
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Blue Ridge Crossroads Economic Development Authority
Galax, Virginia**

**Final Report Number: 16-24
Project Number: VA-16946
August 2016**

Prepared by:

Leon Snead & Company, P.C.



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August 5, 2016

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

Leon Snead & Company, P.C. completed an audit of grant number VA-16946 awarded by the Appalachian Regional Commission (ARC) to the Blue Ridge Crossroads Economic Development Authority (BRCEDA). The audit was performed to assist the Office of Inspector General in carrying out its oversight of ARC grant activities.

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 majority of ARC funding expenditures tested were adequately supported and allowable. However, we questioned \$16,050 in grantee administrative and survey costs due to inadequate supporting documentation and identified \$6,000 in costs that were considered unallowable due to occurring and being paid after the grant ended.

BRCEDA had written fiscal policies and procedures for the areas applicable to the grant activities that were considered to be adequate for administering the grant. However, the accounting procedures for recording and tracking funds need to be improved prior to obtaining future federal grants.

The award and oversight of the construction contract and costs were considered adequate. The grant project was complete and the planned goals with regard to constructing roads and installing water and sewer infrastructure were reasonably met. However, grant outcomes were not met regarding the goals of creating jobs and increasing private investment in the region. The predicted 400 jobs and \$250 million in private investment had not been achieved at the time of the audit.

These issues and the corresponding recommended corrective actions are discussed in the Findings and Recommendation section of this report. A draft report was provided to BRCEDA on June 9, 2016 for comments. BRCEDA provided a response to the report on June 28, 2016. Their comments are included in the report, and supporting documentation is included in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the BRCEDA and ARC staff 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 VA-16946 awarded by the Appalachian Regional Commission (ARC) to Virginia Department of Housing and Community Development (DHCD) on behalf of the Blue Ridge Crossroads Economic Development Authority (BRCEDA). 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 DHCD served as the basic agency responsible for administering the grant in accordance with the Virginia ARC Program Construction Project procedures established November 2010. The DHCD subsequently awarded an agreement to BRCEDA (as grantee) that provided the specific terms and conditions required by the ARC grant.

The ARC grant was to support creating a regional industrial park (designated as Wildwood Commerce Park) by acquiring 167 acres of land near Interstate 77 in Carroll County, constructing roads, a sewer and water system, and other infrastructure and marketing the site to potential businesses for locating and operating there. ARC funding was primarily for water and sewer construction costs and grant administration. The project was intended to foster economic development that would result in creating or retaining 400 jobs and \$250 million in private investment with the assistance of public-private sector partnerships.

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 performance goals and objectives of the grant were met.

The grant provided \$500,000 in ARC funding and required \$10.7 million in non-ARC matching funds from the grantee to meet the \$11.2 million total estimated project costs. The approved grant period in the DHCD agreement was July 30, 2012 to July 30, 2014.

The grant and initial project work covered by the grant had been completed by July 30, 2014. The DHCD subsequently completed its final grant review, processed the final payment to BRCEDA, and considered the grant to be administratively closed on April 30, 2015. The final reported total project cost was \$15.5 million, with \$499,232 of the \$500,000 ARC funding being expended and the remaining costs funded with non-ARC matching funds.

Of the \$499,232 in expenditures charged to VA-16946 and claimed for reimbursement, we selected all \$499,232 for testing to determine whether the charges were properly supported and allowable. We reviewed the \$15 million in non-ARC matching funds and DHCD's review of those funds to determine whether the charges were properly supported and allowable.

The audit focused on the procedures, records and actions taken by BRCEDA and did not include evaluating DHCD procedures or administration as Basic Agency other than to understand reporting and other requirements placed on the grantee. We reviewed the documentation provided and interviewed BRCEDA staff to obtain an overall understanding of the grant requirements and activities, the accounting system, and the operating procedures. We reviewed BRCEDA procedures and internal controls for administering the project, including the construction contract and ARC funds. We reviewed financial and other required reports, including those related to project performance and results. We also reviewed the most recent Independent Auditor's Report to determine whether there were any issues that impacted the ARC grant.

The fieldwork was performed during the period of May 9-17, 2016, including on-site work at BRCEDA offices in Galax, Virginia. The preliminary results were discussed with grantee representatives at the conclusion of the on-site visit.

The primary criteria used to perform the audit were the provisions of the grant agreement and the related DHCD agreement, 2 CFR 200; applicable Office of Management and Budget (OMB) Circulars, and relevant parts of the ARC Code. The audit was performed in general accordance with the *Government Auditing Standards*.

