

**Travelers Rest Performing Arts
and Cultural Center**

OIG Report Number: 15-17

Grant: SC-17373

**Review Period: September 24, 2012 –
January 31, 2015**

Appalachian Regional Commission
1666 Connecticut Avenue, N.W.
Suite 700
Washington, DC 20009-1068

Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of CohnReznick LLP (assignee from Watkins Meegan LLC pending novation), a Performance Review of the Travelers Rest Performing Arts and Cultural Center Grant SC-17373. The report is in response to Contract No. BPA 11-01-B.

Watkins Meegan LLC (Watkins Meegan) combined with CohnReznick LLP (CohnReznick) in November 2014. As a result, a request to novate GSA contract #GS-00F-0031M from Watkins Meegan to CohnReznick was submitted to the U.S. federal government and is currently under consideration. The combination and pending novation have been appropriately communicated to the Appalachian Regional Commission Office of Inspector General in relation to continued performance of this engagement by CohnReznick pending formal approval of the novation by the U.S. federal government.

CohnReznick LLP

Tysons, Virginia
March 30, 2015

TRAVELERS REST

PERFORMING ARTS AND CULTURAL CENTER GRANT

SC-17373

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 Travelers Rest ("Travelers Rest" or "Grantee") is a small, mostly rural city (est. population of 5,000) in Northern Greenville County, South Carolina. In an effort to revitalize the downtown section of Travelers Rest and attract businesses and people to the area, the Grantee sought ARC funding to support the construction of a new Performing Arts and Cultural Center ("Trailblazer Park"). In an effort to maintain and grow retail and restaurant businesses Travelers Rest is hoping Trailblazer Park will attract an estimated 12,000 visitors annually. The Grantee expects to achieve these results by holding biweekly events in the Spring and Fall, two major festivals in the summer and 16 city-sponsored events throughout the year. In doing so, Trailblazer Park is expected to enhance tourism, offer jobs for future construction and maintenance, add new businesses, and increase the perceived quality of life to attract new business and residential development to the area.

On September 24, 2012, ARC approved the Travelers Rest Performing Arts and Cultural Center Grant, number SC-17373 ("the Grant"), in the amount of \$500,000 to the City of Travelers Rest. Matching funds were provided by the Grantee in the amount of \$587,125, for a total funding amount of \$1,087,125.

The Tennessee Valley Authority (TVA), a government-owned corporation that assists utilities and state and local governments with economic development, administered the Grant on behalf of ARC in accordance with the terms of a Memorandum of Understanding (MOU) between ARC and TVA. In construction projects such as the one supported by 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.

In addition, the Grantee engaged Arbor Engineering ("Arbor") to provide project management for the construction project as well as services in relation to landscape architecture/civil engineering, architecture, electrical engineering, and bid solicitation. Arbor also reviewed all construction related invoices prior to presenting to the Grantee for payment.

The original sources of funding and amounts noted in the ARC Grant approval memo are shown in Table 1 below.

Table 1: Original Analysis of Budgeted Project Funding Sources

Funding Source	Amount	Percentage
Appalachian Regional Commission (ARC)	\$ 500,000	46%
Local (City of Travelers Rest)	\$ 587,125	54%
Total	\$1,087,125	100%

TRAVELERS REST

PERFORMING ARTS AND CULTURAL CENTER GRANT

SC-17373

Background (Continued)

However, per discussion with the Travelers Rest City Administrator and the TVA point of contact, we were notified that the scope of the original project was changed to include the addition of a Farmers' Market Pavilion on the site of Trailblazer Park. The change-in-scope resulted in a modified budget of \$1,613,411, with the additional funding being provided by the Grantee. The Grantee was able to increase its anticipated match from \$587,125 to \$1,113,411 by restructuring the municipal bonds to be used as the source of the matching funds.

The revised sources of funding and amounts are shown in Table 2 below.

