

**Prairie Belt Powersite Elevated
Water Storage Tank and
Water and Wastewater Distribution Lines Grants**

OIG Report Number: 15-19

Grants: MS-17623-1 and C1

**Review Periods: August 1, 2013 –
January 31, 2015**

Appalachian Regional Commission
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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 Prairie Belt Powersite Elevated Water Storage Tank and Water & Wastewater Distribution Lines Grants MS-17623-1 and C1. 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
April 20, 2015

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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 West Point ("West Point" or "Grantee") is a small city in Clay County, Mississippi, an ARC designated distressed county. West Point and Clay County have struggled economically since the closure of West Point's Sara Lee Corporation facility in 2007, which resulted in a loss of 2,000 jobs. In an effort to revitalize West Point, the Grantee sought ARC funding to construct a 1 million-gallon elevated water storage tank, including pumps and a generator, to serve the Yokohama Tire Company, which committed to locating in the newly established Prairie Belt Powersite industrial park. West Point sought ARC funding to construct 24,000 linear feet ("L.F.") of new 14-inch water main, 31,000 L.F. of 8-inch forced main wastewater line, and a pump station. Combined, these projects would allow West Point to provide the basic elements of water and sewer infrastructure to serve the new industrial park and encourage economic growth and private investment in the area.

On August 1, 2013, ARC approved the Prairie Belt Powersite Elevated Water Storage Tank Grant, number MS-17623 ("Grant 1") in the amount of \$1,000,000, to the City of West Point. Matching funds were to be provided by the Grantee in the amount of \$2,352,000, for a total project funding amount of \$3,352,000.

The Grantee filed two amendments in relation to Grant MS-17623-1. One amendment requested a change of project scope and the other sought approval for payment of expenses incurred prior to the Grant award. Both amendments were appropriately approved by ARC and neither impacted the budgeted funding or timelines of the Grant.

In addition to funding to build the Water Storage Tank, the Grantee applied separately for funds for the construction of the related sewer infrastructure. On November 26, 2013, ARC approved the funding under the Prairie Belt Powersite Water and Wastewater Distribution Lines Grant, number MS-17623-C1 ("Grant C1") in the amount of \$460,000, to the City of West Point. Matching funds were to be provided by the Grantee in the amount of \$3,400,000, for a total funding amount of \$3,860,000.

The Tennessee Valley Authority (TVA), a government-owned corporation that assists utilities and state and local governments with economic development, administered the Grants 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 these Grants, 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)

The Grantee also engaged Calvert-Spradling Engineers, Inc. (“Calvert-Spradling”) to provide project management for the construction projects as well as services in relation to engineering, inspection, surveying, testing, and bid solicitation for construction contracts. Calvert-Spradling also reviewed all construction related invoices prior to presenting to the Grantee for final approval and payment.

In addition, the Grantee engaged the Golden Triangle Planning and Development District (GTPDD) to manage the Grant administration on its behalf. GTPDD is a private, non-profit organization formed to improve and enlarge economic development and civic improvement in the seven Appalachian counties it serves. GTPDD administers a wide variety of state and federal programs impacting its core service area of Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster and Winston counties in northeast Mississippi. GTPDD was responsible for approving financial transactions, documenting project outcomes and otherwise monitoring project activity to ensure successful completion.

The original sources of funding and amounts noted in the ARC Grant approval memos are shown in Tables 1 and 2 below:

Table 1: Analysis of Budgeted Project Funding Sources (Grant 1)

Funding Source (Grant 1)	Amount	Percentage
Appalachian Regional Commission (ARC)	\$1,000,000	30%
City of West Point	\$2,352,000	70%
Total	\$3,352,000	100%

Table 2: Analysis of Budgeted Project Funding Sources (Grant C1)

Funding Source (Grant C1)	Amount	Percentage
Appalachian Regional Commission (ARC)	\$ 460,000	12%
City of West Point	\$3,400,000	88%
Total	\$3,860,000	100%

Executive Summary

ARC Grant funds were used for construction of the elevated water storage tank and water and wastewater distribution lines serving the Prairie Belt Powersite industrial park. As of January 31, 2015, ARC has reimbursed \$987,123 and \$392,058 in expenses for Grants MS-17623-1 and MS-17623-C1, respectively. Per our review of the Grantee's General Ledger total recorded expenditures for Grants MS-17623-1 and MS-17623-C1 were \$3,342,161 and \$2,804,078, respectively. Final Grant reports have yet to be filed with ARC to close out the projects although construction has been completed; however, no additional expenditures are anticipated to be incurred for the Grants.

