PERFORMANCE AUDIT
OF

Waste Reduction & Technology Transfer Foundation

Energy Efficiency Implementation for Small Cities Grant

GRANT: AL-16549 C-2

OIG REPORT NUMBER: 14-06

GRANT PERIOD: AUGUST 1, 2012 – AUGUST 31, 2013

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Mr. Hubert N. Sparks
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Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the WRATT Energy Efficiency Implementation for Small Cities Grant AL-16549 C-2. The report is in response to Contract No. BPA 11-01-B.

Watkins Meegan LLC

Tysons, Virginia
January 16, 2014

Waste Reduction & Technology Transfer Foundation

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Background

The Appalachian Regional Commission (ARC or Commission) 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 Waste Reduction & Technology Transfer Foundation (WRATT or Grantee) is a not-for-profit foundation based in Birmingham, Alabama whose mission is to promote sustainable economic development, a cleaner environment and a better quality of life for all citizens by providing waste reduction, pollution prevention and technology transfer assistance to Alabama businesses, industries, communities and governmental entities. Its work has been recently focused on reducing energy consumption in small municipalities of Alabama through education and training. As part of this effort, WRATT trains maintenance personnel and other officials on energy-efficiency practices and illustrates how available tools and programs can lower operating costs and develop more energy-efficient capital projects, building operations and maintenance practices.

On September 7, 2012, ARC approved the Energy Efficiency Implementation for Small Cities Grant, number AL-16549 C-2, in the amount of $100,000 (Grant) to the Waste Reduction & Technology Transfer Foundation for the period August 1, 2012 to August 31, 2013. Required matching funds of $100,000 were to be provided by the Grantee in the form of cash, contributed services or in-kind contributions.

The objective of the Grant was to perform energy-efficiency audits on public buildings for small municipalities in Appalachian Alabama and provide one-, three- and five-year plans for the auditees to implement energy-efficiency improvement recommendations in the audited buildings.

Objective

Watkins Meegan LLC was engaged to conduct a performance audit of the WRATT Energy Efficiency Implementation for Small Cities Grant for the period August 1, 2012 to August 31, 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.

Waste Reduction & Technology Transfer Foundation

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AL-16549 C-2

Executive Summary

Grant funds were used to perform energy audits of small municipalities and provide a detailed report that included one-, three- and five-year energy-efficiency plans covering improvements opportunities suitable for implementation by the participating municipality.

In total, the Grantee was reimbursed $59,362 of Grant-related expenses during the period of the Grant. Matching contributions of $59,362 were reported by the Grantee for the same period. The remaining $40,638 of the $100,000 ARC Grant was de-obligated after the submission of the final report by the Grantee and the Grant was closed out by ARC on October 30, 2013.

A finding was noted regarding the Grantee's methodology for determining the match contributions. In addition, through review of reported expenditures, we noted $1,300 of expenses incorrectly reported to and reimbursed by ARC. With the exception of these expense items, expenditures reviewed during the audit appeared to be valid and adequately supported and also were in direct relation to supporting the Grant and its objectives. In addition, we noted that the Grantee should enhance procedures related to the recording, review and approval of contractor timesheets.

Through inquiry and review, we validated the outputs and outcomes expected from the Grant award as detailed in the Grant application. We noted that the planned outputs and outcomes were generally achieved through the completion of energy audits and distribution of reports to the participating municipalities.

Scope

We completed a performance audit of the WRATT Energy Efficiency Implementation for Small Cities Grant AL-16549 at the WRATT office from October 30–November 1, 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.

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 President, Director of Operations and the Treasurer of WRATT 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, other Grant-related documentation from ARC's grant management system, and WRATT's external audit reports for the fiscal years ended September 30, 2012 and 2011.

Audit Methodology (Continued)

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 funded with ARC monies had been met.

Results

Compliance with Grant Provisions

The funds disbursed under the Grant agreement enabled the Grantee to perform 15 energy efficiency audits and, for each audit, provide a detailed report that included a one-, three- and five-year improvement plan for the participating municipalities. The Grantee requested reimbursement of $59,362 from ARC for Grant-related expenses incurred during the performance period of the Grant, August 1, 2012 to August 31, 2013. Matching contributions as reported by the Grantee were also $59,362 for the same period. The total reported expenditures for the performance period were $118,724, which was below the budgeted amount of $200,000. The remaining $40,638 of the $100,000 ARC Grant was de-obligated after the submission of the final report by the Grantee and the Grant was closed out by ARC on October 30, 2013.

We reviewed the methodology and approach adopted by the Grantee to determine matching contributions and noted a finding as detailed below. We also examined supporting documentation for a sample of the expenses incurred against the Grant and noted $1,300 of expenses incorrectly reported to and reimbursed by ARC. With the exception of these expense items, expenditures reviewed during the audit appeared to be valid and adequately supported and also were in direct relation to supporting the Grant and its objectives.

Through inquiry and review, we validated the outputs and outcomes expected from the Grant award as detailed in the Grant application. We noted that the Grantee provided timely and detailed performance reports to ARC throughout the performance period of the Grant. We validated the reported outputs and outcomes with the Grantee, noting that outputs and outcomes related to participation of auditees in Energy Star programs were not achieved as a result of the buildings selected for audit not meeting the requirements for the intended programs. We also noted that outcomes related to job retention have not yet been measured by the Grantee, because additional time will be required to assess the impact of the recommendations made in the energy audit reports provided to the various municipalities. The remaining outputs and outcomes centered on the completion of a target of 12 to 20 energy audits, and the Grantee was able to complete 15 such audits during the performance period of the Grant.

