Office of Inspector General

Inspection Report on the Appalachian Regional Commission's Performance Measures

Appalachian Regional Commission

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Inspection Report 11-07

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Executive Summary

The objectives of this inspection were to assess ARC's performance metrics and the associated results, particularly their quality, recording accuracy, reporting accuracy, and their usage. This report presents three findings regarding ARC's performance metrics, reporting of performance results, and use of performance results. ARC voluntarily implemented the Government Performance and Results Act (GPRA) and is continuing progress towards full implementation.

ARC obtains projected performance results from grantees at several stages throughout the life of a project. However, for actual performance results, which are also provided by grantees, improvements are needed with respect to verifying the accuracy of and for disclosures regarding the completeness and the accuracy of reported results information. ARC's policies and procedures should assure that it obtains actual performance results from grantees that are accurate, consistently measured, and adequately supported.

We found that ARC reports grantees' initial estimates of performance results in its Performance and Accountability Report (PAR) in lieu of reporting actual results. The estimated performance results reported in ARC's PARs are not being updated with new results once actual performance information is available. We also observed that ARC includes 100 percent of the results reported by grantees, even though ARC provides less than 100 percent of the project funding. This results in an overstatement of results by ARC and contributes to double-counting of results by OMB, who also receives performance results from ARC's partner organizations. We also found a significant proportion of ARC's funded projects were not included in the metrics reported in the PAR, and a significant proportion of projects did not have any projected performance metrics in ARC's grants management system, which is used for tracking program results.

The PAR does not include several required disclosures including an approximate date when actual performance information will be available and an assessment of the completeness and reliability of the reported performance data. Disclosures regarding ARC's use of performance results, the level of assurance obtained from validation visits and project evaluations, and the project selection used in validation visits could be improved.

Our review did not identify systematic or routine use of performance data or evidence that performance results were used by ARC or its state partners to guide funding choices or make programmatic decisions.

ARC is currently making improvements that will resolve some of the issues noted. Our report compliments ARC's efforts and includes seven recommendations covering ARC's policies and procedures, use of performance information, and reporting of performance results.

In response to the draft report ARC provided comments, copy included, which identified planned actions consistent with some recommendations. The response noted that ARC believed prior implementation actions on other noted issues were in line with GPRA provisions and that cost factors would substantially impact implementation of some additional recommended actions.

We recognize that ARC has allocated and expended substantial resources for voluntary GPRA implementation that has resulted in major actions as reflected by the annual Performance and Accountability Reports, and that cost benefits are a factor when considering additional actions. We concur with ARC cost concerns and recommend that for actions ARC deems unreasonable in relation to costs and benefits that consideration be given to using the GPRA alternative form procedure with respect to performance measurement and results.

Background

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

ARC follows federal guidance from the Government Accountability Office (GAO) and the Office of Management and Budget (OMB) in its financial management and its operation of a federally funded grant program. ARC is a designated federal entity and voluntarily complies with the Government Performance Results Act of 1993 (GPRA).

The GPRA was enacted to improve program performance, and requires agencies to develop strategic plans and prepare related annual performance plans and annual performance reports. The GPRA Modernization Act of 2010 was enacted in January 2011 to, among other purposes, update the requirements for assessing agency performance and improvement.

On August 24, 2004, ARC approved *Moving Appalachia Forward: Appalachian Regional Commission Strategic Plan 2005 – 2010*, which lists the following four general goals in furthering the agency's mission:

1. *Job Growth* – Increase job opportunities and per capita income in Appalachia to reach parity with the nation.
2. *People* – Strengthen the capacity of the people of Appalachia to compete in the global economy.
3. *Infrastructure* – Develop and improve Appalachia's infrastructure to make the Region economically competitive.
4. *Highways* – Build the Appalachian Development Highway System to reduce Appalachia's isolation.

Each fiscal year, ARC submits to the OMB annual performance goals for projects to be funded in coming years and reports on progress meeting its goals by including a performance report in the annual Performance and Accountability Report (PAR).

In addition to the four general goals listed above, ARC has also established two additional sub-goals: (1) leveraging non-ARC project funding and private non-project investments resulting

from the completion of ARC-funded projects, and (2) targeting ARC funds to benefit distressed counties and areas. Progress towards these goals are measured and reported for each of the four general goals.

ARC's efforts to obtain performance results, some of which help ARC meet compliance with GPRA standards, span several different phases of the project life-cycle and include the following:

- During the grant approval process, grantees estimate projected outputs and outcomes. The estimates are recorded in ARC's grant management system (ARC.net) as projected outputs and outcomes.
- At grant close-out, the grantees' final reports to ARC include actual project outputs and outcomes. ARC records these results in ARC.net as actual outputs and outcomes.
- During validation visits of 40 to 60 projects funded two to three years earlier, ARC staff survey grantee management about project results, including previously reported outputs and outcomes. ARC interviews grantee management and other project participants and reviews the methodology for how results are compiled. ARC records these results in ARC.net as validated outputs and outcomes.
- During independent project evaluations conducted by contractors hired by ARC to ascertain the benefits of ARC initiatives and sub-programs. ARC typically funds one evaluation per year which generally covers a five year period for a specific ARC initiative or program type. ARC does not record these results in ARC.net.

