



Office of Inspector General

Appalachian Regional Commission

Audit of Grant Award to City of Dallas Grant Number GA-19327

Report Prepared by Castro & Co, LLC

Report Number 23-21

August 3, 2023

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



Office of Inspector General

Appalachian Regional Commission

August 3, 2023

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit Report 23-21 – City of Dallas

This memorandum transmits the Castro & Company, LLC report for the audit of costs charged to grant number GA-19327 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.

Castro & Company, LLC, is responsible for the attached audit report and the conclusions expressed in this report. The auditors did not issue any recommendations in the 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.

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.



**Appalachian Regional Commission
Performance Audit Report
of Grant No. GA-19327**

**For the period from September 1, 2018 to June 1, 2022
Awarded to the City of Dallas**

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

August 2, 2023

Final Report

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Executive Summary

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

Castro & Company, LLC (Castro & Co) conducted a performance audit of Grant Number GA-19327 awarded by the Appalachian Regional Commission (ARC) to the City of Dallas (the Grantee) with a grant performance period of September 1, 2018 to June 1, 2022. The audit was conducted at the request of the ARC Office of Inspector General to assist it in its oversight of ARC grant funds.

The objectives of the performance audit were to determine whether: (1) grant 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 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; and (6) the reported performance measures were fair and reasonable.

We determined that the Grantee's financial management, administrative procedures, and related internal controls were adequate to manage the ARC grant funds. There were no findings and recommendations resulting from this performance audit engagement.

We discussed the results of this performance audit with the City of Dallas' management at the conclusion of our fieldwork.

Castro & Co appreciates the cooperation and assistance received from the Grantee and ARC staff during this performance audit.

Castro & Company, LLC

Alexandria, VA
August 2, 2023

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; health care; water and sewer systems; housing; highway construction; and other essentials of comprehensive economic development. 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. Castro & Company, LLC (Castro & Co) was contracted by the ARC's Office of Inspector General to perform the audit of Grant No. GA-19327 awarded to the City of Dallas (the Grantee) for the grant performance period from September 1, 2018 to June 1, 2022.

ARC awarded Grant No. GA-19327 to the City of Dallas to provide funding for the expansion of the existing Pumpkinvine Creek Water Pollution Control Plant (WPCP) from 1.5 million gallons per day (MGD) to 3.0 MGD to treat increased wastewater from planned and projected growth. Plans included a \$47 million expansion of a senior living center representing 140 new jobs and the construction of a \$70 million detention center and sheriff's office. ARC funds were made available to the project through the Georgia Environmental Finance Authority (GEFA) and were administered in accordance with the Memorandum of Understanding (MOU) between GEFA and the ARC, executed on July 31, 2014.

The original period of performance for Grant No. GA-19327 covered the period from September 1, 2018 to December 31, 2020 but was subsequently extended to June 1, 2022. The grant agreement provided a budget of \$600,000 in ARC funds and required non-ARC matching funds of \$11,609,986 for total project costs of \$12,209,986. The allowable percentage breakout of ARC to non-ARC funding for the project was 5% ARC funds to 95% matching funds.

We obtained the ARC Basic Agency Closeout Summary for the period ending June 1, 2022 that identified cumulative total ARC costs of \$600,000 (3%) and non-ARC matching costs of \$17,120,000 (97%) for a total project cost of \$17,720,000.

Objectives, Scope, and Methodology

Castro & Co was engaged by the ARC Office of Inspector General to conduct a performance audit of the City of Dallas to determine compliance with the requirements of the ARC Grant No. GA-19327 for the grant period from September 1, 2018 to June 1, 2022.

The budgeted amounts for the grant are solely for contractual costs related to the overall construction project and are presented in Exhibit A below as approved by ARC:

Exhibit A: Schedule of Grant Budget	
Category	Total
Architectural and Engineering (A&E) fees	\$ 672,500
Other A&E fees	\$ 47,500
Project Inspection fees	\$ 238,000
Construction	\$ 10,229,078
Contingencies	\$ 1,022,908
Total	\$ 12,209,986
ARC Funded Percentage Share (4.914%)	\$ 600,000
Non-ARC Match Percentage Share (95.086%)	\$ 11,609,986

The objectives of our audit were to determine whether the Grantee used grant funding from the ARC in accordance with its ARC grant agreement and complied with financial management requirements, specifically to determine whether:

- Program funds were managed in accordance with the ARC and Federal grant requirements;
- Grant funds were expended as provided for in the approved grant budget;
- Internal grant guidelines, including program (internal) controls, were adequate and operating effectively;
- Accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements);
- Matching requirements were met; and
- Reported performance measures were fair and reasonable.

