

Office of Inspector General

*Report Prepared by Leon Snead & Co., PC
Audit of Grant Award - The Town of Dobson*

Grant Number NC-18025



**Appalachian
Regional
Commission**

Office of Inspector General

Audit Report: 21-09

May 27, 2021



Appalachian
Regional
Commission

Office of
Inspector General

May 27, 2021

TO: Brandon McBride, Executive Director

FROM: Philip M. Heneghan, Inspector General

A handwritten signature in blue ink, reading "Philip M. Heneghan".

SUBJECT: Audit Report 21-09— The Town of Dobson

This memorandum transmits the Leon Snead & Co. PC, report for the audit of costs charged to Grant Number NC-18025, The Town of Dobson project 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.

Leon Snead & Co. PC, is responsible for the attached audit report and the conclusions expressed in this report. The auditors did not issue any recommendations in this report.

We do not express any opinion on the conclusions presented in Leon Snead & Co., PC audit report. To fulfill our responsibilities, we:

- Reviewed the approach to 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 Leon Snead & Co., PC, as necessary,
- Reviewed the audit report prepared by Leon Snead & Co., PC; and
- Coordinated issuance of the audit report.

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

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May 13, 2021

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 grant number NC-18025 awarded by the Appalachian Regional Commission (ARC) to the Town of Dobson (Dobson), the County seat of Surry County, North Carolina. The grant provided \$300,000 in ARC funds and required non-ARC matching funds of \$3.4 million for a total project cost of \$3.7 million.

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); (5) the matching requirements; and (6) the established performance measures were met.

The audit indicated that the recipient's financial management and administrative procedures and related internal controls were adequate to manage its ARC grant funds. The costs tested were supported and reasonable. Also, the grant recipient met its performance goals with regard to providing upgrades to modernize the Town of Dobson's water treatment plant (WTP). These upgrades eliminated the discharge of unallowable sludge into the Fisher River and resulted in providing potable water for 874 residential and 238 commercial customers (1,112 connections) compared to the goal of 1,069 connections.

The audit results were discussed with Dobson officials at the conclusion of our onsite visit and a draft report was provided to Dobson for comments. The comments provided are included as an appendix to the report.

Sincerely,


Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number NC-18025 awarded by the Appalachian Regional Commission (ARC) to the Town of Dobson, located in Surry County, North Carolina. 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.

ARC awarded the grant to the Town of Dobson to assist with necessary upgrades to modernize the Town of Dobson's water treatment plant (WTP) to meet permit requirements and Federal and State regulatory standards. Specifically, the project was to assist with treatment of the backwash and basin drain water by installing new plumbing, pumps, storage tank, and a filtered dewatering box. Additionally, the project was to provide new treated wastewater effluent piping to the Fisher River and restore the existing stream as needed. Additional grant funding was provided by the U.S. Department of Agriculture (USDA); the State of North Carolina; the County of Surry, of which Dobson is the county seat; and the Town of Dobson. The USDA, Rural Development Utilities Program, and its Rural Development Financial Accounting Branch agreed to administer the grant under a Memorandum of Agreement between ARC and USDA. The Town of Dobson recorded and accounted for the funds and expenses associated with ARC Grant NC-18025 in its accounting system.

Grant NC-18025 originally covered the period March 1, 2015 through November 1, 2015, but was subsequently extended through November 3, 2020. The grant provided \$300,000 in ARC funds and required non-ARC matching funds of \$3.4 million for a total project cost of \$3.7 million. The allowable percentage breakout of ARC to non-ARC funding for the overall project was 8% ARC funds, 68% USDA funds, 14% State funds, and 11% local matching funds. The USDA assisted the Town of Dobson in obtaining a low interest rate loan, repayable over 40 years, in order to repay \$2.096,000 of the funds initially provided by USDA on November 7, 2020.

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 (6) the established performance measures were met.

On November 3, 2020, the Town of Dobson filed and claimed the remaining available ARC grant funds through November 12, 2020, totaling \$300,000, of which ARC reimbursed the full amount claimed.

The Town of Dobson incurred \$3,676,754 in non-ARC recipient matching costs through the end of the audit period, March 25, 2021. These costs were primarily contractual costs, incurred for the construction of the upgrades to the Dobson Water Treatment Plant and for the charges of the engineering firm that reviewed and approved the work of the contractor.

We tested all (\$300,000) ARC funds expenditures and 77% of matching contributions to determine if they were properly supported and allowable. Our audit tests did not identify any questioned costs.

We reviewed documentation provided by the Town of Dobson and interviewed its Town Manager to obtain an overall understanding of the grant activities, its accounting system, and general operating procedures and controls. We reviewed written policies and administrative procedures to determine if they complied with federal requirements and were adequate to account for and administer the grant. We reviewed financial and project performance reports to determine if they were submitted in accordance with the grant requirements. We evaluated the grant results to determine if the planned performance goals and objectives were met. We also reviewed the two most recent annual financial statement audit reports for the period from July 1, 2018 through June 30, 2020 to identify any issues that could significantly impact the ARC grant costs and this audit.

The on-site fieldwork was performed at the Town of Dobson municipal building in Dobson, North Carolina, during the week of March 22 through 25, 2021. The preliminary audit results were discussed with the Town Manager for Dobson, North Carolina, during the on-site visit and at the conclusion of the on-site visit.

The primary criteria used in performing the audit were 2 CFR 200, the ARC Code and the grant agreement. The audit was performed in accordance with Generally Accepted Government Auditing Standards.

Summary of Audit Results

The Town of Dobson's financial and administrative procedures and related internal controls were adequate to account for and control the funds provided under the ARC grant audited. The recipient expended grant funds as provided for in the approved grant budget; maintained a system of program (internal) controls that were adequate and operating effectively; implemented accounting and reporting requirements in accordance with generally accepted accounting principles and applicable ARC accounting and reporting requirements; and met the matching requirements of this Grant. The ARC and the matched costs tested were supported and reasonable. We did not question any claimed costs or matching costs incurred under the Grant.

The Town of Dobson proposed, as performance measures for the Grant, improving the quality of water for an estimated 230 businesses and 839 households (1069 connections). As of March 12, 2021, the Town of Dobson was providing water that met State and Federal water quality requirements for 238 businesses and 874 households (residential customers), for a total of 1,112 connections. The Town of Dobson also proposed installing and/or replacing 860 linear feet of pipeline into the upgraded system at the WTP. The engineering firm that oversaw the work of the construction contractor for the WTP upgrades assured us that the construction contractor had installed over 1,572 linear feet of pipeline into the upgraded system. We also concluded that all proposed performance measures were exceeded.

From: laura.neely@dobson-nc.com
To: "[Leon Snead & Company](#)"
Subject: RE: Audit of ARC Grant Number NC-18025
Date: Thursday, May 6, 2021 4:52:03 PM

Mr. Snead,

I have received the draft report and have no comments.

I very much enjoyed meeting Mr. Ansnick and thank you for the good audit report.

Thank you so much,

Laura Neely
Town Manager

Town of Dobson
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From: Leon Snead & Company <leonsnead.companypc@erols.com>
Sent: Tuesday, April 20, 2021 9:25 AM
To: laura.neely@dobson-nc.com
Subject: Audit of ARC Grant Number NC-18025

Good Morning Ms. Neely,

Attached is a copy of the draft report on the above referenced audit for your review and comments. Please provide your comments by April 23 2021. We did not note any findings during the review and do not have any recommendations for corrective actions. If you have any questions, please call or e-mail me.

Please confirm your receipt of the attached report. Thanks very much for your assistance.

Leon Snead
(301) 738-8190