Findings

Reporting Performance Results

ARC Reports Grantee Estimates, Not Actual Results

During our review, we noted that ARC reports grantees' estimates of projected performance results in its PAR. The performance results reported in the prior-year's PARs are not being updated in the current-year PAR, but instead are being rolled forward. Additionally, the PAR does not include an approximate date when the actual performance information, sufficient to make an accurate comparison with performance goal targets, will be available, or provide an assessment of the completeness and reliability of the reported performance data.

The Government Performance Results Act of 1993 (GPRA) states that each agency's annual performance plan shall provide a basis for comparing actual program results with the established performance goals. Each program performance report shall set forth the performance indicators established in the agency performance plan, along with the actual program performance achieved compared with the performance goals expressed in the plan for that fiscal year.[1]

Additionally, OMB Circular No. A-11 states that the annual performance report (APR) required by GPRA provides information on the agency's actual performance and progress in achieving the goals in its strategic plan and performance budget.[2] The required elements of the annual performance report include;[3]

- A comparison of actual performance with the target levels of performance at least for the prior year and an analysis and explanation of the causes of any variance or change in trends including plans and schedules for addressing the problem.
- An assessment by the agency head of the reliability and completeness of the performance data included in the report.
- Identify those performance goals where actual performance information is missing, incomplete, preliminary, or estimated. For such goals, the APR should indicate the approximate date when the actual performance information, sufficient to make an accurate comparison with performance goal target levels, will be available.

[1] Government Performance Results Act of 1993, Section 4(b)
[2] OMB Circular No. A-11, Part 6, Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports, Section 230.1(a)
[3] OMB Circular No. A-11, Section 230.2(a)

During the grant approval process, grantees are required to identify which of the four general goals – job growth, people, infrastructure, or highways – the grant will help to advance, and estimate the projected outputs and outcomes that will be achieved. This information is entered into ARC's database and becomes the basis for the annual performance report included in the PAR. ARC clearly states in the PAR that these reported results are estimates. When grants are closed-out, the final report to ARC includes actual results, as reported by the grantee, which is also entered into the database.

Although the original reporting of performance information may be missing, incomplete, or preliminary, once actual performance information is available it should be reported in the subsequent annual performance reports.[4] As indicated above, projections from grantees form the basis for the performance results reported in the PAR, however, as grants are closed out and actual results are reported, ARC makes no changes to the performance results reported in the PAR. For example, the fiscal years 2007, 2008, and 2009 PARs all reported the original estimate of 28,642 jobs created/retained for fiscal year 2007.

Included in the PAR are the results of validation visits and independent project evaluations. Generally, ARC obtains updated outcomes of 40 to 60 projects funded two to three years earlier, allowing time for most projects to be completed. Project evaluations of ARC initiatives and sub-programs are performed by independent or external organizations to evaluate the outcomes and overall effectiveness of projects. Results of validation visits and project evaluations are reported in the PAR; however, prior-years' performance estimates are not updated in the PAR and do not reflect actual results reported by grantees at project close-out, even though recorded in ARC's grants management system.

ARC management has stated that ARC is in compliance with OMB reporting requirements because OMB accepts its budget justification report each year. However, acceptance of the budget justification report by OMB does not by itself demonstrate compliance with GPRA or OMB Circular A-11, both of which clearly state that actual performance results shall be compared to performance goals in the APR.

ARC has conveyed to us that most projects require time after project close-out to develop actual results. Therefore, the actual performance results reported by grantees at close-out are incomplete and should not be reported in the PAR. But OMB requires that actual results, and the time at which future results will be available, be disclosed.[4] Validation visits and project evaluations are currently the only methods ARC utilizes to report actual performance results. Currently, ARC is in the process of developing a survey that will be sent to all projects at designated intervals after close-out to obtain more complete results information. We believe, this survey, and usage of the actual results reported at project close-out will provide the complete

[4] OMB Circular A-11, Section 230.2(b)

information ARC desires and recommend that ARC use these sources of information to provide a more complete reporting of actual results in the PAR.

Reported Results Are Unverified

ARC obtains estimated performance results from grantees during project acceptance. Actual performance results are reported by all grantees at project close-out and updated results are obtained for selected projects during validation visits and project evaluations. ARC does not verify the accuracy of performance results reported by grantees. ARC also does not provide adequate disclosure of the completeness and accuracy of reported performance results.

