

PERFORMANCE AUDIT
OF THE

**South Carolina Technology and
Aviation Center Project
(Formerly Known as Donaldson
Center Industrial Air Park
Hangar Upgrade Project)**

Grant: SC-15834-302-08

OIG Report Number: 12-16

GRANT PERIOD: DECEMBER 2007 – NOVEMBER 2009

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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the South Carolina Technical and Aviation Center Project (formerly known as Donaldson Center Industrial Air Park Hangar Upgrade Project). The report is in response to Contract No. BPA 11-01-A.

Watkins Meegan LLC

Bethesda, Maryland
May , 2012

South Carolina Technology and Aviation Center Project
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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 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.

ARC approves the grant and grants funding and utilizes the Tennessee Valley Authority (TVA) to administer and monitor the grant, including disbursement of funds to SCTAC.

South Carolina Technology and Aviation Center (SCTAC) (formerly known as Donaldson Center Industrial Air Park) is a 2,600-acre technology and aviation park located in Greenville, South Carolina. Donaldson Center Industrial Air Park was created in 1964 when the Air Force closed Donaldson Air Force Base and deeded it to the City and County of Greenville, South Carolina. In 2008, Donaldson Center Industrial Air Park officially changed its name to South Carolina Technology and Aviation Center.

Donaldson Development Commission is a management committee formed by a joint resolution of the City and County of Greenville, South Carolina, to operate SCTAC.

On December 12, 2007, ARC announced approval of grant number SC-15834-302-08, in the amount of \$1,000,000, to the Donaldson Development Commission, for the installation of new insulation and cladding in eleven hangars at the Donaldson Center Industrial Air Park. With these upgrades, the largest tenant is expected to renew the lease, which will help create 150 new jobs and retain 900 positions. In addition, this tenant is expected, over the five-year lease period, to invest an additional \$2,000,000 in private capital to its operations at the facility during the lease renewal. A non-federal matching fund of 50% or \$500,000 was required and originally set at \$1,600,000.

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On December 9, 2008, ARC announced a Change of Scope and Budget Revision, decreasing the original amount obligated from \$1,000,000 to \$500,000 and decreasing the number of hangars to be insulated from eleven to four and adding upgrades to fire protection in one hangar. In addition, the nature and amount of the local funding was decreased from \$1,600,000 to \$600,000. The goals of the original grant remain unchanged. This project is expected to prompt the largest tenant to renew its lease with SCTAC, thereby retaining 900 jobs; creating 150 new jobs; and investing \$2,000,000 in its operations at SCTAC.

Executive Summary

Although overall grant objectives were met, we were unable to validate the extent to which performance measures were achieved. Also, monitoring of contractor compliance with Davis-Bacon Act prevailing wages was insufficient, contract language did not include suspension and debarment provisions or conflict of interest policy, and interim reporting requirements were not always met.

Audit Objectives and Scope

The purpose of our audit was the determination that program funds distributed to the South Carolina Technology and Aviation Center, grant number SC-15834-302-08, approved December 12, 2007, modified December 9, 2008, and expended during the grant period ended March 2010 (extended from November 2009 by TVA), 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 South Carolina Technology and Aviation Center office on February 27-29, 2012, 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 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 with the South Carolina Technology and Aviation Center Project Manager at the South Carolina Technology and Aviation Center offices on February 27-29, 2012, 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 South Carolina Technology and Aviation Center during the grant period. We also toured two of the four insulated hangars, and we reviewed pictures of the remaining hangars and fire protection system with the Center'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. As additional background material, and in order to avoid duplication of efforts, we reviewed South Carolina Technology and Aviation Center's audited financial statements for the year ended June 30, 2010.

Finally, we examined the grant payments received by SCTAC and the payments made by SCTAC to its contractors and other vendors involved in the project. We evaluated those payments and other activities for compliance with applicable grant requirements and Federal Regulations.

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Grant Funding

The matching requirement has been met.

	<u>Funding</u>	<u>Percentage</u>
ARC	\$ 500,000	44.7%
SC TAC	<u>617,000</u>	<u>55.3%</u>
TOTAL	<u>\$1,117,000</u>	<u>100.0%</u>

An overpayment to the grantee by TVA of \$227.38 was being discussed between TVA and SCTAC.

