

Office of Inspector General

Report Prepared by Bonadio & Co., LLP

Audit of Grant Award –Clay County PSD Pack Fork and Independence Road Waterline Extension

Grant Number – WV-18271-214-15



Appalachian
Regional
Commission

Office of Inspector General

Audit Report: 21-06

March 17, 2021



Appalachian
Regional
Commission

Office of Inspector General

March 17, 2021

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit of Grant Award – Clay County PSD Pack Fork and Independence Road Waterline Extension
Report Number 21-06

This memorandum transmits the Bonadio & Co., LLP report for the audit of costs charged by Clay County PSD Pack Fork and Independence Road Waterline Extension per its agreement with the Appalachian Regional Commission for Grant Number WV-18271. 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 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.

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March 10, 2021

Appalachian Regional Commission
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Bonadio & Co., LLP completed an audit of grant number WV-18271-214-15 awarded by the Appalachian Regional Commission (ARC) to Clay County for the Clay County Public Service District's Pack Fork and Independence Road Waterline Extension project. The grant is being administered by the United States Department of Housing and Urban Development (HUD). 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 WV-18271-214-15 awarded by the Appalachian Regional Commission (ARC) to Clay County for the Clay County Public Service District's Pack Fork and Independence Road Waterline Extension project. The grant is being administered by the United States Department of Housing and Urban Development (HUD), as the basic agency. 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 provided total funding of \$2,960,000 including \$760,000 in ARC funds and \$2,200,000 in non-ARC funds and was awarded to cover the period September 1, 2015 to September 1, 2017. The grant was amended multiple times extending the period of performance to November 30, 2019. No additional funding was provided in the amendments. The grant was closed on December 8, 2020.

The project's objective is to provide safe, reliable water service to 134 households and two organizations in an isolated part of the county by constructing approximately 35,000 linear feet of waterline. This project will extend public water services to a previously unserved area improving the water quality, reliability, flow, and pressure for residents and organizations in rural Clay County, an ARC-designated distressed county. Groundwater wells are the current primary water source for the project area. Many residents have complained about the odor and taste associated with water from the existing groundwater wells, as a result of high sulfur and iron concentrations in groundwater. The new water lines will provide reliable water service, enhance fire protection and help make the area more economically competitive.

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 performance measures, 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 and meet the performance measures. We examined financial and other required reports to determine if they were supported and submitted in accordance with the grant requirements. We also obtained and reviewed the most recent Single Audit report for the fiscal year ending June 30, 2019, that was dated March 27, 2020.

We reviewed expenditures of the grant dated from February 2016 to September 2018. We selected a sample totaling \$1,709,656 in total project expenditures 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 ARC grant documents, the grant approval, 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*. We conducted this performance audit in accordance with generally accepted government auditing standards. 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 findings and conclusions based on our audit objectives. The fieldwork was completed remotely during the period of 11/25/2020 to 2/18/2021.

SUMMARY OF AUDIT RESULTS

The financial management, administrative procedures and related internal controls of the grantee were adequate to manage the grant funds received. At the time of our audit, over 95% of the program's budget had been expended. There were \$760,000 in ARC expenditures and \$2,129,293 in HUD CBDG grant funds and local expenditures for a total of \$2,889,293. 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 accomplished. Progress reports were completed by HUD using the Basic Agency Monitoring Report.

Project results were examined for reasonableness through reviewing the engineer's drawings detailing the project specifications in the distressed area. The grantee was able to meet the projected outputs of the by adding 44,000 linear feet of water line. The project provided add water service to 90 households falling short of the projected outcome of 134 households served. According to the project manager, a flood occurred in 2016 resulting in homes being demolished. In addition, a number homeowners decided to not connect to the new waterline. We observed the properties affected on meter route sheets and record drawings.

On December 8, 2020, the final BAMR was filed noting that the completion of the Pack Fork and Independence Road waterline extension project allows for service to other areas in Clay County and to serve potential businesses locating along the project area due to the popularity of the new Elk River Trail State Park. In addition, the final amendment to the project reduced the final budget by \$70,706 and the grant was closed by ARC on December 8, 2020.