APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL

AUDIT OF GRANT AWARD

Coalfield Development Corporation
Wayne, West Virginia

Final Report No. 18-20
Grant Number: PW-18496
April 2018

Prepared by:

Leon Snead & Company, P.C.

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April 27, 2018

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-18496 awarded by the Appalachian Regional Commission (ARC) to the Coalfield Development Corporation (Coalfield). 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 the goals and objectives of the grant were met.

Overall, Coalfield's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. We found the grantee had an adequate process in place for obtaining and recording data related to the goals of the grant. Performance measures to date had either been met or were on track. Matching cost requirements were being met and progress reports were submitted as required to ARC. The costs tested were supported. However, we identified one area that requires management attention. During our detailed testing of project expenses, we determined that $82,831 of these expenses were incurred outside of the grant period. These questioned costs and the corresponding recommended corrective actions are discussed in the Finding and Recommendations section of this report.

A draft report was provided to Coalfield on March 29, 2018, for comments. Coalfield provided a response to the report on April 20, 2018. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the Coalfield and ARC staffs 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-18496 awarded by the Appalachian Regional Commission (ARC) to the Coalfield Development Corporation (Coalfield). 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 the grant funds to support The Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative, which is a congressionally funded initiative that targets federal resources to help communities and regions that have been affected by job losses in coal mining, coal power plant operations, and coal-related supply chain industries due to the changing economics of America's energy production. It supports efforts to create a more vibrant economic future for coal-impacted communities by cultivating economic diversity, enhancing job training and re-employment opportunities, creating jobs in existing or new industries, and attracting new sources of investment.

The project is designed to enable Coalfield to expand entrepreneurial activities and build a competitive workforce in southern West Virginia hit hard by the rapid decline of the coal industry. The grant will support entrepreneurship via five enterprises. These enterprises are designed to help by incubating job-creating social enterprises, scaling-up Coalfield's workforce development model, and duplicate successful social enterprise models from existing service areas to newly expanded service areas that have also been impacted by the coal industry's decline.

Revitalize Appalachia develops the green-collar construction workforce through on-the-job training in modern construction techniques. Reclaim Appalachia salvages deconstructed building materials and hires unemployed people to up cycle these materials in to furniture and other household products. Refresh Appalachia creates more skilled farmers through on-the-job training in sustainable, organic agricultural fields of work while also developing a more sustainable agricultural system for the region. Rewire Appalachia is anticipated to drive the solar and modern technology markets of the target area, tripling the amount of solar power emanating from West Virginia. Rediscover Appalachia is arts and culture based and develops small businesses meant to attract new visitors to the region.

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 the goals and objectives of the grant were met.

The original grant covered the period July 18, 2016 to July 15, 2019, and provided $1,870,000 in ARC funds and required $467,500 in non-ARC recipient matching funds. Revision PW-18496-

R1 provided an additional $248,000 in ARC funds and required an additional $62,000 in non-ARC funding. The project end date was changed to July 15, 2018. Overall estimated project costs for this grant are $2,647,500, broken out as $2,118,000 in ARC funds and $529,500 in non-ARC matching funds. The percentage break-out of ARC to non-ARC funding for the overall project is 80% ARC funds and 20% non-ARC matching funds.

A total of $1,774,923 in grant funds was expended and reimbursed by ARC, and $467,500 was provided in non-ARC recipient matching funds as of March 8, 2018. There was a balance of $343,077 in ARC funds remaining on the grant. Of the expenditures charged to the grant and claimed for reimbursement, we selected a sample of $669,100 for testing to determine whether the charges were properly supported and allowable. We tested matching costs in the amount of $467,500 to determine whether the charges were properly supported and allowable.

We reviewed documentation provided by Coalfield 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 were compliant with federal requirements and adequate to administer the grant. We reviewed financial and project progress reports to determine if they were submitted in accordance with requirements. We reviewed the most recent audit and financial statements to identify any issues that significantly impacted the ARC grant and the grant audit.

The on-site fieldwork was performed at the Coalfield offices in Wayne, West Virginia during March 6-8, 2018. The preliminary audit results were discussed with the Coalfield staff at the conclusion of the on-site visit. The Coalfield staff was in general agreement with the preliminary audit results.

The primary criteria used in performing the audit were the grant agreement; applicable sections of 2 CFR 200, and the ARC Code. The audit was performed in accordance with *Government Auditing Standards*.

Summary of Audit Results

Overall, Coalfield's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. We found the grantee had an adequate process in place for obtaining and recording data related to the goals of the grant. Performance measures to date had either been met or were on track. Matching cost requirements were being met and progress reports were submitted as required to ARC.

The costs tested were supported. However, we identified one area that requires management attention. During our detailed testing of project expenses, we determined that $82,831 of these expenses were incurred outside of the grant period.

These questioned costs and the corresponding recommended corrective actions are discussed in the Finding and Recommendations section of this report.

