

PERFORMANCE AUDIT
OF THE

City of Fort Payne

Fort Payne Infrastructure Development Grant

GRANT: AL-16763

OIG REPORT NUMBER: 14-03

**GRANT PERIOD: SEPTEMBER, 2010 – FEBRUARY,
2013**

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 City of Fort Payne Infrastructure Development Grant AL-16763. The report is in response to Contract No. BPA 11-01-A.

A handwritten signature in black ink that reads "Watkins Meegan LLC". The signature is written in a cursive, flowing style.

Tysons, Virginia
December 13, 2013

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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.

The City of Fort Payne (Grantee) is the county seat of DeKalb County, Alabama. The Grantee has experienced rapid economic growth along the well-developed commercial corridor on Highway 35, leading to increased demand for water and sewer services with which existing infrastructure has been unable to keep pace. The Grantee expects growth to continue in this area as it provides easy access to industrial and commercial property. The Highway 35 commercial corridor was served by a pump station that was 40 years old and nearing the end of its operational life. As a result, the Grantee sought funding from ARC to replace and relocate the outdated sewer pump station. The project consisted of abandoning the outdated pump station which was located in a flood plain, building a new pump station outside of the flood plain with a more efficient pump as well as making all necessary connections with the existing infrastructure.

On September 24, 2010, ARC Approved the Fort Payne Infrastructure Development Grant, number AL-16763 (Grant), in the amount of \$400,000 to the City of Fort Payne. The project was finalized and closed by ARC on February 24, 2013. Required matching funds from other federal and local sources totaled \$1,388,438, for a total funding amount of \$1,788,438. The sources of funding are shown in the table below:

Funding Source	Amount	Percentage
Appalachian Regional Commission (ARC)	\$ 400,000	22.37%
Environmental Protection Agency (EPA)	\$ 867,300	48.49%
State Revolving Loan Funds (SRF)	\$ 521,138	29.14%
Total	\$1,788,438	100%

The Tennessee Valley Authority (TVA) administered the Grant on behalf of ARC in accordance with the terms of a Memorandum of Understanding between ARC and TVA under Contract No. TV-85102V. TVA 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. The Grantee was responsible for managing the application process, managing financial transactions, documenting project outcomes and otherwise monitoring project activity to ensure successful implementation.

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Objective

Watkins Meegan LLC was engaged to conduct a performance audit of the Fort Payne Infrastructure Development Grant for the period September 24, 2010 to February 24, 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 achieved.

Executive Summary

Grant funds were used to support the construction of a new pump station and make necessary connections between the existing sewer lines to the new pump station. The new pump station is better-suited to serve existing users and also allows for continued economic growth in the project area.

On behalf of ARC, TVA reimbursed \$400,000 of Grant-related expenses during the period of the Grant. Reported matching funds from other federal, state and local sources were \$1,485,962 for the same period. The total reported expenditures for the Grant were \$1,885,962, \$97,524 greater than the approved budget, with the variance derived from additional reported state and local matching funds obtained by the Grantee.

Through review of reported expenditures, we noted that \$101,200 in expenses were incurred before the Grant award date and reported as matching costs. With the exception of these expense items, expenditures reviewed during the audit appeared to be valid and properly supported and also were in direct relation to supporting the Grant and its objectives. During the audit, we physically inspected the new pump station to confirm completion of the construction supported by the Grant.

Scope

We completed a performance audit of the City of Fort Payne Infrastructure Development Grant AL-16763 at the City Hall of Fort Payne from October 28-30, 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.

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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 City Clerk, City Treasurer, the Project Manager for the construction project, the project coordinator from TVA and other City of Fort Payne employees 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, ARC's Memorandum of Understanding with TVA, other Grant-related documentation from ARC's grant management system and the City of Fort Payne's external audit reports for the fiscal years ended September 30, 2010, 2011 and 2012.

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 and physically inspected the new pump station to confirm completion of the construction work supported by the Grant.

Results

Compliance with Grant Provisions

The funds disbursed under the Grant agreement enabled the Grantee to construct a new and improved sewer pumping station facility to ensure the viability of the commercial district served by aging infrastructure. The Grantee requested reimbursement of \$400,000 from ARC (via TVA) for Grant-related expenses through the period ended January 31, 2013. This was the final reimbursement request prior to the project being finalized and closed by ARC on February 24, 2013. Matching funds from federal, state and local sources as reported by the Grantee were \$1,485,962 for the same period. The total reported expenditures for the performance period were \$1,884,962, which was greater than the approved budget, with the variance derived from additional reported state and local matching funds obtained by the Grantee.

We examined supporting documentation for a sample of the expenses incurred against the Grant. One observation was noted regarding expenses incurred prior to the period of performance of the Grant. 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.

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 new pump station to confirm completion of the construction supported by the Grant.

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

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Finding – Expenditures Prior to Grant Award Date

Expenses related to a project receiving ARC funds must be incurred within the period of performance to be considered eligible and matching costs may not be eligible if incurred prior to the Grant award date. Upon review of expense invoices and checks remitted, we determined that \$101,200 of expenses were incurred during a period between August 2005 and May 2008, prior to the approval of the ARC Grant award in September 2010. These expenses were paid directly by the Grantee at the time they were incurred and then reimbursed in September 2011 to the Grantee from State Revolving Loan Funds. In total, the local match funds obtained by the Grantee over the period of the Grant exceeded the budgeted match amount by \$97,324, which basically covers the pre-award expenditures. While the resulting net dollar impact is immaterial, the Grantee did not obtain any advanced authorization or approval for this treatment from TVA or ARC.

Recommendation:

In the future, the Grantee should ensure that appropriate authorizations are obtained prior to including costs incurred outside of the Grant period of performance. The Grantee should validate the appropriateness of the treatment of the matching expenses referenced above with ARC and/or TVA.