



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to South Cumberland Utility District Grant Number TN-19840

Report Prepared by Regis & Associates, PC

Report Number 25-28

July 17, 2025

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, Suite 718
Washington, D.C. 20009



Office of Inspector General

Appalachian Regional Commission

July 17, 2025

TO: Brandon McBride, Executive Director

FROM: Clayton Fox, Inspector General

SUBJECT: Audit Report 25-28 – South Cumberland Utility District

This memorandum transmits the Regis & Associates, PC, report for the audit of costs charged to grant number TN-19840 per its agreement with the Appalachian Regional Commission. 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 reasonable, supported, and fairly represented to the Commission.

Regis & Associates, PC, 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 the audit report. To fulfill our responsibilities, we:

- Reviewed the 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, as necessary;
- Reviewed the draft and final audit reports; and
- Coordinated the issuance of the audit report.

The auditors made two recommendations in the report. Within the next 30 days, please provide me with your management decisions describing the specific actions that you will take to implement the recommendations.

We thank your staff for the assistance extended to the auditors during this audit. Please contact me at 202-884-7675 if you have any questions regarding the report.

*Report on Performance Audit
of
Appalachian Regional Commission
Grant Number TN-19840-I
for the Period from June 1, 2020, to October 31, 2023*

*Awarded to
South Cumberland Utility District*

*Prepared for the Appalachian Regional Commission -
Office of the Inspector General*

Auditee: *South Cumberland Utility District*
As of Date: July 11, 2025


MANAGEMENT CONSULTANTS &
CERTIFIED PUBLIC ACCOUNTANTS
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MANAGEMENT CONSULTANTS &
CERTIFIED PUBLIC ACCOUNTANTS

EXECUTIVE SUMMARY

Office of Inspector General
Appalachian Regional Commission
1666 Connecticut Avenue, NW; Suite 700
Washington, DC 20009

We conducted a performance audit (the audit) of grant agreement, number TN-19840-I, awarded by the Appalachian Regional Commission (ARC), to South Cumberland Utility District (the Grantee); with a grant performance period of June 1, 2020, to October 31, 2023. We conducted this performance audit at the request of the ARC Office of Inspector General, to assist it in its oversight of ARC grant funds. This performance audit engagement covers the period from June 1, 2020, to October 31, 2023.

The objectives of the performance audit were to determine whether: (1) program funds were managed in accordance with ARC and Federal grant requirements; (2) grant funds were expended, as provided for in the approved grant budget; (3) internal guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with accounting principles generally accepted in the United States of America (or other applicable accounting and reporting requirements); (5) matching requirements were met; (6) the reported performance measures were fair and reasonable; and (7) if the requirements for the performance of a Single Audit were met, the Grantee conducted such an audit and appropriately addressed any noted findings and recommendations related to the management of Federal awards.

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 our findings and conclusions, based on our audit objectives.

We conducted planning and fieldwork phases of the audit during the period from July 17, 2024, through May 30, 2025. We determined that, except for the matter identified as Finding 2025-001 in the accompanying Findings, Recommendations, and Grantee's Response section of this report; South Cumberland Utility District's financial management, administrative procedures, and related internal controls, were adequate to manage ARC's grant funds.

We discussed the results of this performance audit with South Cumberland Utility District's officials at the conclusion of our fieldwork. South Cumberland Utility District's response has been included as Attachment 1 to this report.

Regis & Associates, PC appreciates the cooperation and assistance received from South Cumberland Utility District's and ARC's staff during this performance audit.

Regis & Associates, PC

Regis & Associates, PC
Washington, DC
July 11, 2025

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency, representing a unique partnership of Federal, state, and local governments. ARC-funded programs are used to support education and job training, healthcare, water and sewer systems, housing, highway construction, and other essentials of comprehensive economic development. ARC's staff is responsible for program development; policy analysis and review; grant development; technical assistance to states; and management and oversight. ARC grants are made to a wide range of entities, including; local development districts, state ARC Offices, state and local governments, educational establishments, nonprofit organizations, and for a variety of economic development projects.

