APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL

AUDIT OF GRANT AWARD

City of Louisville
Louisville, Mississippi

Final Report Number: 17-06
Project Number: MS-17557
November 2016

Prepared by:

Leon Snead & Company, P.C.

LEON SNEAD
& COMPANY, P.C.

Certified Public Accountants
& Management Consultants

416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
fax: 301-738-8210
leonsnead.companypc@erols.com

November 16, 2016

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 MS-17557 awarded by the Appalachian Regional Commission (ARC) to the City of Louisville, Mississippi (the City). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

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 the goals and objectives of the grant were met.

The grant funds were adequately managed and used for the approved purposes, and most of the costs tested were supported and considered reasonable. However, we questioned $18,000 in contract costs charged to grant funds due to inadequate procurement procedures and supporting documentation. The non-ARC matching funding tested was adequately supported. However, the City did not fully meet the match requirements, and charged $16,025 too much to ARC funds due to not using the share ratios reflected in the approved budget. The City had an adequate process for obtaining and recording data related to the goals of the grant. The grant performance measures--regarding planned outputs and outcomes--were exceeded with 248 new jobs and $49 million in private investment being reported. The issues identified, questioned costs, and recommended corrective actions are discussed in the Findings and Recommendations section of this report.

A draft report was provided to the City on October 26, 2016, for comments. The City provided a response to the report on November 7, 2016. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the City and ARC staffs during the audit.

Sincerely,

Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of Basic Agency grant number MS-17557 awarded by the Appalachian Regional Commission (ARC) to the City of Louisville, Mississippi, through the Tennessee Valley Authority (TVA) which served as the Basic Agency. 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 support the renovation of a City-owned property that was idle but previously operated as a plywood manufacturing facility. The project plan envisioned using local, ARC, and state grant funds to renovate the property and lease it to a company (which would also fund certain improvements) to operate it for manufacturing plywood products. The project was expected to result in 200 new jobs and about $5 million in private investments. ARC funding was intended for installing main electrical systems, acquiring and installing motor control parts, improving vats, and restoring thermal oxidizer equipment. Some construction work had been completed using non-ARC funds at the time a tornado did significant damage to the facility in April 2014. As a result of the damage and project changes, the City requested to use ARC funds for different purposes--primarily to support construction of foundations and supports needed to make the facility operational. ARC approved the request in November 2015 and in January 2016 TVA approved construction to begin.

The original ARC grant approval and related TVA grant contract with the City did not specify an exact end date but indicated the grant would run until the project was complete. However, in approving the amended grant scope to use the $400,000 ARC funds for different purposes, the grant period was stated as January 30, 2016 to September 30, 2016. In addition to the ARC funds, the approved grant budget required $4,058,000 in non-ARC matching funds including $3 million from a state CDBG grant and $1,058,000 in local funds to meet estimated total costs of $4,458,000. On September 20, 2016, the City reported that the project was completed with total costs of $5,430,434, including $400,000 in ARC expenditures and $5,030,434 in non-ARC matching funds. However, during our audit, the City was planning to revise the total cost amount to $4,280,663 including the $400,000 ARC funds. TVA had not closed out the project and submitted the final BAMR report to ARC since it was awaiting receipt of the revised costs and final documentation from the City. Thus, the grant had not been administratively closed by ARC.

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 the goals and objectives of the grant were met.

We tested $400,000 in reimbursed ARC funds, and $3 million of non-ARC matching costs included in final project costs, to determine whether the charges were properly supported and allowable. The on-site fieldwork was performed at Louisville City offices during October 10-14, 2016.

We reviewed documentation provided by the City, its grant administration contractor, and TVA and interviewed personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed financial and project progress reports to determine if they were submitted in accordance with requirements. We reviewed the most recent financial statements and A-133 report to identify any issues that significantly impacted the ARC grant and the grant audit.

The primary criteria used in performing the audit were the grant agreement; the Memorandum of Understanding between ARC and TVA; applicable Office of Management and Budget (OMB) Circulars, 2CFR.200 and the ARC Code. The audit was performed in accordance with *Government Auditing Standards*.

The preliminary results were discussed with the City and TVA staff at the conclusion of the on-site visit and they were in general agreement with the issues and recommended actions.

Summary of Audit Results

The grant funds were adequately managed and used for the approved purposes, and most of the costs tested were supported and considered reasonable. However, we questioned $18,000 in contract costs charged to grant funds due to inadequate procurement procedures and supporting documentation. The non-ARC matching funding tested was adequately supported. However, the City did not fully meet the match requirements, and charged $16,025 too much to ARC funds due to not using the share ratios reflected in the approved budget. The City had an adequate process for obtaining and recording data related to the goals of the grant. The grant performance measures--regarding planned outputs and outcomes--were exceeded with 248 new jobs and $49 million in private investment being reported.

