Office of Inspector General

Inspection Report on the Appalachian Regional Commission's Grant Management

The Appalachian Regional Commission

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Inspection Report 09-03

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Results in Brief

Providing grants to the Appalachian Region to improve life for the residents of Appalachia was the reason for the creation of the Appalachian Regional Commission (the Commission or ARC) and for its continued existence. The effectiveness of grants made by the Commission and the administration of those grants has a direct impact on the life and livelihood of Appalachia's residents.

What we found was that the Commission procedures appear to provide for an adequate level of documentation and uniformity in applications so that appropriate decisions concerning the funding of grants can be made. However, the administrative piece of grant oversight, the review to ensure project progress, success and compliance with grant requirements needs improvement. To that end, this report identified three major areas, and several related sub-areas which could be improved.

ARC grant managers are generally given a large amount of autonomy and empowered to use their discretion in the monitoring of grants. We were told on separate occasions that ARC has good grant managers[1] and that most have expertise in the field of operations for which they have been assigned grant oversight responsibility.

We observed that few formal internal policies for grant administration are directed toward providing instruction to grant managers. Grant managers must rely on discussions with management and formal government-wide policies and ARC grantee requirements for their determination on how to handle grant issues. In addition, little training for administration of grants is provided and training taken is usually related to grant managers' individual fields of expertise or for their general knowledge. Other areas and/or specific items which could improve grant operations include: use of formal monitoring plans, a greater focus on grant administrative requirements, the development of a lessons learned data base, which would help track "high risk" grantees, greater attention to improving the usability and accuracy of metric data, and improving file security and maintenance.

In summary, improved documentation of actions taken and of monitoring activities coupled with enhanced supervisory oversight would go a long way to resolving many of our more important concerns. Our report issues seventeen recommendations covering grant oversight, documentation, organization and file security, which when implemented should improve grant operations.

[1] The terms grant manager, program manager, project coordinator, project manager or coordinator are used interchangeably in ARC documents, in discussions with ARC personnel and in this document. The terms are used to refer to employees performing grant oversight and monitoring activities.

BACKGROUND

The Appalachian Regional Commission is a cooperative partnership of Federal and State governments legislated by congress in the Appalachian Regional Development Act of 1965 (ARDA). The Commission was established to improve the lives of people living in Appalachia, primarily through fostering economic growth and development. Congress provides funding to the Commission to make grants benefiting a thirteen state region encompassing Appalachia.

ARC grants fall into two main groups, administrative grants for the local development districts (LDD's) and other types of grants for business development, water and wastewater improvements, infrastructure development, education, health, leadership development, and telecommunications. Most ARC grantees are either divisions of states, their political subdivisions, or nonprofit organizations. One of ARC's largest grantee groups are local development districts (LDDs), consisting of a network of multi-county planning and development organizations, whose role is to identify the priority needs of local communities, and develop plans for those needs and for economic development. At the end of FY 2008, there were 72 local development districts which were eligible for ARC funding and there were 626 LDD grants totaling $42 million. An additional 1261 grants with funding of $320 million were outstanding for other purposes.[2]

ARC's grant management staff [3] consists of the Program Operations Division (POD) operated by a Department Director and 9 Project coordinators, 3 administrative staff and 1 intern. In addition to POD, the Regional Planning and Research Division also manages grants. The Regional Planning and Research Division currently has one Director and 4 other individuals involved in grants management. LDD grants are managed from under the Office of the Executive Director by the LDD Director, with no other staff specifically assigned. ARC's General Counsel's Office issues the grant contracts and becomes involved in grant revisions (and/or some extensions) and other grant issues that need higher level involvement.

ARC's grant oversight activities takes two forms; ARC manages grant oversight activities itself or can provide funding to other agencies (basic agencies (BA)) which will oversee the grants on behalf of ARC. ARC sometimes monitors or is marginally involved in the monitoring activities of BA grants. Outstanding BA grants at the end of FY 08 were approximately $225 million for 684 grants.

Grant activities performed by ARC coordinators include: corresponding with grantees and state personnel concerning grant applications and funding; recommending grants for approval of funding and establishing associated benchmarks; monitoring of grantee activities through discussions, reports, e-mail, and other media; approval of disbursements and close-out activities. ARC Coordinators also maintain the grant file, containing all correspondence and documents related to the grant. Throughout the entire process, coordinators are charged with providing the grantee advice to help them obtain their goals and to ensure compliance with ARC policies, OMB circulars, the grant contract, and other requirements.

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[2] The number and dollar amount of grants outstanding do not reflect ARC's revolving loan funds, which were not examined for this inspection.

[3] For POD staff, we listed only three categories of employees and made a judgment about the best category in which to list them.

Objectives, Scope and Methodology

The OIG initiated an audit of grant management guidance in June 2007 at ARC's office in Washington, DC. As the audit progressed it became apparent that immediate action was needed to address weaknesses in ARC's grant management system, ARC.net. Accordingly, it was decided to split the audit activities into two parts. The first part was to audit and work with management on resolving the issues of ARC.net. The results of the grant management system audit were released in April of 2008. The second part of the audit, later modified to an inspection for expediency, concerns the effectiveness of grants management, i.e., grant oversight and monitoring activities. The inspection of grant management began following the release of the audit of ARC.net (OIG report 08-09), with inspection field work completed in January of 2009.

The objectives of the inspection were to identify applicable requirements and practices that were in use by ARC's grant managers to provide oversight of grantee activities, and to determine their effectiveness in controlling ARC's grant program. We also identified rules, regulations, and best practices for possible use by ARC.

For a review of grant activities encompassed by the grant cycle, we selected recently closed grants. Grants selected included those closed between the period July 2007, and March 31, 2008. From this list we extracted the largest grants, then reviewed the grant list to judgmentally capture 50 grants from the various managers, encompassing all the Appalachian states and a variety of grant activities. To expedite our inspection work and because of the repetition of findings, we reduced the sample selected to 30 grants, while maintaining the selection criteria.

To understand ARC’s grant management process, we met or had discussions with department management and/or personnel from various departments: from the Program Operations Division (POD), the Project Control Officer, some project coordinators, and the Director; from the Office of the Executive Director, the LDD Grants Director; the Director of Regional Planning and Research; and ARC’s General Counsel. Topics included: ARC legislation, the ARC Code, project guidelines, applicable policies and procedures, how priorities and metrics are established, how grants are monitored, and how grants are received, processed, filed and stored. We also reviewed with directors their applicable policies and practices, training programs, methods of departmental oversight, and review of grants. In addition, we initiated e-mail correspondence with the grant staff to obtain information about training and on-site visits. Discussions were held with the finance department office to discuss grant disbursement and close-out procedures.

Coordinators in the Program Operations, Research, and LDD Divisions (the division director) manage most of the grants not under the control of a basic agency. Our inspection of grant monitoring activities focused primarily on the grant files of ARC which provide the written documentation of the coordinator's efforts. At times, some of the documentation expected to be found in the file was not found or was incomplete. Extensive/detailed searches often had to be undertaken within the file to locate missing or incomplete documentation, but because of the different forms the documentation could take (for example, post-it-notes) and the lack of indexes or appropriate “tabs,” we accepted what was found (or did not find).