Performance data must be accurate and reliable in order to measure the progress towards achieving performance goals. Proper verification and validation of performance data aids in the accuracy and reliability of performance information, reduces the risk of inaccurate information, and provides confidence that the information is credible. OMB Circular A-11 describes verification as "a process of checking or testing performance information to assess other types of errors…", and validation as "an effort to ensure that data are free of systematic error or bias and that what is intended to be measured is actually measured." Agencies should have validation and verification techniques that will ensure the completeness and accuracy of reported performance information. The recommended verification and validation factors include having; well defined and documented source data, available and used performance metric definitions, documented and available collection standards, documented and followed data entry methodology, readily available and maintained supporting documentation, verified data, and certifications by responsible officials that data accuracy has been checked each reporting period.[5]

We observed that ARC has a list of the most commonly used performance outputs and outcomes for standardized project types. The list does not define how performance results should be measured or what documentation should be maintained as support. ARC states that project coordinators are aware of the methodology to measure performance metrics and that guidance is provided throughout the grant process. However, during an evaluation of ARC's tourism, cultural heritage and natural asset-related projects, an ARC contractor found that it was likely that grantees "do not have robust or consistent understanding of the measures that ARC focuses on. Unless everyone is on 'on the same page,' it is unlikely that reported results can be meaningfully compared to the original projections."[6] Without established, consistent methodologies for measuring performance results that are available to grantees, ARC is at risk of receiving inaccurate and inconsistent performance information.

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[5] OMB Circular A-11, Section 230.5

[6] *Program Evaluation of ARC's Tourism, Cultural Heritage and Natural Asset-Related Projects*, September 2010

ARC does not have written procedures for entering performance information into ARC.net. During our review, we compared the performance metrics listed in Project Approval Memos to information in ARC.net for 20 projects. We found differences in six of the projects and an additional six projects that did not have assigned performance metrics. Furthermore, ARC identified 76 changes that were necessary during a review of performance information in ARC.net prior to compiling results for the fiscal year 2010 PAR. A documented and followed methodology for entering data into ARC.net may reduce these errors and the potential that such errors are included in reported performance results.

ARC asserts that it obtains evidence of the accuracy of performance results through validation visits and project evaluations conducted by independent contractors. However, our review of the scope and methodology of several recent project evaluation reports did not provide any evidence that the contractors are reviewing documentation to support grantees' reported performance results. Furthermore, we found that the validation visits do not provide evidence of the completeness and accuracy of self-reported performance results and that ARC's reporting of the results should be improved.

To determine the projects that will be included in the validation visits, ARC obtains a listing of projects from ARC.net, excluding projects for LDDs, interns, conferences, research, and the development of plans as these projects do not have anything to visit. ARC also excludes grantees currently being audited, projects where the grantee has closed or key personnel have left. The list of remaining projects is circulated among the project coordinators and projects may be excluded based on their feedback. ARC does not use statistical or random sampling, but selects projects to visit from the remaining list, attempting to provide for geographical and project-type variety.

ARC uses a questionnaire to standardize the information collected during all validation visits. Although the questionnaire includes a request for updated actual results, there is no specific process or requirement to obtain supporting documentation or otherwise verify the accuracy of reported results.

We reviewed the results of ARC's validation visits for fiscal year 2010 in which 55 projects were visited. ARC excluded 32 projects from the potential list of projects to visit. Based on the lack of complete documentation for project selection and exclusion, we were unable to determine the reason why each project was excluded. However, we noted several projects were rejected based on the possibility that projects would not be able to support performance results. Included in the reasons for rejection were comments such as:

- "Not recommended – management issues"
- "Not worth visit. Program did not have participation expected."
- "Not recommended – implementation issues… and inability to collect outcome data"

To determine the possible effects of including the rejected projects in the results of validation visits, we obtained the actual outcomes for the rejected projects as recorded in ARC.net at project close-out. These outcomes were combined with the validated results. Due to the lack of complete records, we were also unable to determine whether ARC included all excluded projects in the list of excluded projects. As shown in Table 1 below, factoring in the excluded projects could have a significant impact on the results of the validation visits. While this example could be considered a worst-case scenario, we believe it illustrates the possible effects of selection bias in the validation visit results.

Table 1. Inclusion of Rejected Projects in FY2010 Validation Visit Results

	ARC Original VV Results				Adjusted VV Results		
Performance Metric	**Projected Results**	**Validated Results**	**% of Goal**		**Projected Results**	**Validated/ Actual Results**	**% of Goal**
Jobs Created/ Retained	12,943	11,104	85.79%		13,531	11,104	82.07%
Students/ Trainees with Improvement	3,269	3,488	106.70%		5,744	3,495	60.85%
Households Served	1,586	1,621	102.21%		1,586	1,621	102.21%
Source: OIG from ARC.net data							

OMB Circular A-11 requires that significant or known limitations of performance data be identified and described in the performance plan, including the impact the limitations have on goal achievement and what action will be taken to correct the limitations.[7] The examples of data limitations provided include imprecise measurement and recordings, incomplete data, and inconsistencies in data collection procedures.

We reviewed ARC's description of the validation visits in the PAR and found that it does not provide any disclosure of the project selection process or state that the results of the validation visits may not be an accurate representation of the results of the non-surveyed projects. While we believe more projects should be eligible for further review, providing disclosure of the selection process enables the results of validation visits to be put into better context.

ARC also describes the validation visits and project evaluations as critical components to its GPRA compliance as they confirm actual project outcomes.[8] As ARC does not obtain documentation supporting or otherwise confirming actual results during validation visits or project evaluations, ARC should adjust its reporting to more accurately describe the level of assurance obtained.

