

Office of Inspector General

Report Prepared by Bonadio & Co., LLP

Audit of Grant Award – City of Welch

Grant Number – WV-18739



Office of Inspector General

APPALACHIAN REGIONAL COMMISSION

Audit Report: 20-15

July 6, 2020



July 6, 2020

TO: Charles Howard, Interim Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit of Grant Award – City of Welch, Report Number 20-15

This memorandum transmits the Bonadio & Co., LLP report for the audit of costs charged by the City of Welch 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 met, not met, or not likely to be met.

OIG Oversight of the Audit

Bonadio & Co., LLP 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 Bonadio & Co., LLP's audit report. To fulfill our responsibilities, we:

- Reviewed Bonadio & Co., LLP's 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 with Bonadio & Co., LLP, as necessary, to discuss audit progress, findings, and recommendations;
- Reviewed the audit report prepared by Bonadio & Co., LLP; and
- Coordinated issuance of the audit report.

We thank your staff for the assistance that was extended to the auditors during this audit. If you have any questions regarding this report, please contact me at 202-884-7675.

Attachment

June 5, 2020

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 WV-18739 awarded by the Appalachian Regional Commission (ARC) to the City of Welch (grantee) for the McDowell Street & Riverside Drive Water Line Replacement project. The grant is being administered by the United State Department of Agriculture, Rural Development. 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 were met or likely to be met; and (6) 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.

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

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BACKGROUND

Bonadio & Co., LLP completed an audit of grant WV-18739 awarded by the Appalachian Regional Commission (ARC) to the City of Welch (grantee). The grant is being administered by the United States Department of Agriculture, Rural Development (USDA) as the basic agency. The grantee also entered into a contract with the Region 1 Planning and Development Council (LDD) to provide technical and professional services including but not limited to labor compliance, project reporting and final performance reports and closeout. 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 provided total funding of \$3,486,000 including \$1,500,000 in ARC funds and \$1,986,000 in non-ARC funds and was awarded to cover the period October 1, 2016 to July 31, 2017. The grant was initially amended in December of 2017 to extend the period of performance to September 11, 2019. In May of 2020, the grant was amended again to June 30, 2020. No additional funding was provided in the amendments. The non-ARC funding was provided by the United States Department of Agriculture (USDA) in the form of a grant in the amount of \$881,000, and local funds made available by a USDA loan in the amount of \$1,105,000.

The City has recently spent over \$100,000 on repairs to water lines, an additional \$110,000 in property damage claims and lost nearly 2,500,000 gallons of water due to the condition of the water lines. Service outages have impacted numerous households and businesses, including the only hospital in Welch. In addition, recent landslips in the area have caused a loss of approximately 100,000 gallons of water. Major components of the McDowell Street & Riverside Drive Water Line Replacement project includes the replacement of approximately 10,400 linear feet of water line to provide improved water service for 62 businesses and 128 households in the area. The new water lines will improve water service and reliability for existing and new customers, reduce expensive repair costs, and help make the area more economically competitive.

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 were met or likely to be met; and (6) 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 also obtained and reviewed the most recent Single Audit report for the fiscal year ending June 30, 2018 that was dated March 27, 2019.

We reviewed expenditures of the grant from September 6, 2017 to September 25, 2019. We selected a sample of \$1,084,628 in ARC expenditures and \$695,101 in USDA and local expenditures totaling \$1,779,729 in total project expenditures for testing to determine whether the charges were properly supported and allowable. We also reviewed the grantee's procedures for allocating administrative costs to the grant.

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 October 21, 2019 through October 25, 2019, which included on-site work at the LDD office in Princeton, West Virginia and at the City of Welch. The audit results were discussed with grantee representatives at the conclusion of the on-site visit.

SUMMARY OF AUDIT RESULTS

The financial management, administrative procedures and related internal controls of the grantee and the LDD were adequate to manage the grant funds received. At the time of our audit, over 95% of the program's budget had been expended. There were \$1,457,933 in ARC expenditures and \$1,882,430 in USDA and local expenditures for a total of \$3,340,363. Based on audit procedures performed, we did not question any costs incurred. 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 accomplished. Progress reports were completed by USDA using the Basic Agency Monitoring Report. Our review of the City of Welch Single Audit report determined that this grant was a major program and had no findings related to the ARC grant.

Project results were examined for reasonableness through reviewing the engineer's drawings detailing the project specifications in the distressed area. The grantee was able to meet the projected outputs of the McDowell Street & Riverside Drive Water Line by replacing 10,400 linear feet of water line. This included relocating waterlines to make them more accessible and eliminate landslides that resulted in major breaks in the main lines causing loss of water and service to customers. The project provided improved water service to 128 households and 62 businesses in the area. We performed a walkthrough of the project site with the City's Superintendent of Water and Wastewater. Based on our walkthrough of the site we reviewed the engineer's record and counted 16 fire hydrants, exceeding the projected 12 hydrants. We observed the properties affected on meter route sheets and record drawings.

While performing our site visit, we examined one private investment property that was renovated during the project and one private investment property that was constructed as a result of the project. A five-story mixed-use building was under construction with the first floor being developed for commercial proprietors and the remaining 4 floors will be composed of 20-32 single bedroom apartments. Furthermore, Warrior Creek Development created duplexes and small homes that have direct access to the new lines installed as a result of the project. These projects should make the area more economically competitive.

The outputs and outcomes of the grant were tested by reviewing financial information, internal reports, service records and other supporting documentation. As of March 31, 2020, \$29,332 of ARC funding remains available for the project. The grant period ends on June 30, 2020.