Findings

Preface

Our report presents four findings, the first three of which concern matters affecting the quality of ARC's grant management oversight and the last which concerns compliance with federal requirements. The findings discuss 1) monitoring activities, 2) reporting and tracking of program results and 3) file documentation, organization and storage. The report's last finding concerns OMB's administrative requirements for Governments. Causal factors for all findings relate to policies, supervision and training. Underlying these direct causes is management's belief in the quality of its staff to perform the needed oversight with an emphasis on program results over administrative requirements.[4]

Finding 1- Monitoring Activities

ARC's grant monitoring policies, supervisory oversight activities, and training requirements allow a wide range of employee discretion. ARC management relies on its grant management staffs' expertise to ensure adequate grant oversight. However, this autonomy causes inconsistencies in ARC responses and encourages grant managers to handle difficult problems that might otherwise be referred to management for decisions. While this may not be a problem, there is no documentation in our sample to show what was or was not discussed with management.

ARC provides no written policies for grant managers that tell them how contract violations or other issues should be handled and therefore there is little uniformity in ARC responses. Examples of issues that could be addressed include: the policies for different grantee notifications and/or requirements for responding to grantee inquiries, what violations, types of projects, lack of program successes, program changes, or lack of reports should cause grant managers to seek more written details, or to cease approving disbursements, or to cause on-site visits to be planned, etc…, or what issues should trigger a referral to management and/or the General Counsel's office. Instead of being able to reference internal policies for assistance, grant managers must rely on their own experiences and knowledge of government-wide policies and ARC grantee requirements for their determination on how to handle grant issues.

The Director of ARC's largest grants department, POD, appears to be "stretched too thin." He has no assistant director, is responsible for daily departmental oversight, reviewing coordinator grant approvals, reviewing certain grant payments and extension requests, and has his own grant monitoring responsibilities. Another staffing problem mentioned by ARC management and staff is that since the mid 1980s when ARC was downsized, grant oversight abilities were reduced and were never returned to prior levels. Currently, supervision of POD employees consists of weekly staff meetings, discussions, and annual employee evaluations. Supervision focused on every day coordinator activities would help to improve oversight.

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[4] A contract auditor used by our office stated: "Our experience with ARC grantees is that ARC is primarily concerned with program results and compliance with the grant agreement appears to be secondary. For example, each grant agreement has Part II: General Provisions attached (*as part of their grant contract)*, but sometimes grantees don't appear to be aware of them or at least they are not emphasized. We've also seen many instances of grant agreements being modified after the fact (by ARC), usually justified based of the success of the program." "To summarize, we feel that it is the nature of most grantees to be primarily focused on their programs, with accounting and compliance issues being secondary, unless discipline is imposed externally by the grantors."

In addition to POD, there are two other divisions overseeing grant activities, the LDD division and the research division. Neither of these divisions have ongoing supervisory reviews of grant management activities, nor do they issue grant monitoring policies. For all grant activities, no one person has been assigned to develop and oversee administration of internal grant policies to provide for supervisory oversight.

Regarding training, ARC has no training requirements for upgrading the skills or knowledge of its coordinators in the application of federal and ARC administrative requirements or to improve their grant management skills. Most training taken by coordinators is to improve their knowledge related to their field of expertise or for their general knowledge.

Below, we have provided topics (detailed later) from operational grant areas or activities which we believe could be improved.

(1) Formal grant monitoring plans
(2) Coordinator supervision
(3) Training requirements
(4) On-site visits
(5) Budget and/or programmatic changes
(6) Tracking specific program/grantee results
(7) ARC supervisory and OIG contact information

- **Formal grant monitoring plans**

  During our inspection of 30 grants, we noted several grants where documented contact with the grantee was minimal and one grant which may have included just the processing of documents. Written monitoring plans help to ensure grants progress as planned and problems are known, engaged and resolved. Best practices suggest the need for a written monitoring plan; we noted that several federal and state agencies have either developed monitoring plans or require their development.[5] For an example of the elements contained in a written monitoring plan, see Appendix A,[6] which was written as part of an audit for one of the Justice Department's Grant Programs.

- **Coordinator Supervision**

  ARC does not have written supervisory oversight policies. The Research[7] and LDD divisions provide no oversight of grant administration and POD activities are limited. POD's policies consist of weekly staff meetings, the Director's "Open Door" policy, and year end performance reviews. ARC management does not conduct in process reviews/evaluations for the effectiveness or propriety of its grant administration and there is no review for compliance with ARC and/or federal requirements. File review appears to be on an exception basis.

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[5] In a quick review for internet citations of directives or plans for monitoring, we found that OSHA, the Department of Justice, the Virginia Department of Education and North Carolina (from the Office of the State Auditor) all require the use of monitoring plans.

[6] U. S. Department of Justice, Office of Inspector General, *Audit Report No. 04-40, Office Of Justice Programs Technical Assistance And Training,* Appendix 12, (September, 2004), p. 2, http://www.usdoj.gov/oig/reports/OJP/a0440/app12.htm

[7] The Director of the research department stated that he relies totally on POD for grant policies and oversight; the Director of POD said that aside from the initial reading of the write-up for grant approval, he has no involvement in the handling of research grants.

- **Training requirements**

  ARC does not specify training program requirements for its grant personnel. Most training provided relates to grant personnel's area of expertise or to their general knowledge; training is not being taken to improve grant personnel's knowledge of ARC rules or federal regulations. Under federal acquisition regulations for contract administration, all contract administrative personnel are required to undergo training. Unfortunately for grant contracts administration, the same rules have not been instituted. Deficiencies in training requirements, coupled with the exceptions noted in this report indicate the need for more training in ARC and federal requirements and procedures.

- **On-site visits**

  Documents supporting the analysis of the need for site visits, and documents for their planning and the results of site visits (if site visits are determined appropriate) are not created. ARC's site visits, as described by the POD Director are to, "meet and greet," but are not an on-site review of the grantee's activities or systems, and no written site visit plans or documentation concerning the results of the visit are created.[8] On-site visits are normally a tool of effective grant oversight and can include direct observations of grantee activities, interviews with key grantee staff (and contractors), financial and budget reviews, file reviews, and employer verification. In addition, the review should generate documentation of results and plans for corrective action, perhaps even grant modification proposals.[9]

- **Budget and/or programmatic changes**

  We noted that 3 of the 30 grants reviewed, 10%, had changes to the budget and/or programmatic changes to the project which were not properly approved.[10] We did not see any formal approval of budget or programmatic changes in any of these grants. In two of the grants there was some discussion of the changes, in the remaining grant the Coordinator was not involved and made no inquiry. Without the involvement of the Coordinator, ARC has no say over how federal funds are spent, the path to project completion, or the related results.

- **Tracking specific program/grantee results**

  OMB's administrative requirements for *Grants and Cooperative Agreements of State and Local Governments*, Circular *A-102* (the prior attachments (PA)), discusses identification of "high risk" grantees. High risk grantees can be identified through tracking of grantee activities; management discussed incorporating a "lessons learned" database into ARC.net to provide this functionality. Currently, ARC does not track grantee characteristics or maintain a "lessons learned" database and there are no classification efforts, except for a listing of the 50 most delinquent grantee reports compiled for the annual financial statement audit. ARC needs to develop a "lesson learned" capability to know what's working and why. High risk grantee characteristics should be tracked and are listed in OMB Circular A-102 (PA).[11]

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[8] ARC conducts annual follow-up "Validation Visits," for some 40 to 60 preselected projects, six months to one year after a project has been closed. These visits usually last 1 ½ to 3 hours and are primarily conducted, per ARC's 2008 *Fact Sheet* provided to grantees, to " review project performance, successes, challenges, and lessons learned." These reviews do not provide for an intensive review of data, financial information is not needed, and non-financial items are not required but requested. The results of these meeting are documented.

