

**Floyd County Airport North Terminal
Expansion Grant**

OIG Report Number: 15-31

Grant GA-15919-I

**Review Period: September 22, 2008 –
June 10, 2015**

Appalachian Regional Commission
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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of CohnReznick LLP (assignee from Watkins Meegan LLC pending novation), a Performance Review of the Floyd County Airport North Terminal Expansion Grant GA-15919-I. The report is in response to Contract No. BPA 11-01-B.

Watkins Meegan LLC (Watkins Meegan) combined with CohnReznick LLP (CohnReznick) in November 2014. As a result, a request to novate GSA contract #GS-00F-0031M from Watkins Meegan to CohnReznick was submitted to the U.S. federal government and is currently under consideration. The combination and pending novation have been appropriately communicated to the Appalachian Regional Commission Office of Inspector General in relation to continued performance of this engagement by CohnReznick pending formal approval of the novation by the U.S. federal government.



Tysons, Virginia
August 27, 2015

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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.

Floyd County is a transitional county in Georgia. Richard B. Russell Regional Airport is a county-owned public-use airport in Floyd County. Rome (the largest city and county seat of Floyd County) Chamber of Commerce recently completed a county-wide strategic plan which identified the airport as a fundamental component of economic development, and determined that the facility was one of the largest in the state as measured by acreage and one of the first in the state to install an Instrument Landing System. However, the airport remains under-utilized. Coosa Valley Technical (CVT) College and Floyd County entered into a partnership to establish an aviation technology school to be located at the Richard B. Russell Regional Airport in Rome, Georgia. Aviation-related business prospects have contacted airport officials, however, there was not sufficient infrastructure to meet their needs. In response, the county designated a 19-acre area referred to as the North Terminal Expansion Area. The proposed area will be limited to aviation-related businesses and services primarily because of the special infrastructure that will be installed (e.g. fire protection and other code-related infrastructure requirements).

On September 22, 2008, ARC approved the Floyd County Airport North Terminal Expansion Grant, number GA-15919-I ("the Grant"), in the amount of \$300,000, to Floyd County. Matching funds were to be provided by the Georgia Department of Transportation in the amount of \$300,000 and the Grantee in the amount of \$576,734, for a total project funding amount of \$1,176,734.

The purpose of the Grant was to develop the North Terminal Expansion Area for the development of aviation-related industries. Funding was to be used for design/planning, and construction of site work, apron and taxiway improvements, and provision of fire suppression, potable water, sewer, storm drainage, and an access road. Upon completion, the site should support seven structures of approximately 10,000 square-feet each, with each structure creating employment ranging from 5-40 persons. Overall, it is projected that 200 new jobs will be created upon completion of the North Terminal Expansion Area.

The United States Department of Agriculture - Rural Development ("USDA RD"), an agency with the United States Department of Agriculture which runs programs intended to improve the economy and quality of life in rural America and provide technical assistance to help communities to undertake community empowerment programs, administered the Grant on behalf of ARC in accordance with the terms of a Memorandum of Agreement ("MOA") between ARC and USDA RD. In construction projects such as the one supported by this Grant, USDA RD provides contract oversight and technical advice as needed to assure compliance with applicable standards of work. USDA RD provided support to the Grantee during the application and assessment phases, reviewed and approved expenditures, and reimbursed the Grantee with Grant funds obtained from ARC.

The Grantee also engaged Michael Baker Jr., Inc. (formerly known as The LPA Group, Inc.) ("the Engineer") to provide project management services for the construction project as well as services in relation to engineering,

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inspection, surveying, testing, and bid solicitation for all contracts. Michael Baker Jr., Inc. also reviewed all construction related invoices prior to presenting to the Grantee for final approval and payment.

The original sources of funding and amounts noted in the ARC Grant Approval memo is shown in Table 1 below:

Table 1: Analysis of Budgeted Project Funding Sources

Funding Sources	Amount	Percentage
Appalachian Regional Commission (ARC)	\$300,000	25.5%
State - Georgia Dep't. of Transportation	\$300,000	25.5%
Local – Floyd County	\$576,734	49%
Total	\$1,176,734	100%

Executive Summary

ARC Grant funds were used for construction of an access road and parking, sanitary sewer, water, and storm sewer components as well as construction of an apron. The USDA RD submitted a final Basic Agency Monitoring Report ("BAMR") to ARC on 3/25/15 indicating 200 new jobs have been created and a total project cost of \$2,071,084 of which cumulative costs for ARC was \$300,000. As of June 10, 2015, Grantee records showed the USDA RD has disbursed the entire obligated amount of \$300,000 for reimbursement of expenses. Per our review of the Grantee's general ledger only \$214,643 has been recorded to revenue while the remaining \$85,357 is being held in deferred revenue pending the results of this review.