Results

1. Performance Measures

As of the date of our audit, the insulation was installed in four hangars and the upgrade to the fire equipment has been installed in one hangar. As a result of these upgrades, the largest tenant signed a lease extension for five years, with options for additional renewals. The tenant was to retain 900 employees, and during the five-year lease agreement, create an additional 150 jobs and invest \$2,000,000 in its operations at its facilities. However, according to SCTAC, the tenant would not furnish information with respect to the creation of 150 new jobs, the retention of 900 jobs, or the extent to date of the agreed to \$2,000,000 investment by the tenant. Subsequent to our audit, an official of SCTAC indicated to ARC that the tenant currently employed approximately 1,000; however, this was not verified. Because these objectives are long-term, ARC needs to determine how to best capture this information. Following a validation visit to the grant, the validation report indicated that a review five years from now would be beneficial in learning the longer-term impact of this ARC investment. We believe a periodic review would be appropriate to determine the progress being made on the number of increased jobs and the \$2,000,000 proposed investment.

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Consequently, we could not determine the degree to which performance measures were achieved.

We recommend that SCTAC periodically obtain performance information from the tenant and notify TVA and ARC of continued difficulties in obtaining such information.

Grantee Response: SCTAC will ensure that future project outcomes are measurable.

2. Open Bidding

Although the contracts for installing insulation in four hangars and adding upgrades to fire protection in one hangar did not follow the normal contracting process, the awards were open to a number of select contractors following basic contracting procedures. This process was followed because of the sensitive nature of the tenant's work and facility access. The contracts were open to bids in a restricted manner. The bidding process was limited to contractors that had been previously approved to work in the sensitive environment. The tenant maintained a list of contractors previously approved to do work on its premises. In obtaining bids, SCTAC offered five of these contractors the opportunity to bid for the insulation of the interior walls in the four hangars. Three bids were received and a contractor was selected from the three to perform the work.

The contract for the fire protection upgrade was awarded to a contractor that had previously gone through a competitive sealed bid process completed by the tenant. This contractor won the bid for the first phase (system design) of the project which was paid by the tenant. This contractor completed the first phase (system design) of the fire protection upgrade and then completed the upgrade as described in the grant.

TVA concurred with the use of the limited list of qualified contractors that had been previously approved to work in the sensitive environment for the competitive bid process.

We recommend that ARC review this process with TVA to ensure that the process meets the federal requirements for awarding future contracts.

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Grantee Response: TVA was alerted to the bid process and approved SCTAC's methodology.

3. Reporting

Interim reporting requirements that included quarterly SCTAC reporting to TVA about the project status were not always implemented. During the grant period, we noted that seven of the nine quarterly required reports were not made.

Delayed reporting negatively impacts TVA and/or ARC to adequately monitor contract performance.

We recommend that SCTAC comply with TVA reporting requirements.

Grantee Response: SCTAC will put procedures in place to ensure full compliance with reporting for all future federal contacts.

4. Contract Language

Suspension and debarment language and a conflict of interest policy were not included in contracts. The Federal Labor Standards Occupational Safety and Health and Federal Contracting requirements identify the need for this information in contracts.

We recommend that future contracts contain required information.

Grantee Response: SCTAC will ensure future contracts by the Federal Government contain provisions that any sub-contracts will include compliance with federal contracting requirements.

5. Davis-Bacon Act

Monthly monitoring of contractor compliance with Davis-Bacon Act requirements was insufficient in that SCTAC review was not made to assure that contractors were paying the prevailing labor rates.

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SCTAC management commented that because the contract contained provisions that required the contractors to follow Davis-Bacon, management did not believe it was necessary to also perform a review of the contractors' records.

We recommend SCTAC monitor contractor compliance with Davis-Bacon provisions.

Grantee Response: SCTAC will, in the future, implement a process to monitor compliance with the Davis-Bacon Act for activities funded by the Federal Government.

6. Reconciliation of Final Reports

The final financial report submitted by SCTAC reported a total project cost that did not agree to SCTAC's internal books and records (general ledger). Costs on the final report were overstated by \$17,483, and no reconciliation of this difference was provided by SCTAC. The \$17,483 has no effect to funds provided by ARC, instead it reduces SCTAC's matching portion and has a negligible effect to SCTAC's matching fund percentage.

Not reconciling final total project costs to internal books and records could have a material effect on a final report and could result in a loss of funding.

We recommend SCTAC establish procedures to ensure final financial reports are reconciled to internal reporting prior to submission.

Grantee Response: SCTAC will put procedures in place to ensure that the reimbursement requests are supported in the general ledger.

Discussion with Management

The results of our review were discussed on March 1, 2012.