[9] U.S. Department of Labor/VETS, VETS Competitive Grants Expert Team, *"On-Site Monitoring/Technical Assistance Visits,"* Competitive Grantees Training Conference (Denver, CO, August 8-11, 2005), http://www.dol.gov/vets/programs/hvrp/monitoringpresentation.pdf

[10] Generally, OMB's administrative requirements, Circular A-110 and Circular A-102, as well as ARC's grant contracts and *Grant Administration Manual,* require adherence to approved budgets and programs. Prior approvals for budget and program changes are required by OMB and/or ARC.

[11] The PA discussed federal grant making agencies identification of high risk grantees and provided other administrative requirements but was dropped in favor of an agency codification of these rules. However, ARC has not adopted the PA as required in a presidential order of March 12, 1987, although some of the PA requirements exist in ARC's standard grant contract language and other guidance.

Per OMB, grantees may be considered ‘high-risk' if they exhibit any of the following characteristics:

> …a grantee or subgrantee (1) has a history of unsatisfactory performance, or (2) is not financially stable or (3) has a management system which does not meet the management standards set forth in this part, or (4) has not conformed to terms and conditions of previous awards, or (5) is otherwise not responsible.

The administrative tools provided by OMB to minimize the risk from these grantees include:

> (1) Payment on a reimbursement basis; (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given funding period; (3) Requiring additional, more detailed financial reports; Additional project monitoring;(5) Requiring the grantee or subgrantee to obtain technical or management assistance; or (6) Establishing additional prior approvals.

- **ARC supervisory and OIG contact information**

  A best practice is the inclusion of supervisory contact information in grant documentation provided the grantee. We also would like to suggest that OIG contact information be included in the grant documents, with appropriate language explaining the requirement that we be notified where funds are, or are suspected of, being spent fraudulently, wastefully, or otherwise abused.

Provided below are some examples of weaknesses in grant monitoring which have root causes related to the issues previously discussed.

- Research funds were provided to a local economic development council to study the feasibility of a railroad’s revitalization. None of the four interim reports were sent to ARC, although a copy of the contract with the researcher was provided. In addition, the final report was written by the contractor (directed to the grantee and ARC), and contained the results of the study but was missing some key information that only the grantee could supply. The Project Coordinator made no request to obtain the missing reports. The grantee’s original proposal provided that the research report could be the impetus to seek funding from various sources to revitalize the rail and increase industry and jobs. But since there was no final report from the grantee, the “game plan” for the next phase of the railroad’s revitalization and how the research is to be utilized remains unknown.

- ARC in conjunction with other grantors, initially provided funds for a four year grant to be used for guaranteeing and therefore encouraging loans to fund underserved businesses in designated rural counties. Numerous reports and correspondence flowed into ARC’s files from the grantee, but few notes were prepared to document the coordinator’s phone calls, reviews, interpretations, and courses of action selected. Outgoing written correspondence was also sparse.

  The Project Coordinator did seek additional information at different junctures, did question (and later deny) guarantees of improper loans, did note the need for a deobligation of funds, and recommended only a 12 month extension of a grant, when the grantee was initially seeking a 24 month extension. On the other hand, it took almost 4 months to resolve the guarantee issue of some questioned loans and that in the initial four year period of performance (3 year and 11 months), only 15% of grant funds were expended for the program’s loan guarantees, and yet a one year extension to the period of performance was still granted.

  It would appear that the Coordinator could have been much more pro- active in seeking earlier deobligation of funds and/or more involved in providing assistance to the grantee to overcome

project problems of a competing loan program from SBA and problems of marketing loans to rural venues.[12]

- In a distance learning program where ARC provided funding for computer labs, no equipment purchased list was required by the Coordinator to monitor the grantee's activities. Grantees are required to track equipment for their own records, so requiring an equipment purchased list should have placed no additional burden on the grantee and where the purpose of a grant is for equipment, a listing of equipment should be required.

  Our concern was whether equipment was properly purchased; a second essentially identical grant was approved to the same grantee, the situation lending itself to obscuring activities. For resolution of this matter, we contacted our contract auditor, who had been doing work at the grantee's office, and we were assured that equipment had been purchased for both grants.

We reviewed OMB's grantee and sub-grantee requirements, ARC rules and contracts, and best practices to understand grant paperwork requirements and the monitoring process. The monitoring process requires the involvement of the coordinator to ensure grants meet established project goals carried out in accordance with the grant agreement, OMB requirements, and other federal rules. The grant files should provide for orderly systematic storage and documentation relating to key decisions affecting the grant and the results of monitoring activity. Documents and documentation normally include: the grant application/ origination documentation, monitoring plans, requests for fund disbursements with appropriate reviews and approvals, status reports with documented analysis, site visit review results, miscellaneous documents of communications, final reports with documented analysis, and other close-out documentation, et cetera, all prepared in a timely fashion.

A brief summary of minimal grant monitoring requirements taken from Circular A-102 (although only regulatory for continuing assistance awards) states that, "Federal agencies shall reconcile continuing awards at least annually and evaluate program performance and financial reports." Circular A-102's reconciliation requirements include:

(1) A comparison of the recipient's work plan to its progress reports and project outputs,
(2) The Financial Status Report (SF-269),
(3) Request(s) for payment,
(4) Compliance with any matching, level of effort or maintenance of effort requirement, and
(5) A review of federally-owned property (as distinct from property acquired under the grant).

We believe the above monitoring requirements are a good starting point and represent the basics of OMB requirements for all grant awards (regardless of regulatory applicability). Most of ARC's grantees do provide documents appropriate for analyses. However, the adequacy of ARC's analysis could not be determined. Except in a few instances, coordinators do not systematically or uniformly document the results of their reviews and no standard review forms are utilized; instead, we had to try to piece together the results of grant monitoring from notations, e-mails, phone notes, etcetera,. Accordingly, we believe that ARC should implement appropriate policies for uniformity and to address the aforementioned documentation weaknesses.

[12] The grantee's final report noted that emphasis was being put on targeting rural counties, yet 60% of lending still occurred in urban counties. The grantee, effective July15, 2007, ceased to accept loans from urban areas.

The findings described above indicate the need for much more involved policy guidance, supervision, and training. Federal funds are being provided to ARC for programs to improve conditions in Appalachia. It is ARC's management responsibility to ensure that programs funds are expended as approved and desired results are achieved. Monitoring plans, site visit planning, site visits as opposed to "meet and greet" visits," and timely receipt and documented reviews of reports are needed. Only through management's administration of adequate policies and continued supervision, can assurance of program success be obtained.

Finding 2- Reporting and Tracking of Program Results

Beginning in 1993 with GPRA, the Government Performance Results Act, and later with OMB's Program Assessment Rating Tool in 2002, the federal government, in order to improve accountability and use of resources, instituted measures that required federal agencies to develop strategic plans. All program activities were to be undertaken to help the agency attain its goals which resulted in a requirement that individual program benchmarks be developed which would be measurable and support the attainment of the broader agency goals.

ARC has implemented compliance measures in accordance with GPRA and OMB notes, "ARC has made significant strides in developing outcome- oriented performance measures..." Most grant activities now include, with each grant approval, desired grant outputs and outcomes (metrics) which are recorded and tracked. The grantee is also required to submit its program results. ARC aggregates the reported grantee results and compares them to established agency goals. The results are then reported to Congress and OMB, and utilized internally for management decision making. ARC has laid the foundation for effective reporting and decision making but problems were found to exist.