General Ledger detail provided by the Grantee recorded expenditures for the North Terminal Expansion Area totaling \$1,436,995. Based on our procedures, we determined \$487,797 of these expenses were incurred prior to approval of the Grant and \$561,301 were for costs related to Phase II of the expansion that appear to be outside the scope of the original Grant agreement. As such, adjusted allowable costs total \$387,897.

Reference the Results section for further details regarding the finding and additional observations.

Through inquiry of airport personnel and observation of the facilities, we determined a majority of the work covered by the Grant was completed, but noted that construction was still in progress. The outcome of creating 200 new jobs will not be achieved until the facilities under construction become operational.

At the time of our fieldwork, we noted the access road and parking component was the only component not completed.

Objective

CohnReznick LLP was engaged to conduct a performance review of the Floyd County Airport North Terminal Expansion Construction Grant. The purpose of our performance review 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

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- Outputs and outcome of the Grant had been, or would be, achieved.

Scope

We completed a performance review of the Grant, including fieldwork at the Grantee's office in Rome, Georgia from June 10-12, 2015, as described under this section and under the review methodology section. Our review was based on the terms of the Grant agreement and on the application of procedures in the modified ARC Audit Program.

Review Methodology

Our procedures were based on the 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 Floyd County Airport Manager, Internal Auditor and other members of the Grantee's administrative staff to obtain an understanding of the overall structure and processes around Grant administration and monitoring.

Our review of background material included the Grant application, agreement between Grantee and USDA RD, as well as a Memorandum of Agreement between ARC and USDA RD. In addition, we reviewed related documentation and information from ARC's Grant management system and the Grantee's audited financial statements for the Fiscal Years Ended December 31, 2013 and 2014.

We reviewed controls in place for recording, accumulating and reporting costs under the Grant. We also performed a high-level reconciliation of the activity on the Grant between the General Ledger support provided by the Grantee and funds received from ARC. For a representative sample of the Grant costs we traced the construction costs to applications for payment (standard construction invoices) and verified review and approval by the engineer. We also traced a sample of other expenses, including engineering expenses, to supporting documentation to determine whether the associated costs were recorded correctly, allowable to the Grant, and recorded in the appropriate reporting period.

We discussed the process employed by the Grantee to ensure that competitive bids were obtained for contracts awarded in relation to the Grant and reviewed supporting documentation. We also evaluated the process for compliance with applicable Grant requirements and regulations, including but not limited to, the Davis-Bacon Act.

Lastly, we made inquiries and toured the North Terminal Expansion Area to determine if the outputs and outcome of the Grant were achieved.

Results

Compliance with Grant Provisions

At the time of our review, the USDA RD had filed a final BAMR with ARC indicating the entire obligated amount of \$300,000 had been incurred although construction was ongoing and additional expenditures are anticipated by the Grantee to complete the access road and parking. Project funds were used for construction of an access road and parking, sanitary sewer, storm sewer, and water components as well as Phase I of the apron. Through examination of the supporting documentation related to the sample selected we determined whether the expenses were allowable, properly supported, and appropriately reviewed and approved by the Engineer, per the Grantee's internal control policy. Engineering invoices required approval by the Airport Manager. For sanitary sewer construction costs, the USDA RD performed an additional level of review and approval.

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Although invoices reviewed were generally in support of the Floyd County Airport North Terminal Expansion project, as further described in Finding 1 below, we determined that a substantial portion of expenses recorded in the General Ledger were incurred either outside of the Grant period (\$487,797) or for Phase II (\$561,301) of the expansion which was not addressed in the Grant application.

Through examination of the competitive bidding processes related to the Grant, we noted that the engineering firm, Michael Baker Jr., Inc., was engaged by the Grantee based on a RFQ bid in 2005 for a 5-year term and again in 2010 for another 5-year term. We also determined the Grantee conducted a competitive bidding process to select a general contractor for the construction work for the sanitary sewer and apron Phase I components. All bids were received at Russell Regional Airport and reviewed by the Grantee and Michael Baker Jr., Inc. Through inquiry and review, we confirmed that three bids in total were received for the Sanitary Sewer component while only one bid was received for the apron Phase I component. Per our review of the bids submitted and through discussion with Floyd County personnel, the contractors were selected based on the lowest bids.

