



March 27, 2015

To: Federal Co-Chair
ARC Executive Director
ARC General Counsel
From: Hubert Sparks, Inspector General

Subject: Memorandum Report 15-12 – Area Development Grant Applications and Approvals

A review of FY 2014 Area Development (AD) applications, approvals and dollars approved confirmed that a significant amount of applications were received and processed in the last quarter of FY 2014 and a large majority of dollars were approved in the final quarter.

For example, during the last quarter of FY 2014 about 41 percent of AD grant applications were received and 75 percent of FY 2014 approvals were finalized, including 44 percent in September 2014. Of particular significance about 76 percent of the dollar value of AD approvals were made in the last quarter, including 48 percent in September 2014 (see tables A and B). The pattern of applications and approvals also increases the amount of un-obligated funds that amounted to about \$13 million at the end of FY 2014, excluding \$10 million for broadband related grants.

Administrative funding applications and approvals for the 74 local Development Districts that are generally received and approved early in the fiscal year are not included in this report since these grants are repetitive and limited in value compared to the Area Development, including Distressed County, grants. Also, although highlighting the application and approval process with respect to State submissions we recognize the process is a shared responsibility that includes ARC timely processing of applications

Although application and approval actions are emphasized and earlier submission of applications is considered a priority to address the overall issue the extent of large dollar approvals at the end of the fiscal year is considered to be of particular significance.

The timing of applications, approvals and amounts approved in the last quarter, and particularly the last month of the FY, can create impressions about a scarcity of priority projects in the applicable states and results in extraordinary year-end efforts to approve grants and avoid large balances of un-obligated funds.

The combination of late applications processing and approvals in the latter months of the fiscal year also contributes to an unbalanced staff workload that impacts time available for review of applications and obtaining necessary additional information. ARC staff and State representatives involved with grant applications, reviews and processing agreed that more

timely submission of applications would be beneficial for improving the grant approval process. The impact of the unbalanced workload is identified by the extent of approvals in August and September 2014.

This issue was included in a OIG 2012 memorandum report. ARC commented as follows; "ARC continually encourages states to submit their project applications once the agency's annual allocation is approved. The states did agree in March 2011 to move ARC's June 30th "75 percent" project submission deadline forward one month to May 31st, effective in 2012. This date change is intended to accomplish several objectives: 1) help level out the project load to be more manageable, 2) give states more time to develop and submit back-up projects if problems arise with their original list, 3) increase the likelihood of construction projects getting obligated within the fiscal year, and 4) improve the availability of funds to the Commission in the event of future Continuing Resolution situations."

However, no discernible improvement with respect to application timeliness and grant processing was noted and the pattern of very late applications resulting in August and September processing and approvals and obligations continues.

Contacts with ARC State Alternates and Program Managers identified several factors impacting submission of grant applications. These include finalization of available ARC funding, availability of additional needed funding, including required match, large number of pre-applications and applications needing reviews, differences between ARC and State budget years, Governors review process and retaining ARC allocations in case needed projects are identified near the end of the year.

We recognize such factors can have impacts on state submission of applications but do not agree the magnitude should require delaying applications and approvals until near the end of the year to the extent noted. For example, the dollar value of approvals in the last quarter for three states was less than 50% of the dollar value of FY 2014 approvals ranging from 33 to 46 percent. Conversely, for ten states the last quarter dollar value ranged from 55 to 100% of approval values. In four cases the percentage of dollar value of approvals in September exceeded 70 percent. (Table A)

Available information noted that seven states submitted 40 percent or more of AD applications in the last quarter, including three states for which over 68 percent of applications were submitted in the last quarter. In six instances 25 percent or less applications were received in the last quarter. (Table B)

Several states start the pre-application process before or just after the October 1 beginning of the ARC fiscal year which results in more timely submission of applications. Also, State Annual Strategy Statements that are due December 15 and according to the ARC Code shall describe the areas of emphasis for the use of ARC funds during the coming year could be a useful document for identifying project priorities and submission of applications

Follow-up with State Partners to identify and address barriers to the extent possible should be emphasized in order to better distribute applications, approvals and obligations throughout the fiscal year and avoid extensive year end approvals, obligations and un-obligated funds. Initial emphasis should be placed on receiving 75 percent of applications by May 31, including AD applications. Consideration should be given to advancing the deadline unless extensions are requested and justified and/or increasing the percentage of applications due by May 31.

ARC agreed to emphasize submission of 75 percent of grant applications by May 31 in accord with ARC policy and coordinate with States about reducing obstacles to early submission of grant applications.

Table A

Percentage of Dollar Approvals during Calendar Periods – FY 2014

State	10/1/13 - 6/30/14	July 2014	Aug 2014	Sept 2014 2/	Last Quarter 1/
AL	67	16		17	33
GA	17	9		74	83
KY	17	10	16	57	83
MD	45	47		8	55
MS	31	9	25	33	69
NY	0	9	20	71	100
NC	54		3	43	46
OH	67		13	20	33
PA	10		77	13	90
SC	1	27	42	30	99
TN	11	17	18	54	89
VA	0	4	2	94	100
WV	0		8	92	100
Average	24	9	19	48	76

1/ Ten States with last quarter dollar value of approvals ranging from 55 to 100 percent.

2/ Six States with September approval dollars values ranging from 54 to 94 percent.

FY 2014 Percentage of Approvals¹

State	AD Approvals	10/1/13 6/30/14	July 2014	Aug 2014	Sept 2014	Last Quarter 2014
AL	30	63	14	3	20	37
GA	20	10	10	5	75	90
KY	35	14	11	14	61	86
MD	17	35	18	6	41	65
MS	36	25	14	28	33	75
NY	15	0	7	33	60	100
NC	12	67	0	8	25	33
OH	23	65	0	13	22	35
PA	28	14	0	64	22	86
SC	12	0	25	42	33	100
TN	19	11	14	21	65	89
VA	12	0	17	8	75	100
WV	<u>11</u>	<u>0</u>	<u>0</u>	<u>9</u>	<u>91</u>	<u>100</u>
	<u>270</u>	<u>26</u>	<u>10</u>	<u>21</u>	<u>44</u>	<u>75</u>

¹ Excludes LDD Administrative Grants

Table B

FY 2014 Application and Approval Information

State	Area Development Applications Received			Total	Percent in last quarter
	(10/01/13 - 06/30/14) ^{1/2}	<u>July</u> 2014	<u>Aug</u> 2014		
AL	33	3	2	40	17.5
GA	10	3	3	21	52.3
KY	13	9	12	41	68.2
MD	12	3	3	20	40.0
MS	22	3	7	38	42.1
NC	12	0	0	16	25.0
NY	17	0	0	18	5.8
OH	20	0	5	25	20.0
PA	21	4	10	38	44.7
SC	13	0	1	14	7.6
TN	8	13	3	30	73.3
VA	12	0	1	16	25.0
<u>WV</u>	<u>1</u>	<u>4</u>	<u>6</u>	<u>12</u>	<u>91.6</u>
Total	<u>194</u>	<u>42</u>	<u>53</u>	<u>329</u>	<u>41.0</u>

1/Excludes LDD Administrative grants that are processed early in the Fiscal Year.

2/ Includes 23 Access Road Applications