The issues identified, questioned costs, and recommended corrective actions are discussed in the Findings and Recommendations section of this report.

Findings and Recommendations

A. Documentation of Contract Price

We questioned $18,000 of procurement cost because the contract was awarded from a single source bid and there was no documentation to show that the contract price was fair and reasonable.

The City awarded a $58,000 contract in September 2013 to obtain general administration support on the construction project and related grants. The budget used to manage the project included $18,000 in ARC funds for these costs and TVA had reimbursed the City this amount at the time of the audit. We determined, in reviewing supporting documents for the contract and the costs charged to ARC, that the selection and award was made non-competitively. Although the City advertised the work and solicited bids consistent with normal competitive procedures, it only received one offer or proposal. Under the OMB Circular and related ARC guidelines, an award based on only one proposal is not considered adequate price competition and requires justifying the procurement as sole-source. At a minimum, a cost analysis should have been performed before the bid was received and the contract file documented to show that contract price is fair and reasonable.

City staff considered the contract award to be competitive since it was advertised, despite receiving only one qualified offer. They seemed unfamiliar with the requirements regarding receipt of only one proposal and need to perform cost analysis or some other action to justify the selection and price established. We noted that the City had not established any written procurement policies that included the requirements for sole-source justification and cost analysis, or many of the other procurement requirements of 2 CFR. The requirements include: obtaining competition to the fullest extent possible in procuring goods and services charged grants; justifying and explaining use of non-competitive or sole-source procurements; and performing either cost or price analysis for every procurement to demonstrate the price paid and costs charged to grants are fair and reasonable.

We do not consider the $18,000 charged to ARC funds to be adequately supported and question the amount as being allowable on the grant.

Recommendations

The City should:

1. Provide ARC sufficient documentation or information to show that the sole-source contract award for general administration services was justified and appropriate or refund the $18,000 questioned.

2. Develop and implement written procedures that include all the procurement requirements of OMB Circular A-102 and 2 CFR.200.

Grantee Response

The City provided a letter from the City of Louisville to TVA, who served as the basic agency for the project, outlining the justification for the fee of $18,000 paid to Sample, Hicks, & Associates for general administration of the ARC grant. They noted the project was time sensitive, and they received only one proposal in response to their advertisement. They believe the ARC administrative funds paid to Sample, Hicks, & Associates is fair and reasonable. Also, the City stated they are in the process of preparing written procurement procedures that will ensure compliance with applicable federal laws.

Reviewer's Comments

ARC will determine whether the information identified in the grantee's response is adequate to resolve the finding and close the recommendation or whether additional information or actions are needed.

B. Match Funding Requirements

The ARC grant and funding was approved based on a proposed project and budget showing a total estimated project cost of $4,458,000. The budget showed $58,000 for general administration, $150,000 for Architecture and Engineering work, and 4,250,000 for building construction, equipment, and related costs. The ARC grant provided $400,000 representing 8.97% of the total estimated costs and the remaining 91.03% of the costs were to be met with non-ARC match funding to include $3 million in state funds and $1,058,000 in local funds. The ARC funds were intended to be used to install main line electrical equipment, acquire and install motor control parts, install vat and related improvements and restore a Thermal Oxidation system.

The facility being renovated was subsequently damaged by a tornado in April 2014 and the project became more of a major re-construction project than a renovation as initially planned. Due to the revised project plans and costs, the City requested approval to use the $400,000 ARC funds for purposes different from originally intended. In November 2015, ARC approved using the funds for constructing foundation and supports needed to install certain equipment and help make the facility operational. Although the overall project changed due to the tornado damage, the City was not requested by TVA to submit a revised project plan showing the new construction scope and costs. A revised SF-424c project budget form was submitted at ARC's request, but it reflected the same estimated total cost of $4,458,000 and same breakout of ARC and other funding amounts shown in the original budget.

The audit included determining if the City adequately met and documented the level of non-ARC match funding required under the grant. Documentation provided to us showed the actual total project cost, approved under the grant, was $4,280,663 which was less than the original estimate of $4,458,000 in the approved budget. Based on the approved budget, and the ARC share of 8.97% of total costs would be $383,975 and the remaining $3,896,688 or 91.03% of total costs should have been paid for with non-ARC matching funds. Since the City requested and was reimbursed $400,000 in ARC funds, ARC actually paid 9.30% of total costs or $16,025 more than is allowable. Accordingly, we do not consider the non-ARC match funding requirements to have been met on the grant and the $16,025 overcharged to ARC funds is considered unallowable.

Recommendation

The City should coordinate with TVA to obtain ARC approval to change the ratio of ARC vs. non-ARC funding applicable to final actual costs or refund the $16,025 considered unallowable.

