
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**The Town of Wilkesboro
Wilkesboro, North Carolina**

**Final Report Number: 16-05
Project Number: NC-16681
December 2015**

**Prepared by:
Leon Snead & Company, P.C.**



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December 9, 2015

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, NW
Washington, DC 20009

Leon Snead & Company, P.C. has completed an audit of grant number NC-16681 awarded by the Appalachian Regional Commission (ARC) to the Town of Wilkesboro, North Carolina. The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

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 grantee's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grants reviewed. The costs tested were supported and considered reasonable. However, we identified one issue involving the accounting procedures for recording and tracking expenditures on the project that were not consistent with Federal requirements.

Leon Snead & Company appreciates the cooperation and assistance received from officials of the Town of Wilkesboro and ARC during the audit.

Sincerely,


Leon Snead & Company, P.C.

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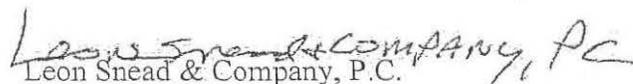

Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of Basic Agency grant NC-16681 awarded by the Appalachian Regional Commission (ARC) to the Town of Wilkesboro, North Carolina (Wilkesboro). 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 ARC approved \$300,000 funding in September 2010 to support a project to upgrade the water and sewer system in Wilkesboro. The funding was approved as a Basic Agency grant whereby the United States Department of Agriculture, Rural Development Administration (USDA-RDA) entered in an agreement with the grantee to administer the grant under USDA regulations and provisions of an ARC-USDA Basic Agency Memorandum of Understanding. The project included replacing 7100 linear feet of water and sewer lines and related appurtenances in order to improve basic service and water flow for fire safety to businesses and residents including the town's largest employer.

The USDA and Wilkesboro entered into an agreement on September 29, 2010 with an anticipated project completion date of September 29, 2011 and total estimated cost of \$1,144,150. The project was funded with \$300,000 in ARC funds and required \$844,150 in non-ARC matching funds. The project activities were completed and the grant had been administratively closed by ARC at the time of the audit. The total project cost reported under the grant was \$1,215,463, with all of the additional required costs being met with non-ARC funding.

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 audit focused on the procedures, records and actions taken by the grantee and did not include evaluating USDA-RDA procedures and administration. We reviewed the documentation provided and interviewed grantee and USDA-RDA staff to obtain an overall understanding of the grant requirements and activities, the accounting system, and the operating procedures. We reviewed the grantee's procedures and internal controls for administering the project, including the construction contract and ARC funds. We reviewed financial and other required reports, particularly those related to project performance and results. We also reviewed the most recent Independent Auditor's Report to determine whether there were any issues that impacted the ARC grant.

We selected \$302,838 of the expenditures charged to the grant and claimed for reimbursement during the grant period for testing to determine whether they were properly supported and allowable. This included ARC funds as well as expenditures used for matching funding.

The primary criteria used in performing the audit were the provisions of the grant agreement, applicable Office of Management and Budget (OMB) Circulars, applicable parts of the USDA Rural Development instructions, and relevant parts of the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during the period of October 5-9, 2015, including on-site work in Wilkesboro, North Carolina. The preliminary results were discussed with the Wilkesboro (grantee) representatives at the conclusion of the on-site visit.

Summary of Audit Results

Overall, the financial and administrative procedures and related internal controls at Wilkesboro were adequate to manage the overall project, the construction contract, and the funds provided under the ARC grant reviewed. The town's written policies and procedures for the areas applicable to grant activities were considered adequate. The grant expenditures sampled and tested were considered adequately supported and allowable and match funding requirements were met. The procedures followed and actions taken to award and monitor the construction contract and costs were considered adequate. However, we identified one issue involving the accounting procedures for recording and tracking expenditures on the project that were not consistent with Federal requirements.

Based on the documented results, the overall purpose and primary performance measures for the project and grant were met. However, we identified an issue with how the performance metrics were established and reported to ARC.

The issues noted during the audit and our recommended corrective actions are discussed in detail in the Findings and Recommendation section of this report.

Findings and Recommendation

Grant Accounting

The grantee, Wilkesboro, was not recording and tracking expenditures against specific funding sources but instead was tracking them on an overall project cost basis. This was because it had not established accounting procedures to implement federal financial procedures requiring such records. As a result, it could not provide an accounting report showing the exact costs charged to ARC funds.

The audit included assessing Wilkesboro's financial procedures related to administering the construction contract that was funded by the ARC grant. The applicable federal requirements in 2 CFR 215.21 require grantees to have an accounting system and procedures that accurately identify and track obligations, assets, expenditures, and income related to grant funds and be able to produce reports accurately showing grant-related activity.