Table 2: Revised Analysis of Budgeted Project Funding Sources

Funding Source	Amount	Percentage
Appalachian Regional Commission (ARC)	\$ 500,000	31%
Local (City of Travelers Rest)	\$1,113,411	69%
Total	\$1,613,411	100%

Executive Summary

ARC Grant funds were used for construction of the Performing Arts and Cultural Center, which included parking lots, an entrance plaza, walkways, a stage area, amphitheater, restrooms and landscaping. As of the final report for the Grant submitted to ARC by TVA in February 2015, ARC had reimbursed the entire obligated amount of \$500,000 in expenses and the matching funds provided by the Grantee totaled \$1,233,013, slightly above the budgeted amount noted in Table 2, above.

Construction costs and other expenses reviewed during our inspection appeared valid, properly supported and in direct relation to supporting the Grant and its objectives. We were not able to independently verify the number of visitors attending events at the Center due to the open air design and the fact that the events are not ticketed. However, given the frequency of the events and the informal feedback that we received, it appears that the Grantee has largely accomplished the outputs and outcomes for the Grant. Findings were noted pertaining to compliance with the Davis-Bacon Act, support for funding/reimbursement requests, and a change in project scope that was not communicated to or approved by ARC. See the Results section for further details regarding these findings.

Objective

CohnReznick LLP was engaged to conduct a performance review of the Travelers Rest Performing Arts and Cultural Center Grant for the period September 2012 to January 2015. The purpose of our performance review 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
- Outputs and outcomes of the Grant had been achieved.

TRAVELERS REST

PERFORMING ARTS AND CULTURAL CENTER GRANT

SC-17373

Scope

We completed a performance review of the Grant, including fieldwork at the Grantee offices in Travelers Rest City Hall from February 9-11, 2015, as described under this section and under the review methodology section. Our review was based on the terms of the Grant agreement and on the application of procedures in the modified ARC Audit Program.

Review Methodology

Our procedures were based on the 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 Administrator and City Clerk to discuss the overall structure and processes around Grant administration and monitoring.

Our review of background material included the Grant application, agreements between the Grantee and TVA as well as a Memorandum of Understanding between ARC and TVA. In addition, we reviewed related documentation and information from ARC's Grant management system and the Grantee's audited financial statements for the fiscal years ended June 30, 2013 and 2014.

We reviewed controls in place for recording, accumulating and reporting costs under the Grant and observed and made inquiries regarding whether the outputs and outcomes of the project had been met. We also performed a high-level reconciliation of the activity on the Grant between the General Ledger support provided by the Grantee and the reimbursement requests submitted to TVA. For a sample of the Grant costs funded by the Grant, we traced the construction costs to certificates of payment (standard construction invoices) and verified approval by the engineer. We also traced a sample of other expenses, including engineering and landscaping costs, to supporting documentation to ensure expenses were in support of the Grant.

We discussed the process employed by the Grantee to ensure that competitive bids were obtained for the construction work covered by the Grant and reviewed supporting documentation. We also evaluated the process for compliance with applicable Grant requirements and regulations including but not limited to the Davis-Bacon Act. Lastly, we reviewed supporting documentation and made inquiries with the Grantee to determine if the output and outcomes of the Grant were achieved.

Results

Compliance with Grant Provisions

The final report for the Grant was filed by TVA in February 2015, at which point ARC had reimbursed the entire obligated amount of \$500,000 in expenses. The matching funds provided by the Grantee for the same period totaled \$1,233,013. Total Grant-related expenses reported by TVA in the period under review were \$1,733,013. Per our review of the General Ledger, we determined the Grant incurred actual expenditures of \$1,796,917. Even though the actual expenditures were greater than those reported by TVA, the proportion of ARC to matching funds was 28 percent, lower than the allowable and revised 31 percent.

Grant funds were used for construction of the Performing Arts and Cultural Center, which included parking lots, an entrance plaza, walkways, a stage area, amphitheater, restrooms and landscaping. We examined supporting documentation for a sample of the expenses incurred against the Grant and noted that all appeared to be valid, adequately supported and in relation to supporting the Grant and its objectives.

