. I reviewed the curriculum on my visit in February. It is in digital format and approximately 95% complete. We anticipate final receipt of this program by the close of the Grant in September 2020.
- B. Demo Day Costs & Delivery of drones to MECC
 - a. Demo Day was listed as a lump sum item and the cost should not be contested at this time.

- C. Train the Trainer Sessions 1-3 & delivery of drones to MECC.
 - a. The Train the Trainer Session 1 took place around October 15, 2017. It was lump sum.
 - b. Part of the grant amendment that added the Demo Day, deleted the additional drones.
- D. Train the Trainer Sessions 2-3 & delivery of one drone
 - a. The Train the Trainer Session 2 took place around March 21, 2018. It was lump sum.
- E. Feasibility analysis of obtaining FAA Waivers for drone operation
 - a. A copy of the completed Feasibility analysis was included in the package received on March 2, 2020. We are reviewing it for completeness.
- F. BVLOS Curriculum License
 - a. The license was delivered in the package received on March 2, 2020. We are reviewing it for completeness.
- G. Tower Inspections and equipment
 - a. Documentation of tower inspections was received in the March 2, 2020 package. We are reviewing it for completeness.
- H. Phase 1 Learning Content
 - a. Learning Hirer, Inc. was under the impression that the advance payments were advances to them to complete the requirements by the end of the Grant Period. They anticipate having all deliverables to the County by September 2020.
- I. Learning Management System & VR Equipment
 - a. Learning Hirer, Inc. was under the impression that the advance payments were advances to them to complete the requirements by the end of the Grant Period. They anticipate having all deliverables to the County by September 2020.
 - b. On my visit to DAM's office I was given the opportunity to view and use the Learning Management System and VR Equipment. The programing is approximately 95% complete.

As was stated in items H and I above there appears to have been some confusion on the parts of DAM and Learning Hirer about the use of advance money from ARC. We would ask that these vendors be given until September 30, 2020 to complete the outstanding items.

We also acknowledge the weaknesses in the accounting and internal controls. These controls have been reviewed, discussed and corrected as needed. Appropriate controls are now in place and will be complied with including additional oversight by myself and the County Attorney. These policies are being applied to any future invoices that may be part of this project.

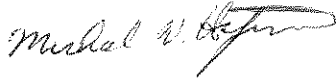
As County Administrator, I have assumed the role of Project Director. Any presumed or apparent conflicts of interest have been reviewed and addressed with the reassignment of personnel. Standards of conduct have been and are being reviewed for application and compliance with Federal Grant regulations.

We are working with MECC to implement a monitoring plan to verify project objectives are being met and the goals of the project are achieved. Specifically included are record keeping, familiarity with generally accepted accounting principles, allocation of costs to funding sources,

proper review of invoices, supporting documentation, and verification of receipt of equipment and services.

We thank you for the opportunity to address these issues prior to the Final Audit being published. Should you have any further questions or comments, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael W. Hatfield". The signature is fluid and cursive, with a prominent loop at the end.

Michael W. Hatfield
County Administrator

Cc:
enclosures