ARC's approved metrics do not always measure the results of activities for which funds were approved or are not always reflective of the specific goals established for the Commission. For example, where funds are made available to lay water pipe, an appropriate metric might be the number of housing units constructed or the number of units served or the amount of pipe feet laid. The issue of how this information is reported by the Commission against its overall goals, and whether the Commission is really obtaining the correct information is beyond the scope of this inspection and will be the focus of an upcoming audit. General observations and the issues of metric reporting as it relates to this inspection are discussed below.

From our selected sample, we found pervasive errors in the establishment and recording of metric data. Metrics reported by the grantee are not always the same as those established in the Federal Co-chair's approval memo. Sometimes the grantee provides additional metric results, which may or may not be entered into the grant management system, and sometimes the approved metrics were not reported by the grantee. Also, metrics established in ARC.net were sometimes different than the metrics approved, or no metric was recorded in ARC.net at all, or no metrics were established despite the approval memo stating that metrics were to be developed by or through the coordinator.

Another concern about ARC's reported metrics, were that metric results were sometimes recorded in the wrong place. For example, outputs were recorded as outcomes. Also, for one grant, the reported metric was recorded un-annualized when annualization was necessary. For this year, we were told metrics entered were being checked against the metrics approved in the Federal Co-chair's memos, which should help alleviate some of these problems. LDD and/or technical assistance grants often do not have metrics

quantified. However, according to the LDD Director, the metric information is now being requested from grantees.[13] However, metrics and results are still are not being recorded in the ARC.net system and there is no flow-up for Commission-wide reporting. The LDD Director believes that with a little training an administrative person could be taught to enter this data into ARC.net. Because of the relatively large size of this program (12 % of all ARC monitored grant dollars outstanding at the end of Fiscal Year 2008), we feel it is important to obtain LDD results for the Commission's reporting.

In addition to metric reporting issues, we noted that ARC has not required (only recommends) the usage of a standard narrative reporting format. The lack of a required narrative reporting format causes wide variation in the way reports are presented by grantees. A standard reporting format would help to promote complete data reporting and simplify the review process. Also, support is provided for an agency mandated narrative reporting format in OMB's new reporting form, which is discussed in detail below.

ARC metric reporting processes have established the foundation for evaluating ARC-wide grant program results. However, weaknesses were noted in the way metrics were established, reported on and recorded. Management decisions based upon poor design of metrics and/or faulty reporting of results could cause inadvertent mistakes in federal reporting and decision making. Management needs to develop metrics which can be readily tracked and require proper reporting. In addition, grantee narrative reporting continues to be unstructured but could be improved by requiring the use of a standardized reporting format.

Finding 3- File Documentation, Organization and Storage

OMB's administrative grant requirements provide that federal grant making entities use prescribed procedures and forms for applications and for other activities. ARC's grant contracts and handbooks further define the type of documents and reporting requirements for grantees.

ARC grantees usually apply for grants using some type of standard forms, coupled with a narrative proposal of the project, its goals, the cost, and expected results. Coordinators review the proposals and make suggestions to grantees and/or recommendations to management for approval (or disapproval) of grants. If management is in agreement with a coordinator's approval recommendation, a written approval notice is generated and the grant contract is issued. A significant amount of documentation is often generated during the application and approval phase of the grant process. Following the approval of the grant, monitoring begins.

During monitoring activities, the Coordinator documents his interaction with the grantee, which provides a record of problems, approved resolutions, and a historical record of what was done. In addition, the documentation supports that ARC and the coordinator are properly performing their oversight of federal funds and other responsibilities. However, because of weaknesses in ARC's documentation, we were not always able to determine the appropriateness of oversight. For example, we could not always determine:

1) if a document was a required document, such as a status reports sent as an e-mail;

[13] One concern for ARC is how to develop appropriate metrics for LDD programs when grant funds are being provided for general support or as a staffing subsidies, et cetera. Although previously a problem, metric reports are now being requested from LDDs, so this may no longer be at issue. In addition, one Pennsylvania LDD has developed a computerized system for capturing metric data, which could perhaps be adapted to the needs of other LDDs.

2) who created or edited the document;
3) the date of document creation (or the date of change);
4) the finality of the document- were there other relevant and/or superseding documents/correspondence; and;
5) the applicable period to which the document applied.

The questions above resulted from missing information, e.g., document titles, grantee and coordinator signatures/initials, and related notes, which are needed to indicate who edited a document and whether the edit was authorized by the grantee. Also, in several instances, multiple versions of documents were retained that may have (or not have) had different dollar amounts, the same or different reference numbers, different signatures, and different periods of applicability, et cetera. Numerous report submittals, both financial and narrative, were not submitted within the time lines established by the grant agreement and were late. In many cases little to no effort was exhibited to obtain the delinquent report, and many delinquent reports were accepted without fanfare or consequences, further encouraging delinquency[14].

During our review of grant documents, we had difficulty determining if grant reports were submitted timely, whether funds were properly expended during the contractual period of performance, and whether extensions were granted prior to the expiration of the grant. Also, we could not determine whether appropriate individuals were requesting funds for the proper amounts and whether changes made to the grant reports and other documents were requested and/or appropriate.

In addition, we noted that ARC has not utilized the OMB mandated Performance Progress Report (SF-PPR) used by federal grant making agencies, [15] which might have helped resolve some of the aforementioned deficiencies. See Appendix B. The SF-PPR requires reporting to be completed at least annually, "on a quarterly, semi-annual, or annual basis, as directed by the awarding federal agency in its award document." We believe the reporting cycles should correspond to the natural activity or business cycle of the grantee. ARC's LDD director agreed as he described the difficulty in obtaining reports; some grantees have to create two financial reports, their normal financial report for their business cycle and one for ARC. This was also mentioned in a GAO report[16] to the Congress which discussed the difficulties of efforts to streamline federal grants management. The report stated:

> Grantees also identified other inefficiencies that continue to limit the effectiveness of grant programs, particularly federal procedures that do not consider the manner in which grantees conduct their grant administration. For example, when federal processes are not aligned with typical grantee business practices, key documents do not flow back and forth from the federal grantor agency and grantees in an efficient manner.

Because of the importance of documentation in providing for effective oversight of grants, ARC's file organization needs to be improved to provide for efficient retrieval of documents and to ensure documents received or originated are properly maintained.

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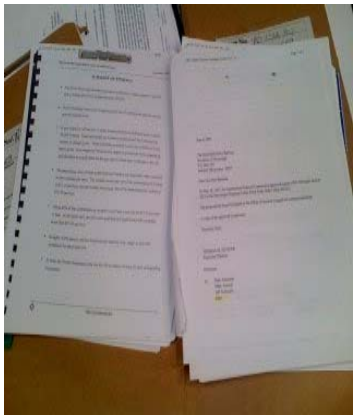
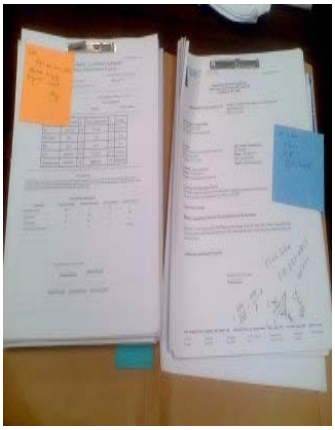
[14] The POD Director said that this problem has mostly been resolved by ARC's grant management system which now automatically generates notices reminding grantees when reports are due and overdue.

