
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Tuppers Plains-Chester Water District
State Route 681 Booster Station Improvements
Reedsville, Ohio**

**Final Report Number: 16-17
Project Number: OH-17424
June 2016**

Prepared by:

Leon Snead & Company, P.C.



**LEON SNEAD
& COMPANY, P.C.**

*Certified Public Accountants
& Management Consultants*

416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
fax: 301-738-8210
leonsnead.companypc@erols.com

June 10, 2016

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

Leon Snead & Company, P.C. completed an audit of Basic Agency grant number OH-17424 awarded by the Appalachian Regional Commission (ARC) to the Ohio Environmental Protection Agency (OEPA) on behalf of the Tupper Plains-Chester Water District (TPCWD). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of ARC grant funds.

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 adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements and the performance goals and objectives of the grant were met.

The costs tested were supported and considered reasonable. We found that the TPCWD had an adequate process in place for obtaining and recording data related to the goals of the grant. The overall grant performance measures, with respect to anticipated outputs and outcomes, were met. We noted no instances where the performance measures were not met.

However, we identified several areas that require management attention. TPCWD had not established and adopted any written financial and administrative policies and procedures. OEPA did not consistently prepare and submit the required project reports and financial reports to ARC. TPCWD and/or OEPA did not conduct contractor employee interviews required for monitoring compliance with the Davis Bacon Act.

A draft report was provided to OEPA on April 8, 2016, for comments. OEPA provided a response to the report on May 18, 2016. TPCWD provided a response to the report on June 9, 2016. These comments are included in their entirety in Appendix I and II.

Leon Snead & Company appreciates the cooperation and assistance received from the OEPA, TPCWD and ARC staffs during the audit.

Sincerely,

Leon Snead & Company, P.C.
Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of Basic Agency grant number OH-17424 awarded by the Appalachian Regional Commission (ARC) to the Ohio Environmental Protection Agency (OEPA) on behalf of the Tupper Plains-Chester Water District (TPCWD). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of ARC grant funds.

The grant provided TPCWD with construction funds to install a new above ground booster pump station located on State Route 681 in Reedsville, Ohio. The funds also provided for the removal of the existing booster station, relocation of electrical services, waterline installation and site grading. In total, 750 households and 15 businesses would be served by the construction project. OEPA functioned as the fiscal agent for TPCWD and served as the Basic Agency. In partnership with OEPA, the Ohio Water Development Authority (OWDA) assisted in the administration of the grant.

The grant covered the period October 1, 2012 to August 31, 2013, and was subsequently extended to July 31, 2014. The grant provided \$185,000 in ARC funds and required \$46,300 in non-ARC recipient match funds, which were provided by the Water Supply Revolving Loan Account (WSRLA). The total estimated cost of the project was \$231,300. A total of \$185,000 in grant funds was expended and reimbursed by ARC. The total project cost was \$271,445, which included the use of \$86,445 from the WSRLA. The grant has been completed, but has not been administratively closed by ARC.

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 adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements and the goals and objectives of the grant were met.

Of the \$185,000 in expenditures charged to the grant and claimed for reimbursement, we selected all \$185,000 for testing to determine whether the charges were properly supported and allowable. We tested matching costs in the amount of \$49,521 to determine whether the charges were properly supported and allowable. The on-site fieldwork was performed at the TPCWD offices in Reedsville, Ohio and the OWDA offices in Columbus, Ohio during March 15-18, 2016.

We reviewed documentation provided by TPCWD, OEPA, and OWDA and interviewed personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed financial and project progress reports to determine if they were submitted in accordance with requirements. We also reviewed the most

recent financial statement and A-133 audit reports to identify any issues that significantly impacted the ARC grant and grant audit.

The primary criteria used in performing the audit were the grant agreement; the Memorandum of Understanding between ARC, the U.S. EPA, and OEPA; applicable Office of Management and Budget Circulars; and the ARC Code. The audit was performed in accordance with *Government Auditing Standards*.

The preliminary results were discussed with the TPCWD staff at the conclusion of the on-site visit. TPCWD was in general agreement with the preliminary results.

Summary of Audit Results

The costs tested were supported and considered reasonable. We found that TPCWD had an adequate process in place for obtaining and recording data related to the goals of the grant. The overall grant performance measures, with respect to anticipated outputs and outcomes, were met.

However, we identified several areas that require management attention. TPCWD had not established and adopted any written financial and administrative policies and procedures. OEPA did not consistently prepare and submit the required project reports and financial reports to ARC. TPCWD and/or OEPA did not conduct contractor employee interviews required for monitoring compliance with the Davis Bacon Act.

These issues and corresponding recommended corrective actions are discussed in the Findings and Recommendations section of this report.

