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**APPALACHIAN REGIONAL COMMISSION  
OFFICE OF INSPECTOR GENERAL  
AUDIT OF GRANT AWARD**

**Erwin Utilities  
Erwin, Tennessee**

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**Final Report Number: 18-27  
Project Number: PW -18678  
July 24, 2018**

**Prepared By:**

**Bonadio & Co., LLP**  
Certified Public Accountants

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Appalachian Regional Commission  
Office of Inspector General  
1666 Connecticut Avenue, N.W.  
Washington, D.C. 20009

Bonadio & Co., LLP completed an audit of grant number PW-18678 awarded by the Appalachian Regional Commission (ARC) to the Erwin Utilities (grantee) for the Temple Hill and Bumpus Cove Broadband project. The Tennessee Department of Economic and Community Development (TNECD) was the fiscal agent for the project and was responsible for monitoring and evaluating progress report, disbursing payments, award, and assisting with any other issues concerning grant administration. The First Tennessee Development District assisted with project management, environmental review, bid advertisement, recommendation for award, pre-construction conference, requests for payments, budget revisions and close out. The audit was performed to assist the Office of Inspector General in carrying out its oversight of ARC grant funds.

The primary objectives of the audit 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 appropriate 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 performance measures were met or likely to be met; and (6) matching requirements of the grant were satisfied.

Overall, the grantee's financial management and administrative procedures, including related internal controls, were adequate to manage the funds provided under the ARC grant reviewed. The expenditures tested were supported and considered reasonable. The overall grant performance measures were adequately met.

Bonadio & Co., LLP appreciated the cooperation and assistance received from the grantee and the ARC staff during the audit.

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## BACKGROUND

Bonadio & Co., LLP completed an audit of grant PW-18678 awarded by the Appalachian Regional Commission (ARC) to Erwin Utilities (grantee). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of the ARC grant funds.

The grant was awarded to cover the period December 1, 2016 to May 31 2018 and amended to extend the period of performance to June 30, 2018. It provided \$400,000 in ARC funds and a required a match of \$340,525 in non-ARC funds to provide support for the Temple Hill and Bumpus Cove Broadband project, which provided high speed broadband service to the Temple Hill and Bumpus Cove areas through the installation of 36.3 miles of fiber optic cable. The major benefits of project include expanding and upgrading telecommunications network, promote the productive and strategic use of broadband and other telecommunications infrastructure to increase connectivity and strengthen economic competitiveness and attract new sources of job-creating investments through providing publicly provided broadband to an underserved area.

## 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 appropriate 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 performance measures were met or likely to be met; and (6) matching requirements of the grant were satisfied.

We reviewed the documentation provided and interviewed grantee personnel to obtain an overall understanding of the grant activities, the accounting system, and operating procedures. We evaluated grantee administrative procedures and related internal controls to determine whether they were adequate to administer the grant funds. We examined financial and other required reports to determine if they were supported and submitted in accordance with the grant requirements.

We reviewed expenditures of the grant from December 1, 2016 to June 30, 2018. During this period, there were \$394,101 of federal expenditures and \$335,503 of non-federal expenditures charged to the grant. We selected a sample of \$285,505 in federal expenditures and \$244,887 of non-federal matching expenditures to determine whether the charges were properly supported and allowable.

The criteria used in performing the audit were ARC grant agreement, the ARC code, other ARC requirements, and 2 CFR Part 200 "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards". The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was completed during the period of June 18, 2018 through June 20, 2018, which included on-site work at the grantee's office in Erwin, Tennessee. The audit results were discussed with grantee representatives at the conclusion of the on-site visit. The grantee's representative agreed with the audit results.

## **SUMMARY OF AUDIT RESULTS**

Overall, the grantee's administrative procedures were adequate to manage the grant funds received. Based on audit procedures performed, we did not question any costs incurred. The expenses tested were supported and considered reasonable. We found that the grantee had an adequate process in place for obtaining and recording data related to the goals of the grant. In addition, the records and reports indicated that the tasks required by the grant agreement were generally accomplished. The final report was submitted June 6, 2018.

## **PERFORMANCE MEASURES**

The grantee was able to meet the projected outputs by providing access to broadband service to 30 businesses and 680 households in 2 communities through the installation of fiber optic cable.

The projected goal of nine businesses using the broadband service was exceeded, as twelve businesses are now using the service. The goal of 204 households using the service was not met. Currently, 159 households are currently using the service, however; the grantee expects to meet the goal within three years.

The outputs and outcomes of the grant were tested by reviewing financial information, internal reports, physical observation, service records and other supporting documentation.