[7] OMB Circular A-11, Section 230.5
[8] ARC's Fiscal Year 2007, 2008, and 2009 Performance Reports

ARC is currently working on the development of a survey that will be sent to all projects at designated intervals after close-out. The survey will be used to obtain more complete actual performance results than are available at project close-out. We encourage ARC to use the surveys and/or validation visits as a method to request and obtain supporting documentation from grantees to validate reported performance results. Doing so would also provide ARC evidence as to the completeness and accuracy of reported performance measures.

ARC Reports Total Results for Split-Funded Projects

During our review, we noted that ARC includes 100 percent of the results, stated as outputs and outcomes, reported by grantees in its PAR, even though ARC provides less than 100 percent of the project funding. In many cases, ARC funding is less than a majority of the total funding. This results in an overstatement of results by ARC as well as contributing to double-counting of results by OMB, who also receives performance results from ARC's partner organizations.

In 2004, the Office of Management and Budget (OMB) reviewed ARC's programs using the Performance Assessment Rating Tool (PART). The PART was created to review factors that affect and reflect program performance including program purpose and design, performance measurement, evaluations, strategic planning, program management, and program results. OMB did not agree with ARC's reporting of total project results, stating:

> For example, while ARC contributes less than 6 percent of federal dollars to projects encouraging job creation and retention and ensuring adequate water and sewage infrastructure, ARC claims 100 percent credit for number of jobs created and number of households served. While agencies should be in no way penalized for leveraging other federal dollars, ARC efficiency measures should consider all federal dollars.

OMB's analysis recommended that ARC accurately reflect its contribution to performance results by reporting only the percentage of project results related to their funding, or finding an alternative that would credit ARC with leveraging private investment but also allow for comparisons with other economic development programs and federal agencies. The analysis pointed out that if ARC reports total project results while partner agencies report results for the same projects, total performance results will be double-counted. OMB included in its resulting improvement plan that ARC will be "Revising performance measure methodology to eliminate double-counting of performance due to commission and non-commission funding."

ARC has attempted to satisfy OMB's recommendations by including leveraged private investment and reporting the funds provided to projects by ARC's partner organizations. While we agree that reporting funds leveraged from other sources is a legitimate indicator of ARC's impact on the region, we recommend that ARC's reported performance results include results attributable to both ARC and its partner organizations.

Use of Performance Results

Our review did not identify a systematic or routine use of performance data or that performance results were routinely used by ARC to guide funding choices or make programmatic decisions.

The purposes of the GPRA includes improving program effectiveness and public accountability, improving internal management, and improving service delivery by requiring managers to plan for meeting program objectives and providing them with information about program results.[9,10] It is apparent that GPRA intends to provide managers with performance information that can be used to improve program results. OMB Circular A-11 states that senior agency leaders should review progress on agency priorities through goal-focused, data-driven reviews at least on a quarterly basis. The reviews should assure that follow-up steps are taken to improve the likelihood of realizing better outcomes and higher productivity.[11]

We interviewed ARC's Executive Director and staff from the Regional Planning and Research Division (RPRD) and Program Operations Division (POD) to identify the uses of performance results data at ARC. Staff mentioned ad hoc reports were written to provide performance results information requested by stakeholders, as well as yearly meetings to discuss the results of validation visits. However, these reports primarily used projected performance results.

ARC only reports performance information after project close-out through validation visits and project evaluations. Therefore, if a project takes longer to develop performance results and is not included in either process, there is no means to evaluate its results. Several staff mentioned they would use performance results to analyze projects if ARC had more complete, actual performance results.

Grant Coordinators said that member states have control over the selection of projects that are submitted to ARC for approval. Therefore, managerial decisions on project selection are made by the states on behalf of ARC. ARC personnel believes that member states are aware of performance results through the yearly reports on the results of validation visits, program evaluations, and the PARs. However, there is no formal process to ensure that the states are using the performance results to shape their decisions on what projects to submit to ARC for approval.

The ARC Code describes a joint decision-making process that balances the interests of the Federal government with the interests of the states and their subsidiary units. States have a primary role in the initiation of plans and projects as only programs and projects submitted

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[9] Items stressed in the GPRA Modernization Act include: increased emphasis on the usage of results information, and the appropriate adjustment of priorities; development of quarterly reviews (and reports) and performance milestones and targets within the agency, and from OMB; an agency corrective action plan for unmet goals; a requirement to review trend information and agency goals that relate to Federal goals; and increased transparency.

[10] Government Performance Results Act of 1993, Section 2(b)

[11] OMB Circular A-11, Section 200.3

through and approved by a state can be considered by ARC.[12] States can submit project applications for any project that complies with an approved State Appalachian Development Plan and its Annual Strategy Statement.[13]

ARC was established through the Appalachian Regional Development Act, which is codified in Title 40 of the United States Code (U.S.C.). The Act states that ARC should, while evaluating and prioritizing potential projects and grants, consider the extent to which projects provide for detailed outcome measurement by which grants may be evaluated.[14] Furthermore, the Act requires an affirmative vote by ARC's Federal Cochairman for projects and grants to be approved.[15] Therefore, it is within the Federal Cochairman's authority to influence, by not voting in the affirmative, project approval if projects are not expected to provide sufficient or adequate performance results.

