



DEPARTMENT OF ENERGY  
ABANDONED MINE LAND RECLAMATION  
FEDERAL GRANT PROGRAM

REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2025

Auditor of Public Accounts

Staci A. Henshaw, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

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## AUDIT SUMMARY

Our audit of the Abandoned Mine Land Reclamation (AMLR) federal grant program, administered by the Department of Energy (Energy), for the fiscal year ended June 30, 2025, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and reporting system; and
- one matter involving internal control and its operation requiring management's attention, that also represents an instance of material noncompliance with applicable laws and regulations that is required to be reported under Government Auditing Standards. Because of the pervasiveness of this issue communicated to Energy's management in the audit finding titled "Strengthen Controls Over Payroll Costs Charged to Federal Grants" in the section of our report titled "Internal Control and Compliance Finding and Recommendation," this matter will result in a qualified opinion on compliance as it relates to the Allowable Costs/Cost Principles compliance requirement for the AMLR federal grant program in the Commonwealth's Single Audit report for the year ended June 30, 2025.

In the section titled "Internal Control and Compliance Finding and Recommendation," we have included our assessment of the conditions and causes resulting in the internal control and compliance finding identified through our audit as well as our recommendation for addressing this finding. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the finding and develop and appropriately implement adequate corrective actions to resolve the finding as required by the Department of Accounts in Topic 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures Manual. Those corrective actions may include additional items beyond our recommendation.

## - TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION	1
INDEPENDENT AUDITOR'S REPORT	2-4
APPENDIX – FINDINGS SUMMARY	5
AGENCY RESPONSE	6

## INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

### **Strengthen Controls Over Payroll Costs Charged to Federal Grants**

**Type:** Internal Control and Compliance

**Severity:** Material Weakness

The Department of Energy (Energy) does not have sufficient controls to ensure employee compensation (payroll costs) charged to the Abandoned Mine Land Reclamation (AMLR) federal grant program accurately reflects actual work employees perform. Energy allocates and charges payroll costs to the AMLR grant program based on predetermined percentages assigned to each position. Energy's management establishes these percentages at the beginning of each grant during the budget development process. However, Energy does not perform and document after-the-fact reviews or reconciliations to verify the allocation methodology reasonably reflects employees' actual activities related to the federal program.

Title 2 Code of Federal Regulations (CFR) § 200.430(g)(1) requires management to maintain records supporting charges to federal awards be supported by a system of internal control that provides reasonable assurance the charges are accurate, allowable, and properly allocated. In addition, when payroll costs are charged to a federal award based on budget estimates, 2 CFR § 200.430(g)(1)(vii) requires an entity's system of internal control to include processes to review after-the-fact interim charges and adjust the final amounts charged, as necessary.

Energy has not established formal written policies or procedures governing the allocation of payroll costs it charges to federal programs, nor has it implemented processes to periodically validate whether payroll charges based on management's budget estimates are consistent with actual work employees perform due to resource restrictions. As a result, management cannot ensure payroll costs it charges to the AMLR federal grant program are accurate, allowable, and properly allocated. Due to the pervasiveness of this condition and the absence of complementary controls, we consider this deficiency to be a material weakness in internal control. Additionally, because payroll costs are approximately 21 percent of Energy's total expenses charged to the AMLR grant program, this condition represents material noncompliance with the provisions of 2 CFR § 200.430.

Because Energy does not maintain sufficient documentation to demonstrate payroll costs it charges to the AMLR program reflect actual work employees perform, we determined that known questioned costs exist related to employee compensation. However, we cannot determine the dollar amount of questioned costs, as Energy allocated payroll charges based on predetermined percentages without after-the-fact validation, which prevents us from quantifying and reporting known questioned costs for this finding.

Energy management should allocate the necessary resources to establish and implement written policies and procedures, supported by an adequate system of internal control, to ensure payroll costs it charges to the AMLR program reflect actual work employees perform in compliance with the requirements of 2 CFR § 200.430.