Finding and Recommendations

A. Questioned Costs

We questioned $82,832 in costs because they were incurred outside of the grant period. Per the grant agreement, the period of performance began on July 18, 2016. During our audit testing, we found numerous line items in the general ledger that were dated prior to July 18, 2016 and were classified as "Contributed Income: ARC Power 2." Our search of the general ledger determined there were 68 line items totaling $82,831 that were coded to ARC funds. The dates of these transactions ranged from January 4, 2016 through July 15, 2016. The expenses covered several different areas of the grant, including personnel, contractual, supplies and equipment.

The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200), section 458, states that that "Pre-award costs are those incurred prior to the effective date of the Federal award directly pursuant to the negotiation and in anticipation of the Federal award where such costs are necessary for efficient and timely performance of the scope of work. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the Federal award and only with the written approval of the Federal awarding agency."

While 2 CFR 200 does have an allowance for project costs incurred up to 90 calendar days before the Federal awarding agency makes the Federal award, it also states that the grantee requires prior approval from the Federal awarding agency. Ninety calendar days before the start of the grant would be April 19, 2016. We did not identify prior approval from ARC regarding these pre-award charges. This covers $50,876 of the questioned costs. Also, $31,955 in costs were incurred before the 90 calendar day period.

Coalfield informed us that they had begun the project in May of 2016 with ARCs knowledge, but administrative delays had pushed the official start date to July 18, 2016. Coalfield also said that some of the charges before the grant starting date should not have been coded to ARC and will fix this error in their general ledger. Overall, Coalfield did not request reimbursement from ARC for all of the project-related costs they had recorded in their general ledger. However, as the official starting date for the grant is listed as July 18, 2016 in the grant agreement, we question these $82,831 in costs incurred outside of the grant period.

Recommendations

Coalfield Development should:

1. Provide ARC any supporting documentation for the costs questioned.
2. Make any necessary general ledger corrections for ARC pre-award expenses.
3. Refund the amount of questioned costs agreed with by ARC.

Grantee's Response

Coalfield indicated they did not concur with the audit finding for the following reasons:

"In the ledger we provided during your visit, you noted there are some expenses occurring prior to the grant's performance period. Although the grant agreement states the performance period begins on July 18, 2016, the ARC accepted our initial request for reimbursement, which was for expenses incurred between June 1, 2016 and October 15, 2016 as clearly written on the formal grant report (due each quarter to ARC staff). With ARC's knowledge, Coalfield was already engaged in activities supported by the ARC in May 2016. Delays in arranging a public announcement for the grant played a role in the performance period being pushed back to July 18th.

In the ledger we provided, there are $40,982.83 in expenses dated prior to June 1, 2018. Of this amount, $19,000.17 was to pay Solar Holler, a solar development partner specifically included in our approved grant application. Coalfield used non-ARC funding to pay this up-front cost with the understanding that ARC would fund it as requested in the grant application.

Except for the payments to Solar Holler ($12,666.67 on February 5, 2016 and $6,333.50 on May 2, 2016), these expenses should not have been recorded to ARC in our general ledger and we will correct this by removing them. However, our actual expenses for the ARC grant well exceed what we've requested reimbursement for. Our grant reports to ARC are accurate. Coalfield intentionally requested reimbursement for fewer expenses than what it incurred to conservatively report expenses from our ledger and allow a margin for error in calculating reimbursement requests since our ledger had not yet been closed out. We did not request reimbursement from ARC for all expenses coded to ARC on our general ledger. Coalfield's ledger for contractual expenses is $65,874.57 more than what was reimbursed. For supplies, the ledger exceeded reimbursed expenses by $7,617.68. Therefore, we see no result in which ARC would require re-payment of "questioned costs."

In summary, our financial reporting to ARC supports expenses incurred as early as June 1, 2016 and specifically supports Solar Holler as an allowable cost. Coalfield's practice of conservatively reducing the amount it requests for reimbursement ensured that reimbursement was requested only for allowable costs. We will fix these minor coding issues on the ledger, and we do apologize for causing any confusion. If ARC needs more supporting documentation we are happy to provide it, so in that sense we partially agree with the recommendation put forward. We are honored to have ARC's support and have stewarded their funds effectively, and with the upmost integrity, toward an important mission for this distressed region."

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.

Appendix I

COALFIELD DEVELOPMENT
Appalachian COURAGE, CREATIVITY, COMMUNITY

Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, MD 20850

RE: Appalachian Regional Commission Inspector General Audit of Grant # PW-18496

April 19, 2018

We are writing in response to your "Finding and Recommendations" regarding expenses charged to the Appalachian Regional Commission (ARC) grant PW-18496. We do not concur with the finding.

In the ledger we provided during your visit, you noted there are some expenses occurring prior to the grant's performance period. Although the grant agreement states the performance period begins on July 18, 2016, the ARC accepted our initial request for reimbursement, which was for expenses incurred between June 1, 2016 and October 15, 2016 as clearly written on the formal grant report (due each quarter to ARC staff). With ARC's knowledge, Coalfield was already engaged in activities supported by the ARC in May 2016. Delays in arranging a public announcement for the grant played a role in the performance period being pushed back to July 18th.

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Thank you for bringing these concerns to our attention, and please do not hesitate to contact us with any questions.

Sincerely,

Brandon M. Dennison

Brandon Dennison, CEO

Sam Sarcone

Sam Sarcone, CFO