We agree that states have a primary role in the formation of state plans and the submission of project applications to ARC. Since the use of performance information is the key element of a successful program, we believe that a more formalized process of ensuring that states are using performance results in their decision-making process is consistent with the use of performance results envisioned by GPRA, the federal/state partnership outlined in the ARC code, and the Federal Cochairman's authority.

Agencies are required to describe if and how they use performance results data to improve outcomes.[16] ARC asserts in its PARs that "At quarterly intervals throughout the fiscal year, ARC staff review performance measurement data in ARC.net to better understand emerging trends, improve data integrity, and shape policy to improve the ARC programs."[17] Consistent with this statement, ARC should revise its PAR to more accurately describe its use of performance data.

Scope of Performance Metrics

We found that ARC's reported metrics generally demonstrate results, are limited to several vital measures, respond to multiple priorities, and are linked to the responsible programs. However, a significant proportion of ARC's funded projects were not included in the metrics reported in the PAR and a significant proportion of projects did not have any projected performance metrics in ARC's grants management system (ARC.net).

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[12] ARC Code, Section 2.1.a.
[13] ARC Code, Section 5.5
[14] 40 U.S.C. §14524(a)6.
[15] 40 U.S.C. §14302 and 14332(c)
[16] OMB Circular A-11, Section 230.2(a)
[17] ARC's Fiscal Year 2007, 2008, and 2009 Performance Reports

GPRA requires that: (1) each agency's annual performance plan establishes performance goals to define the level of performance to be achieved by a program; and (2) express such goals in an objective, quantifiable, and measurable form.[18] Performance measures can be either outputs or outcomes. Outputs are the direct products or services delivered while outcomes are the results of those products or services. Outcomes are generally better indicators of program goals because they are more closely related to the societal benefits of carrying out the program, whereas outputs have more to do with process.

ARC tracks both outputs and outcomes related to its four general goals, as previously discussed. The following outcomes are reported in the PAR: jobs created and retained, students and workers/trainees with improvements, households served, and additional miles (net increase) of the ADHS opened to traffic.

For each of the general goals, ARC also has the additional goals of leveraging ARC funding through additional funding from other sources and targeting ARC funds to distressed areas. Additional outputs and outcomes, which are tracked internally, include: businesses served, increase in export dollars, health professionals, linear feet of pipe, new businesses created, new programs developed, new strategic plans developed, new telecom sites, patients served, and project participants. ARC is currently finalizing a new list of performance metrics that will expand the number of outputs and outcomes that are tracked but not reported in the PAR.

In the Government Accountability Office's (GAO) report titled *GAO Review of Performance Measures at the Corporation for National and Community Service*, GAO identified four characteristics for sound sets of performance measures. Performance measures should demonstrate results, be limited to the vital few measures, respond to multiple priorities, and be linked to the responsible programs.[19]

GPRA requires each agency's performance measures to cover each program activity in its federal budget.[20] ARC's federal budget lists the following program activities:[21]

- Appalachian development highway system
- Area development and technical assistance program
- Local development districts program

We obtained ARC's compilation of performance data for the fiscal year 2010 PAR, which is derived from data in ARC.net. We noted that the projects reported under the four general goals accounted for approximately $49.5 million, or roughly 66 percent, of the total $75.1 million funded during the period.

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[18] Government Performance Results Act of 1993, Section 1115(a)(1)
[19] *GAO Review of Performance Measures at the Corporation for National and Community Service* (GAO-10-886)
[20] Government Performance Results Act of 1993, Section 1115(a)
[21] Budget 2011 Appendix: Other Independent Agencies

Table 2. Projects Reported in the FY2010 PAR by General Goal

General Goal	Number of Projects	ARC Funds	Percent of Total ARC Funding
Job Growth: Jobs Created/Retained	142	$ 2,048,160	2.7%
Infrastructure: Households Served	56	21,376,602	28.5
People: Students/Workers Improved	73	22,469,252	29.9
Highways: Access Road Miles	18	9,146,831	12.2
Total	**220**	**$49,527,805**	**65.9%**

Source: OIG from ARC.net data

Note: The column totals do not sum correctly as some projects included performance results in more than one general goal.

All ARC-assisted projects are required to contain detailed outcome measurements from which grant expenditures can be evaluated.[22] Our review of ARC's compilation of performance data for the fiscal year 2010 PAR also found that 144 of the 467 projects funded did not have any projected performance metrics. As shown in the table below, the total funding for those projects was approximately $14.7 million, or 19.6 percent, of the total $75.1 in projects funded during the year.