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Executive Summary (Continued)

Construction costs and other expenses reviewed during our inspection appeared valid, properly supported and in direct relation to supporting the Grant and its objectives. All reimbursement requests reviewed appeared adequately supported and valid with the exception of those pertaining to Grant C1, where matching funds contributed are less than budgeted, resulting in ARC's proportionate contribution to the total cost being higher than the percentage agreed to. In addition, we determined the Grantee achieved all outputs and is making progress towards achieving the outcomes as stated in the Grant applications. Findings were noted pertaining to compliance with funding/reimbursement requests and procurement practices for one of the contracts awarded by the Grantee as part of this Grant-supported project. Reference the Results section for further details regarding these findings.

Objective

CohnReznick LLP (assignee from Watkins Meegan LLC pending novation) was engaged to conduct a performance review of the Prairie Belt Powersite Elevated Water Storage Tank Grant and Water & Wastewater Distribution Lines Grant for the periods August 2013 to January 2015 and November 26, 2013 to January 2015, respectively. 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, or would be, achieved.

Scope

We completed a performance review of the Grants, including fieldwork at the Grantee's City Hall offices in West Point, Mississippi, from February 23-25, 2015, as described under this section and under the review methodology section. Our review was based on the terms of the Grant agreements 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 Grants. We met with the Mayor of West Point, the city's Chief Administrative Officer, and other members of the city's administrative staff to obtain an understanding of the overall structure and processes around Grant administration and monitoring.

Our review of background material included the Grant applications, agreements between the Grantee and TVA, as well as Memoranda of Understanding between ARC and TVA. In addition, we reviewed related documentation and information from ARC's Grant Management System and West Point Water and Sewer Department's audited financial statements for the Fiscal Year Ended June 30, 2013.

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Review Methodology (Continued)

We reviewed controls in place for recording, accumulating and reporting costs under the Grants. We also performed a high-level reconciliation of the activity on the Grants between the General Ledger support provided by the Grantee and the reimbursement requests submitted to TVA. For a representative sample of the Grant costs 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 legal costs, to supporting documentation to ensure expenses were in support of the Grants. We reviewed all reimbursement requests and supporting documentation submitted to TVA.

We discussed the process employed by the Grantee to ensure that competitive bids were obtained for the contracts awarded in relation to the Grants 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 outputs and outcomes of the Grants were achieved.

Results

Compliance with Grant Provisions

At the time of our review final administrative close-out reports had yet to be filed with ARC although construction work has been completed and no additional expenditures are anticipated by the Grantee. Per our review of the Grantee's General Ledger we noted recorded expenditures of \$3,342,161 and \$2,804,078 for Grants MS-17623-1 and MS-17623-C1, respectively. As of January 31, 2015, ARC has reimbursed \$987,123 and \$392,058 in expenses for Grants MS-17623-1 and MS-17623-C1, respectively. We noted that for Grant C1, through January 31, 2015, ARC has reimbursed a greater proportion of the total expenses incurred (14.71%) than the proportion committed to in the corresponding Grant award (11.92%). Additional information is provided in Finding 1, below.

Grant funds were used for construction of the elevated water storage tank and water and wastewater distribution lines. We examined supporting documentation for a sample of the expenses incurred against the Grants and noted that all appeared to be valid, adequately supported and in relation to supporting the Grants and their objectives. In addition, we examined all reimbursement requests associated with both Grants and noted that the expenditures appeared to be valid and adequately supported.

Through examination of the competitive bidding processes related to the Grants, we noted that the Engineering firm, Calvert-Spradling, was engaged by the Grantee without a formal bidding process (see Finding 2, below). The Grantee did conduct competitive bidding processes for the construction work in selecting a general contractor for Grant 1 and Grant C1. All bids were received at City Hall and reviewed by the Grantee and Calvert-Spradling. Through inquiry and review, we confirmed that seven bids were received for Grant 1 and eight bids in total were received for Grant C1. Per our review of the bids submitted and through discussion with West Point personnel and Calvert-Spradling, the contractors selected were the lowest bids and the Grantee was familiar with their work as they had worked with them on previous projects.