On May 25, 2021, the Appalachian Regional Commission awarded Grant Number TN-19840-I, in the amount of \$488,109, to South Cumberland Utility District. As a condition of this award, the Grantee was required to contribute a matching amount of \$1,059,560 from both Federal¹, and Non-Federal (Local)² sources. The grant's original period of performance was from June 1, 2020, through July 31, 2023. On July 3, 2023, ARC approved an amendment to extend the grant's period of performance to October 31, 2023. This performance audit engagement covers the period from June 1, 2020, to October 31, 2023.

The objective of this project was to "extend public water service to 29 households at scattered sites, one state park, and connect the City of Pikeville to the South Cumberland Utility District."

Objective, Scope, and Methodology

Objective

The general objectives of the performance audit were to determine whether South Cumberland Utility District expended grant funds in accordance with applicable requirements; and to report any resulting findings and questioned cost relating to internal controls; program performance; and compliance with provisions of the grant agreement, laws, and regulations.

Scope and Methodology

The Appalachian Regional Commission, Office of Inspector General, under Order Number ARC21P050, dated February 25, 2022; engaged Regis & Associates, PC to conduct a performance audit of Grant Number TN-19840-I, titled "South Cumberland Water Line Extension Project", which was awarded to the Grantee.

¹ The Federal source for matching herein refers to a Community Development Block Grant (CDBG), which provided matching funds for this project, in the amount of \$468,865.

² Non-Federal sources for matching, herein refers to local matching funds provided by South Cumberland Utility District, in the amount of \$590,695.

The budgeted amounts for the grant are presented below:

Exhibit – A: Schedule of Grant Budget				
Object Class Category	ARC	Matching		Total
	Federal (ARC)	Federal (CDBG)	Non-Federal (Local)	
Administrative and legal expenses	\$ 18,135	\$ 17,419	\$ 21,946	\$ 57,500
Land, structures, rights-of-way, appraisals, etc.	1,766	1,697	2,137	5,600
Architectural and engineering fees	24,160	23,208	29,238	76,606
Other architectural and engineering fees	10,332	9,925	12,504	32,761
Project inspection fees	25,735	24,721	31,144	81,600
Construction	391,038	375,620	473,222	1,239,880
Contingencies	16,943	16,275	20,504	53,722
Total	\$ 488,109	\$ 468,865	\$ 590,695	\$ 1,547,669

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 our findings and conclusions, based on our audit objectives.

The audit was conducted, using the applicable requirements contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); the ARC Code; and the Grant Agreement.

Our audit procedures included:

- Obtaining an understanding of the Grantee’s internal controls; assessing control risk; and determining the extent of testing needed, based on the control risk assessment.
- Reviewing written fiscal policies and administrative procedures for applicable grant activities.
- Assessing, on a test basis, evidence supporting the amounts; and the Grantee’s data and records.
- Assessing the accounting principles and significant estimates made by the Grantee.
- Evaluating the overall evidence and presentation of the records.
- Assessing whether the grant’s reported performance measures were fair and reasonable.
- Conducting other test procedures deemed necessary, based on our professional judgment.

Results

Based on the results of our testing and analysis on this performance audit, we determined that:

- 1) The grant funds were managed in accordance with ARC and Federal grant requirements; except for matters described in Finding 2025-001, in the accompanying Findings, Recommendation, and Grantee’s Response section of this report.
- 2) As of October 31, 2023, the Grantee had expended \$2,207,575, which was \$659,906 more than the grant’s budgeted amount of \$1,547,669.

South Cumberland Utility District
Performance Audit of ARC Grant Number TN-19840-I

Below, we have presented a Schedule of Claimed and Audit Recommended Cost as of October 31, 2023, which reflects the results of our audit.

