

PERFORMANCE AUDIT
OF

Project Glade, Inc.

**Glade Center Renovation
Project Grant**

GRANT: VA-16954

OIG REPORT NUMBER: 14-08

GRANT PERIOD: JULY 2012 – JULY 2014

WATKINS | MEEGAN

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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Project Glade, Glade Center Renovation Grant VA-16954. The report is in response to Contract No. BPA 11-01-B.



Tysons, Virginia
January 13, 2014

Project Glade, Inc.

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Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state and local governments. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair who is appointed by the President. Local participation is provided through multi-county local development districts (LDDs). Each year, ARC provides funding for several hundred projects in the Appalachian Region, in areas such as business development, education and job training, telecommunications, infrastructure, community development, housing and transportation. These projects help create new jobs; improve local water and sewer systems; increase school readiness; expand access to health care; assist local communities with strategic planning; and provide technical and managerial assistance to emerging businesses.

Project Glade, Inc. (Grantee) is a not-for-profit community based organization, whose strategic plan is to revitalize the Town of Glade Spring. Among its chief objectives is to enhance the Glade Spring economy through tourism and development of an artisanal business community. This goal is inspired by numerous artists and artisans who have expressed an interest in marketing their products in the community and by the development of a trail for hiking and biking between Glade Spring and Saltville, Virginia. In keeping with this goal, the Grantee sought funding from ARC and other sources to acquire and refurbish property in the center of Glade Spring, known locally as the "Old Bank building," to create an artisan development center.

On August 15, 2011, ARC approved the Glade Center Renovation Project Grant, number VA-16954 (Grant), in the amount of \$226,600 to Project Glade, Inc. The project is still in progress as of the date of this report and has not yet been closed out by ARC. Required matching funds from other federal, state and local sources totaled \$352,104, for a total funding amount of \$578,704. The sources of funding are shown in the table below:

Funding Source	Amount	Percentage
Appalachian Regional Commission (ARC)	\$226,600	39%
Tobacco Indemnification and Community Revitalization Commission (TICRC)	\$276,600	48%
USDA – Rural Development (RD)	\$ 75,504	13%
Total	\$578,704	100%

The Virginia Department of Housing and Community Development (DHCD) administered the Grant on behalf of ARC in accordance with the terms of an agreement between ARC and DHCD. DHCD partners with Virginia's communities to develop their economic potential and invests more than \$100 million each year into housing and community development projects throughout the state, the majority of which are designed to help low-to-moderate income citizens. DHCD partners with local governments, nonprofit groups, state and federal agencies, and others. DHCD provided support to the Grantee during the application and assessment phases, provided guidance through the bidding and contractor selection processes, and reimbursed the Grantee with Grant funds obtained from ARC.

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Background (Continued)

In addition, the Grantee engaged Mount Rogers Planning District Commission (MRPDC) to manage the Grant administration on its behalf. MRPDC was founded in 1969 and is authorized under the Virginia Regional Cooperation Act to serve as one of the 21 planning district commissions in the Commonwealth. The MRPDC was established for the purpose of promoting orderly and efficient development of economic, physical and social elements of the region. The work of MRPDC is centered chiefly in providing technical assistance to area jurisdictions in economic and community development, public management and administration, and cartography. The Grantee was responsible for managing the application process, approving financial transactions, documenting project outcomes and otherwise monitoring project activity to ensure successful completion.

Objective

Watkins Meegan LLC was engaged to conduct a performance audit of the Project Glade, Inc. Glade Center Renovation Project Grant for the period July 16, 2012 to November 30, 2013. The purpose of our performance audit was to determine the following:

- Funds expended and claimed for reimbursement from ARC and matching funds reported to ARC were valid program expenses and in accordance with the ARC Grant requirements;
- Internal controls were in place to ensure compliance with the Grant requirements; and
- Goals and objectives of the Grant had been, or would be achieved.

Executive Summary

Grant funds were used to assist in construction improvements of the Old Bank building in Glade Spring for conversion to the Glade Center. The Glade Center will support the development of four start-up businesses once it opens doors for business. In addition, an existing business would be an anchor tenant and would help manage the facility and its services.

On behalf of ARC, DHCD reimbursed \$209,067 to the Grantee during the period of the Grant through the date of our fieldwork, December 3, 2013. Matching contributions of \$347,663 were reported by the Grantee for the same period. The project is ongoing and has not yet been finalized.

Through review of reported expenditures we noted \$9,245 of expenses were not adequately supported. With the exception of these expense items, expenditures reviewed during the audit appeared to be valid and adequately supported and also were in direct relation to supporting the Grant and its objectives.