We reviewed the procedures utilized by the Grantee and Calvert-Spradling to monitor contractor compliance with Davis Bacon Act requirements and re-performed the review of a limited sample of weekly certified payrolls submitted by the contractors, with no exceptions noted.

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Results (Continued)

Compliance with Grant Provisions (Continued)

Through inquiry and review, we sought to validate the outputs and outcomes expected from the Grant awards as detailed in the Grant applications. The primary outputs were the construction of the elevated water storage tank and water and wastewater distribution lines which the city of West Point believed will aid in making the Prairie Belt Powersite capable of housing industry to generate employment and private investment in West Point. We toured the site to confirm the elevated water storage tank, water pumps, and water and wastewater distribution lines were completed.

We also reviewed the projected outcome of each Grant creating 250 jobs or 500 jobs in total over a three-year timeframe. Through inquiry, it was noted that Yokohama has created a total of 156 full-time jobs and eight contractor positions to date. ARC should follow-up with the Grantee through their validation process to monitor and confirm the total number of jobs created through the end of the three-year target period.

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

Finding 1: ARC Funding/Reimbursement Requests

During our review of the Grantee's support of their reimbursement requests pertaining to Grant C1, we noted that the proportion of total costs that were requested from ARC exceeded the 11.92 percent stipulated in the Grant award. Through January 31, 2015, we noted ARC has funded 14.71 percent, or \$395,157, of the costs related to Grant C1, resulting in a cumulative overfunding by ARC of \$74,847. Our analysis of ARC funds disbursed from a current (as of January 31, 2015) and projected viewpoint is illustrated in table 3 below:

Table 3: Analysis of ARC Funding/Reimbursement Requests (Grant C1)

	Current (as of 1/31/15)	Projected
Total Costs Recorded to General Ledger	\$2,687,161	\$2,804,078
Maximum ARC Funding %	11.92%	11.92%
Maximum \$ ARC Funding	\$ 320,310	\$ 334,246
Actual \$ ARC Funding	\$ 395,157	\$ 415,955 ¹
(Overfunded)	\$ (74,847)	\$ (81,709)
Actual ARC Funding Percentage	14.71%	14.83%

The Grant C1 project was completed substantially under budget and, as a result, the Grantee has overcharged ARC's share of the total expenditures without prior approval.

¹ This is inclusive of a final reimbursement request of \$20,798 (on gross expenditures of \$116,917) which was submitted by the Grantee to TVA on January 14, 2015 that has not yet been funded by ARC at the time of this report.

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Finding 1: ARC Funding/Reimbursement Requests (Continued)

Recommendation:

Two possible courses of action exist in response to this amount overfunded. The Grantee is to:

- 1) Obtain approval from ARC to adjust the matching criteria specified in the Grant C1 ARC Approval Memo, which would also require TVA to amend their Grant agreement with the Grantee; or
- 2) Refund the overfunded amount to ARC.

Grantee Response:

The Project Analyst of GTPDD and the Mayor of West Point indicated they were aware of ARC overfunding the project in proportion to the matching funds percentage of 11.92 percent and are currently working with TVA and ARC to amend the Grant Agreement to modify the budget and increase the ARC percentage of funds.

Finding 2: Competitive Bidding for Engineering Services

ARC awards require Grantees to observe federal procurement requirements, or applicable state laws that are equivalent to the federal standards. This includes rules around advertising for bids and obtaining competitive bid for purchases in excess of \$50,000 (in MS). The engineering contracts awarded under the Grant project totaled \$908,356 for Grant 1 and \$359,400 for Grant C-1. Through discussion with the Grantee we noted that the engineering firm selected to provide project management services to the Grantee was selected without any formal competitive bidding process.

Recommendation:

The Grantee should ensure that all material contracts offered under ARC Grants are awarded through the appropriate methodology and, where conflicts between federal and state requirements occur, discuss the proposed approach with their ARC project coordinator and obtain appropriate approvals in advance.

Grantee Response:

The Grantee maintained that they had followed Mississippi state requirements in the vendor selection process to engage the engineering firm selected. We requested additional support from the Grantee to verify their understanding of the requirements as our research had led us to a different conclusion. Management has not yet provided any additional information other than their assertion that they followed state requirements.