The funds provided by ARC under its grant were intended to be used for costs primarily related to the construction contractor costs and related contractor oversight costs for the project. To allow us to review and verify the actual costs charged to ARC funds, we requested an accounting report showing obligations, revenues, and expenditures for the ARC portion of the project. The grantee was unable to provide such a report because the project accounting records were not set up to track the ARC funds, or related expenditures, individually. Rather, the records were set up to track costs on the total project basis, under a single account number, without individual accounts being set up to identify the various funding sources, including ARC, being used to pay costs.

The USDA grant manager had established an electronic spreadsheet to record and track project expenditures and the Wilkesboro Finance Director was routinely updating the expenditure amounts as they were being incurred during the project. But that spreadsheet also did not show expenditures that were specifically recorded against ARC funds. Since the audit scope did not include reviewing USDA records or procedures, we did not determine if they were in some way recording specific expenditure amounts to ARC funds. Accordingly, we sampled and verified costs on a total project basis, using grantee records and the amounts reviewed were adequately supported and appeared reasonable.

We did not question any of the costs tested. However, the town should have procedures that comply with the federal requirements and be able to provide records and reports that show federally-related expenditures for each federally-funded project.

Recommendation

Before receiving future grant funds, the Wilkesboro Town Manager should establish written financial procedures that comply with the financial standards in 2 CFR 215.21 and require accounting records to identify expenditures charged to the federal funds and other related funding sources.

Grantee's Response

The Town of Wilkesboro intends to account for expenditures made in future projects proportionately, as prescribed in this audit's recommendation. We at the Town are now of the understanding that this is the expectation and intend to follow this guidance as best practice. Additionally, the Town intends to establish a practice of developing and utilizing its own spreadsheets to ensure these proportional calculations are accurate throughout the project.

Auditor's Comments

The response provided by the grantee is sufficient to resolve the finding and close the recommendation.

Performance Measure Reporting

The final performance measure information reported to ARC by the USDA-RDA and placed in ARC management's automated system was not correctly reported. As a result, the information in ARC's system provides a misleading representation of the actual project results.

The specific measures that ARC has identified for its program use are contained in its *Guide To ARC Project Performance Measures*. Both the projected results, in terms of outputs and outcomes, and the actual results are entered into the ARC management system to provide information for many purposes, including internal and external reporting.

The metrics included in the project award document for tracking and reporting performance were a projected:

- output of one business to be served
- output of 7,100 linear feet of water/sewer line
- outcome of 75 jobs to be created
- outcome of 350 jobs to be retained

However, the performance measure information in ARC's management system also showed as actual performance 435 businesses served, 1,387 households served, and 425 workers/trainees served, which appear to be outside the scope of the project.

After discussing this issue with the ARC project coordinator, the coordinator contacted the USDA-RDA, and they are reviewing the above numbers to determine their validity as part of the project. Because of these ongoing reviews, we have not made additional recommendations for corrective actions.

Grantee's Response

While a specific recommendation for this finding did not necessarily exist, the Town would like to mention that these metrics will be examined at a higher level than they may have been in the past. We feel a further level of understanding with regards to their use and importance, gained through the audit process, which will require us to give performance measures a high level of scrutiny and focus than they may have received in the past.

Auditor's Comments

The grantee's response did not address the noted discrepancies in the information reported. The corrective action deals with reporting data in the future. It appears that the current numbers need some form of reconciliation. However, ARC will determine whether the actions identified in the response are adequate to resolve and close the issue.



TOWN OF WILKESBORO

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November 11, 2015

To Whom It May Concern:

The Town of Wilkesboro would like to express its gratitude for the opportunity to further its understanding of and enhance its compliance with agency standards for grants of this nature. We are very appreciative of this audit and hold firm to its ability to enhance our future performance with compliance to federal grant standards.

Detailed below is the Town's response to the findings from this audit, specifically:

- **Grant Accounting**

The Town of Wilkesboro intends to account for expenditures made in future projects proportionately, as prescribed in this audit's recommendation. We at the Town are now of the understanding that this is the expectation and intend to follow this guidance as best practice. Additionally, the Town intends to establish a practice of developing and utilizing its own spreadsheets to ensure these proportional calculations are accurate throughout the project.

- **Performance Measure Reporting**

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Overall, we are thankful for the opportunity to review with the auditing agency and look forward to enhancing our procedures in the future.

Sincerely,

Robert A. Urness, CLGFO
Finance Director

MIKE INSCORE
Mayor

KENNETH D. NOLAND
Town Manager
townmanager@wilkesboronc.org

JAMES K. BYRD
Town Clerk

COUNCIL MEMBERS
JIMMY HAYES
CLAUDE ANDREW "ANDY" SOOTS
MICHAEL TESTERMAN

Mayor Pro Tem
RUSSELL F. FERREE