[15] OMB adopted the standard progress reporting form in November 2007. The form is located on the Whitehouse website at, http://www.whitehouse.gov/omb/grants/approved_forms/sf-ppr.pdf . In addition there are six standard form appendices (A-F), including: performance measures, program indicators, benchmark evaluations, table of activity results, activity based expenditures, and program/project management. All SF-PPR appendices can be located at http://www.whitehouse.gov/omb/grants_forms/ .

[16] GAO, Report to Congress, Grants Management: *Grantees Concerns with Efforts to Streamline and Simplify Processes,* GAO-06-566 (July, 2006) http://www.gao.gov/new.items/d06566.pdf.

POD Management has provided guidance which requires that coordinators place certain documents on one side of the file and other documents on the other side of the file, ordered chronologically with some sections tabbed by “post-it-notes.” ARC grant file folders are simple two sided folders- they are made of a continuous sheet of a thin cardboard (the thickness of 5 or 6 sheets of paper) with a folded center and a single tab on one side. The folders are inadequate for maintaining most of the grant files we reviewed- they neither have the capacity or the appropriate partitions needed. In addition, coordinators do not always arrange the files according to management's guidance, file tabs fall off (the post-it-notes), legal size pages are not folded and cover tabs, there are no indexes, documents are unattached- loose in the folder, unnecessary copies of documents are retained, and sometimes files contain continuation of grants which have separate grant contracts and should have their own folders. See Exhibit below.





We could not locate documents and/or had difficulty following the flow of the documents. While meeting with one of the grant managers, it became evident that he too had difficulty locating documents within his own file. From our observations, we believe that grant oversight could be greatly enhanced by instituting an electronic filing system. However, if an electronic filing system proves infeasible to implement, then some type of grant activity log (ARC.net could easily be modified) to track events, discussions, and receipt of documents should be developed and a multi-tabbed file folder and/or an index should be utilized. The inability to track documents within a grant folder obscures the adequacy of fiduciary oversight of funds and could become an impediment to legal action should it ever need to be taken against a grantee.

ARC maintenance of files is also of concern. ARC's grant offices maintain their files in file storage areas that are neat, organized and well kept. However, access to the file rooms is unrestricted, and the “honor system” provides the only file control.[17] During the course of the year, we received at least three phone calls from POD in which they were looking for files and we have received two emails from the General Counsel’s office regarding a missing box of files and individually missing files. In addition, aside from a recently installed sprinkler system, there are no adequate safeguards against fire loss, and we question the adequacy of a sprinkler system for fire protection of paper documents. ARC does have backup grant folders but they are not kept current after the filing of the initial application and approval documents. Also, fireproof file cabinets are not in use. Management, when asked about file security responded, access to the entire inner office is restricted (the office doors are locked) and only janitorial and POD staff have

[17] Some POD staff members (at least one) maintain their grant files on a permanent basis in their offices.

access afterhours. These security measures address after hour's access to files but not file control and access during work hours. Management needs to evaluate and ensure that proper file control, backup, and fire safeguards are in use.

File documentation, organization and storage are an essential component of grants management. We noted need for improvement in the way grant documents were obtained, annotated and otherwise maintained. A grant file needs to tell and document the story of a project's progress, successes and failures. In addition, it is vital that management develop an ability to protect its grant files from fire and other loss risks. ARC management needs to establish policies that address the weaknesses described above and provide more supervision to the file documenting and storage processes.

Finding 4- Other Matters

OMB's Prior Attachments to Circular A-102

As discussed above, ARC has not implemented the presidentially mandated adoption requirement for the PA *(the grants management common rule* (GMCR)*)*, which contain administrative requirements for state and local governments. In its place, ARC has addressed various parts of these requirements in its grant agreements and the *Grant Administration Handbook.* However, there is no assurance that the language contained in these sources is fully consistent with the GMCR or that all provisions are adequately addressed. In ARC's *Grant Administration Handbook* ,the grantee is told to use the appropriate OMB Circular, and Circular A-102 is referenced. Per OMB's website, "If you as an applicant or grantee are asked to comply with attachments to Circular A-102, please consult with the grant making agency regarding the requirements and inform them that their documentation needs to be updated."[18] While many agencies, large and small, have codified *GMCR*,[19] we believe, at a minimum, ARC needs to *update its documentation* to ensure it fully incorporates the GMCR into its contract documents. ARC's General Counsel stated that the mention of A-102 in the above grant documents was meant to incorporate the PA and that ARC government grantees are long term grant participants and know the GMCR.

Recommendations

1. We recommend the Executive Director or his designee be made responsible for oversight and policy of all ARC grants, and that formalized ARC-wide policies, including review and supervisory oversight procedures be instituted to ensure the propriety of grants administration.

We recommend the Executive Director or his designee, for all grants and for all coordinators (except where other noted**):**

2. Implement policies requiring the development of written monitoring plans, which include consideration of the need to conduct site visits, and for the documentation requirements of monitoring activities and the conclusions reached.

[18] Although the Attachment to Circular A-102, the GMCR, is not specifically mentioned in ARC's grant agreement, A-102 is listed as a grantee reference document, and the GMCR or its elements do not appear to be fully provided for elsewhere.

[19] Appendix C contains a list of federal grant making entities codifying the *grants management common rule*.

3. Provide, at least biennially, training to all grants personnel in the matters of ARC and federal grant administrative procedures and requirements.

4. Create and maintain a “lessons learned” database that includes tracking of grantee characteristics identified by OMB in the prior attachment to Circular A-102 as “high risk.”

5. Develop and implement, using Circular A-102's reconciliation requirements as a starting point, a standard report review form in ARC.net to be applied to all interim and final grant reports.

6. Require final reports not be accepted until all approved metric results have been reported or if results from approved metrics were not reported; require management’s consent to accept the report.

7. Work with LDD Director and LDD grantees to develop appropriate metrics and report on results of activities in accordance with established ARC goals and objectives.

8. Require all reports, letters, and other grant correspondence be opened and date stamped upon receipt.

9. Require all edits and notations made by grants’ personnel, on grantee or coordinator originated documents, to describe the purpose of the edit, and to be initialed and dated.

10. Prescribe a final narrative report format to be used by all grantees, similar to the recommended attachment to ARC’s Grant Administration Manual.

11. Require the use of OMB’s SF-PPR cover page for all grant reports; review, document the review, and adopt the reports optional appendices to supplement all reporting where deemed beneficial.

12. Require future grant reporting cycles to correspond to the activity or business cycle of the grantee, but in accordance with OMB’s SF- PPR instruction number three, .e.g., interim reporting shall be quarterly, March 31st, June 30th, September 30th, or December 31st.

13. Ensure that ARC coordinators only accept reports, both financial and narrative, with reporting periods corresponding to those specified in the grant contract.

14. Implement a policy for the electronic organization and digitization of grant file documents. Alternatively, if the computerization of the filing system proves infeasible or in the interim, adopt a multi-tabbed file folder system, events and documents log, and an appropriate indexing system which minimally should provide for well organized grant files and easy retrieval of documents.

15. Review file access controls, fire safety protocols, and/or best practices for adoption and implementation of policies to track and protect ARC's grant files from theft, fire and other loss.

16. Adopt the *grants management common rule*, for inclusion as part of ARC's grant agreement, general provisions, and/or codify this section and provide appropriate references in all ARC grant contracts.