TRAVELERS REST

PERFORMING ARTS AND CULTURAL CENTER GRANT

SC-17373

Results (Continued)

Compliance with Grant Provisions (Continued)

Travelers Rest conducted a competitive bidding process for a general contractor and landscaping contract. All bids were received at City Hall and reviewed by the City Council of Travelers Rest. Through inquiry and review, five bids were received for the general contractor contract and four bids were received for the landscaping contract. Per our review of the bids submitted and through discussion with the Travelers Rest City Administrator, the contractors selected were the lowest bids and the Grantee was familiar with their work, as they had used them on previous projects.

Through inquiry and review, we sought to validate the output and outcomes expected from the Grant award as detailed in the Grant application. The primary output was the construction of the Performing Arts and Cultural Center, which the City believes will assist in the revitalization process of the downtown to attract businesses and people, which would ultimately increase tourism. We toured the site to confirm the Performing Arts and Cultural Center was completed and noted all other aspects (e.g., restrooms, amphitheater, stage area, entrance plaza, etc.) of the Center were also completed.

We reviewed the following projected outcomes with the Grantee and noted the Grantee's estimate of attendees at each event as well as the number of events hosted at the Performing Arts and Cultural Center:

Projected Outcomes	Reported Estimate of Attendees and Events (2014)
Increase annual visitors by 12,000	The City Administrator estimated 7,000 visitors attended the Art on the Trail event, 2,000 attended the Chili Cook-Off, while each music and movie event averaged 1,500 attendees.
Host biweekly events in Spring and Fall	Grantee doubled expectations by hosting weekly events in May, June, September and October
Host two major festivals in Summer	1) Chili Cook-Off, and 2) Art on the Trail
Host 16-City sponsored events on-site	Hosted 21 events; 17 musical concerts and four movies
Other miscellaneous events	Five non-city sponsored events were hosted on-site

We reviewed event marketing materials and advertisements for a representative sample of the events listed in the table above. We were not able to independently verify the number of visitors attending events at the Center due to the open air design and the fact that the events are not ticketed; however, given the frequency of the events and the informal feedback that we received, it appears that the Grantee has largely accomplished the outputs and outcomes for the Grant.

At the conclusion of the review, we discussed the following items with the Grantee:

Finding: Davis-Bacon Act Compliance

The Davis-Bacon Act applies to contractors and subcontractors performing work on federally funded or assisted contracts in excess of \$2,000 for the construction, alteration, or repair (including painting and decorating) of public buildings or public works. The Davis-Bacon Act requires that contractors and subcontractors must pay their laborers and mechanics employed under the contract no less than the locally prevailing wages and fringe benefits for corresponding work on similar projects in the area.

TRAVELERS REST

PERFORMING ARTS AND CULTURAL CENTER GRANT

SC-17373

Finding: Davis-Bacon Act Compliance (Continued)

During review of the Grantee's support of its compliance with the Davis-Bacon Act, we noted the certified payrolls were not adequately reviewed as we identified 10 contractor personnel of 32 tested on a sample basis (31 percent of the sample) who were paid an hourly rate below the required minimum wage rate per their stated work classification. The hourly rates were underpaid by an average of \$2.57 across the 10 contractor personnel impacted, and the total underpayment from the sample tested was \$659.06. We were unable to extrapolate this error rate to the full population as the contractor labor costs associated with the Grant were not separately identified in the General Ledger and detailed analysis of every contractor invoice related to the Grant would be required to ascertain a meaningful basis from which to extrapolate.

Recommendation:

We recommend that the Grantee, General Contractor and affected subcontractors perform a full review of all weekly payrolls (applicable to the Performing Arts and Cultural Center project) to determine the amount of back-pay owed to the affected employees and ensure that the employees are paid in full.