The scope of this audit includes those costs addressed in the City of Dallas’ system that specifically apply to ARC such as architectural and engineering (A&E) and inspection fees, construction, and other costs. We conducted this performance audit from December 2022 to August 2023 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 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.

To meet the audit objectives, our overall methodology included the following:

- Obtaining an understanding of the Grantee’s internal controls and documenting key controls over cash disbursement, cash receipts, procurement, and match costs through reviews of policies and procedures, prior audit reports, organization charts, inquiry of the

Grantee's management and other available documentation, assessing control risk, and determining the extent of testing needed based on the control risk assessment;

- Considering fraud risk through a team fraud brainstorming session and inquiries of the Grantee's management about their understanding of the risks of fraud related to grant awards, programs and controls the Grantee has established to mitigate specific fraud risks, and whether management is aware of any allegations of fraud or suspected fraud;
- Selecting a sample of expenditures based on materiality calculated using Government Accountability Office (GAO)/Council of the Inspectors General on Integrity and Efficiency (CIGIE) Financial Audit Manual (FAM) sections 230.01 through 230.13 and auditing, on a test basis, evidence supporting the grant funds were expended during the grant period, were properly supported, and allowable under both Federal and ARC requirements;
- Testing match costs to determine whether match requirements were met, were properly supported, and allowable under both Federal and ARC requirements;
- Conducting interviews with the Grantee to evaluate the Grantee's processes for accurately tracking and reporting on the grant performance measures.

Grantee's Response to Audit Results

Our audit results were discussed with Kendall Smith, City Manager, Brandon Rakestraw, Public Works Director, and Sandra Lee, Finance Director, for the City of Dallas, and Amanda Carroll for GEFA during the exit conference on August 1, 2023. The Grantee concurred with our results.

Summary of Results

Castro & Co's procedures determined the City of Dallas managed the grant funds in accordance with the ARC and Federal grant requirements. Grant funds were expended as provided for in the approved grant budget.

The City of Dallas' financial management, administrative procedures, and internal controls were adequate to account for the funds provided under the ARC grant. The Grantee's internal guidelines, including program (internal) controls, were adequate and operating effectively. We noted the City of Dallas had written policies and procedures for applicable grant activities, which we consider adequate for administering the grant. 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), including ARC requirements.

The Grantee had Single audits performed for the years ended June 30, 2019, June 30, 2020, and June 30, 2021. The audit reports did not have any findings or recommendations related to the management of federal assistance awards.

The Grantee reported a total of \$600,000 in ARC costs and \$17,120,000 in non-ARC matching costs; therefore, we determined the Grantee met the match requirements as of June 1, 2022. These matching funds were properly supported and allowable under both Federal and ARC requirements. We also determined that the Grantee implemented effective policies and procedures to accurately

capture, record, and report grant performance measures. Based on our review of the Grantee's procedures, the performance results reported to ARC were fair and reasonable.

The Exhibit B below presents costs claimed by the City of Dallas and costs recommended as a result of the grant audit.

Exhibit B: Schedule of Claimed and Audit Recommended Costs			
Category	Claimed Total	Questioned Cost	Audit Recommended Total
A&E/Inspection Fees	\$ 1,233,814	\$ -	\$ 1,233,814
Construction	\$ 15,188,588	\$ -	\$ 14,188,588
Other - Contingencies	\$ 1,297,598	\$ -	\$ 1,297,598
Total	\$ 17,720,000	\$ -	\$ 17,720,000
ARC Funded Amount	\$ 600,000	\$ -	\$ 600,000
Non-ARC Match Amount	\$ 17,120,000	\$ -	\$ 17,120,000