
APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD

New Build Appalachia
Appalachia Service Project, Inc.
Johnson City, TN

Final Report Number: 18-26
Project Number: TN-17937-14
July 11, 2018

Prepared By:

Bonadio & Co., LLP
Certified Public Accountants

July 11, 2018

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

Bonadio & Co., LLP completed an audit of grant number TN-17937-14 awarded by the Appalachian Regional Commission (ARC) to the Appalachia Service Project, Inc. (grantee) for the New Build Appalachia project. 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 of the grant were met or likely to be met; and (6) the 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 with one exception noted, as discussed under Findings and Recommendations.

Bonadio & Co., LLP appreciated the cooperation and assistance received from the grantee and the ARC staff during the audit.

Bonadio & Co., LLP

432 North Franklin Street, Suite 60
Syracuse, New York 13204
p (315) 476-4004
f (315) 475-1513

www.bonadio.com

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BACKGROUND

Bonadio & Co., LLP completed an audit of grant number TN-17937-14 awarded by the Appalachian Regional Commission (ARC) to the Appalachia Service Project, Inc. (grantee). 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 was awarded to cover the period January 12, 2015 to December 31, 2017. It provided \$300,000 in ARC funds and a required a match of \$75,000 in non-ARC funds to provide support for the New Build Appalachia project. The major component of the New Build Appalachia project is to leverage volunteer labor to construct 33 new homes in ARC designated distressed counties and counties with distressed areas. The grantee and its partners also provide counseling to participating households on financial and home ownership topics. The majority of the approved total budget was for staff salaries and benefits.

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 of the grant were met or likely to be met; and (6) the matching requirements of the grant were satisfied.

We reviewed the documentation provided and interviewed grantee personnel to obtain an overall understanding of the 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. We examined financial and other required reports to determine if they were supported and submitted in accordance with the grant requirements. We obtained the most recent audited financial statements to determine whether there were any reported issues that affected the ARC grant. Additionally, we conducted site visits to observe a sample of homes constructed by the grantee.

For the expenditures charged to the grant, we reviewed the grantee's procedures for allocating administrative costs to the grant and found the costs to be reasonable.

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*. The fieldwork was completed during the period of March 5, 2018 through March 7, 2018, which included on-site work at the grantee's office. The audit results were discussed with grantee representatives at the conclusion of the on-site visit. The grantee's representative agreed with the audit results.

SUMMARY OF AUDIT RESULTS

Overall, the grantee's administrative procedures were adequate to manage the grant funds reviewed. Total expenditures amounted to \$474,172 and based on test work results, we did not question any costs incurred. The grantee expended the total \$300,000 of ARC funds provided as well as an additional \$174,172 of non-ARC funds, although they were only required to provide \$75,000 of non-ARC funds. In April 2018, ARC amended the grant to include building homes after the devastating fires that impacted Sevier County. ARC provided Area Development funds to the grant to cover the participation of New Build Appalachia in Sevier County.

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 generally accomplished, with one exception, as described below.

PERFORMANCE MEASURES

- A listing of constructed homes provided by the grantee showed that 28 homes were fully completed and six homes were still in progress, nine of which were in Sevier County. We physically observed 16 of the 34 homes.
- Per the grant contract, the grantee and its partners were required to provide counseling to participating households on financial and home ownership topics. The grantee collaborated with Greenpath Debt Solutions, who offered Financial Independence Workshops.
- Per the grant contract, families agree to a 5-year restrictive covenant that prohibits selling or borrowing against the home without paying a pro-rated penalty. Of the 28 homes completed, we viewed the 5-year restrictive covenant with the homeowner without exception. We also viewed the property tax assessment through the state website to ensure the contract signor is listed as the homeowner. There were no instances noted where the restrictive covenant was broken.

FINDINGS AND RECOMMENDATIONS

Finding - ARC Designated Distressed Areas

Per the grant agreement, the grantee is required to construct homes in ARC designated distressed counties or distressed areas. Of the 34 homes constructed or in progress, we noted that one home, located in Sullivan County, was found to be outside of the ARC designated distressed areas. We also found one home located in Greene County, an ARC designated at-risk county, which is not in a distressed area as required by the grant agreement. The total homes constructed includes nine homes built in Sevier County in response to the fires that severely affected the county. Prior to the amendment, the County was not an eligible county under the original approval memo.

Recommendation

We recommend that the grantee contact ARC to discuss any necessary monetary adjustment since the above referenced houses that in our opinion are not be eligible under the grant agreement.

Grantee Response

The draft report was provided to the grantee on May 25, 2018 and numerous attempts were made to receive a written response. While the grantee has indicated to us that they now understand the requirements of the grant and will ensure homes are built in ARC designated distressed counties or distressed areas, no written response was provided by the grantee as of the date of this report.