

# Office of Inspector General

Report Prepared by Bonadio & Co., LLP

Audit of Grant Award – City of Gary  
Grant Number – WV-18272-15



Office of Inspector General

APPALACHIAN REGIONAL COMMISSION

Audit Report: 20-19

August 19, 2020



August 19, 2020

TO: Charles Howard, Interim Executive Director

FROM: Philip M. Heneghan, Inspector General

SUBJECT: Audit of Grant Award – City of Gary  
Report Number 20-19

This memorandum transmits the Bonadio & Co., LLP report for the audit of costs charged by the City of Gary for the Wastewater System Inspection and Evaluation Project per its agreement with the Appalachian Regional Commission for grant number WV-18272-15. 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

August 10, 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-18272-15 awarded by the Appalachian Regional Commission (ARC) to the City of Gary (grantee) for the Wastewater System Inspection and Evaluation 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 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-18272-15 awarded by the Appalachian Regional Commission (ARC) to the City of Gary (grantee or City). The grantee entered into a contract with the Region 1 Planning and Development Council (LDD) to provide technical and professional administrative services including but not limited to 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 \$386,400 in ARC funds and required a match of \$96,600 in non-ARC funds for a total of \$483,000 to conduct an evaluation of the Gary wastewater system and treatment plant to assess the extent and location of sources of significant leakage and deteriorating conditions and to improve the city's wastewater system in the most efficient and cost-effective manner.

The grantee had received multiple "Notice of Violations from the West Virginia Department of Environmental Protection," which culminated in a Consent Order being issued to the city. The Consent Order Violations included upgrades and or replacement of equipment at the plant as well as reduction of inflow and infiltration within the collection system through inspection, repair and or replacement. It also indicated that a Class II operator must be hired by the City to operate the sewer system. The city issued a request for proposals (RFP) from consulting engineering firms interested in providing advice and services necessary for improvements to the City's sewer system, collection and treatment facilities.

## **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 performance measures, 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 and meet the performance measures. We examined financial and other required reports to determine if they were supported and submitted in accordance with the grant requirements.

We reviewed expenditures of the grant from September 1, 2015 to May 31, 2018. During this period, there were \$360,380 of ARC expenditures and \$96,600 of non-ARC expenditures charged to the grant. We selected a sample of \$287,790 in ARC expenditures and \$55,405 of non-ARC matching expenditures to determine whether the charges were properly supported and allowable.

The criteria used in performing the audit were the ARC grant agreement, 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*. We conducted this performance audit 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 fieldwork was completed during the period of January 7, 2020 through January 10, 2020, at the LDD in Princeton, West Virginia and the City of Gary. The audit results were discussed with grantee representatives at the conclusion of the on-site visit.

## **SUMMARY OF AUDIT RESULTS**

The administrative procedures of the grantee and the LDD were adequate to manage the grant funds received. 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 and the LDD 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. The grantee submitted the final report May 15, 2018. The final accepted costs by ARC were \$360,380.28 of ARC funds and the required a match of \$96,600 in non-ARC funds for a total project cost of \$456,980.28. On October 4, 2018, \$26,019.72 was de-obligated by ARC and the grant was closed.

The City contracted to conduct a study and assessment of its wastewater system and treatment plant through a request for proposals in an open competitive process. A committee reviewed and ranked all proposals reviewed. Three potential contractors were selected for interviews with the committee. A final selection was made, and a contract awarded. The study assessed the systems existing condition, including the location and extent of areas with significant leakage and deteriorating conditions. The study included compiling information regarding location of and status of manholes, main line sections in disrepair, sources of flow, and access points that were currently out of service. The study also included a plan to efficiently upgrade the wastewater system. The survey was to provide information to comply with the regulatory standards, and analysis to make informed decisions about prioritizing potential improvements. The City modified the survey contract to allow for the completion of the Preliminary Engineering Report (PER) using leftover funds.

There were several delays during the grant, but the outcome goals were met. The delays included issues with the weather, equipment failure, and incompleteness of the original drawings to the current systems.

Because of the size of the system and the extensive amount of repairs needed, the survey contractors report recommended that the City consider dismissing the collection and treatment system and construct a new decentralized sewer system. The City decided at their August 8, 2018 Council meeting to move forward with the recommended decentralized sewer system to replace their existing aging sewer system, which would be more cost effective. The project will benefit the City's existing customers and provide the opportunity for expanding service to unserved customers in and outside of the City.