Findings and Recommendations

A. Organizational Policies and Procedures

TPCWD had not formally established and adopted any written policies and procedures regarding its operations and programs. Having organizational policies and procedures in written form is an aspect of good management control practices. Written policies and procedures can help an organization in executing its operations and programs, as well as help in meeting its goals and objectives

TPCWD relied on the knowledge of its general manager to direct other staff on how to perform the procedures needed to administer the grant. Without policies in place, there remains the risk that procedures will not be carried out consistently on future projects.

Recommendation

TPCWD's board of directors and general manager should establish, and adopt through formal Board approval, written financial and administrative policies and procedures, which govern its operations and programs. In the event that TPCWD apply for and receive federal awards in the future, TPCWD will need to incorporate the applicable federal requirements into its policies and procedures.

Grantee's Response

Response from TPCWD

I will produce for the Board of Directors written Financial and Administrative Policies with Procedures concerning the issuance of the applicable federal requirements. We have already requested and received copies of examples from Buckeye Hills Hocking Valley Regional Development District that looks like we can modify to fit quite nicely into our policies.

Auditor's Comments

ARC will determine whether the information provided in the recipient's response is adequate to resolve the finding and close the recommendation.

B. Reporting Requirements

OEPA did not consistently prepare and submit the required project reports and financial reports to ARC. As a result, OEPA did not fully comply with the grant requirements and affected ARC's ability to monitor the project and close out the grant in a timely manner.

The grant agreement and corresponding memorandum of understanding required semi-annual reports to ARC on construction progress and grant expenditures, and a final report that includes certification of performance measures and final budget tracking on the use of ARC grant funds and matching funds. In addition, the status of activities covered by the memorandum of understanding was to be jointly reviewed by the U.S. EPA, OEPA, and ARC at least once annually.

Based on the period of performance of October 1, 2012 to the extended end date of July 31, 2014, three interim reports and one final report should have been submitted to ARC. In addition, there should have been a joint annual review by the U.S. EPA, OEPA, and ARC for years 2013 and 2014.

We determined that two interim reports were submitted. A timeline for key milestones was provided in the reports, but there was no information provided about progress made. Furthermore, the second report was a duplicate of the first, with only the date of submission changed. Neither report was signed. There was no evidence that OEPA had filed a final report with ARC upon completion of the project at July 31, 2014. There was also no evidence that the status of activities covered by the memorandum of understanding was jointly reviewed by the EPA, OEPA, and ARC in 2013 or 2014.

Recommendations

OEPA should:

1. Submit a final report to ARC in accordance with the grant agreement and the corresponding memorandum of understanding.

TPCWD and OEPA should also, on any future grant:

2. Adhere to the reporting schedule established in the grant agreement and any corresponding memorandum of understanding.

Grantee's Response

Response from OEPA

While it may be correct that Ohio EPA did not prepare and submit all required project reports, the burden to complete this task is shared with ARC. ARC had no system in place to monitor the terms of the MOU, including the timely submission of required reports. Only recently has ARC sent reminder notices to Ohio EPA and OWDA for reporting. In addition to this, ARC has instituted a revised system for reporting and conducted a seminar on how to complete and submit

reports. Prior to this, a detailed description of how to complete a report was not available. In the future, Ohio EPA/OWDA will strive to complete and submit ARC reports in a timely manner.

Auditor's Comments

ARC will determine whether the information provided in the recipient's response is adequate to resolve the finding and close the recommendation.

C. Administrative Procedures

TPCWD and/or OEPA are responsible for ensuring compliance with the Davis Bacon Act, which requires that non-federal entities pay laborers the prevailing local wage on federally assisted construction contracts. The Code of Federal Regulations explains that to ensure compliance, validation measures include "interviews with employees, which shall be taken in confidence, and examinations of payroll data," (Labor, 29 C.F.R. § 5.6 (A)(3)).

The on-site interviews with employees were not conducted. Thus, the payroll validation process was not complete and compliance with the Davis Bacon Act was not ensured. TPCWD explained that it was a miscommunication with OEPA as to who was responsible for conducting the interviews with respect to the grant.

Recommendation

TPCWD and/or OEPA should include on any future grant that is subject to the Davis Bacon Act, a clear explanation of the validation process and the parties responsible for conducting on-site employee interviews. This explanation should be made at the beginning of the project, and follow-up should be incorporated into the grantee's regular project monitoring procedures.

Grantee's Response

Response from TPCWD

We will insure in the future that Tupper's Plains Chester Water District will lead on this in the future. It was I, "The Prevailing Wage Coordinator" at Tupper's Plains Chester Water District that failed to do this work. Ohio EPA clearly provided information as to who was responsible for this. We will retain all records on information collected concerning on-site visits, conversation notes, and all required information. All information collected will be retained beyond the three-year requirement.

Response from OEPA

The Davis-Bacon Act wage rate interviews and documentation is a requirement of the Water Supply Revolving Loan Account (WSRLA) loan agreement of which the Borrower, TPCWD, is a signatory. Specifically, Article 3, Section 3.2 (e) requires the Borrower to follow Davis-Bacon Act requirements. This alleviates Ohio EPA and OWDA from conducting wage rate interviews or tracking compliance with the Davis-Bacon Act.

