

PERFORMANCE AUDIT  
OF

## **Pontotoc County**

### **Pontotoc County Site Improvements**

**Grant: MS-17126**

**OIG Report Number: 14-19**

**GRANT PERIOD: SEPTEMBER 2011 – JULY 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 Pontotoc County Site Improvements Grant MS-17126. The report is in response to Contract No. BPA 11-01-B.

A handwritten signature in cursive script that reads "Watkins Meegan LLC".

Tysons, Virginia  
March 28, 2014

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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.

Pontotoc County (Grantee) is located in Mississippi and is classified as a transitional county. The Grantee requested grant funding from ARC to support site and building improvements to an existing industrial facility in Pontotoc County. The facility is for use by a supplier to the automotive industry in providing service to a major auto company with a manufacturing plant in the region. Improvements to the facility were expected to spur job creation and growth in the local region, create increased opportunities for private sector growth and investment, and also raise the local region's appeal to potential future residents and businesses.

On September 16, 2011, ARC approved the Pontotoc County Site Improvements Project Grant, number MS-17126 (Grant), in the amount of \$436,000 to Pontotoc County. The project was finalized and closed by ARC on July 26, 2013. Required matching funds from other federal, state and local sources totaled \$800,000, for a total funding amount of \$1,236,000. The sources of funding are shown in the table below:

<b>Funding Source</b>	<b>Amount</b>	<b>Percentage</b>
Appalachian Regional Commission (ARC)	\$ 436,000	35%
Local (Mississippi Development Authority—"MDA")	\$ 800,000	65%
<b>Total</b>	<b>\$1,236,000</b>	<b>100%</b>

The Tennessee Valley Authority (TVA) administered the Grant on behalf of ARC in accordance with the terms of a Memorandum of Understanding ("MOU") between ARC and TVA. The purpose of the MOU is to provide an ongoing administrative framework through which the joint and cooperative activities of TVA and ARC can be implemented and expanded, where appropriate, to most effectively utilize the capabilities, experience and resources of both agencies to address the development needs of Appalachia. In construction projects such as this Grant, TVA provides contract oversight and technical advice as needed to assure compliance with applicable standards of work. TVA provided support to the Grantee during the application and assessment phases, reviewed and approved expenditures, and reimbursed the Grantee with Grant funds obtained from ARC.

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**Background (Continued)**

In addition, the Grantee engaged the Three Rivers Planning and Development District (TRPDD) to manage the Grant administration on its behalf. TRPDD is a private, non-profit organization formed by local government entities and business leaders to promote overall economic development; foster community planning; and aid general civic, social and economic development. TRPDD administers a wide variety of state and federal programs impacting its core service area of Calhoun, Chickasaw, Itawamba, Lafayette, Lee, Monroe, Pontotoc and Union counties in northeast Mississippi. The Grantee was responsible for approving financial transactions, documenting project outcomes and otherwise monitoring project activity to ensure successful completion.

**Objective**

Watkins Meegan LLC was engaged to conduct a performance audit of the Pontotoc County Site Improvements Grant for the period September 16, 2011 to July 26, 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 site and building improvements to an existing industrial facility in Pontotoc County in accordance with the expected outputs stated in the Grant application. The facility was subsequently occupied by a supplier resulting in the creation of 100 jobs, in line with one of the expected outcomes in the Grant application. The project was completed within the original budgeted costs. At the completion of the project, ARC de-obligated \$23,249 in unused funds to close out the Grant.

Through review of reported expenditures we noted that all appeared to be valid, adequately supported and in direct relation to supporting the Grant and its objectives. In addition, through inquiry and observation, we determined that the site and building improvements covered by the Grant had been completed. However, findings were noted relating to: the presentation of projected outcomes in the Grant application; the completeness and accuracy of the reimbursement requests submitted by the Grantee; and the absence of monitoring processes to ensure compliance with Davis-Bacon Act fair wage requirements.