Table 3. FY2010 Projects with No Performance Metrics by Project Category

Project Category	Number of Projects	ARC Funds
Business Development	14	$ 1,538,672
Community Development	8	852,600
Education and Job Training	13	1,074,023
Environment and Natural Resources	5	420,000
Health	1	30,000
Highways and Access Roads	3	-
Leadership and Civic Capacity	6	260,957
Local Development District Planning and Administration	72	7,044,355
Research and Technical Assistance	22	3,466,563
Total	**144**	**$ 14,687,170**

Source: OIG from ARC.net data

[22] ARC Code, Section 7.3(c)9

While GPRA allows for the aggregation, disaggregation, or consolidation of program activities, the aggregation or consolidation cannot "omit or minimize the significance of any program activity constituting a major function or operation".[23] As shown above, roughly half of the projects that were not assigned performance metrics were grants for planning and administration at Local Development Districts (LDDs), which are listed in ARC's federal budget.[24]

Providing for, and reporting on, performance metrics for LDDs would reduce the percentage of fiscal year 2010 projects without performance metrics from 19.6 percent to 10.2 percent, and would increase the percentage of projects reported in the PAR from approximately 66 percent to roughly 75 percent. We believe ARC should, prior to implementing its new performance metrics, review its methodology and formally assess whether its reported performance metrics sufficiently report the results of operations or if additional performance metrics should also be reported.

[23] Government Performance Results Act, Section 1115(c)

[24] In response to OIG Inspection Report 09-03 in July 2009, ARC management stated that ARC was working with the LDDs to "develop appropriate metrics and devise a method for reporting such data in accordance with our established goals." In a March 25, 2011 policy memorandum titled Documentation and Administrative Requirements for ARC E-Files, ARC stated it will require LDD and Consolidated Technical Assistance grants to contain performance measures beginning in 2012. As a result, we did not make a recommendation in this report for reporting performance results for these grants.

Recommendations

We recommend ARC's Executive Director require that:

1. ARC's disclosures in the PAR incorporate or be modified to ensure proper and adequate disclosures for: the approximate date when actual performance results information will be available, an assessment of the completeness and accuracy of reported performance data, ARC's actual use of performance results, the project selection methodology utilized for validation visits, and the level of assurance obtained from validation visits and project evaluations.
2. ARC's PAR provide a more complete reporting of prior actual results, and update prior actual results when information is available.
3. ARC implement policies and procedures to ensure that actual performance results reported by grantees are accurate, consistently measured, and adequately supported. The policies and procedures should include:
    a. Written procedures for entering performance information into ARC.net to ensure recorded data is complete and accurate.
    b. A defined list of performance metrics, including the methodology for calculating them and requirements for the adequacy and retention of supporting documentation. This guidance should be provided to grantees to ensure ARC is receiving consistent results from all grantees.
    c. Using the survey and/or validation visit processes to obtain documentation from grantees supporting self-reported performance results.
4. ARC's PAR only recognizes ARC program results in proportion to the direct effects of its funding, as recommended by OMB, or identify an alternative measure that adequately portrays project results were not fully funded by ARC.
5. ARC develop and implement a systematic approach to assure states are aware of and use performance results during their project selection process
6. Consistent with the requirements of the ARC Code and GPRA for all budgeted programs, that ARC develop evaluative metrics and report results using those metrics in its PAR reporting.

Management's Response to Draft Report

This memorandum responds to the Draft Inspection Report on the ARC's Performance Measures from the ARC Inspector General's Office. While the Report contains several valuable suggestions for improving the ARC Performance Measurement system, its primary recommendations would require the Commission to undertake extensive and detailed follow-up reviews of project performance for each grant funded by ARC. We do not agree that our method of collecting and confirming results, which relies on in-depth validation visits and periodic program evaluations, does not comply with the general requirements of Government Performance and Results Act (GPRA) and OMB Circular A-11. We believe the Commission has adopted and continues to implement an efficient method of tracking project results within budgetary constraints that has shown itself to be an effective aid to the evaluation of Commission programs. '

When GPRA was enacted Congress made clear that performance measurement was not intended to "be a major additional cost item or paperwork burden imposed on Federal programs. " S. Rep. No. 103-58, at 13 (1993) The Government Accountability Office (GAO) has confirmed that it expects agencies to take "reasonable cost" into consideration in designing performance plans and specifically "the extent to which benefits obtained from providing the data outweigh the costs of producing it. " GAO/GGD-1O. 1. 2D Guide to Assessing Agency Annual Performance Plans, p. 40. GAO has also recognized sampling as a legitimate alternative method when "the time and cost of collecting comprehensive data can be burdensome. " [2] GAO/GGD-99-16 Measuring Performance Results, p.16.

Within this framework, the Commission has been providing performance reports on its programs since 1998 using essentially the same format. This format emphasizes the collection of data related to the expected outcomes of ARC funded projects followed up by in-depth validations of a significant number of projects annually with periodic independent results evaluations of major programs and initiatives.

[1] We note that the Commission is not subject to the specific requirements of GPRA because it is not a Federal Agency. The Commission, however, has voluntarily complied with GPRA since it was enacted.

[2] It is not clear from the Draft Report whether it was prepared with the understanding that a large number of ARC projects, often more than half in a year, are not directly administered by ARC but by another federal agency. Typically for these projects, ARC will have no direct contact with the Grantee after project approval. This element of the design of the ARC program was intended in part to minimize its administrative cost and maximize the flow of grant dollars to projects. To impose an additional data collection requirement on ARC for these projects would eliminate this benefit of the ARC program by increasing ARC's administrative budget by an unacceptably large amount.