We reviewed the procedures utilized by the Grantee to monitor contractor compliance with Davis-Bacon Act requirements and re-performed the review of a limited sample of weekly certified payrolls submitted by the contractors, with no exceptions noted.

Through inquiry and review, we sought to validate the outputs and outcome expected from the Grant award as detailed in the Grant application. The primary outputs were the construction of infrastructure for the Expansion Area, which included installing an access road and parking, storm drainage at the center of the site, a sanitary sewer system to support plumbing, waterlines and fire-suppression connected from the nearby water tank, as well as apron asphalt around the site. Floyd County believes the site will aid in making the Airport capable of housing local businesses which will generate employment and private investment. We toured the site to confirm the completed construction of the water, sanitary sewer, storm sewer, and the ongoing access road and parking construction.

At the conclusion of the review, we discussed the following items with the Grantee:

Finding 1: Monitoring and Reporting of Expenses and Reimbursement Eligibility

Based on general ledger detail provided by the Grantee, we noted the Grantee recorded \$1,436,995 of expenditures pertaining to Floyd County Airport North Terminal Expansion. Of these costs, \$561,301 related to apron Phase II expenditures appear to be outside the scope of the Grant agreement. Based on review of the general ledger detail and transactional testing, we identified \$487,797 of expenditures recorded in the general ledger prior to the Grant approval date of September 22, 2008. See the summary provided in Table 2 below:

Table 2: Analysis of Allowable Grant Costs (as of June 10, 2015)

Detail	\$ Amount
Total project costs recorded to general ledger	\$1,436,995
Costs related to apron Phase II	(\$561,301)
Sub-total	\$875,694
Costs dated prior to Grant approval	(\$487,797)
Adjusted total allowable costs	\$387,897
ARC funds received by Grantee	\$300,000

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Based on our analysis of \$387,897 in adjusted allowable costs, the Grantee is only eligible for a reimbursement of \$98,914 of ARC funds. If pre-grant approval costs are determined to be allowable the Grantee would be entitled to a reimbursement of \$223,302 based on adjusted allowable costs of \$875,694. Lastly, if all costs recorded to the general ledger are determined to be allowable the Grantee would be entitled to the entire ARC obligated amount of \$300,000.

Furthermore, the Grantee recorded \$272,825 of engineering expenses (which may have included costs incurred for administering the project) when only \$82,750 was budgeted for in their Grant application. We also noted through our testing that engineering expenses were incurred prior to Grant approval on September 22, 2008 but can't quantify an amount as we did not test 100% of all engineering expenses. See Table 3 below for an illustration of engineering expenses recorded to the General Ledger:

Table 3: Analysis of engineering expenses (as of June 10, 2015)

Component	Engineering Costs recorded to G/L
Access Road & Parking	\$39,648
Sanitary Sewer	\$30,647
Storm Sewer	\$41,305
Water	\$28,280
Apron Phase I	\$132,945
TOTALS	\$272,825

During our procedures, we reviewed invoices totaling \$718,861 and determined all were properly supported and related to the North Terminal Expansion Area. At the time of our fieldwork, the access road and parking was not completed. As noted earlier, it appears that if pre-grant approval costs and Phase II costs are not allowed by ARC, the Grantee will not meet the matching requirements of the Grant which would result in an overpayment to the Grantee.

Recommendation:

We recommend the Grantee provide to ARC for consideration:

- 1) Documentation and/or justification for the following:
 - a. Apron Phase II costs that appear to be outside the scope of the Grant;
 - b. Costs dated prior to Grant approval (September 22, 2008); and
 - c. Expenses and/or project management costs of the engineer; or
- 2) Refund the difference between the Grantee's portion (25.5%) of adjusted allowable costs of \$387,897 (or \$98,914) and funds received (\$300,000) or \$201,086.

Grantee Response:

The Grantee feels all costs incurred prior to Grant approval and those incurred for the Phase II Apron were relevant to and necessary for the project as a whole to be completed. The Grantee also noted that additional costs are expected to be incurred as construction is still in process. A memo has been provided by the Grantee summarizing all costs and explaining the applicability of the costs to satisfy the matching cost required by ARC (see Attachment A).

