

Office of Inspector General

Report Prepared by Bonadio & Co., LLP

Audit of Grant Award – Perry County Sanitation District No. 1

Grant Number – KY-18466-214-16



Office of Inspector General

APPALACHIAN REGIONAL COMMISSION

Audit Report: 20-17

July 30, 2020



July 30, 2020

TO: Charles Howard, Interim Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit of Grant Award – Perry County Sanitation District No. 1,
Report Number 20-17

This memorandum transmits the Bonadio & Co., LLP report for the audit of costs charged by the Perry County Sanitation District No. 1 per its agreement with the Appalachian Regional Commission for grant number KY-18466-214-16. The objective of the audit was to determine if costs claimed were allowable, allocable, reasonable, and in conformity with the Commission's award terms and conditions and Federal financial assistance requirements. In addition, the audit determined whether the performance measures were met, not met, or not likely to be met.

OIG Oversight of the Audit

Bonadio & Co., LLP is responsible for the attached audit report and the conclusions expressed in this report. We do not express any opinion on the conclusions presented in Bonadio & Co., LLP's audit report. To fulfill our responsibilities, we:

- Reviewed Bonadio & Co., LLP's approach to and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with Bonadio & Co., LLP, as necessary, to discuss audit progress, findings, and recommendations;
- Reviewed the audit report prepared by Bonadio & Co., LLP; and
- Coordinated issuance of the audit report.

We thank your staff for the assistance that was extended to the auditors during this audit. If you have any questions regarding this report, please contact me at 202-884-7675.

Attachment

June 26, 2020

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 KY-18466-214-16 awarded by the Appalachian Regional Commission (ARC) to the Perry County Sanitation District No. 1 (grantee) for Phase I of the Chavies Wastewater Collection System. The grant is being administered by the United States Department of Agriculture, Rural Development. 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 grant performance measures were 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 number KY-18466-214-16 awarded by the Appalachian Regional Commission (ARC) to the Perry County Sanitation District No. 1 (grantee) for Phase I of the Chavies Wasterwater Collection System. This is the first of four planned project phases. 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 is being administered by the United States Department of Agriculture Rural Development in an agreement with ARC. The grantee also entered into a contract with the Kentucky Infrastructure Authority (KIA) to provide technical and professional services including but not limited to supervising the bidding process, overseeing the preparation of construction contracts, obtaining payroll certifications, project reporting and preparing performance reports and closeout. USDA was responsible for project monitoring and for filing progress reports in the form of Basic Agency Monitoring Reports.

The grant provided total funding of \$680,000 including \$500,000 in ARC funds and \$180,000 in non-ARC funds and was awarded to cover the period January 1, 2017 to December 31, 2019. The project was subsequently amended changing the completion date to October 31, 2018. An additional amendment reduced the non-ARC funding amount by \$55,000 to \$125,000 with total project costs of \$625,000. Major components of this phase include the construction of approximately 11,245 linear feet of new sewer lines in order to provide 30 households and one school with new sewer service. The new system will eliminate eleven failing septic systems and two treatment plants that have struggled to stay in compliance with the Kentucky Division of Water standards, with exceptionally high levels of E. coli noted in the area's ground and surface water. The project service area will have a primary impact on distressed areas.

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 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 the grantee's 2017 audited financial statements. No Single Audit was required for that year.

Of the \$625,000 in total project expenditures, we selected a sample of \$404,906 for testing to determine whether the charges were properly supported and allowable. We also reviewed the grantee's procedures for allocating administrative costs to the grant.

The criteria used in performing the audit were 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 November 12, 2019 through November 15, 2019, which included on-site work at the grantee's office and the USDA in Kentucky. 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

The project was administered by the USDA. Administrative assistance was provided by KIA. We found procedures to be 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 and KIA had adequate processes 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 were accomplished. The USDA provided grant progress reports as needed using Basic Agency Monitoring Reports. The final report was submitted November 21, 2018, using the Basic Agency Monitoring Report, which indicated the project was completed over a year early.

The grantee was able to meet the projected outputs of Phase I of the Chavies Wasterwater Collection System by providing new sewer service to 30 households and one (1) elementary school through the construction of 11,245 linear feet of new sewer lines. Project results were examined for reasonableness by inspecting the site and reviewing the Engineer's Aerial Maps indicating construction of the new sewer lines to 30 households and the elementary school. The updated sewer service will reduce the risk that residents will be exposed to untreated wastewater and reduce E. coli levels in ground and surface water that feeds into the Kentucky River.