Grantee Response:

Agreed.

Finding: Funding/Reimbursement Requests

During review of the Grantee's support of its reimbursement requests submitted to TVA, we noted one request did not contain sufficient support to justify the full requested amount. As stated in Attachment B of the Project Agreement between TVA and Grantee, "After a project expense is properly incurred, Contractor may apply for payment by submitting a detailed invoice to TVA. Contractor should email each invoice, including backup documentation, in a single .PDF or .TIF file to TVA [...] Each item billed on the invoice(s) should be concise and detailed enough to make it possible for TVA to verify the item against the payments permitted by this Agreement."

The Grantee's final reimbursement request reported total expenses of \$124,194 for the period, resulting in an ARC contribution of \$38,488 (31 percent of \$124,194). The supporting documentation submitted with the request by the Grantee represented total expenses of \$46,147 for the period, of which ARC's proportioned allocation would be \$14,300 (31 percent of total incurred expenses). Upon request, neither the Grantee nor TVA was able to provide additional documentation to support the remaining costs reported by the Grantee.

Recommendation:

The Grantee should gather support for the transactions noted in the final reimbursement request 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.

Grantee Response:

The City Administrator did not dispute the lack of support, but noted that they believe the funds were administered and expended within the federal guidelines and that at no time did the Grantee jeopardize the ARC funds or the intent for which they were to be used.

TRAVELERS REST

PERFORMING ARTS AND CULTURAL CENTER GRANT

SC-17373

Finding: Changes in Project Scope

As part of the ARC Grant application process, the Grantee signed a Memorandum of Understanding that states, in part:

“It is understood that a change in scope may not be implemented without prior written approval from the ARC and the Basic Federal Agency, if any. A change in scope is any major change to the project design, the type of project to be completed, capacity of the system, size of project, the number and/or type of customers served or equipment items purchased.”

Prior to our review, it was brought to our attention by the Grantee and TVA that a change in the scope of the Grant had occurred. The original scope of the project was to construct a Performing Arts and Cultural Center, but was modified to include an addition of a Farmers' Market Pavilion on the same site. The Grantee thought it would be best and most efficient if it could construct both the Performing Arts and Cultural Center and Farmers' Market Pavilion at the same time, being that both were to be constructed on the same land.

The Grantee communicated the change in scope to the Basic Agency (TVA) and received their approval, but neither party communicated it to ARC to receive their approval. Upon inquiry with TVA, we were told the change in scope was not communicated to ARC on the assumption that the change had no impact on ARC funds because the total ARC funding was unchanged, while the percentage of ARC funds in relation to the total budgeted funds decreased from 46% to 31%.

Recommendation:

If deemed necessary after review and analysis of the current issue, ARC should provide clarification of its instructions relating to necessary approvals and scope changes.

Grantee Response:

The City Administrator acknowledged that the required ARC approvals were not obtained for the change in scope noted above, but noted that the funds were administered and expended within the federal guidelines and at no time did the Grantee jeopardize the ARC funds or the intent for which they were to be used.

Observation

Reporting Requirements

During our review, we noted the total Grant-related expenditures as reported on the final report submitted by TVA to ARC differed from the actual total expenditures recorded as the Grantee's General Ledger.

Per the MOU between TVA and ARC, TVA is to furnish to ARC "...a final report on the costs of each project in sufficient detail to permit a reasonable review of the expenditures, including certification of final total project costs, the amount of ARC, TVA and non-federal funds, including source, and the date of de-obligation action for unexpended ARC funds."

We noted the final total costs of \$1,733,013 reported to ARC did not tie to the costs of \$1,796,917 as recorded to the General Ledger by the Grantee. TVA reported the final costs to ARC based on information provided by the Grantee on the final basic agency monitoring report submitted by the Grantee to TVA. Even though the actual expenditures were greater than those reported by TVA, the proportion of ARC to matching funds was 27.73 percent, lower than the allowable and revised 30.99 percent.