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In relation to the amount of engineering costs recorded; the Grantee noted their intent was to use the County's Engineering Department to complete a large portion of the engineering work for this project and to only consult with the outside engineer when needed. However, when it came time for the work to be completed, it was determined that the workload required to complete this project coupled with other ongoing projects then being performed by the County Engineer would be too much for their then current staffing level. As such, it was determined that this project was going to require a lot more engineering work than initially thought, so the outside engineering firm was brought in to complete the engineering work for the project.

Observation 1: Basic Agency Requirements / Interim Reporting

Per our inquiry of both the Grantee and USDA RD, the Grantee did not submit timely performance reports to USDA RD as required. The Grantee is to submit quarterly performance reports, as well as, a final report upon completion of the Grant project. Since the project is still ongoing the Grantee has not been required to submit a final report to USDA RD.

Observation 2: Achievement of Outputs and Outcomes

At the time of our fieldwork, we also reviewed the projected outcome of the Grant creating 200 new jobs. Through inquiry, it was noted that the Grant has not created any jobs to date as construction is still on-going. ARC should follow-up with the Grantee through their validation process to monitor and confirm the total number of jobs created upon project completion.



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Finding #1 – Monitoring and Reporting of Expenses and Reimbursement Eligibility:

Response:

Floyd County feels that the following costs should be allowed and should count towards the total cost required by ARC. Please see the below costs and reasoning:

- Cohn-Reznick excluded \$487,797 of costs that were dated prior to September 22, 2008. A portion of these costs were incurred just prior to the grant approval but were included in the grant application. The costs should be allowed due to the fact that these costs were incurred after the application for the ARC grant was submitted. These expenses were incurred to pay for the Apron to allow aircraft to access the ARC project location. Without this work being completed, the ARC project area would not be accessible from the airside.

Excluded Cost Part A	
NWGA Paving (8.13.08 – 9.12.08)	\$393,370
LPA 12A (August 2008)	14,690
LPA 12 (August 2008)	2,958
TOTAL	\$411,018

- The remaining portion of the costs excluded by Cohn-Reznick were incurred prior to applying for the ARC Grant. These costs are relevant to this project and should be included in the total project cost. These costs were pre-engineering costs that had to take place before the project could begin. These costs were warranted to ensure project feasibility, project site planning, and have the plan shelf ready. Without this work being done prior to the grant period, there was a chance that the apron could not have been built in a location that allowed access to the ARC Project location, thus cutting off access from the airside. A portion of the costs were incurred to run a legal ad requesting proposals for the project from various contractors.

Excluded Cost Part B	
Engineering Fees	\$76,299
News Publishing Co. (Bid Request)	480
TOTAL	\$76,779

- In the Apron Phase I project, work was completed to prepare and construct access to the ARC Project area from the north end of the airside. In the Apron Phase II project, additional work was completed to prepare and construct airside access to the east side of the ARC Project area. Also, additional access from the north airside was added. Without these two projects being completed, the ARC Project area would only be accessible from the landside, thus decreasing interest of relocation from aviation

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business and limiting use by transient business. If aircraft could not access this project area, the construction of the ARC Project area would be impractical. Given this information we feel that the Apron Phase II cost should be included in the Total Project cost.

Per Cohn-Reznick's finding, they are excluding the Apron Phase II expenses totaling \$561,301 due to Phase II not being addressed in the Grant Application. On the Sources and Uses - North Terminal Expansion spreadsheet, the Apron project was not divided into Phase I or Phase II. It listed as Apron Improvements. At the time of the application, it was known that the Apron project would require two phases due to the FAA's available funding at the time. Since the phases were not specified on the Sources and Uses spreadsheet, all funds related to the Apron Improvements should be allowed. As noted above, without the Apron Improvements project the ARC area project would not be accessible.

