
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**BARC Electric Cooperative
Millboro, Virginia**

**Final Report Number: 18-08
Project Number: VA-18189
February 2018**

Prepared by:

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Leon Snead & Company, P.C. completed an audit of grant numbers VA-18189 awarded by the Appalachian Regional Commission (ARC) to BARC Electric Cooperative (BARC). 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, the administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant audited. The ARC costs sampled and tested were supported and considered reasonable. However, we found that BARC needed to implement better inventory controls over some of its solar equipment. Also, the overall usage of the Learning Center is substantially lower than what was anticipated when the center was built. The low usage exists despite the efforts made by BARC staff to promote the Learning Center as a field trip visitation opportunity for the local school districts.

A draft report was provided to BARC on February 5, 2018, for comments. BARC provided a response to the report on February 9, 2018. These comments are included in their entirety in Appendix I. Leon Snead & Company appreciates the cooperation and assistance received from the BARC and ARC staffs during the audit.

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 VA-18189 awarded by the Appalachian Regional Commission (ARC) to BARC Electric Cooperative (BARC) in Millboro, 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.

BARC is a member-owned, not-for-profit cooperative that provides electric service to its members located in five southwest Virginia counties. ARC awarded the grant to provide funds supporting a Community Solar Facility and Learning Center (Learning Center) for four of these member counties. The major portion of the project involved designing, constructing and operating a solar energy generation facility to provide renewable energy to commercial and residential subscribers in the BARC service area. The project also included renovating 800 square feet of space owned by BARC to serve as a community Learning Center. The solar array system was to be constructed on the grounds of an unused elementary school donated to and owned by BARC, and the space to be renovated as the Learning Center was located within the school building. The solar facility was expected to produce approximately 430,000 KW hours/year, enough to provide an estimated 60 residential and 16 commercial customers with up to 25% of their total annual electric energy usage as solar. Long range plans beyond the grant funding period included expanding the facility to increase capacity and serve a larger number of customers. The Learning Center was intended to be available for use by approximately 17,000 K-12 students in the area, offering an opportunity for field trips and hands-on demonstrations of electricity and solar power, and was to be operated by BARC staff.

ARC awarded grant VA-18189 in September 2015, covering the period 8/1/2015 to 7/31/2018, and provided \$500,000 in ARC funds to be used for solar facility equipment and construction costs. The funds were made available through the Virginia Department of Housing and Community Development (DHCD), which served as the Registered State Basic Agency in administering the grant for ARC under a 2014 Memorandum of Understanding. ARC subsequently amended the grant to change the grant period to end on 12/31/2017. DHCD entered into a written agreement with BARC on 1/1/2016 establishing the grant period as 1/1/2016 to 12/31/2017, providing \$500,000 in ARC funding, and requiring \$802,500 in non-ARC match funding. The approved budget was later amended to allow \$50,000 of ARC funding to be reprogrammed and used for the Learning Center renovation costs instead of solar facility construction. Construction work on the solar facility and Learning Center was completed and both activities were operational at the time the audit was conducted. BARC reported actual total project costs of \$1,371,703 with \$500,000 ARC funds expended and reimbursed to BARC, and \$897,103 of non-ARC matching funds expended, including \$250,000 funds from an USDA grant. DHCD had performed its final reviews and considered the project and grant complete but it had not been administratively closed by ARC.

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.

We tested \$400,000 of ARC funds reimbursed to BARC to determine whether the charges were properly supported and allowable. We similarly examined \$374,272 of matching costs claimed by BARC to verify they were properly supported and allowable. The on-site fieldwork was performed at BARC offices in Millboro, Virginia during December 4-8, 2017.

We reviewed documentation provided by BARC and DHCD and interviewed personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls as they related to the audit scope. We reviewed financial and project progress reports to determine if they were submitted in accordance with requirements. We reviewed the most recent financial statement audit and A-133 report to identify any issues that significantly impacted the ARC grant and the audit.

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

The preliminary audit results were discussed with BARC and DHCD staff at the conclusion of the on-site visit. BARC staff agreed with some but not all of the preliminary results and may provide additional comments in response to the draft report.

Summary of Audit Results

BARC had written policies and procedures for areas applicable to the grant activities and they were considered to be generally adequate for administering the grant except for the following area. At the time of the audit, solar equipment purchased in part with ARC funds had not been recorded in BARC inventory records and procedures had not been established to adequately comply with grant and Federal requirements for managing the equipment. The expenditures charged to ARC funds that we tested were considered adequately supported and allowable. BARC actions in awarding and administering project construction contracts were considered adequate and compliant with applicable requirements.

BARC records showed that the final total actual project costs were \$1,397,103, which was paid for with \$500,000 (36%) in ARC funds and \$897,103 in non-ARC match funds (64%). The match funding expenditures reported by BARC had adequate supporting documentation and we considered the grant match requirements fully met.

The overall grant project was complete at the time of our audit and the solar facility was operational and providing solar energy to subscribing customers. The planned performance measures established for the solar energy generation facility--which was the core purpose of the grant project--were either substantially achieved or exceeded. That part of the funded project therefore appeared very successful. However, we determined that the Learning Center was not

being fully utilized in terms of students served and improved, as only 136 students out of an expected 780 had visited the Learning Center during the period tested.

The issues identified and the recommended corrective actions are discussed in the Findings and Recommendations section of this report.

Findings and Recommendations

A. Equipment Records and Management

BARC used \$400,000 in ARC funds to pay for solar equipment purchased under the project, costing \$659,483. Although this equipment had been installed and operating over a year at the time of the audit, controls were not in place to meet either Federal equipment management standards or the requirements of the grant agreement.