Summary of Audit Results

The majority of ARC funding expenditures tested were adequately supported and allowable. However, we questioned \$16,050 in grantee administrative and survey costs due to inadequate supporting documentation and identified \$6,000 in costs that were considered unallowable due to occurring and being paid after the grant ended.

BRCEDA had written fiscal policies and procedures for the areas applicable to the grant activities that were considered to be adequate for administering the grant. However, the accounting procedures for recording and tracking funds need to be improved prior to obtaining future federal grants.

The award and oversight of the construction contract and costs were considered adequate. The grant project was complete and the planned goals with regard to constructing roads and installing water and sewer infrastructure were reasonably met. However, grant outcomes were not met regarding the goals of creating jobs and increasing private investment in the region. The predicted 400 jobs and \$250 million in private investment had not been achieved at the time of the audit.

The findings and recommended corrective actions are discussed in detail in the Findings and Recommendations section of the report.

Findings and Recommendations

A. Supporting Documentation for Allowable Costs

Federal administrative requirements in 2 CFR 215.21, applicable to the ARC grant, require grantees to have an accounting system and procedures that accurately identifies and tracks obligations, assets, expenditures, and income related to grant funds and be able to produce reports accurately showing grant-related activity. These accounting procedures and reports, along with other supporting documents like time sheets, invoices, etc., generally provide the type of documentation required.

Most of the ARC funding and budgeted costs primarily related to the construction costs. We were provided spreadsheet reports and invoices supporting the construction costs charged to ARC funds and verified them as being reasonable and allowable. The grant budget also allocated \$15,000 for BRCEDA direct costs needed to administer the grant and project and \$3,000 for survey costs. To review and verify actual expenditures claimed by BRCEDA for these costs we requested an accounting report showing obligations, revenues, and expenditures and other supporting documents such as invoices for the ARC portion of the project. The grantee was unable to provide these documents because the project accounting records were not set up to track the ARC funds separately. Rather, the accounting records were set up to track costs on the total project basis, under a single account, without individual accounts being set up to identify various funding sources. We were only provided a general ledger that showed all costs charged to the project without identification of the fund source used to pay them.

As a result, BRCEDA could not identify the specific expenditures that related to the \$15,000 and \$3,000 claimed as administrative costs and survey costs, and could not provide the related supporting documents. BRCEDA subsequently provided us supporting documentation on the survey costs claimed and using that documentation we were only able to verify \$1,950 as being allowable. We could not verify either the remaining \$1,050 survey costs or the \$15,000. For these reasons, we question the total \$16,050 as being valid, allowable costs. We attribute the lack of adequate supporting documentation to BRCEDA's failure to establish proper accounting records and procedures to track the grant expenditures.

The grant budget also included \$30,000 ARC funding for grant administration services from the Mt. Rogers Planning and Development Commission (MRPDC) to be obtained under a written agreement with BRCEDA. We verified \$24,000 of the \$30,000 costs paid to MRPDC by BRCEDA (for which BRCEDA was reimbursed) as being reasonable and allowable based on support documentation provided.

The remaining \$6,000 was included in a MRPDC invoice dated February 2, 2015 and BRCEDA paid the invoice on February 16, 2015. BRCEDA included this amount in its final grant billing to DHCD dated January 27, 2015 and was reimbursed as reflected in the final grant financial report.

The MRPDC invoice did not contain any details on the actual task(s) or date(s) performed. The BRCEDA-MRPDC agreement showed that the final MRPDC task to be performed was to assist BRCEDA in grant closeout, which by its nature would occur after the grant ended. Based on the facts that MRPDC's final invoice was over six months after the grant ended, the contracted services included post-award closeout assistance, and the invoice did not show exact tasks and dates, we concluded the \$6,000 related to services and costs occurring after the grant ended. Costs incurred after the approved grant period are not allowable. Since we were not provided any documentation during the audit showing that the ARC grant was formally amended to extend the performance period, we consider the \$6,000 to be unallowable grant costs and the amount should be refunded to ARC.

Recommendations

BRCEDA should:

1. Provide ARC staff with sufficient supporting documentation for the expenditures included in the \$16,050 administrative and survey costs questioned, or revise the final grant billing and refund the \$16,050 to ARC.
2. Revise the final billing and refund the \$6,000 unallowable costs to ARC.
3. Establish written procedures that comply with 2 CFR 200.302 and 303 and 403 (formerly 2 CFR 215.21) for documenting and controlling grant revenues and expenditures, prior to seeking future ARC grant funds.

