



APPALACHIAN
REGIONAL
COMMISSION

*A Proud Past,
A New Vision*

Office of the Inspector General

November 19, 1999


MEMORANDUM FOR

The Federal Co-Chairman
ARC Executive Director
General Counsel

SUBJECT:

OIG Report 99-34(H); Grant 12527-96, Greater Cumberland
Airline Terminal

A copy of the subject report, which deals with a project administered by the US Department of Agriculture, is enclosed. Open issues pertain to the disposition of interest earned on advances, matching contributions, and verification of contracting competition.


Hubert N. Sparks
Inspector General

Enclosure

cc: Ms. Judy Rae



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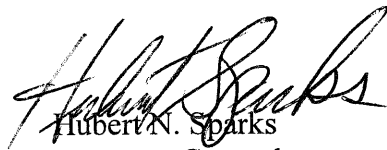
Office of the Inspector General

February 2, 2000

MEMORANDUM FOR MR. WYNN BEARD, TICHENOR AND ASSOCIATES

SUBJECT: Information about OIG Report 99-34(H) Greater Cumberland
 Airport

Enclosed is information about the contract award for the Greater Cumberland Regional Airport
for inclusion in the workpapers.


Hubert N. Sparks
Inspector General

Enclosure

**MEMORANDUM REPORT ON REVIEW OF
POTOMAC HIGHLANDS AIRPORT AUTHORITY
WILEY FORD, WEST VIRGINIA**

Greater Cumberland Airport Terminal

ARC Grant No: MD-12527-96-I-214-0628

October 1, 1996 through October 12, 1998

CAUTION: *Certain information contained herein is subject to disclosure restrictions under the Freedom of Information Act, 5 U.S.C. 522 (b)(4). Distribution of this report should be limited to Appalachian Regional Commission and other pertinent parties.*

Report Number: 99-34 (H)

Date: November 5, 1999

MEMORANDUM REPORT ON REVIEW OF
POTOMAC HIGHLANDS AIRPORT AUTHORITY
WILEY FORD, WEST VIRGINIA

Greater Cumberland Airport Terminal

ARC Grant No: MD-12527-96-I-214-0628

October 1, 1996 through October 12, 1998

Prepared By:

Tichenor & Associates
Certified Public Accountants
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TO: Appalachian Regional Commission (ARC)
Office of Inspector General (OIG)

FROM: Tichenor & Associates
Louisville, Kentucky

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report Number 99-34 (H)

SUBJECT: Memorandum Review Report on Potomac Highlands Airport Authority,
Greater Cumberland Airport Terminal, Wiley Ford, West Virginia, ARC
Grant Number MD-12527-96-I-214-0628.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Potomac Highlands Airport Authority for its Greater Cumberland Airport Terminal Project were expended in accordance with the ARC approved grant budget and did not violate any restrictions imposed by the terms and conditions of the grant; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and (c) the objectives of the grant have been met.

BACKGROUND: ARC awarded Grant Number MD-12527-96-I-214-0628 to the Potomac Highlands Airport Authority on September 30, 1996. Total ARC funding was for an amount not to exceed \$418,200, or approximately 20% of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$50,562 or 2% in cash, contributed services, and in-kind contributions as approved by ARC. Other state and federal funding was \$1,675,639, which represented 78% of the total project. ARC funding was made available through the United States Department of Agriculture. The project was to construct a new airline passenger terminal and related site improvements at the Greater Cumberland Regional Airport, located in Wiley Ford, West Virginia. The terminal will replace an old, under-designed facility which is inadequate for existing business users, prevents adequate commuter service, and inhibits the airport's strategy to spark growth in the general aviation field. The specific task was to:

- Construct a new airline passenger terminal and make related site improvements at the Greater Cumberland Regional Airport, located in Wiley Ford, West Virginia.

