

PERFORMANCE AUDIT OF
THE

**Norton Sewer Rehabilitation
and Extension for Josephine
Community**

ARC Grant Number: VA-16353

OIG Report Number: 12-11

GRANT PERIOD: OCTOBER 2009 - DECEMBER 2010

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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Norton Sewer Rehabilitation and Extension for Josephine County. The report is in response to Contract No. BPA 11-01-A.

Watkins Meegan LLC

Bethesda, Maryland
May 29, 2012

Performance Audit of the Norton Sewer Rehabilitation and Extension for
Josephine Community Project

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state, and local government. 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.

On August 12, 2009, ARC announced approval of grant number VA-16353, in the amount of \$500,000, to the City of Norton, located in Southwest Virginia. ARC's grant award was administered by the U.S. Department of Housing and Urban Development (HUD) with local oversight provided by the Virginia Department of Housing and Community Development (DHCD). The City of Norton, as part of the grant arrangement, agreed to provide wastewater treatment services (which reduce a potential health threat) to the nearby community of Josephine, with 96 households. Prior to this grant, Josephine residents discharged their sewage into failing septic tanks, and, in some cases, directly into public streams and waterways.

The Norton Sewer project involves installation of 8,755 linear feet of 8-inch sewer line, 42 manholes, 6,500 linear feet of 6-inch laterals with cleanouts, 3 grinder pump stations, and other related sewer line installation items. The project is expected to eliminate approximately 73 nonconforming, outdated, failing, or straight-pipe discharge systems from the Josephine community and the elimination of wastewater pollution from approximately 25 percent of the community households that discharge the wastewater in a manner considered to be potentially harmful to the environment or a public health threat. The changes are expected to lead to the availability of safe and conforming wastewater systems for all of the Josephine Community with the probable expectation that the affected stream segment (a tributary of the Powell River) can be removed from the Virginia Department of Environmental Quality's (DEQ) list of Impaired Waters.

Executive Summary

Josephine, Virginia, a small community near the City of Norton, Virginia (in the Southwest part of the state), has approximately 100 homes that transmit waste water into the environment through inadequate septic tank disposal systems or directly through straight pipes. A grant was made by ARC to the City of Norton, which agreed to provide sewer sanitation services to the nearby Community of Josephine. The goals of the grant were to connect the Josephine Community to the sanitation infrastructure of Norton and thereby address environmental and health concerns.

Overall, the objectives of the grant were met. Recommendations were made to improve the documentation for overall progress of the project, including a determination of the date upon which the final grinder pump was installed. Only a few homes remain to have their wastewater concerns addressed and the grantee is awaiting a decision by the Virginia Department of Environmental Quality (DEQ) to determine if the waste water situation has improved enough to remove the affected discharge area from the State's list of Impaired Waters.

Audit Objectives and Scope

The purpose of our review was the determination that program funds distributed to the City of Norton, grant number VA-16353, approved during 2009, and expended during years ended 2010 and 2011, were managed in accordance with ARC and federal grant terms; that grant funds were expended as provided for in the ARC approved budget; that internal grant guidelines and best practices, including internal controls, were appropriate and operating effectively; that accounting and reporting requirements were implemented in accordance with generally accepted accounting principles; and to make a determination as to whether the goals and objectives of the grant were met.

We performed a program review of the grant at the City of Norton office on December 12-14, 2011, as described under this section and under the audit methodology section. Our review was based on the terms of the grant agreement and on the application of procedures in accordance with the modified ARC OIG Sample Audit Program.

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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 "Sample Audit Program" prepared by ARC OIG and included suggested procedures over the grantee's accounting and internal control systems affecting the grant. Through conversations at the Norton Municipal Building with the City's Manager, and Director of Finance, we announced the audit and conducted an entrance conference. We also discussed and reviewed other financial and operational elements related to the conduct of the project audit.

Specifically, we reviewed controls over the financial process, the controls in place for recording, accumulating, and reporting costs under the grant, and the internal control work completed by the independent auditors for the City of Norton. We also toured the construction sites with the city's officials and observed and discussed whether the goals and objectives of the project funded with ARC monies had been met.

Our review of background material included ARC's Grant Agreement and related documentation, information from ARC's grant management system, and other grant requirements, including applicable OMB circulars and HUD requirements. As additional background material, and in order to avoid duplication of efforts, we reviewed the City of Norton's most current audited financial statements and data collection form for the year ended June 30, 2010.

Finally, we examined the grant payments made by ARC to DHCD and the flow through of those payments to the City of Norton and from the City of Norton to contractors and other vendors involved in the project. We evaluated those payments and other activities for compliance with applicable federal and other grant requirements.

Results:

Schedule of Cash Payments from ARC to DHCD (through HUD)

<u>Date</u>	<u>Payment Type</u>	<u>Amount Paid</u>
10/15/2010	Reimbursement	\$132,599.93
1/12/2011	Reimbursement	220,938.05
3/14/2011	Reimbursement	92,771.11
Total		446,309.09
Obligated		500,000.00
Remaining		<u>\$ 53,690.91*</u>

* See the discussion of the remaining balance under the findings section of this report.

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Grant Funding

The matching requirements have been met.

	<u>Funding</u>	<u>Percentage</u>
ARC	\$ 500,000	18.5%
State	2,000,000	74.0%
Local	200,000	7.5%
TOTAL	<u>\$2,700,000</u>	<u>100.0%</u>

Discussion of Grant Objectives and Findings

From the illustration of ARC grant payments (see the schedule above), \$53,690.91 was not utilized during the grant's period of performance. The funds were to be utilized for the installation of a grinder pump station. The pump could not be installed due to weather conditions and frozen ground. The date of the final grinder pump installation could not be determined from the documentation obtained. Subsequent to the on-site audit work, we received a copy of the final engineering bill for the installation of the grinder pump dated December 15, 2011, which stated that the pump had been installed prior to December 6th.

The objectives of the grant were discussed under the background section of this report. Below is a discussion about the status of each of those objectives.

As of the date of our audit, the project had eliminated 97 outdated, failing, or straight-pipe discharge systems in the Josephine community, which exceeds the objective of approximately 73. In addition, the conforming wastewater systems benefitted approximately 100 households, and at least 25 percent of the community households' wastewater discharges previously considered potential environmental or health threats have been eliminated.

In addition, at the time of our audit a final summary document or map was not available to assist in our analysis of installation of project completion items, e.g., feet of sewer line, manholes, etc. However, based on our review of the available documentation and tours of the sites, it appears the grant objectives will be met.

Regarding the goal, the removal from the state's list of Impaired Waters for the Josephine stream segment of the Powell River, this has not yet occurred. However, an Environmental Monitoring Report dated November 29, 2011, states that water quality has significantly improved; DEQ will need to make a final determination.

Finally, the grant objective, the overall elimination of wastewater into the Powell River segment by the Josephine Community, has not yet been met. Two of the ten residents denying sewage installation upgrades were using straight-pipe discharge systems. Based on our review of the health department inspections, enforcement actions are pending against these two households.

Overall, the general objectives of the grant have been met. Issues concerning the removal of the Powell stream segment from the State's listing of Impaired Waters and the health department's enforcement actions against individual homeowners to improve water quality involve other regulatory entities and are not fully within the power of the grantee to affect.

Recommendations:

None.

Several attempts, beginning April 3, 2012, were made to obtain a grantee response.

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