Grantee Response

The City provided a letter requesting that the ARC share of the overall project be increased from .0897 to .0935. They stated the reason for the increase is because the total costs expended for approved eligible project activities was approximately $177,337 under the 2013 budget estimate. Under the approved ARC share (.0897) of the project, the City is only eligible to draw $383,975. The revised percentage (.0935) allows the City to draw the entire $400,000. Further, they noted they have spent more than the $177,337 on building improvements for the plant facility,

however, the activities were not in the identified scope of work in the initial ARC application or the subsequent approved amendment.

Reviewer's Comments

ARC will determine whether the request identified in the grantee's response will be approved and if this will close the recommendation or whether additional information or actions are needed.

200 SOUTH CHURCH AVENUE
P.O. DRAWER 510
LOUISVILLE, MS 39339
"WHERE PEOPLE MAKE THE DIFFERENCE"

William A. (Will) Hill
MAYOR

Telephone: (662) 773-9201
Fax: (662) 773-4045

November 2, 2016

Leon Snead
Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, Maryland 20850

RE: ARC Project MS-17557

Dear Mr. Snead:

We are in receipt of your draft audit report for the above referenced project and offer the following comments concerning your findings:

1. The attached letter from the City of Louisville to TVA, the administering agency for ARC, outlines our justification for the administrative fee of $18,000 paid to Sample, Hicks, & Associates in the day to day operation and coordination of the ARC monies.
2. The City of Louisville has adopted written procedures that will comply with the procurement requirements outlined in OMB Circular A-102 and 2 CFR.200. The new procurement standards will allow the City to meet federal requirements in all federal grants. Attached you will find the City of Louisville's Procurement Policies and Procedures updated and adopted on November 1, 2016.
3. The City of Louisville acknowledged to TVA early in the project concerns that the ARC match should be increased because the initial grant costs were based on estimates. Please refer to the attached letter that the City has sent to TVA requesting the ARC match be changed.

Your consideration to the above will be greatly appreciated. If you have any questions or need any additional information, please contact me at (662) 773-9201.

Respectfully,

Will Hill, Mayor

Enclosures

Louisville
Mississippi

WILLIAM A. (WILL) HILL
MAYOR

ALDERMEN:
FRANCES S. BALL
RICHARD R. CAPERTON
JUDY H. McLEOD
GWENITA MAYS
EUGENE CROSBY

200 SOUTH CHURCH AVENUE
P.O. DRAWER 510
LOUISVILLE, MS 39339

"WHERE PEOPLE MAKE THE DIFFERENCE"

www.cityoflouisvillems.com

BABS W. FUTON
CITY CLERK

C. TAYLOR TUCKER
CITY ATTORNEY

Email: louisville@bblmail.net

TELEPHONE: (662) 773-9201
FAX: (662) 773-4045

October 17, 2016

Tennessee Valley Authority
P. O. Box 292409
Nashville, TN 37229-2409

Attention: Phillip McMullan

Re: City of Louisville CDBG/ARC Economic Development Project
Audit Response
TVA Contract Number 7786

Dear Mr. McMullan:

One of the recommendations of the questioned costs in the recent ARC audit related to the administrative fees paid by ARC in the implementation of the above referenced grant was that the City "coordinate with TVA, the basic agency, to provide ARC staff sufficient documentation or information to show that the contract price agreed to with Sample, Hicks and the $18,000 charged to ARC was fair and reasonable and obtain their concurrence.

The $18,000 fee paid to Sample, Hicks was for the general administration of the $400,000 ARC grant. Administration responsibilities included preparation of ARC pre-application and application; environmental assessment and documentation; labor administration ensuring compliance with Davis-Bacon, reviewing payrolls and conducting employee interviews at site; financial management including ensuring proper payment and recording keeping on all ARC monies; quarterly reporting; coordinating with private industry on job creation and private expenditures; and close-out documentation. The ARC administrating functions are very similar to the requirements of the CDBG monies funded through the Mississippi Development Authority (MDA). MDA allows $5,000 for application fees and 10% of the CDBG programmatic costs (including contingencies) plus the amount allowed for application preparation or total administrative costs of $40,000 whichever is smaller. If you apply this fee scale to the ARC project, the eligible administrative amount would be $40,000. Sample, Hicks fee was only $18,000.

Sample, Hicks was selected to assist the City in development the CDBG and ARC application. The City advertised in the local paper, sent certified notices to two (2) WBE/MBE administrative firms, and sent a certified notice to the MDA Procurement Center. The City received only one (1) proposal for this timely sensitive, confidential project. The City signed the administrative contract with Sample, Hicks on September 17, 2013. The first draw on ARC administrative monies was March 2016. There was no additional ARC monies added to the contract even after the tornado in 2014 that required that the project be re-worked including updated environmental documentation.

We believe the ARC administrative funds paid to Sample, Hick is fair and reasonable and ask that you concur.