**Scope**

We completed a performance audit of the Pontotoc County Site Improvements Grant MS-17126 at the Pontotoc County Chancery Clerk's Office from February 24-26, 2014, 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.

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**Scope (Continued)**

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 Pontotoc County Chancery Clerk and Deputy Clerk and conducted interviews and made inquiries with parties from TRPDD and TVA to discuss the overall structure and processes around Grant administration and monitoring and other financial and operational elements related to the conduct of the project.

Our review of background material included the Grantee's application, other Grant-related documentation from ARC's Grant management system, and the Grantee's audited financial statements for the fiscal year ended September 30, 2011. It should be noted the audited financial statements for fiscal years ended September 30, 2012 and September 30, 2013, respectively, had not been finalized at the time of this audit.

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, including physically inspecting the construction and site improvement work supported by the Grant.

**Results**

**Compliance with Grant Provisions**

On behalf of ARC, TVA reimbursed \$412,751 in ARC funds to the Grantee during the period of the Grant. Matching contributions of \$800,000 were reported by TVA, comprising \$797,834 from the Mississippi Development Authority ("MDA") in the form of a low-interest loan to the Grantee and the balance contributed by the Grantee. Total reported expenditures for the Grant were \$1,212,751. At the completion of the project, ARC de-obligated the remaining \$23,249 in unused funds to close out the Grant.

Grant funds were used to support site and building improvements to an existing industrial facility in Pontotoc County. We examined supporting documentation for all of the expenses incurred against the Grant and noted that all appeared to be valid, adequately supported and in direct relation to supporting the Grant and its objectives. However, as a result of our procedures, findings were noted related to the Grantee's compliance with the Davis-Bacon Act fair wage requirements and its reimbursement request processes. Our findings are described in more detail later in this report.

Through inquiry, review and observation, we sought to validate the outputs and outcomes expected from the Grant award as detailed in the Grant application. Anticipated outputs were the site and building improvements to the existing industrial facility. During fieldwork for the audit, we physically observed the industrial facility and noted that all site and building improvements included as the projected output of the Grant project appeared to have been completed.

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**Results (Continued)**

**Compliance with Grant Provisions (Continued)**

The anticipated outcome measures included in the Grant application were to:

- i) create 100 jobs; and
- ii) leverage \$1.23 million of private investment.

We requested and obtained evidence from the Grantee regarding the number of jobs that were created as a result of the site improvements funded by the Grant and confirmed that the goal of creating 100 jobs had been met. However, a finding was noted regarding the second outcome measure and is detailed below.

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

**Finding – Davis-Bacon Act Compliance Monitoring**

During the Grant application process, the Grantee signed both an “Assurances for Construction Projects” form and a “Memorandum of Understanding for ARC Projects” form, both of which include commitments to comply with the requirements of the Davis-Bacon Act (DBA). Through discussion with the Grantee, we noted that it had no formal process in place to directly monitor compliance with DBA requirements. The Grantee had assumed that this monitoring was being performed by the engineering contractor, ESI, Inc. (ESI). Through discussion with ESI and the project administrator, TRPDD, we determined that the construction contractors submitted weekly certified payrolls to ESI for review to ensure compliance with DBA obligations. However, ESI did not perform the compliance monitoring and instead assumed TRPDD or the Grantee was performing the necessary DBA monitoring compliance. As a result, neither the Grantee nor TRPDD could provide any evidence to support the performance of this monitoring.

We obtained examples of the payroll submissions from ESI and reviewed to assess compliance with the DBA requirements. Through this review, we identified three employees of the construction contractor who were being paid hourly rates below the applicable minimum required rate as disclosed in the contractor agreements for this project (actual pay rates of \$9 or \$10/hour, rather than the DBA minimum of \$11.62/hour). Based on our analysis of five payroll cycles obtained for testing purposes, the three employees impacted could be owed up to \$266 combined in additional pay.