17. Review and develop departmental budgets, as part of the annual budget, to ensure adequate funding is available to provide for training, on-site visits, supervisory review of grant activities, and the additional time needed to properly organize grant files and administer other grant activities.

Management Response

Management responded to a draft of our report on July 14, 2008 and overall agreed with 16 of our 17 recommendations; ARC management did not agree to appoint a manager to be responsible for all grant oversight and grant policy. Management specifically disagreed that adequate supervisory oversight procedures were not in place and commented, "…the intense daily interaction between management personnel and staff relating to issues of grants management are highly effective…" and that, "… supervision of project coordinators is the responsibility of the respective division directors… [and should not be revised]." Management directed the creation of a grants management manual to address identified problems in our report but stated that they may develop their own solutions for problem resolution, which could differ from the recommendation made in the report.

The entirety of management's response in provided Appendix D.

Office of Inspector General Comments

We consider management's responses adequate and the all recommendations resolved, except for recommendation 1, which asks in part, that a management official be assigned to oversee grant activity and policy. Although the recommendations are considered resolved, we will be initiating follow-up work upon policy adoption and implementation to ensure the appropriateness of solutions implemented.

Management believes that the interaction between project coordinators and managers provides highly effective oversight, and that may be the case for the Program Operations Division. Unfortunately, because of the lack of documentation concerning management interaction with staff, an important component for verification of appropriate fiduciary actions, we cannot state whether or not supervision is appropriate or effective. For the Regional Planning and Research Division and for Local Development District grants,[20] as cited earlier in the report, we do not find

[20] Only a single director oversees grant administration to LDDs. We found no other management official conducting supervisory reviews of the director's grant monitoring activities.

management oversight being provided. Accordingly, we are hopeful that management addresses these issues during the creation of its grants manual, and we plan additional verification work in this area.

Furthermore, although management generally agreed with our recommendations, they stated that they may come up with its own solutions, which could be different than ours. We have no contention with management's substitute solutions; it is always in the purview of management to direct its own operations. In addition, management stated plans to consult the *Management Framework: Award Monitoring by the Office of the Inspector General of the National Science Foundation, OIG 03-2-01, September 30, 2003*. However we believe this report, by itself, does not contain enough specificity for the development of an appropriate grants manual and it does not contain recent federal requirements. In order to achieve a current and balanced reference pool of grant management policies and practices, we urge the utilization of multiple sources of reference for ARC policy development. In addition, we remind management that our report contains federal requirements, best practices, and common sense fixes to address ARC's particular weaknesses.

Appendix A

Monitoring by the Bureaus and Program Offices

The five bureaus and two program offices are also responsible for monitoring grantees and related activities, and documenting the results in the grant manager's program files and the OC's official grant files. The bureaus and program offices conduct monitoring to ensure:

- Compliance with relevant statutes, regulations, policies, and guidelines;
- Responsible oversight of awarded funds;
- Implementation of required programs, goals, objectives, tasks, products, timelines, and schedules;
- Identification of issues and problems that may impede grant implementation; and
- Adjustments required by the grantee as approved by the OJJDP and the BJA.

The grant managers' primary responsibility is project monitoring. Each grant manager prepares a monitoring plan or Grant Manager's Memorandum (GMM). The GMM is an evolving document used throughout the life of a grant to ensure that goals and objectives are being met and that activities and products are completed in a timely fashion. The level of monitoring required is based upon the stated monitoring plan in the GMM, which includes:

- An overview of the project;
- A detailed description of what type of activities the grantee plans to implement;
- A discussion of past monitoring activities and assessments, if the grant is a multi-year grant that is awarded yearly;
- An identification of monitoring activities to be performed for the current project period; and
- A discussion of the financial justification for the grant funds and of the cost-effectiveness evaluation of the application.

The OJP has given monitoring priority to sites in which problems have been identified, implementation has been problematic, or where the grantee has specifically requested technical or other assistance. In addition to on-site visits, grant managers conduct periodic desk reviews and monitor grants telephonically. Monitoring may also be conducted as part of conferences and cluster meetings with grantees.

Telephonic and/or e-mail monitoring is done to communicate time-sensitive information, or when on-site visits are not feasible. The Grant Manager compiles a list of issues and familiarizes him or herself with the objectives of the grant. The Grant Manager then arranges a scheduling of calls to project and grantee staff to document and resolve issues and/or assess the implementation status of a project, according to stated objectives and time lines.

Frequency of Monitoring

Federal grant management entails both program management and financial management. For the TA&T grants that we reviewed, these responsibilities were split between the OC, which is responsible for financial management, and the respective bureaus, which are responsible for program management. According to the OJP grant managers whom we

Appendix B

Print Form

PERFORMANCE PROGRESS REPORT
SF-PPR

		Page	of Pages
1.Federal Agency and Organization Element to Which Report is Submitted	2. Federal Grant or Other Identifying Number Assigned by Federal Agency	3a. DUNS Number 3b. EIN	
4. Recipient Organization (Name and complete address including zip code)		5. Recipient Identifying Number or Account Number	
6. Project/Grant Period Start Date: *(Month, Day, Year)* End Date: *(Month, Day, Year)*	7. Reporting Period End Date *(Month, Day, Year)*	8. Final Report? ☐ Yes ☐ No 9. Report Frequency ☐ *annual* ☐ *semi-annual* ☐ *quarterly* ☐ *other* *(If other, describe: _____ _____)*	

10. Performance Narrative *(attach performance narrative as instructed by the awarding Federal Agency)*

11. Other Attachments *(attach other documents as needed or as instructed by the awarding Federal Agency)*

12. Certification: I certify to the best of my knowledge and belief that this report is correct and complete for performance of activities for the purposes set forth in the award documents.

12a. Typed or Printed Name and Title of Authorized Certifying Official	12c. Telephone *(area code, number and extension)* 12d. Email Address
12b. Signature of Authorized Certifying Official	12e. Date Report Submitted *(Month, Day, Year)*
	13. Agency use only

OMB Approval Number: 0970-0334
Expiration Date: 6/30/2009

Performance Progress Report (PPR) Instructions

The *Performance Progress Report (PPR)* is a standard, government-wide performance progress reporting format used by Federal agencies to collect performance information from recipients of Federal funds awarded under all Federal programs that exceed $100,000 or more per project/grant period, excluding those that support research. General instructions for completing the *PPR* are contained below. For further instructions on completing the *PPR,* please contact the agency's points of contact specified in the "Agency Contacts" section of your award document.

Report Submissions

1. The recipient must submit the *PPR* cover page and any of the forms (*PPR A-F*), which the Federal agency requires, as specified in the award terms and conditions.

2. The *PPR* must be submitted to the attention of the agency's points of contact specified in the "Agency Contacts" section of the award document in accordance with the requirements established in the award document.

3. If additional space is needed to support the *PPR*, supplemental pages should be attached. The additional pages must indicate the following at the top of each page: Federal Grant or other Identifying Award Number, Recipient Organization, DUNS Number, EIN, and period covered by the Report. Page numbers should be used if a particular page is used more than once.

Reporting Requirements

1. All recipients of grants or cooperative agreements awarded under all Federal programs that exceed $100,000 or more per project/grant period, excluding those that support research, are required to submit a *PPR* in accordance with the terms established in the award document.

2. The *PPR* must be submitted at least once yearly, on a quarterly, semi-annual, or annual basis, as directed by the awarding Federal agency in the award document. A final *PPR* shall be required at the completion of the award agreement.