The second recommendation is that the City "establish written procurement procedures that include all the requirements in OMB circular A-102 and ensure they are followed in making procurements for which costs will be charged to ARC and other federal grants". The City is in the process of preparing written procurement procedures that will ensure compliance with applicable federal laws.

Your assistance to help us address the questioned costs will be greatly appreciated. If you have any questions or need any additional information, please call me 662-773-9201.

Sincerely,

Will Hill
Mayor

City of Louisville
Procurement Policies and Procedures
November 2016

In order to insure that all policies are being strictly and legally practiced, the following policies should be carefully scrutinized and must be adhered to:

1. No invoice will be paid by the city without a proper purchase order number. Signature by the department head on an invoice does not authorize that bill being placed on the docket for payment. In order to procure and item/service the department head or their designee shall contact the Deputy Clerk to acquire a PO#.
2. Each department head is responsible for keeping their department under budget.
3. The ticket/invoice must be turned into the City Clerk's office signed by the person that received the product or by the department head. The bill must identify to which account the purchase will be charged.
4. The department head is responsible for verifying the item/service is delivered.
5. If the item is budgeted in capital outlay the department head may acquire a PO# from City Hall and make the purchase as long as the purchase is below the city prescribed Fixed Asset threshold of $1,000.00.
6. If the item is budgeted under capital outlay and over $1,000, the department head should ask the Mayor and Board of Aldermen to approve the purchase at the Board meeting following the determination that the purchase is necessary. The Board will either approve the purchase or deny it. If the Board approves the purchase, the department head may acquire a PO# from City Hall and order the item/service.
7. Once a ticket/invoice is received by City Clerk or Deputy City Clerk the invoice will be added to the claims docket of the next Board meeting if the purchase order is attached and properly signed by the department head and city clerk.
8. If the item surpasses $5,000.00, the board must ensure that state purchasing laws are followed. Purchases under $5,000.00 do not require advertising or requesting competitive bids unless directed by the Mayor and Board of Aldermen.
9. Purchases over $5,000 but not over $50,000 may be made from the lowest and best bidder without publishing or posting advertisement for bids, provided at least two (2) competitive written bids have been obtained.
10. Purchases over $50,000 must be approved by the Board of Aldermen and advertised for competitive bids once each week for two (2) consecutive weeks in the local newspaper. Bids must be received in a sealed envelope with the name of the bidder and phone number written clearly on the outside of the envelope, and possible other notations as directed in the advertisement. The date as published for the bid opening shall not be less than fifteen (15) days after the last date of publication, unless approved by the Board.
11. When a competitive bid process results in only one bid, the city must perform an adequate cost or price analysis in awarding the bid.
12. For any purchase associated with a grant, the Mayor, or City Clerk, must review the planned purchase to ensure that all grant requirements and purchasing laws are followed, prior to the request to procure being brought to the Board of Aldermen.
13. The Mayor is responsible for all departments in the city. He must be kept properly informed of all normal practices. Any veering from normal procedures must be thoroughly discussed with him before any final action is taken.
14. The City Clerk is responsible for all records in that office. No instruction is to be given to any personnel in her office without first discussing it with the City Clerk.
15. Department Heads should inform employees in their department of these procedures and stress the importance of following these practices.

WILLIAM A. (WILL) HILL
MAYOR

ALDERMEN:
FRANCES S. BALL
RICHARD R. CAPERTON
JUDY H. McLEOD
GWENITA MAYS
EUGENE CROSBY

200 SOUTH CHURCH AVENUE
P.O. DRAWER 510
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BABS W. FUTON
CITY CLERK

C. TAYLOR TUCKER
CITY ATTORNEY

Email: louisville@bblmail.net

TELEPHONE: (662) 773-9201
FAX: (662) 773-4045

October 13, 2016

Tennessee Valley Authority

Attention: Phillip McMullan

P. O. Box 22409

Nashville, TN 37229-2409

Re: City of Louisville FY 2012 CDBG/ARC (TVA Administered) Project

TVA Contract Number 7786

Dear Mr. McMullan:

The City of Louisville is nearing completion of the above referenced project. The purpose of this letter is to request that the ARC share of the overall project be increased from .0897 to .0935. The reason for the increase is because the total costs expended for approved eligible project activities was approximately $177,337.46 under the 2013 budget estimate. Under the approved ARC share (.0897) of the project, the City is only eligible to draw $383,975.43. The revised percentage share (.0935) allows the City to draw the entire $400,000 grant. Please note that all ARC monies were spent on the amended project activity (Equipment Support). The City has spent much more that the $177,337.46 on building improvements for the plant facility, however, the activities were not in the identified scope of work in the initial ARC application or the subsequent approved amendment.

October 13, 2016

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Your consideration to our match change request will be greatly appreciated. If you have any questions of need any additional information, please contact Woody Sample, Project Administrator, at 601-955-1797.

Sincerely

Will Hill

Mayor