Auditor's Comments

ARC will determine whether the information provided in the recipient's response is adequate to resolve the finding and close the recommendation.

Tupper Plains-Chester Water District
39561 Bar 30 Road
Reedsville, OH 45772

Phone (740) 985-3315 Fax (740) 985-3320
 (800) 686-3747 Plant (740) 985-3319

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June 9, 2016

Leon Snead & Company
 416 Hungerford Drive, Suite 400
 Rockville, Maryland 20850

Re: ARC Draft Report for Project OH-17424, SR 681 Booster Station Improvements
 ARC Draft Report for Project OH-17737, Bashan Booster Station Improvements
 Dated April 2016, Audit Response Letter

Dear Mr. Snead,

We have reviewed the Draft Report of the Audit prepared by your firm on the two Grant Awards to this Water District. I offer the following response to the findings "A" Organizational Policies and Procedures, and "C" Administrative Procedures, under Findings and Recommendations.

"A" Organizational Policies and Procedures

I will produce for the Board of Directors written Financial and Administrative Policies with Procedures concerning the issuant of the applicable federal requirements. We have already requested and received copies of examples from Buckeye Hills Hocking Valley Regional Development District that looks like we can modify to fit quite nicely into our policies.

"C" Administrative Procedures

We will insure in the future that Tupper Plains Chester Water District will lead on this in the future. It was I; "The Prevailing Wage Coordinator" at Tupper Plains Chester Water District that failed to do this work. Ohio EPA clearly provided information as to who was responsible for this. We will retain all records on information collected concerning on site visits, conversation notes, and all required information. All information collected will be retained beyond the three year requirement.

Sincerely,

Donald C. Poole, General Manager
 Tupper Plains Chester Water District

RESPONSE TO ARC AUDIT RECOMMENDATIONS FOR ARC GRANTS OH-17424 & OH-17737

The Ohio EPA was provided the audit report prepared by Leon Snead & Company for Appalachian Regional Commission (ARC) grants OH-17424 & OH-17737 in April, 2016. The report was submitted to Ohio EPA by Leon Snead & Company for comment. The report included two items that Ohio EPA will address:

- 1) According to the report, Ohio EPA did not consistently prepare and submit the required project reports and financial reports to ARC.
- 2) According to the report, Tupper's Plains-Chester Water District (TPCWD) and/or Ohio EPA did not conduct contractor employee interviews required for monitoring compliance with the Davis Bacon Act.

Additionally, the report noted that there was no indication that the Memorandum of Understanding (MOU) was jointly reviewed by the EPA, Ohio EPA, and ARC with respect to each agency's activities.

In response to the above, the Ohio EPA provides the following:

- 1) The Report indicates that the auditors interviewed personnel at TPCWD, Ohio EPA and the Ohio Water Development Authority (OWDA) to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. This statement is not correct; at no time were personnel at Ohio EPA interviewed, nor were they approached or requested for an interview, or to provide any such information.
- 2) While it may be correct that Ohio EPA did not prepare and submit all required project reports, the burden to complete this task is shared with ARC. ARC had no system in place to monitor the terms of the MOU, including the timely submission of required reports. Only recently has ARC sent reminder notices to Ohio EPA and OWDA for reporting. In addition to this, ARC has instituted a revised system for reporting and conducted a seminar on how to complete and submit reports. Prior to this, a detailed description of how to complete a report was not available. In the future, Ohio EPA/OWDA will strive to complete and submit ARC reports in a timely manner.
- 3) The Davis-Bacon Act wage rate interviews and documentation is a requirement of the Water Supply Revolving Loan Account (WSRLA) loan agreement of which the Borrower, TPCWD, is a signatory. Specifically, Article 3, Section 3.2 (e) requires the Borrower to follow Davis-Bacon Act requirements. This alleviates Ohio EPA and OWDA from conducting wage rate interviews or tracking compliance with the Davis-Bacon Act.

Ohio EPA would also like to point out there was no attempt by any party to review the status of activities covered by the MOU as required on a yearly basis for any ARC project. The MOU does not state which party is responsible to initiate this review.

Since funding is provided by ARC, it is reasonable to assume ARC is the responsible party to initiate this conversation.

In closing, the audit found no misappropriation of funds or corrections needed in the administration of the ARC funds for either grant. The only pertinent comment noted in the audit was in relation to the reporting requirements of the MOU between Ohio EPA and ARC. Ohio EPA will improve upon the required reports as needed.

Ohio EPA rejects the notion that the Agency has a responsibility for the Davis-Bacon Act wage rate interviews or documentation. Ohio EPA also rejects the notion that it was the Agency's responsibility to initiate an annual review of the terms of the MOU. We believe that this responsibility lies with ARC.