3. For interim *PPRs*, the following reporting period end dates shall be used: 3/31; 6/30; 9/30; and or 12/31. For final *PPRs*, the reporting period end date shall be the end date of the project/grant period.

4. The frequency of required reporting is stated in the solicitation and award documents. Interim *PPRs* are due not later than 45 days after the end of each reporting period. Final *PPRs* are due not later than 90 days after the end of the reporting period end date.

Performance Progress Report		
Item	Data Elements	Line Item Instructions for SF-PPR
1	Awarding Federal agency and Organizational Element to Which Report is Submitted	Enter the name of the awarding Federal agency and organizational element identified in the award document or otherwise instructed by the agency. The organizational element is a sub-agency within an awarding Federal agency.
2	Federal Grant or Other Identifying Number Assigned by the awarding Federal agency	Enter the grant/award number contained in the award document.
3a	DUNS Number	Enter the recipient organization's Data Universal Numbering System (DUNS) number or Central Contract Registry extended DUNS number.
3b	EIN	Enter the recipient organization's Employer Identification Number (EIN) provided by the Internal Revenue Service.
4	Recipient Organization	Enter the name of recipient organization and address, including zip code.
5	Recipient Account Number or Account Number	Enter the account number or any other identifying number assigned by the recipient to the award. This number is strictly for the recipient's use only and is not required by the awarding Federal agency.
6	Project/Grant Period	Indicate the project/grant period established in the award document during which Federal sponsorship begins and ends. Note: Some agencies award multi-year grants for a project/grant period (e.g., 5 years) that are funded in increments known as budget periods or funding periods. These are typically annual increments. Please enter the project/grant period, not the budget period or funding period.
7	Reporting Period End Date	Enter the ending date of the reporting period. For quarterly, semi-annual, and annual reports, the following calendar quarter reporting period end dates shall be used: 3/31; 6/30; 9/30; and or 12/31. For final PPRs, the reporting period end date shall be the end date of the project/grant period. The frequency of required reporting is usually established in the award document.
8	Final Report	Mark appropriate box. Check “yes” only if this is the final report for the project/grant period specified in Box 6.
9	Report or Frequency	Select the appropriate term corresponding to the requirements contained in the award document. “Other” may be used when more frequent reporting is required for high-risk grantees, as specified in OMB Circular A-110.
10	Performance Narrative	Attach performance narrative as instructed by the awarding Federal agency.
11	Other Attachments	Attach other documents as needed or as instructed by the awarding Federal agency.

Performance Progress Report		
Item	Data Elements	Line Item Instructions for SF-PPR
Remarks, Certification, and Agency Use Only		
12a	Typed or Printed Name and Title of Authorized Certifying Representative	Authorized certifying official of the recipient.
12b	Signature of Authorized Certifying Official	Original signature of the recipient's authorizing official.
12c	Telephone (area code, number and extension)	Enter authorized official's telephone number.
12d	Email Address	Enter authorized official's email address.
12e	Date Report Submitted (Month, Day, Year)	Enter date submitted to the awarding Federal agency. Note: Report must be received by the awarding Federal agency no later than 90 days after the end of the reporting period.
13	Agency Use Only	This section is reserved for the awarding Federal agency use.

Appendix C

Codification of Governmentwide Grants Requirements by Department

Click here to be connected to the Code of Federal Regulations (CFR)

Department (See Note 1)	**Grants Management Common Rule (State & Local Governments)**	**OMB Circular A-110 (universities & non-profit organizations)** (See Note 2)	**Nonprocurement Suspension & Debarment**(See Note 3)	**Drug-Free Workplace Act common rule**	**Byrd Anti-Lobbying Amendment common rule** (See Note 4)
Agriculture	7 CFR 3016	7 CFR 3019	7 CFR 3017	7 CFR 3021	7 CFR 3018
Commerce	15 CFR 24	15 CFR 14	2 CFR 1326	15 CFR 29	15 CFR 28
Defense	32 CFR 33	32 CFR 32	2 CFR 1125	32 CFR 26	32 CFR 28
Education	34 CFR 80	34 CFR 74	34 CFR 85	34 CFR 84	34 CFR 82
Energy	10 CFR 600	10 CFR 600	2 CFR 901	10 CFR 607	10 CFR 601
Health & Human Services	45 CFR 92	45 CFR 74	2 CFR 376	45 CFR 82	45 CFR 93
Housing & Urban Development	24 CFR 85	24 CFR 84	24 CFR 24	24 CFR 21	24 CFR 87
Interior	43 CFR 12	43 CFR 12	2 CFR 1400	43 CFR 43	43 CFR 18
Justice	28 CFR 66	28 CFR 70	2 CFR 2867	28 CFR 83	28 CFR 69
Labor	29 CFR 97	29 CFR 95	29 CFR 98	29 CFR 94	29 CFR 93
State	22 CFR 135	22 CFR 145	2 CFR 601	22 CFR 133	22 CFR 138
Transportation	49 CFR 18	49 CFR 19	49 CFR 29	49 CFR 32	49 CFR 20
Treasury	--	--	31 CFR 19	31 CFR 20	31 CFR 21
Veterans Affairs	38 CFR 43	--	2 CFR 801	38 CFR 48	38 CFR 45

Codification of Governmentwide Grants Requirements by Agency

Agency (See Note 1)	**Grants Management Common Rule (State & Local Governments)**	**OMB Circular A-110 (universities & non-profit organizations)** (See Note 2)	**Nonprocurement Suspension & Debarment** (See Note 3)	**Drug-Free Workplace Act common rule**	**Byrd Anti-Lobbying Amendment common rule** (See Note 4)
ADF	--	--	22 CFR 1508	22 CFR 1509	--
AID	--	22 CFR 226	22 CFR 208	22 CFR 210	22 CFR 227
BBG	--	22 CFR 518	22 CFR 513	--	22 CFR 519
CNCS	45 CFR 2541	45 CFR 2543	45 CFR 2200	45 CFR 2545	--
EPA	40 CFR 31	40 CFR 30	2 CFR 1532	40 CFR 36	40 CFR 34
EX-IM	--	--	2 CFR 3513	--	12 CFR 411
FEMA	44 CFR 13	--	29 CFR 1471	--	44 CFR 18
FMCS	29 CFR 1470	--	29 CFR 1471	29 CFR 1472	--
GSA	41 CFR 105-71	41 CFR 105-72	41 CFR 105-68	41 CFR 105-74	41 CFR 105-69
IMS	45 CFR 1183	--	45 CFR 1185	45 CFR 1186	--
IAF	--	--	22 CFR 1006	22 CFR 1008	--
NASA	14 CFR 1273	14 CFR 1260	2 CFR 180	14 CFR 1267	14 CFR 1271
NARA	36 CFR 1207	36 CFR 1210	2 CFR 2600	36 CFR 1212	--
NEA	45 CFR 1157	--	2 CFR 3254	45 CFR 1155	45 CFR 1158
NEH	45 CFR 1174	--	2 CFR 3369	45 CFR 1173	45 CFR 1168
NSF	45 CFR 602	--	2 CFR 2520	45 CFR 630	45 CFR 604
ONDCP	21 CFR 1403	--	21 CFR 1404	21 CFR 1404	--
OPM	--	--	5 CFR 919	--	--
OPIC	--	--	--	--	22 CFR 712
Peace Corps	--	--	22 CFR 3700	22 CFR 312	22 CFR 311