Through inquiry and observation, we determined that the Old Bank building had been renovated and appeared in good working order and fit for the purpose of use as an artisanal center as detailed in the Grant application. We were unable to validate the anticipated outcome of the creation of 10 jobs and assistance to five businesses because, at the time of our visit, the Artisan Center was not fully completed and ready for business. Per discussion with the President and Treasurer of Project Glade, the center is expected to open in the first quarter of 2014. ARC should confirm the achievement of this performance objective at a later date as part of the ARC follow-up validation process.

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Scope

We completed a performance audit of the Project Glade, Inc. Glade Center Renovation Project Grant VA-16954 at the MRPDC office from December 2-4, 2013, as described under this section and under the audit methodology section. Our audit was based on the terms of the Grant agreement and on the application of procedures in the modified ARC Audit Program.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

Audit Methodology

Our procedures were based on the Audit Program guidelines provided by the ARC Office of the Inspector General and included suggested procedures over the Grantee's accounting and internal control systems affecting the Grant. We met with the Grantee's President, Treasurer and the MRPDC Director of Planning to discuss the Grantee's overall structure and processes around Grant administration and monitoring. We also discussed and reviewed other financial and operational elements related to the conduct of the program.

Our review of background material included the Grantee's application, other Grant-related documentation from ARC's Grant management system, and MRPDC's external audit report for the fiscal year ended June 30, 2013. Project Glade, Inc., being in its infancy, has not yet had an external audit. As of December 4, 2013, Project Glade is consulting its accountant to determine if an external audit is required.

We reviewed controls in place for recording, accumulating and reporting costs under the Grant and observed and made inquiries regarding whether the goals and objectives of the project had been met, including physically inspecting the property to confirm completion of the renovation work supported by the Grant.

Results

Compliance with Grant Conditions

The funds disbursed under the Grant agreement enabled the Grantee to complete extensive renovations of the Old Bank building in Glade Spring for conversion to the Glade Center. Through December 3, 2013, the Grantee has requested reimbursement of \$209,067 from ARC (via DHCD) for Grant-related expenses incurred. Matching funds from federal, state and local sources as reported by the Grantee were \$347,663 for the same period. The total reported expenditures for the performance period were \$556,730.

The project is ongoing and has not been finalized. As stated in the agreement between the Grantee and DHCD, the Grantee shall complete the work on or before July 15, 2014.

Results (Continued)

Compliance with Grant Conditions (Continued)

We examined supporting documentation for a sample of the expenses incurred against the Grant. Through review of reported expenditures we noted \$9,245 of expenses were not adequately supported. Other than this issue, we determined that, in general, the funds had been expended in compliance with the Grant agreement. In addition, we noted that the Grantee established monitoring controls to ensure that fair wage standards under the Davis-Bacon Act were being followed by the contractors selected for the project. We also obtained and reviewed legal contracts to confirm that, per the requirements of the DHCD agreement with the Grantee, a deed covenant was executed to secure the ARC investment by ensuring that the Glade Center will remain in use for the intended purpose for a period of at least 20 years.

Through inquiry, review and observation, we sought to validate the outputs and outcomes expected from the Grant award as detailed in the Grant application. During the audit, we physically inspected the Old Bank building to confirm completion of the renovation work supported by the Grant. We were unable to validate the anticipated outcome of the creation of 10 jobs and assistance to five businesses because, at the time of our visit, the Artisan Center was not fully completed and ready for business. Per discussion with the President and Treasurer of Project Glade, the center is expected to open in the first quarter of 2014. ARC should confirm the achievement of this performance objective when closing the grant or through the ARC validation process.

At the conclusion of the audit we noted and discussed the following items with Management, who generally agreed with the finding and recommendation as described below:

Finding – Unsupported Matching Expenses

Through our testing of expense items, we identified a total \$9,245 of matching expenses that did not contain adequate documentation to support the expenses incurred. Under General Condition #3 of the Grantee agreement with DHCD, all costs charged to the Grant must be supported by invoices, contracts or vouchers evidencing in proper detail the nature and propriety of the charges. Our testing of the Furnishing and Equipment expenses revealed two amounts for \$4,125 and \$5,120, respectively, which were not supported by invoices.

Recommendation:

The Grantee should work with DHCD and ARC to determine corrective actions necessary. If these expenses cannot be supported, ARC funds may be subject to reimbursement by the Grantee in proportion to the resulting reduction in valid matching funds.