Grantee's Response

1. \$15,000 admin support to BRCEDA - The auditor suggested that the BRCEDA board consider the approval of a letter to DHCD that the \$15,000 in administrative support, collected in FY 2014, was allocated to the executive director's salary. For FY 2014, the executive director's base salary was \$61,800 and it is reasonable that at least one-third (1/3) of the executive director's time that fiscal year was directed to managing the Wildwood construction project and related activities. The dollar value of this administrative work, derived from the base salary, is \$20,600, in excess of the \$15,000 in administrative support collected from the ARC grant. The Board received and approved the letter to Mr. David Adams, dated June 27, 2016 (Appendix I).

\$1,050 in surveying costs assigned to ARC - The audit finds that this amount of surveying costs billed to the ARC grant occurred after the grant term expired. Unless DHCD views this expense billed to ARC differently, BRCEDA may be able to assign this expenditure to another project-related and state-funded grant used for the construction and remit this amount to DHCD/ARC. (The letter to Ms. Denise Ambrose dated April 17, 2014 in Appendix I may have bearing on how the surveying costs are handled).

2. \$6,000 in administrative expenses paid to the Mount Rogers Planning District Commission - The audit finds that this expenditure is unallowable because the related work and billing

occurred after the grant term expired. However, the administrative work performed was to close out the grant. Administration was applied according to how DHCD approved it, including the performance of closing out the grant. Moreover, the letter to Ms. Ambrose was sent to DHCD on April 17, 2014, and BRCEDA requested that DHCD release the remaining grant funds, including the administrative funds in-question before the grant term expiration. I am uncertain whether the auditor had this letter in the correspondence to review during his visit. I apologize to the auditor if he did not in fact have this letter to consider during his review.

3. Establish written procedures - Before BRCEDA seeks and uses another federal grant, the BRCEDA staff should develop fiscal control policies consistent with the regulations outlined in the audit findings that the BRCEDA Board of Directors should approve prior to the federal grant project commencing.

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. Performance Measures

ARC requires specific performance metrics--in the form of planned outputs and outcomes--to be included in the grant application and actual results on each output and outcome must be reported when the grant is complete. The grant application included the following performance metrics in terms of expected or planned outputs and outcomes resulting from the project:

- an output of constructing 5,135 linear feet of 4-lane road
- an output of installing 5,108 linear feet of 12-inch water line
- an output of installing 4,541 linear feet of 8-inch public sewer line
- an output of acquiring 167 acres of land
- an outcome of creating or retaining at least 400 jobs
- an outcome of obtaining private investment of at least \$250 million

The performance measure information reported by BRCEDA as of the audit and documented/verified by DHCD showed the following actual results at the time of grant closeout:

- an output of constructing 2,150 linear feet of 2-lane road
- an output of installing 2,450 linear feet of 12-inch water line
- an output of installing 5,400 linear feet of 8-inch public sewer line
- an output of acquiring 273 acres of land
- an outcome of creating or retaining 0 (none) jobs
- an outcome of obtaining private investment of \$0 (none)

The planned results regarding the amount of land to be acquired for the park and the amount of sewer lines to be installed were exceeded at the time the grant ended. However, the road and water line infrastructure actually completed was substantially less than what was planned. We were told this was because the project proposal was based on a preliminary engineering analysis and cost estimates, and when the final approvals and permits were obtained the project had to be redesigned. The redesign impacted the budget and some areas, like the road and water lines, had to be reduced to conform to the budget. However, there was evidence that these revisions were submitted for approval.

The grant project was not yet successful in addressing the goal of improving the region's economy and the related planned outcomes for creating 400 jobs and obtaining \$250 million in new capital investment. At the time the grant ended, five businesses had considered the park but decided not to locate there for various reasons. An additional eight businesses had considered locating at the park but decided not to, and one was currently interested--that may involve as much as \$24 million investment and 154 jobs--for which BRCEDA was developing a proposal for them to consider. At the time of the audit, no businesses had committed to locate in the park and, thus, no jobs and no capital investment had been achieved. One reason cited by staff for businesses not choosing the park was that they needed or wanted additional or different infrastructure such as natural gas or more fiber optics. Meeting these goals depends very heavily on BRCEDA's success in marketing the park to potential businesses and convincing them to locate and invest in facilities and operations there. BRCEDA staff explained that it did not have

a robust marketing program of its own for identifying and reaching out to potential businesses to convince them to locate in the park. Rather, they were working with and relying mainly on two state organizations--whose mission included attracting businesses to the state--to help identify potential businesses for locating in the park. These organizations refer interested businesses to BRCEDA, which then has to develop and submit a proposal to the business for them to consider and decide if they want to locate and operate in the park.