**Recommendation:**

For any future grants, the Grantee should establish policies and procedures to ensure that appropriate compliance monitoring measures are in place with respect to Davis-Bacon Act wage requirements. The Grantee should also work with the construction contractor to review the hourly rates paid during the Grant project, ensure that any underpayment issues are appropriately addressed and refer to ARC for a final determination.

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**Finding – Reimbursement Requests**

Reimbursement requests submitted by the Grantee must be complete, accurate and appropriately supported. During the course of the audit, we requested support for all Grantee costs charged to the Grant and were provided general ledger reports and copies of invoice approval packets submitted to TVA as reimbursement requests. Through the process of reconciling this data, we noted that three of the five reimbursement requests included errors.

The matching funds for the Grant were in the form of a loan. A reimbursement request for \$2,166 related to building improvements was submitted to the lender. The request was rejected by the lender as the loan funds could only be used for the original purpose of acquiring property. The Grantee never sought subsequent reimbursement for the amount through ARC even though the expense was eligible for reimbursement.

Another reimbursement request was overstated by \$4,165 due to processing the reimbursement request prior to settling the final amount of the liability. The Grantee submitted a reimbursement request of \$83,302 for Grant-related construction expenses but, due to subsequent change orders, ultimately paid the contractor only \$79,137.

The final reimbursement was understated by \$6,182 due to a valid invoice being received after the final submission and omitted from the reimbursement request.

The aforementioned errors offset and result in a net underpayment to the Grantee of approximately \$4,200 and the Grantee may be eligible for reimbursements from Grant funds for the net amount resulting from the errors noted. The rate of errors noted in the reimbursement requests indicates a need for improved processes and internal controls.

**Recommendation:**

The Grantee should gather support for the transactions noted above and provide to ARC to determine the appropriate treatment.

For future grant-funded activities, the Grantee should develop and implement enhanced reporting and reconciliation processes between the parties involved in the grant administration to ensure the appropriate handling and distribution of the grant funds.

**Finding – Project Outcomes in Grant Application**

The State of Mississippi ARC Construction Project Application form §5 requires applicants to: “State outputs and outcomes in absolute numerical terms [...] Include households served (new or improved services), business[es] served (new or improved services), increase in capacity, jobs created/retained and leverage[d] private investment. Attach letters documenting jobs retained, jobs created, and leveraged private investment when applicable.” Leveraged private investment is the dollar amount of private sector financial commitments, outside of the project cost, that result from an ARC investment.

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**Finding – Project Outcomes in Grant Application (Continued)**

The goals and objectives included in the Grant application submitted by the Grantee included a planned outcome of \$1.23 million of private investment. On requesting support for the achievements related to this outcome, the Grantee represented that this objective was not incremental private investment but rather was intended to reflect the total funds invested through the ARC Grant and matching funds and that this amount had been “mislabeled” as private investment in the Grant Application. Incorrectly stated outcome goals for private investment could have an impact on ARC project approval decisions.

Recommendation:

The Grantee and ARC should review the facts and circumstances surrounding this issue and determine the appropriate necessary action. ARC can then monitor the outcome over time through the validation process.

**Additional Observation – Grantee Record-Keeping**

The Grantee agreement with TVA included a requirement for the Grantee to maintain accurate records and books of accounts showing the items and costs billed under the agreement. During the audit, we requested support for all Grantee costs charged to the Grant as well as reimbursement requests and were provided general ledger (GL) reports, bank statements and copies of invoice approval packets submitted to TVA in support of reimbursement requests. Through the process of reconciling cash receipts from Grant expense reimbursements to the GL we noted that a number of transactions were not consistently and accurately recorded to the GL.

In order to ensure completeness and accuracy of the financial records, the Grantee should ensure that all Grant-related deposits are accounted for and booked to the same project code or cost center within the financial systems. Regular account reconciliation procedures should be established to ensure that the Grant-related transactions have been recorded in a complete and accurate manner.