SCOPE: We performed a program review of the grant as described in the Purpose, above. Our review was based on the terms of the grant project announcement and on the application of certain review procedures in accordance with the ARC, OIG Review Program. Specifically, we determined if the Greater Cumberland Airport Terminal had been constructed, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if the Potomac Highlands Airport Authority had complied with the requirements of the grant award. In addition, we discussed the program objectives and performance with Potomac Highlands Airport Authority personnel. Our results and recommendations are based on these procedures. These review procedures were performed in accordance with applicable Government Auditing Standards.

RESULTS: The following results were based on our review performed at the Greater Cumberland Regional Airport at Wiley Ford, West Virginia on August 16 through August 19, 1999.

A. Incurred Costs

As of the date of our fieldwork, August 19, 1999, the Potomac Highlands Airport Authority incurred total program cost of \$2,766,558 and claimed \$2,766,558. Potomac Highlands Airport Authority has been reimbursed \$376,380 in ARC funds and \$2,390,178 in other federal funding. The remaining \$41,820 in ARC funds are being withheld pending final completion of the project. We reviewed the direct costs incurred and determined that, in general, the funds had been expended as reported by the Potomac Highlands Airport Authority. However, we noted that project funds were placed in an interest-bearing investment account and the required local matching totaling \$50,562 was not met. These issues are discussed below.

1. Interest Totaling \$30,742 Was Earned on State and Federal Funds

All drawdowns by the Potomac Highlands Airport Authority, including ARC, Federal Aviation Administration, the states of Maryland and West Virginia, were placed in an interest-bearing investment account. We examined the investment account for the period of October 1, 1996 through October 31, 1998 and calculated total interest income of \$30,742.

OMB Circular A-110m Subpart C, Post-Award Requirements, .24 Program Income, (b), states:

“Except as provided in paragraph (h) below, program income earned during the project period shall be retained by the recipient and, in accordance with Federal awarding agency regulations or the terms and conditions of the award, shall be used in one or more of the ways listed in the following.

- (1) Added to funds committed to the project by the Federal awarding agency and recipient and used to further eligible project or program objectives.
- (2) Used to finance the non-Federal share of the project or program.
- (3) Deducted from the total project or program allowable cost in determining the net allowable costs on which the Federal share of costs is based.”

2. Local Matching Costs Totaling \$50,562 Have Not Been Met

The Potomac Highlands Airport Authority was required to match \$50,562 or 2% in cash, contributed services, and in-kind contributions, under the Greater Cumberland Airport Terminal Project. Records provided by the Potomac Highlands Airport Authority indicated that the local funds were used for preliminary engineering, which was completed prior to the grant award.

OMB A-110, Subpart C, Post-Award Requirements, .23 Cost sharing or matching, states:

“(a) All contributions, including cash and third party in-kind, shall be accepted as part of the recipient’s cost sharing or matching when such contributions meet all of the following criteria.

(1) Are verifiable from the recipient’s records.

(2) Are not included as contributions for any other federally-assisted project or program.”

B. Internal Controls

Documentation Supporting the Competitive Bid Process Was Not Adequate

The Potomac Highlands Airport Authority did not maintain all documentation to support that competitive bidding was used when procuring the construction contract. Potomac Highlands Airport Authority awarded a construction contract to Carl Belt, Inc. for the construction of the airport terminal. The total contract award was for \$2,516,258. Potomac Highlands Airport Authority failed to show that bids were adequately solicited through publication in a newspaper and the contract was awarded to the lowest bidder.

OMB A-110, Subpart C, Post Award Requirements, .44 Procurement procedures states:

“(e) Recipients shall, on request, make available for the Federal awarding agency, pre-award review and procurement documents, such as request for proposals or invitations for bids, independent cost estimates, etc., when any of the following conditions apply.

(1) A recipient’s procurement procedures or operations fails to comply with the procurement standards in the Federal awarding agency’s implementation of this Circular.

.46 Procurement records states:

Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a)

basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price.”