Exhibit – B: Schedule of Claimed and Audit Recommended Costs
As of October 31, 2023

Object Class Category	Claimed Costs			Questioned Costs			Audit Recommended			Total
	ARC		Matching	ARC		Matching	ARC		Matching	
	Federal	Federal		Federal	Federal		Federal	Federal		
	(ARC)	(CDBG)	(Local)	(ARC)	(CDBG)	(Local)	(ARC)	(CDBG)	(Local)	
Project Costs	\$ 488,109	\$ -	\$ 1,719,466	\$ -	\$ -	\$ -	\$ 488,109	\$ -	\$ 1,719,466	\$ 2,207,575
Total	\$ 488,109	\$ -	\$ 1,719,466	\$ -	\$ -	\$ -	\$ 488,109	\$ -	\$ 1,719,466	\$ 2,207,575

- 3) Internal guidelines, including program (internal) controls, were not adequate and operating effectively. The Grantee did not have written policies and procedures for managing Federal grant funds and determining the allowability and allocability of costs charged to the ARC grant; as described in Finding 2025-001, in the accompanying Findings, Recommendations, and Grantee's Response section of this report.
- 4) Accounting and reporting requirements were not implemented, in accordance with accounting principles generally accepted in the United States of America (or other applicable accounting and reporting requirements), including ARC requirements; as described in Finding 2025-001, in the accompanying Findings, Recommendations, and Grantee's Response section of this report.
- 5) We determined that, as of October 31, 2023; the Grantee had contributed a matching amount of \$1,719,466, which was \$659,906 more than the required matching contribution amount of \$1,059,560. These matching funds were properly supported and allowable under both Federal and ARC requirements.
- 6) We determined that the Grantee did not have written policies and procedures in place to accurately capture, record, and report grant performance measures (i.e. households improved and businesses improved) as described in Finding 2025-001, in the accompanying Findings, Recommendations, and Grantee's Response section of this report.
- 7) We verified that the Grantee had a Single Audit performed for the period ending December 31, 2023. The report did not identify any deficiencies or material weaknesses in internal control over compliance requirements, as outlined in the OMB Compliance Supplement and over reporting.

Findings, Recommendations, and Grantee's Response

Finding 2025-001 – Lack of Written Policies and Procedures for Managing Federal Awards

Condition:

During our audit, we observed that the Grantee did not have written policies and procedures for managing Federal awards and determining the allowability and allocability of costs charged to the ARC Grant.

We also noted that the Grantee did not have a formal accounting and reporting system to track grant activities. The Grantee provided to us, an Accounts Payable Report (“Vendor History Report”) that it used to track all grant expenditures and payments applied to the Grant. From this report, we were unable to confirm the categorization of grant expenditures by cost objectives and grant budget line items. As a result, we were unable to verify whether the costs incurred for the project, aligned with their respective cost objectives and classifications—namely, Administrative and Legal Expenses, Land and Structures, Architectural and Engineering Fees, Project Inspection Fees, Construction, and Contingencies—as outlined by the Grantee in the project budget submitted to ARC.

In addition, we noted that the Grantee's final budget for the project, submitted to ARC, indicated that the project would be funded with total matching contributions of \$1,059,560, consisting of \$468,865 from CDBG, and \$590,695 from a Non-Federal (Local) source. However, upon reviewing the actual matching records, we found that matching funds, in the amount of \$1,719,466, were provided entirely by a Non-Federal (Local) source. This budget revision and justification for the change was not requested nor communicated to ARC.

Criteria:

Per 2 CFR 200, Subparts D (Post Federal Award Requirements) and E (Cost Principles) non-Federal entities must have certain written policies, procedures, and standards of conduct surrounding the management of Federal awards, such as procedures for determining the allowability of costs in accordance with Subpart E (2 CFR § 200.302(b)(7) and 2 CFR 200.403).

Per 2 CFR 200.302(b)(3), non-federal entities must maintain records that adequately identify the source and application of funds for federally funded activities, including authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

Per 2 CFR Section 200.308(b), “The recipient or subrecipient must report deviations from the approved budget, project or program scope, or objective(s) in accordance with 2 CFR Section 200.329. The recipient or subrecipient must request prior approvals from the Federal agency or pass-through entity for budget and program plan revisions in accordance with this section.”.