Federal requirements for property and equipment management in 2 CFR 200.313 include maintaining property records that contain certain specific information such as the item description, serial number, acquisition date and total cost, and percentage of federal participation in the total cost. Also, provision #7 of the ARC agreement required that equipment purchased under the grant be accounted for during and after the end of the grant project, and that ARC be notified if the equipment is either disposed of or no longer used for the approved grant purposes.

BARC had not yet recorded the solar equipment in its asset management system since this was a new type of equipment and managers were uncertain how to properly record and manage it. BARC had been coordinating with USDA Rural Utilities Service staff to obtain guidance and determine the proper approach, but a decision had not yet been reached. In reviewing this area, we noted that BARC did not have a written policy and related procedures for equipment management that would ensure the 2 CFR 200 and grant requirements could be fully complied with. For example, the normal records maintained did not include information showing Federal funding amount applied as a percentage of total costs, or describe steps needed if the equipment was disposed of or used for non-grant purposes.

Recommendation

BARC should establish inventory controls over equipment purchased with ARC funds that complies with the requirements of 2 CFR 200.313 and the ARC grant agreement.

Grantee's Response

With regard to the equipment records recommendation, we concur with the recommendation in the report and have already taken steps to address it. On January 1, 2018, the board of directors adopted a policy governing property record management (a copy is attached). Also in January, the solar project was closed to electric distribution plant with the continuing property record controls required by the policy (and, by reference, 2 CFR Chapter II, 200,313).

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.

B. Performance Goals and Results

The Community Solar Facility was designed to utilize classroom space in the donated school to also include a Community Solar Learning Center. The Learning Center was planned to provide field trip opportunities for the approximately 17,000 K-12 students in the area to participate in demonstrations and observe displays explaining the math and science behind electricity and solar photovoltaic energy. The Learning Center includes miniature working models of the solar energy, a high-definition projector and computer for audio and video presentation, fixed wall-mounted displays showing the solar energy production process, and a television displaying real-time solar energy production.

ARC grant documentation established performance measures for the project that included specific outputs and outcomes. The outputs for the project were designated as 780 students served annually at the Learning Center, 60 households served, 16 businesses served, and 430,000 kWh of renewable electricity generated annually.

The outcomes for the grant were defined as the improvement of 780 students per year by enhanced knowledge of science, math, and mechanics of solar energy through the Learning Center outreach and activities. In addition, 60 households and 16 businesses were to be improved with lowered electricity costs, which could then be reinvested in the community or local business operations.

These performance measures, both outputs and outcomes, were established in compliance with ARC's *Guide to ARC Project Performance Measures*. Based on actual results reviewed, we concluded the goals were met related to households served and improved, businesses served and improved, and kWh of renewable electricity generated.

However, our testing found that from September of 2016 through December 1, 2017, a total of 136 students had visited the Learning Center and received demonstrations and education about solar power, less than the 780 students detailed in the ARC grant documentation. It appeared the learning center was not being used to the extent contemplated by the grantee.

Recommendation

BARC should seek advice from the ARC education program manager on ways to increase the use of the Learning Center facility.

Grantee's Response

With regard to the solar learning center narrative summary, we request that it be mentioned that BARC staff have made repeated efforts to promote the learning center as a field trip visitation opportunity for the local school districts, but despite those efforts, visitation at the learning center has been below the performance goal. We believe we provided adequate documentation to the auditor to support this fact and request it be noted in the report.

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.

BARC ELECTRIC COOPERATIVE
MILLBORO, VIRGINIA

POLICY BULLETIN NO. 212
PROPERTY RECORDS AND MANAGEMENT

I. PURPOSE

To ensure that the Cooperative's property records are maintained in compliance with federal, state and local government grant rules, regulations and guidelines.

II. POLICY

It shall be the policy of the Cooperative that its property records are maintained in a manner that ensures compliance with grant award requirements. To the extent applicable to federal grant awards to the Cooperative, the provisions of 2 CFR Chapter II, section 200.313 shall be followed in conjunction with federal grant funded projects.

III. PROCEDURES

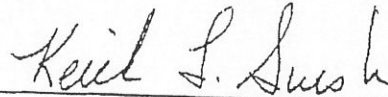
- A. Title to grant funded property shall be properly documented and maintained in the Cooperative's continuing property records. Specifically, property records must include a description of the property, a serial number or other identifying number, the source of funding, who holds title, the acquisition date, the cost of the property, the percentage of federal participation in the property's cost, and the location.
- B. Grant funded property shall be used only for the authorized purposes of the project until funding for the project ceases, or until the property is no longer needed for the purpose(s) of the project.
- C. Grant funded property shall not be encumbered without approval of the granting agency.
- D. Grant funded property shall only be disposed of in accordance with the following requirements:
 - 1. All requirements pertaining to the possession, duration and use of the property have been met.
 - 2. The disposition shall be properly documented in the Cooperative's continuing property records, including the date of disposal and sale price, if applicable.
 - 3. When acquiring replacement property, the Cooperative may use the grant funded property as a trade-in or in a private sale to offset the cost of the replacement property.

- E. A physical inventory of grant funded property shall be taken at least once every two years, and reconciled with the Cooperative's property records.
- F. A control system shall be developed by the Chief Executive Officer to ensure adequate safeguards exist to prevent loss, damage, or theft.
- G. Any loss, damage, or theft of grant funded property shall be promptly and properly investigated and reported to the Board.

IV. RESPONSIBILITY

The Chief Executive Officer shall be responsible for ensuring compliance with this policy.

APPROVED BY THE BOARD OF DIRECTORS



President

Date Adopted: January 1, 2018