At the conclusion of the audit, we noted and discussed the following items with Management, who generally agreed with the findings and recommendations as described below:

Finding – Matching Contributions

Pursuant to the Grant agreement, the Grantee was obligated to provide matching funds in cash, contributed services or in-kind contributions equal to the $100,000 in funds made available by ARC. The Grantee match was made up entirely of in-kind contributed services calculated using the difference between the hourly rates paid to their contractors for specialist services (performing the energy audits) and the prevailing market rates for similar services from similarly qualified professionals.

Finding – Matching Contributions (Continued)

OMB Circular A-122: Cost Principles for Non-Profit Organizations (A-122) states:

> Donated or volunteer services may be furnished to an organization by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing or matching requirements...

While OMB Circular A-122 does not specifically define "donation" or "contribution," it does require that any cost must be determined in accordance with generally accepted accounting principles (GAAP) to be allowable (Attachment A, §A.2.e.). Applicable GAAP standards include the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605 (ASC 958-605), which defines a contribution as follows:

> An unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.

Because the WRATT contractors are paid for their services, under contracts that stipulate an agreed hourly rate and that are silent on the topic of contributed services, it is questionable whether the services provided can be considered nonreciprocal or unconditional. Further, the contractual agreements between WRATT and its contractors could be interpreted to represent the de facto market rate, because these are the terms under which the contractors have agreed to provide their services. This would undermine the validity of calculating the in-kind contribution as the difference between these rates and the market rates as obtained by the Grantee from other sources.

If the current methodology for calculating the matching contributions is deemed invalid, there would be no match in place for the ARC funds because WRATT passes through the full contractor costs to ARC.

Recommendation:

Under Article 14-3 of the Grant agreement terms and conditions, in the event of overpayments, ARC reserves the option of requiring the Grantee to reimburse the Commission for the amount of the overpayment. The Grantee should work with ARC to fully validate the matching methodology and ensure that the current treatment is allowable under ARC terms and conditions. If the matching methodology is determined to be invalid, ARC may request a refund of up to 50 percent of the contributed funds, or $29,681.

Finding – Invalid Costs Reimbursed by ARC

Through our testing of expense items, we identified a total $1,300 of expenses that were incorrectly recorded as Grant-related expenditures and subsequently reimbursed by ARC. Our testing of the contractor expenses revealed that $1,210 of administrative costs were charged to the Grant (via journal entry adjustment) after the same expenses had already been allocated across all active grants, resulting in duplication of the same expense items against the Grant. In addition, a contract expense sampled revealed the labor hours charged to the Grant were incorrectly calculated, resulting in a $90 overcharge to ARC. Extrapolating the error rate from the sample tested to the full population of similar expenses charged to the Grant suggests potential errors of approximately $3,800.

Finding – Invalid Costs Reimbursed by ARC (Continued)

Recommendation:

Under Article 14-3 of the Grant agreement terms and conditions, in the event of overpayments, ARC reserves the option of requiring the Grantee to reimburse the Commission for the amount of the overpayment. The Grantee should work with ARC to determine the appropriate corrective action for the overpayments noted above. Going forward, the Grantee should ensure that journal entries are appropriately reviewed and approved by management and that process improvements are implemented to improve and standardize timesheet reporting, review and approval (see finding below for additional information).

Finding -- Contractor Agreements

Article 11-4 of the Grant agreement requires that all disbursements be supported by contracts, invoices, vouchers and other data, as appropriate, evidencing the disbursements. We reviewed the contracts and agreements in place between the Grantee and the contractors who performed services related to the Grant. We noted that the majority of the contracts were several years old and that the hourly rates of pay listed in the contracts did not match the rates paid by the Grantee during the Grant period of performance and subsequently reimbursed by ARC. We did note that the rates paid by the Grantee were accurately disclosed in the Grant application document; however, the Grantee may not be eligible for all reimbursements requested if the expenses are not adequately supported by appropriate contracts.

Recommendation:

Through discussion with the Grantee, it was acknowledged that the contractor agreements are not updated to reflect increases in the rates of pay or for other information changes. Contractor agreements should be updated on an as-needed basis and reviewed at least annually to ensure that the terms and conditions are current and that the effective rates being paid to each contractor are appropriately supported.

Finding – Contractor Time Reporting

Article 11-4 of the Grant agreement requires that all disbursements be supported by contracts, invoices, vouchers and other data, as appropriate, evidencing the disbursements. Through testing of expenses, we noted that contractor timesheets did not contain signatures, and on one occasion, did not include management approval. We further noted that the individual contractors submit time and expenses in a variety of formats with different levels of detail and often times lacked sufficient information to determine the nature of the work and the grant for which work was being performed. The Grantee may not be eligible for all reimbursements requested if the expenses are not adequately supported.

Recommendation:

Contractor timesheets are not signed because each contractor works remotely and emails them to WRATT at month-end, using their own preferred reporting format. The Grantee should standardize the timesheet and expense submission process by creating a common template to be used by all contractors. Also, absent a formal signature on the timesheet, the Grantee should retain a copy of the timesheet email sent by the contractor and maintain evidence of approval, either through signature or electronic approval.