BRCEDA had installed additional infrastructure since the grant, and planned to continue, to help meet the needs and attract businesses to the park. Thus, the project could be more successful in the future and better meet the goals of creating jobs, attracting capital investment, and improving the region's economy. Under DHCD policies all projects are expected to meet the full planned benefits within two years after administrative closeout--approximately April 30, 2017 for this grant--and BRCEDA will be required to submit updates on results every six months until the project benefits have been achieved.

Recommendations

BRCEDA should coordinate with DHCD to provide ARC:

1. Updated data on the planned and actual results for the outputs in the grant agreement that reflect the revised metrics due to project redesign; and
2. Copies of the planned updated information on future results that will be provided to DHCD every six months.

Grantee's Response

The grantee did not address this finding in its response to the draft report.

Auditor's Comments

The finding should remain open. ARC will determine the appropriate next steps to resolve the finding and close the recommendation.

Leon Snead Company

From: Ken McFadyen [director@brceda.org]
Sent: Tuesday, June 28, 2016 10:26 AM
To: 'Leon Snead & Company'
Cc: 'Alan Hawthorne'; 'Brian Reed'; 'Adams, David (DHCD)'; kbarker@galaxva.com; assistant@brceda.org
Subject: RE: Draft Audit Report - Grant No. VA-16946
Attachments: BRCEDA ARC Admin Justification 062716.pdf; Wildwood ARC release of funds request 041714.pdf

Good morning, Mr. Snead,

The Board of Directors for the Blue Ridge Crossroads Economic Development Authority (BRCEDA) received and reviewed the draft audit report during its meeting yesterday, June 27th. The below outlines the findings discussed and actions taken or contemplated. In receiving this email, please know that my last day of work with BRCEDA is this Thursday, June 30th. Also, we have reached out to the Virginia Department of Housing & Community Development (DHCD) regarding the audit findings and will need DHCD's involvement in this review and in finalizing any actions contemplated and/or taken. I am copying the interim executive director, Dr. Alan Hawthorne, as it appears that the further review and finalization of any actions may occur following my departure on June 30th.

Among the findings, below is what the Board received in my briefing:

- a. \$15,000 admin support to BRCEDA- Mr. Dix suggested that the BRCEDA board consider the approval of a letter to DHCD that the \$15,000 in administrative support, collected in FY 2014, was allocated to the executive director's salary. For FY 2014, the executive director's base salary was \$61,800 and it is reasonable that at least one-third (1/3) of the executive director's time that fiscal year was directed to managing the Wildwood construction project and related activities. The dollar value of this administrative work, derived from the base salary, is \$20,600, in excess of the \$15,000 in administrative support collected from the ARC grant. The Board received and approved the attached letter.
- b. \$1,050 in surveying costs assigned to ARC- the audit finds that this amount of surveying costs billed to the ARC grant occurred after the grant term expired. Unless DHCD views this expense billed to ARC differently, BRCEDA may be able to assign this expenditure to another project-related and state-funded grant used for the construction and remit this amount to DHCD/ARC. (The letter referenced in "c" below may have bearing on how the surveying costs are handled.
- c. \$6,000 in administrative expenses paid to the Mount Rogers Planning District Commission- the audit finds that this expenditure is unallowable because the related work and billing occurred after the grant term expired; however, the administrative work performed was to close out the grant. Administration was applied according to how DHCD approved it, including the performance of closing out the grant. Moreover, the attached letter was sent to DHCD on April 17, 2014 and BRCEDA requested that DHCD release the remaining grant funds, including the administrative funds in-question before the grant term expiration. I am uncertain whether Mr. Dix had this letter in the correspondence to review during his visit with us in May; I apologize to Mr. Dix if he did not in fact have this letter to consider during his review.
- d. Establish written procedures- Before BRCEDA seeks and uses another federal grant, the BRCEDA staff should develop fiscal control policies consistent with the regulations outlined in the audit findings that the BRCEDA Board of Directors should approve prior to the federal grant project commencing.

Should you have any further questions or comments for us, please do not hesitate to contact us. We enjoyed meeting and working with Mr. Dix in May and have found value in participating in this audit that will enhance our future grant management performance.