This approach has provided important data to support the Commission's development of its two most recent Strategic Plan documents in 2004 and 2010. Accordingly, the Commission does not agree with the Draft Report's suggestion that ARC should abandon its proven effective method of measuring results and adopt a much more burdensome and costly method, which would involve returning to each grantee at regular intervals to update project results and require extensive supporting documentation. The Commission is especially unwilling to act upon such a recommendation as there is no clear indication that such an approach would be productive of increased benefits for the ARC program or the Region.

The Commission, however, is appreciative of several worthwhile recommendations for improving the quality of its performance measurement efforts contained in the Draft Report. Listed below are several actions we have taken or intend to take in response to the contents of the Draft Report.

1. ARC conducts a thorough and unbiased selection process for reviewing a sample of projects for annual validation, taking into consideration many factors, including cost-effectiveness of traveling to site, grant scale/scope, and maturity of outcomes. However, ARC will clarify this process by unequivocally stating in the new guidelines (attached) that under no circumstances will an ARC project be excluded simply based on the possibility that the project may not be able to support performance results. Also, the guidelines will clarify that statistical or random sampling is not ideal for the purposes of the validation visits because of the diversity and scope of ARC project types. Developing a rough sample of ARC projects based on geographical and project-type variety is more meaningful for program assessment because it allows for diverse and innovative projects to be reviewed.
2. ARC believes it makes a good faith effort to corroborate stated final performance measures during its onsite visits, including gathering available documentation such as rosters of students/trainees, tally of number of businesses/organizations assisted, participation surveys/questionnaires, evidence of equipment purchased, and photo/news-related articles when appropriate. Nevertheless, we recognize that we have a responsibility to strengthen the system and make these requirements clearer and more consistent for all site visits. Therefore, we will ask for relevant documentation to support evidence of performance measures. In addition, we will strive to ensure that all grantees are aware of the purpose of the visit beforehand and have adequate time to gather final documentation, especially if this requires extra work on the part of the grantee. Note that in most cases the grantee wishes to have this information not just for other funders who want to better account for their investments, but also for internal program review and assessment.
3. ARC will improve its system for disseminating performance reports by providing a report to the ARC local development districts and the ARC states at the annual Development District Association of Appalachia (DDAA) conference held in March. The report will cover the validation visits conducted during the past year and the project evaluation reports concluded during the past year. Approximately 300 of the Commission's key partners and the Region's funding decision makers attend the DDAA annual conference. Since the DDAA members package projects for the Commission and the State partners review and develop projects for the Commission, a presentation at the DDAA conference provides an opportunity to guide future

ARC investments by sharing validation and evaluation results. In addition, starting in FY 2012, ARC will identify 40 to 60 validated projects to feature in various forums as examples of best practice for the 4 ARC goal areas. The examples will be highlighted on the ARC webpage, at conferences and identified for field visits for staff and our states.

4. The Commission believes that its performance measurement presentation accurately displays the level of the Commission's participation in the projects it funds and the amount of additional investment in the Region by other funders. We note, however, that OMB has under consideration a government-wide approach to reporting results derived from projects with multi-agency funding. ARC will follow OMB guidance on this matter when it is issued.
5. The performance review noted that all budgeted programs do not have evaluation metrics. In FY2012 ARC will develop and use performance measures for all ARC grants. The Consolidated Technical Assistance Grants (14 projects in FY2010), the LDD Administrative Grants (72 projects in FY201O), and other grants currently without measures (50 projects in FY2010) will have new measures in FY2012. Research projects noted in the performance review should be considered contracts not grants and contracts are not required in the ARC Code to have performance metrics.

Office of Inspector General Comments

We concur with the actions planned. With respect to overall comments, including concerns and disagreements with recommended actions relative to obtaining, verifying and reporting on actual results, we recognize ARC's positions including the costs associated with some aspects of GPRA implementation. As previously noted we also recognize and appreciate that ARC voluntarily implemented GPRA, has allocated considerable resources to this effort and has made substantial strides towards implementation of GPRA requirements.

However, since actual and updated results are a key element of GPRA we continue to recommend that ARC consider actions that will better identify and update actual results for comparison with estimated results noted in grant approvals. Use of periodic surveys to grantees and additional use of grant close out reports would provide updated information at limited costs.

Absent additional actions with respect to performance results, and consistent with ARC cost concerns, we recommend that ARC enact the alternative form permitted by the GPRA with respect to issues for which cost benefits of additional actions are not considered practical.

Another comment pertains to reporting of results when ARC's investment is small compared to total investments, including other Federal funds, matching funds and leveraged private investments in approved projects. OMB previously recognized the difficulty of performance measurement since ARC co-funds projects with other agencies but recommended that ARC revise performance measurement methodology to eliminate double-counting of performance.

The ARC response notes that OMB is considering a government-wide approach on this issue and it will follow future OMB guidance on this matter. Although the FY 2010 Performance and Accountability Report notes the dollar extent of ARC and other investments, as a minimum and pending additional OMB guidance, ARC should, in our opinion, note that reported results reflect the outcomes of the total of project investments. Use of a standard percentage reflective of results attributable to other investments is also an interim alternative that reduces the potential for double-counting of performance by Federal agencies pending additional OMB guidance.