SBA	13 CFR 143	--	13 CFR 145	13 CFR 147	13 CFR 146
SSA	--	--	2 CFR 2336	20 CFR 439	--
TVA	--	--	--	--	18 CFR 1315

NOTES:

1. Abbreviations used for the following independent agencies:

   African Development Foundation (ADF),
   Agency for International Development (AID),
   Broadcasting Board of Governors (BBG), Corporation for National & Community Service (CNCS),
   Environmental Protection Agency (EPA),
   Export-Import Bank of the United States (EX-IM),
   Federal Emergency Agency (FEMA),
   Federal Mediation & Conciliation Service (FMCS),
   General Service Administration (GSA),
   Institute of Museum Services (IMS),
   Inter-American Foundation (IAF),
   National Aeronautics & Space Administration (NASA),
   National Archives & Records Administration (NARA),
   National Endowment for the Arts (NEA),
   National Endowment for the Humanities (NEH),
   National Science Foundation (NSF),
   Office of National Drug Control Policy (ONDCP),
   Office of Personnel Management (OPM),
   Overseas Private Investment Corporation (OPIC),
   Small Business Administration (SBA), Tennessee Valley Authority (TVA), and

Appendix D

APPALACHIAN REGIONAL COMMISSION

A Proud Past, A New Vision

Date: July 14, 2009

To: Clifford Jennings, ARC Inspector General

From: Thomas Hunter, ARC Executive Director

Subject: Inspection Report (09-03) of ARC's Grant Management

This memorandum is the agency response to the above-referenced Inspection Report. Initially, we note our concurrence with your general observations pertaining to the importance for this agency of effective post award grant monitoring and oversight. We believe as well that providing our project coordinators, who are the front line troops carrying out ARC's regional development mission, with a strategic management framework will go far to ensure successful grants administration. In this regard, we emphasize consistently to staff that all grants management activities should be carried out to achieve the dual purposes of helping our grantees reach their project goals while fulfilling our stewardship responsibilities for the Federal funds appropriated to the Commission.

Contrary to the suggestion in your Report that supervision and oversight are lacking in the operation of our grants management system, that system is highly interactive and collaborative with continual involvement of ARC managers, particularly the Director of POD and the General Counsel, with all aspects of this important Commission responsibility. The individuals who manage ARC grants constitute an experienced, dedicated staff that is adept at identifying and analyzing potential trouble spots in the administration of our grants and consulting as necessary with each other, the Division Director and the General Counsel to head off problems early and keep our grantees on course to successful project completion.

You note the existence of an "open door policy" in our grants management and this is an apt description. Far from being a weakness, however, it is a strength of our administration that the Commission is fortunate to have a mature professional staff who have shown themselves to be reliably able to make use of such a policy and not abuse it. It is true that we do depend on our staff to raise important grants management concerns as they arise in a timely fashion with their supervisor and with the Commission's legal and finance offices. Staff has consistently demonstrated their dependability in this regard justifying the confidence we place in them and the Commission's long standing record of successful project management is the result.

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We do agree, however, with your assessments that helpfully direct our attention to several areas of our current operation that we can improve. In particular, I am referring to your recommendations with regard to increased staff education and training in grants management skills and requirements, the production of a written manual gathering current Commission procedural requirements for grants management, and file documentation and storage. These aspects of your report are well taken and provide an opportunity for the Commission to strengthen both the technical assistance services we offer grantees and our stewardship role for the Federal funds entrusted to the Commission.[1]

Accordingly, I have issued the directive that is attached to this memorandum. That directive covers many of the recommendations contained in your Report. In particular, the training directive relates to your recommendation No. 3, the directive to produce a grants management manual relates to recommendations No. 1, 2, 4, 5, 6, 8, 9, 12, and 13, and the directive concerning the expediting of the electronic filing system relates to recommendations No. 10, 11, 14 and 15. (I note that, while we concur that the areas covered by these recommendations are important and will be addressed in the grants manual and the electronic filing system, the approaches adopted may differ from the particular recommendations in you report.)

Concerning two other recommendations in your Report, I note the following: We will continue to work with our LDDs to develop appropriate metrics and devise a method for reporting such data in accordance with our established goals. (Recommendation No. 7) I have asked the General Counsel to clarify in our grant documents the applicability of the grants management common rule issued pursuant to OMB Circular A-102 to all grants with state and local governments. (Recommendation No. 16)

Finally, regarding your recommendation No. 17, I would note that the Commission annually reviews its departmental budgets to assure fulfillment of our twin responsibilities under our grants management system to assist our grantees toward the successful completion of their projects while safeguarding the Federal dollars. As with any agency of this type, there exist a continual balancing act between devoting sufficient resources to carry out these responsibilities and maximizing the amount of our appropriated funds that are available for worthwhile projects to better conditions in the Region. We believe that our efforts are striking a proper balance at this time, but agree that this issue is essential to the effectiveness of the Commission in carrying out our mission and we will continue to review budgets carefully in this light.

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[1] Although we do welcome these helpful recommendations, in general, it is important to clarify that we disagree with many of the observations contained in the findings section of your report and specifically disagree with your assessment that adequate supervisory oversight procedures are not in place. The daily intense interaction between management personnel and staff relating to issues of grants management are highly effective for supervisory purposes and productive of the Commission's successful grants program. Consequently, we also disagree that our current system under which supervision of project coordinators is the responsibility of the respective division directors should be revised.

APPALACHIAN REGIONAL COMMISSION

A Proud Past, A New Vision

ARC

Date: July 14, 2009

To: Henry King, Director, Program Operations, John Cartwright, Director, Regional Planning and Research, William Grant, Director, Finance and Administration, Charles Howard, General Counsel, and Barbara Brown, Director of Human Resources

From: Thomas Hunter, ARC Executive Director

Subject: Inspector General's Report (09-03) of ARC's Grant Management

In light of the above-referenced Report, I am issuing the following directives:

a. All staff responsible for ARC grants management activities shall receive on a regular basis training in pertinent areas of grants management including, in particular, initial training and refreshers in the use of Office of Management and Budget grant related Circulars. The General Counsel is also instructed to continue to provide as needed training to grants management staff on the specific requirements of our authorizing legislation, Code and Project Guidelines, especially when changes to the law necessitate the adoption of new regulations or guidelines.

b. The General Counsel and the Director of the Program Operations Division are instructed to collaborate in the production of a grants management manual similar in nature to the manuals in current use for personnel and finance management. In preparing the manual you are instructed to consult the recommended principles and practices contained in the report on Management Framework: Award Monitoring by the Office of Inspector General of the National Science Foundation, OIG 03-2-015, September 30, 2003 and provide appropriate provisions for each of the areas covered by the Inspector General's Report Recommendations Nos.1, 2, 4, 5, 6, 8, 9, 10, 11, 12 and 13. The manual shall be ready for use by ARC Project Coordinators in FY 2010.

c. The Directors of the Program Operations and Finance and Administration Divisions shall continue efforts already underway, and expedite these efforts to the extent practicable, to electronically organize and digitize ARC's grant filing system. Currently, in addition to the information in the ARCNet data base, our electronic files contain files contain approval and closeout documents, amendments and all payment information. The system should be configured to allow placement of all contract and payment documents, important correspondence, reports and notes generated by ARC staff. Efforts should also be increased to allow for the preservation in our electronic files of all project related documents generated by the grantee and third parties including, project applications and accompanying materials, payment requests, reports and other important correspondence. These efforts should be designed to result in the establishment of permanent electronic files for each project funded by the Commission within two years.

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