Sincerely,
 Ken

BLUERIDGECROSSROADS
economic development authority

Carroll – Grayson – Galax Regional Industrial Facilities Authority

June 27, 2016

Mr. David L. Adams,
Community Development Specialist
Virginia Department of Housing and Community Development
468 East Main Street, Suite 300B
Abingdon, Virginia 24210

Re: Administrative Support, ARC Grant VA-16946/ VA-DHCD Grant 11-02A

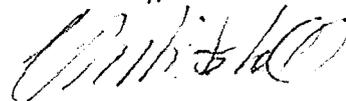
Dear Mr. Adams:

This letter is in reference to the recent audit of the Blue Ridge Crossroads Economic Development Authority's (BRCEDA) Appalachian Regional Commission (ARC) grant, referenced above, and the receipt of administrative support by BRCEDA in its performance of managing the related grant-funded construction project.

BRCEDA received \$15,000 in administrative support, collected in FY 2014, that was allocated to the executive director's salary. For FY 2014, the executive director's base salary was \$61,800 and it is reasonable that at least one-third (1/3) of the executive director's time was directed to managing the Wildwood construction project and related activities, funded in part by the ARC funds. Project milestones, which DHCD determined at the time to justify BRCEDA's collection of administrative support, were managed and completed by the executive director. The dollar value of this administrative work, derived from the base salary, is \$20,600, in excess of the \$15,000 in administrative support collected from the ARC grant.

During its June 27, 2016 regular meeting, the BRCEDA Board of Directors voted to approve and submit this letter to you and the Virginia Department of Housing & Community Development. Should you have any questions or comments, please do not hesitate to contact the Board of Directors. Thank you for your time and assistance.

Sincerely,



CM Mitchell, Chairman

Cc: Brian Reed, Mount Rogers Planning District Commission

1117 East Stuart Drive Galax, Virginia 24333
Tel: 276.236.0391 www.brceda.org

BLUERIDGECROSSROADS
economic development authority

Carroll – Grayson – Galax Regional Industrial Facilities Authority

April 17, 2014

Ms. Denise H. Ambrose, Associate Director
Virginia Department of Housing and Community Development
600 East Main Street, Suite 300
Richmond, Virginia 23219

RE: Wildwood Commerce Park – Request for Release of Funds by July 31, 2014
Appalachian Regional Commission Grant # 11-02A

Dear Ms. Ambrose:

The infrastructure improvements for Wildwood Commerce Park have been bid and are currently being constructed under one contract. The infrastructure improvements include water and sanitary sewer, as funded by DHCD, as well as the access road, storm sewer, and stormwater management construction, as funded by the Virginia Tobacco Commission and VDOT. Construction started in November 2013, but progress on the road and stormwater management facilities has been hampered by adverse weather conditions this winter.

The water and sanitary sewer construction proceeded throughout the winter; it is anticipated the water and sanitary sewer construction will be completed and approved by the Carroll County Public Service Authority (CCPSA) prior to July 31, 2014. The remaining infrastructure improvements are anticipated to be substantially complete by July 31, 2014.

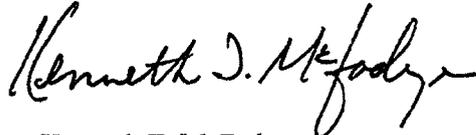
On behalf of the Blue Ridge Crossroads Economic Development Authority, please accept this letter as a request for DHCD to release 100 percent of the funds dedicated for the water and sanitary sewer construction, contingent upon final approval of the construction, approval of the utilities by the CCPSA, and after meeting all DHCD grant guidelines and requirements, but prior to completion of the entire Wildwood Commerce Park infrastructure project. Please let me know whether DHCD can approve the requested release by June 30, 2014.

If you have any questions or would like to discuss further, please feel free to contact me at 276-236-0391 or Carolyn Howard at 540-552-0444. We appreciate your time and assistance.

The Blue Ridge Crossroads Region is Virginia's "Entrepreneurial Region."

1117 East Stuart Drive . Galax, Virginia 24333
Tel: 276.236.0391 www.brceda.org

Sincerely,



Kenneth T. McFadyen
Regional Director

cc: BRCEDA Board of Directors
Mr. David Adams, Community Development Specialist, Virginia DHCD
Mr. Brian Reed, Mount Rogers PDC
Ms. Carolyn A. Howard, PE, Project Manager, Draper Aden Associates

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