Staci A. Henshaw, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

February 6, 2026

The Honorable Abigail Spanberger  
Governor of Virginia

Joint Legislative Audit  
and Review Commission

Carrie Chenery  
Secretary of Commerce and Trade

Michael Skiffington, Acting Director  
Department of Energy

We have audited the financial records and operations of the Abandoned Mine Land Reclamation (AMLR) federal grant program, administered by the **Department of Energy** (Energy), for the year ended June 30, 2025. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Single Audit. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Audit Objectives**

Our primary objective was to audit the AMLR federal grant program in support of the Commonwealth's Single Audit for the year ended June 30, 2025. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system. We reviewed the adequacy of Energy's internal controls over compliance with applicable laws, regulations, contracts, and grant agreements.

## **Audit Scope and Methodology**

Energy's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the AMLR federal grant program.

We performed audit tests to determine whether Energy’s controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Energy’s operations. We performed analytical procedures, including budgetary and trend analyses, and tested details of transactions to achieve our audit objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and, when appropriate, we projected our results to the population.

Our consideration of internal control over compliance was for the limited purpose described in the section “Audit Objectives” and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the section titled “Internal Control and Compliance Finding and Recommendation,” we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency titled “Strengthen Controls Over Payroll Costs Charged to Federal Grants,” which is described in the section titled “Internal Control and Compliance Finding and Recommendation,” to be a material weakness.

## **Conclusions**

We found that Energy properly stated, in all material respects, the amounts recorded and reported in the Commonwealth’s accounting and financial reporting system.

We noted one matter involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that requires management’s attention and corrective action. This matter is described in the section titled “Internal Control and Compliance Finding and Recommendation,” in the finding titled “Strengthen Controls Over Payroll Costs Charged to Federal

Grants.” As stated in the audit finding, Energy did not materially comply with Allowable Costs/Cost Principles compliance requirements for payroll costs charged to the AMLR federal grant program. As a result, we issued a qualified opinion over the Allowable Costs/Cost Principles compliance requirement for the AMLR federal grant program, as described in the “Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance,” which is included in the Commonwealth’s Single Audit Report for the year ended June 30, 2025. Outside of this instance of material noncompliance, Energy complied, in all material respects, with all other compliance requirements that could have a direct and material effect on the AMLR federal grant program for the year ended June 30, 2025.

Since the finding noted above has been identified as a material weakness, it will be reported as such in the “Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance,” which is included in the Commonwealth of Virginia’s Single Audit Report for the year ended June 30, 2025. The Single Audit Report will be available at [www.apa.virginia.gov](http://www.apa.virginia.gov) in February 2026.

#### **Exit Conference and Report Distribution**

We provided management with a draft of this report on February 6, 2026. Government Auditing Standards require the auditor to perform limited procedures on Energy’s response to the findings identified in our audit, which is included in the accompanying section titled “Agency Response.” Energy’s response was not subjected to the other auditing procedures applied in the audit and, accordingly, we express no opinion on the response.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

Staci A. Henshaw  
AUDITOR OF PUBLIC ACCOUNTS

SDB/clj

FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	First Reported for Fiscal Year
Strengthen Controls Over Payroll Costs Charged to Federal Grants	Ongoing	2025

\*A status of **Ongoing** indicates a new and/or existing finding that requires management’s corrective action as of fiscal year end.



**COMMONWEALTH OF VIRGINIA**  
**VIRGINIA DEPARTMENT OF ENERGY**

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February 9, 2026

Auditor of Public Accounts  
Attention: Ms. Henshaw  
P.O. Box 1295  
Richmond, VA 23218

Re: Audit the financial records and operations of the **Abandoned Mine Land Reclamation (AMLR)** federal grant program

Dear Ms. Henshaw,

The Virginia Department of Energy (Virginia Energy) has reviewed the Auditor of Public Accounts (APA) report pertaining to the Audit of the Abandoned Mine Land Reclamation (AMLR) federal grant program, for the year ending June 30, 2025. Virginia Energy appreciates the review of our program.

We agree with the recommendation to strengthen internal controls over payroll costs charged to federal grants. Virginia Energy is directly addressing this by implementing new policies and controls over allocating payroll costs associated with federal programs.

Please let me know if you have any questions regarding the response.

Sincerely,

Michael A. Skiffington  
Acting Director



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