C. Program Results

Our review of the Potomac Highlands Airport Authority, Greater Cumberland Airport Terminal, indicated all specific tasks identified in the grant award notification, and summarized above, had been achieved.

DISCUSSION:

We discussed these issues with Potomac Highlands Airport Authority management at an exit conference held on August 19, 1999. Management understood these issues and intended to search for documentation that would support the competitive bid process. They addressed the interest income issue by stating that funding was made on a reimbursement basis, and funds remained in the account only long enough to pay bills. Management explained that local matching funds were used for preliminary engineering work performed on the airport terminal, which was considered a separate project.

OTHER:

We provided a copy of our draft report to Potomac Highlands Airport Authority management on September 27, 1999. Management responded to our findings and recommendations as follows:

Interest Earned on State and Federal Funds:

Management stated that funds received from the states of Maryland and West Virginia, as well as from the FAA and ARC were placed in an interest bearing account. These funds were primarily paid out as received except for periods where design problems delayed the disbursements. The Airport Authority also received an extra \$254,867 from the state of Maryland to use for items that were not part of the original terminal construction, and not disbursed until the end of the project. During the project's construction phase, design changes increased the overall cost in excess of \$100,000. The original approved funding of \$3,236,667 was not enough to cover the total cost therefore, interest earned on the account was used to help cover the deficiency.

Local Matching Funds of \$50,562:

The state of Maryland gave the Airport Authority an extra \$254,867 to help cover the funding deficiency from other sources. The Authority was given the discretion to use this money to cover the local share or other cost incurred with the project that was not covered by the budgeted funds. The local share was covered by the interest earned on the account and the extra funds received from the State of Maryland that were not part of the original funding budgeted.

Documentation Supporting the Competitive Bid Process Was Not Adequate:

The Airport Authority is continuing to seek the necessary documentation to support the competitive bid process. The FAA reviewed all bid documentation prior to the contract being awarded. All bid documents were given to the project engineer at the time for compliance review. The engineer kept all documents in his file. Serious design flaws were discovered during the terminal's construction phase that significantly increased the project's cost. As a result, the project engineer's contract was terminated. As a result of these circumstances and a dispute over fees owed, the engineer has kept all records and refused their release.

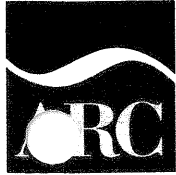
ADDITIONAL COMMENTS AND RECOMMENDATIONS:

We recommend that ARC review the local matching requirements with Potomac Highlands Airport Authority to determine if the interest earned on the investment account plus additional funding from the state of Maryland is allowable for local funding purposes. We also recommend that ARC require the Potomac Highlands Airport Authority to continue to locate adequate documentation that supports the competitive bidding process used to award the construction contract.

Tichenor & Associates

TICHENOR & ASSOCIATES
Louisville, Kentucky

August 19, 1999



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Office of the Inspector General

November 19, 1999

Mr. James G. Stahl
Potomac Highlands Airport Authority
Route 1, Box 99
Wiley Ford, WV 26767

re: OIG Report 99-34(H), Grant MD-12527-96

Dear Mr. Stahl:


Enclosed is a copy of our report dealing with the Greater Cumberland Airport Terminal Project. The work was performed by auditors with Tichenor and Associates, C.P.A., under contract with my office.

As noted, open issues pertain to the matching contributions, interest earned on advanced funds, and the bid process used. Additional information to resolve these issues and the noted recommendations should be submitted to my office within 60 days.

A copy of this report is being provided to the Federal Co-Chairman, ARC Executive Director, Maryland State Alternate, and US Department of Agriculture.

The courtesies and cooperation provided the auditor are appreciated.

Sincerely,


Hubert N. Sparks
Inspector General

Enclosure



November 19, 1999

Mr. James G. Stahl
Potomac Highlands Airport Authority
Route 1, Box 99
Wiley Ford, WV 26767

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Inspector General

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