- On the Sources and Uses document submitted with the grant application to provide documentation of the County's funding sources, we showed that we would be installing a Sewer Lift-Station and a Fire Suppression System for Coosa Valley Technical College Aviation School (CVT Avionics) being built at the Airport and these costs would be part of our total project cost. In discussions while planning for the school project, the ARC project was also discussed and it was determined that it would be best to house these two utility systems in a location that would benefit both facilities, instead of having to build separate utility systems. Since both of these projects occurred simultaneously, planning for the shared utility systems was a possibility. However, these costs were not included in the above matching calculation, even though documentation was provided to Cohn-Reznick. Although some of these costs were incurred prior to the September 22, 2008, they are still relevant to this project and should be allowed.
 - Fire Protection Tank
 - Bennett Construction was the General Contractor for the CVT Avionics Project.
 - We began paying Bennett in July of 2007 although a bulk of our payments did not occur until 2008. Of the 2008 expenses paid out to Bennett, \$297,717 was paid out after the September 22, 2008 date.
 - ITT Water and Wastewater worked on the Fire Suppression System.
 - TJ Lyle constructed and installed the Sewer Lift Station.

CVT Avionics Expenses	
Bennett Construction (Fire Suppression)	\$296,106
ITT Water & Wastewater (Fire Suppression)	38,382
TJ Lyle (Sewer Lift Station)	32,294
TOTAL	\$366,782

- Since the grant was closed by the USDA RD before we completed the ARC – Entrance and Paving Project, all project costs were not recorded. We have costs that were associated with the Labor and Equipment that our Public Works Department incurred during their work on this project that were not recorded yet. These costs are usually recorded at the end of the project instead of being done on a monthly basis. Also, there is work that will be completed in the next few weeks for curb and gutter, paving of the parking lot, dressing the surrounding area and signage. This work has not been completed due to weather delaying the contractor once the area was ready.



Entrance Road and Parking Additional Cost	
Public Works Labor and Equipment	\$99,089
Curb and Gutter (encumbered)	35,616
Paving (estimate)	50,000
Striping and Signage (estimate)	1,200
Seed and Mulch (estimate)	2,000
Public Works Additional Labor & Equipment	7,500
Expenses since Audit Visit:	
Supplies	264
Water Meter Relocation (due to road)	3,200
Water Line Relocation (due to road)	1,814
Final Engineering Invoice	2,192
TOTAL	\$202,875

When these costs are totaled, it can be seen that Floyd County did put forth the adequate funding for this grant. Although some expenses were incurred prior to the grant approval date of September 22, 2008, these costs were vital to the completion of the ARC Project and accessibility and safety. The Fire Suppression System and the Sewer Lift Station were built to service both the ARC Project area and the CVT Avionics School. These two shared utility systems will provide a safe and sanitary area for aviation related business to prosper. Finally, since the USDA RD closed out the project prematurely (see response to Observation #1), all expenses incurred since the audit site visit and all future expenses should be included. With all of these costs included, it can be seen that Floyd County exceeded the required total project cost by \$829,938.

New Adjusted Total Cost Detail	
Source	Amount
Sanitary Sewer	\$114,257
Water	75,325
Storm Water	80,334
Access Road and Parking	42,972
Apron Phase I	562,806
Apron Phase 2	561,301
Total Per General Ledger	\$1,436,995
Apron Phase II	(561,301)
Subtotal	\$875,694
Cost Dated prior to Grant approval	(487,797)
Adjusted Total Cost	\$387,897
Excluded Cost Part A	411,018
Excluded Cost Part B	76,799
Apron Phase II	561,301
Fire Suppression and Sewer Lift Station	366,782
Entrance Road and Parking Additional Cost	202,875
New Adjusted Total Cost	\$2,006,672



Engineering

When preparing the Sources and Uses document, the intent was that the County's Engineering Department would be completing a large portion of the engineering work for this project and only consulting with Baker when needed. When it came time for the work to be completed, it was determined that the workload that would be required to complete this project paired with other projects that the County's Engineering Department had going on that time would be too much for the current staffing level. It was also determined that this project was going to require a lot more Engineering work than was initially thought. At that point Baker was called in to complete the engineering work for the project.

Observation #1 - Basic Agency Requirements / Interim Reporting:

Response:

We do realize that we did not report on a quarterly basis during the whole time that we had this grant. Since this grant was awarded we have had several personnel changes in the position that was handling this grant. Once the grant was passed to Mike Mathews and he was tasked to complete the project, he did meet with the USDA RD on multiple occasions and communicated with them via email regarding current project status. Although we do realize that this was not done in a formal quarterly report, we will make sure to complete these in a timely manner in the future.

Observation #2 - Achievement of Outputs and Outcomes:

Response:

We agree with Cohn-Reznick on this observation. Since the project is not completed we cannot comment regarding the outcome of creating 200 new jobs.

Respectfully Submitted,

Amanda M. Tierce

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