Appendix A: Objectives, Scope, and Methodology

The objectives of this inspection were to assess ARC's performance metrics and the associated results, particularly their quality, recording accuracy, reporting accuracy, and their usage. Specifically, the objectives were met by reviewing whether:

- ARC is reporting project performance metrics and results in accordance with accepted criteria and best-practices;
- ARC uses performance results to make appropriate program changes;
- ARC-wide and program metrics provide a meaningful method to measure performance of projects;
- ARC's validation visits provide assurance that ARC receives accurate long-term results information; and
- ARC's procedures and controls ensure grantees report accurate performance results to ARC.

Our audit methodology included (1) review of ARC project files, policies and procedures, and reports; (2) interviews with ARC staff; (3) review of electronic data from ARC's grant management system (ARC.net); and (4) contacting federal agencies to identify best-practices. We reviewed for relevant guidance and criteria, including GPRA, GAO and other related reports, and ARC Code. We did not review performance information related to the Appalachian Development Highway System.

The inspection covered ARC's fiscal years 2007 through 2009, with updates for some information through the current period. We conducted our fieldwork in December 2010 through February 2011 at the Appalachian Regional Commission office in Washington, DC, and the Department of Commerce, Office of Inspector General office in Seattle (DOC OIG), Washington. Our inspection was performed in accordance with the Quality Standards for Inspections adopted by the Council of Inspectors General on Integrity and Efficiency, dated January 2005, and under the authority of the Inspector General Act of 1978, as amended.

The DOC OIG, under a Memorandum of Understanding with the ARC OIG, provided an auditor who did much of the field work and report writing for this inspection. The auditor's work was supervised by the ARC OIG who also contributed to the report and held discussions with management.

Appendix B: ARC Performance Validation Program- Project Selection

ARC PERFORMANCE VALIDATION PROGRAM

VALIDATION PROJECT SELECTION:

Guiding Principle

ARC strives to conduct a thorough and unbiased selection process for reviewing a sample of projects for annual validation, taking into consideration many factors, including cost-effectiveness of traveling to site, grant scale/scope, possibility of visiting project in future years, and maturity of outcomes.

Under no circumstances will an ARC project be excluded simply based on the possibility that the project may not be able to support performance results.

Statistical or random sampling is not ideal for the purposes of the validation visits because of the diversity and scope of ARC project types. Developing a rough sample of ARC projects based on geographical and project-type variety is more meaningful for program assessment because it allows for diverse and innovative projects to be reviewed.

Selection Process

Each April, Regional Planning & Research (RP&R) staff runs a report in arc.net on all projects funded two and three fiscal years prior. This yields a universe of approximately 900 projects.

RP&R staff then removes projects that are still open, about 35-40% of the entire list, yielding approximately 350 closed projects eligible for review.

RP&R staff immediately excludes projects not appropriate or eligible for onsite validation visit. These include LDD administration grants, consolidated technical assistance grants, conferences, research reports and internships. Additionally, approximately 45 projects having already received validation visits within the past five years are excluded.

This list of approximately 185 projects is sent to each project coordinator for their expertise and comment on the performance, effectiveness, and appropriateness of each project. Based on comments provided by the project coordinators and additional research, a list of about 100 projects is sent to the state program managers for their comment and review.

Note that projects are excluded from the list only for very explicit reasons. These include evidence that the project has experienced significant management turnover, precluding the likelihood that new management has sufficient knowledge of the project to provide adequate feedback. Similarly, the project management position may be vacant and there may be no one

onsite to discuss the project. Projects may be suggested for review the following year, when performance outcomes are more likely to mature. Finally, in certain (rare) cases projects may be excluded if there is knowledge of an ongoing legal dispute and/or Inspector General investigation.

Finally, staff reaches a balance of projects based on state (5-7 projects each), type, and performance measures. The goal is to visit a diverse mix of ARC project types across all 13 states while visiting at least 12 construction/infrastructure, 12 education/health/ leadership, and 12 business development/entrepreneurship projects since they fall under the three main ARC goals (excluding highways) and the three main performance measures ARC reports to the Office of Management and Budget: households served, students/workers with improvements, and jobs created. If we find that there are major gaps, we may go back and pull projects that were closed between the first data pull and closer to the time of the visits to see if they can be added to the list.

Projects that showcase innovation or can be replicated across states are always encouraged, mainly for the potential for lessons learned and broader information dissemination including the ARC web site and *Appalachia* magazine stories.

The final list comprises approximately 70-80 projects that are closed and thoroughly researched. Inevitably, some projects are not reviewed due to scheduling difficulties, geography, timing and other issues.

Under certain circumstances where few infrastructure projects are found within a given state, staff will look at projects funded four fiscal years prior to determine suitability for visitation. Including these additional projects may help ensure there is a balanced mix of project types for each of the three main ARC goal areas.

Ultimately, RP&R staff visit a rough sample of approximately 55-65 projects for onsite validation and review.