Per ARC Grants Administration Manual for ARC Non-Construction Grants (February 2020) “Prior ARC approval is required for changes to major line items when the grant amount exceeds \$100,000 and the total proposed transfer exceeds ten percent of the project's total approved budget. To request a budget change, submit a budget revision worksheet and narrative justification to the ARC project coordinator and State

Program Manager. Note that the 10 percent cap on budget changes is cumulative over the life of the project and that new budget line items cannot be created. The State Program Manager must concur with the request before ARC will consider a budget change request. Budget changes that involve substantial revision to the scope of work or objectives of the project regardless of the grant amount or amount of money being moved always require prior ARC approval.

Questioned Costs:

None

Cause:

The Grantee did not have formal written policies and procedures for managing Federal assistance awards.

Effect:

The lack of written policies and procedures for managing Federal awards may result in non-compliance with Federal regulations, thereby increasing the risk of improper cost allocation or unallowable expenses being charged to the grant.

Recommendation:

Recommendation 01: We recommend that the Grantee develop and implement written policies and procedures surrounding the management of Federal awards, in accordance with the Uniform Guidance and the ARC grant manual.

Recommendation 02: We recommend that the Grantee establish a proper accounting system to accurately maintain and track grant records of funds related to Federally-funded activities, in accordance with Federal requirements.

Grantee's Response:

The Grantee concurred with the finding. See the Grantee's full response in Attachment 1.

Auditor's Response:

Since the Grantee concurred with this finding, no additional comments are necessary.

Attachment 1 - Grantee's Response

SOUTH CUMBERLAND UTILITY DISTRICT

Commissioners:
Michael Stone, President
Joe Salvato, Vice President
Dr. James Barnawell, Secretary

General Manager: Jack Davis

MEMORANDUM

To: Fidel Wambura, CPA, Senior Manager, Regis and Associates PC
From: Jack Davis, General Manager, South Cumberland Utility District
Date: **July 11, 2025**
Subject: Response to Performance Audit Report for ARC Grant TN-19840-I

South Cumberland Utility District has received the *Report on the Performance Audit of the ARC TN-19840-I*. In response to the findings of the audit for the ARC Water Line Extension Project.

First, we would like to first apologize for the shortcomings you incurred while performing this audit!

In our defense, this was an inherited project for all involved from South Cumberland Utility District. South Cumberland Utility District incurred several major setbacks during the course of this project over a three-year timeline. The first major setback was the unexpected death of our engineer. We immediately had to jump into action to find and hire a new engineer which turned out to be one no one had previously worked with. The next catastrophe was the unexpected death of our President of the Board of Directors. To get a new Board member is quite an involved process. Once again, he was involved in the ARC process along with General Manager at the time; not us. The last major setback was the unexpected retirement of the General Manager. No one other than the General Manager and Board President had been involved in the ARC project.

After the departure of the General Manager, and the passing of Board President, this was all new ground for the remaining team members. No one here had ever dealt with ARC funds and the requirements that came forth. The policy and procedures for ARC money was never mentioned nor explained to us. As far as we were concerned, all we were responsible for was cutting a check when the grant writer requested it. And finally, SCUD was tasked with covering the remaining cost for this project. And, as we all know, the prices for materials and inventory increased very quickly. We were left holding the bag to cover those additional costs of \$1M+. That alone was the cause for much concern and many sleepless nights. We consider ourselves extremely fortunate to have made it to the end of the project!

I want to make it very clear that we are not offering any excuses for our shortcomings, just to give you the big picture so you may understand why we floundered so badly. We certainly appreciate your frankness and your unwavering support throughout the audit, and we will most certainly implement your suggestions and vow to do better in the future. These results are not typical for South Cumberland, and we regret that your first experience with our utility has ended in such disarray. Once again, this is not an excuse but a heartfelt apology for all the problems you experienced.

Sincerely,
Jack Davis
General Manager

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