
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD
Town of Big Stone Gap
Big Stone Gap, Virginia**

**Final Report Number: 20-01
Grant Number: VA-18230
November 2019**

**Prepared by:
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Leon Snead & Company, P.C. completed an audit of grant number VA-18230 awarded by the Appalachian Regional Commission (ARC) to the Town of Big Stone Gap (BSG), located in Southwest Virginia. 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 established performance measures were met.

The audit indicated that the recipient's financial management and administrative procedures and related internal controls were adequate to manage its ARC grant funds. The costs tested were supported and reasonable. Also, based on available data it appears that the grant recipient will meet its performance goals.

Leon Snead & Company appreciates the cooperation and assistance received from the BSG and ARC staffs during the audit.

Sincerely,

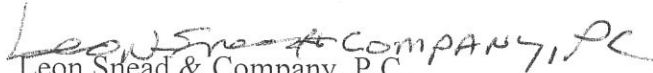

Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number VA-18230 awarded by the Appalachian Regional Commission (ARC) to the Town of Big Stone Gap (BSG), located in Southwest Virginia. 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 to BSG to provide funding to renovate the Mutual Pharmacy building located at 314 Wood Avenue East, Big Stone Gap, Virginia. BSG planned to redevelop the building to provide three floors of mixed-use business space including retail/commercial and dining space on the main floor, six apartments on the second floor, and possibly office space for small businesses with shared office equipment and administrative assistance in the basement, subject to the availability of funding. The Virginia Department of Housing and Community Development administered the overall Mutual Pharmacy Redevelopment project and acted as the fiscal agent for BSG. The BSG Project Director/Town Manager and the Town Clerk/Treasurer recorded and accounted for the income and expenses associated with ARC Grant VA-18230.

The grant originally covered the period October 1, 2015 through September 30, 2018, but was subsequently extended by amendment through September 30, 2019. Overall project costs were \$1,381,686. Funding consisted of \$500,000 in ARC grant funds and \$881,686 in non-ARC matching funds. The percentage breakout of ARC to non-ARC funding for the overall project was 36% ARC funds and 64% non-ARC recipient matching funds. Additional funding to complete the project will be necessary.

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); (5) the matching requirements; and (6) the established performance measures were met.

Of the total \$500,000 in grant funds claimed, ARC had reimbursed BSG \$494,625 as of October 7, 2019. BSG requested the remaining grant funds, \$5,375, on September 27, 2019. BSG provided \$881,686 in non-ARC matching funds. As of September 30, 2019, BSG had expended all funds for the grant. Of the expenditures charged to the grant and claimed for reimbursement, we tested the entire \$500,000 provided by ARC to determine whether the charges were properly supported and allowable. We also tested the grant recipient's matching costs in the amount of \$475,000 to determine whether the charges were properly supported and allowable. The grant had not been closed out at the time of our audit.

We reviewed documentation provided by BSG and visited the Mutual Pharmacy building in order to walk through the project and confirm that the main floor renovation was completed. We also noted that the removal of all building materials except for wall studs, flooring, and exterior brick walls had been completed on the second floor as well as the cleanup of the basement

rooms. We interviewed the main floor lessee to obtain the date and kind of lease of the main floor. We also interviewed BSG personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed project progress and financial reports to determine if they were submitted to ARC in accordance with requirements. We reviewed the most recent annual financial statement audit report to identify any issues that could significantly impact the ARC grant and this audit.

The on-site fieldwork was performed at the BSG Town Hall Office Building in Big Stone Gap, Virginia, on October 14 and 15, 2019. The preliminary audit results were discussed with the Project Director (Town Manager) and the Town Clerk/Treasurer during and at the conclusion of the on-site visit.

The primary criteria used in performing the audit were 2 CFR 200, the ARC Code and the grant agreement. The audit was performed in accordance with Generally Accepted Government Auditing Standards.

Summary of Audit Results

Overall, BSG's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. The costs tested were supported and reasonable. Also, the project and financial reports were submitted to ARC in a timely manner.

Performance measures were for the creation of 8 to 10 full-time equivalent jobs in the Wise County area. The lessee stated that it had hired 51 employees as of October 15, 2019 (seven full time and 44 part time) in anticipation of opening a restaurant business on October 28, 2019 to serve lunch and dinner, as well as craft beer. The posted hours of the restaurant and craft beer operation total 84 hours per week. Based on this information, we concluded that the grant recipient met its performance goal.

Accordingly, no findings or issues were identified.