



March 27, 2015

To: Federal Co-Chair
ARC Executive Director
ARC General Counsel
ARC Program Director

From: Hubert Sparks, Inspector General

Subject: Memorandum Report 15-13 - State Strategy Statements

A review of annual State Strategy Statements identified the potential for revising these Statements to improve their use as a management tool. These Statements contain substantial information about the economic conditions in the applicable Appalachian Region and identify many objectives and strategies in line with the four ARC goals. However, most of the Statements essentially repeat prior year information and do not emphasize how ARC funds will be used in the coming year, including project area priorities, nor are special objectives and strategies for distressed counties noted where applicable.

The ARC Code notes that Annual Strategy Statements shall describe the areas of emphasis for the use of the ARC funds in the Region during the coming fiscal year and, to the extent applicable, explain approaches under consideration to achieve a goal or goals with resources other than ARC grant funds. The ARC Code also states that Strategy Statements for States having designated distressed counties will include in its Annual Strategy Statement special objectives and strategies and funding criteria for its distressed county program.

The ARC Code also notes the governor of each Appalachian State initially shall submit a State Appalachian Development Plan within 10 months after taking office. Each State Appalachian Development Plan shall set forth Governor's goals, objective and priorities for the Region and identify the need on which such goals, objectives and priorities are based.

ARC legislation notes as part of the State Development Planning process that each State member shall submit a development plan for the area of the State within the Appalachian Region that shall include recommendations for specific projects to receive assistance. Legislation designates ARC to identify a development plan submission schedule and we believe this provision also applies to the Annual State Strategy Statements required by ARC.

The four ARC goals that are the basis of the objectives and strategies in the State Development Plan and Annual State Strategy Statements are:

- Increase job opportunities and per capita income in Appalachia to reach parity with nation.
- Strengthen the capacity of the people of Appalachia to compete in the global economy.
- Develop and improve Appalachian Infrastructure to make the region economically competitive.
- Build the Appalachian Development Highway System to reduce Appalachian isolation.

A review of available recent State Strategy Statements noted that Annual Statements generally repeated, often verbatim, the information in prior Annual Statements and/or State Development Plans with respect to economic information and goals, objectives and strategies. The statements identified numerous objectives and strategies for each goal although ARC funding is insufficient to address the lengthy listings.

Contacts with States Alternates and ARC State Program Managers and ARC Staff received unanimous feedback that the Annual Strategy Statements should be reviewed and revised. Little use of these statements as a management tool was noted and basically changing the date on the statement was noted as one action. A State official noted that strategy documents should require States thinking. Overall it appeared submissions were viewed as necessary to comply with ARC requirements and in some instances Annual Strategy Statement have not been submitted.

Of particular significance, in our opinion, was limited or no information included in Annual Statements with respect to recommending specific projects, emphasizing use of ARC funds in the coming year, identifying special objectives and strategies for distressed counties in applicable states or obtaining other resources to achieve a goal or goals. In some instances it was noted that on-going projects would be continued and some sections on Local Development Districts identified some specific project priorities. Such information that is currently intertwined with various Statement sections could be summarized in a section about use of ARC funds in the coming year. One Statement contained the comment that 73 percent of ARC funds are proposed for infrastructure projects to serve new job creating businesses. Although identifying specific percentages may not be practical in many cases the concept of identifying some priority areas in relation to available ARC funding appears possible and reasonable.

Concerns were expressed by several State Officials with respect to identifying specific projects in the Strategy Statement due to uncertainty of what applications would be approved. We recognize such concerns but also believe particular areas of emphasis can be identified and that

for major construction projects information is generally available when Strategy Statements are developed with respect to some projects that will be emphasized in the coming year.

With respect to distressed counties the Statements reviewed noted the percentage of cost sharing but did not identify special objectives and strategies for distressed counties. One Statement highlighted the circumstances and issues resulting in a distressed county designation and overall priorities for the applicable counties but special objectives and strategies were not identified.

It appears that any project within the framework of the four ARC goals would be eligible for consideration and repetition of the numerous objectives and strategies highlighted in each succeeding Strategy Statements is not necessary to meet legislative or ARC requirements. In most instances the Statements also included ARC policies and procedures that allow for changed priorities based on changed circumstances.

The Statement section on State Operating Policies included, in some cases, specific information about the application time frames such as pre-application dates, notification of applicants, LDD and State reviews and submission to ARC. Inclusion of application processing information in all State Development Plans or Strategy Statements is recommended as an improved control with the provision that later actions are possible due to emergencies, changed priorities, etc.

Although the current Annual Strategy Statements are not a significant factor in the grant process inclusion of information with respect to the use of ARC funds in the coming year in Statements due early in the fiscal year could facilitate the submission of grant applications which could have a positive impact on a balanced workload and approvals, un-obligated and unliquidated funds. Also, Strategy Statements that are more directed at coming year priorities provide some basis for program performance assessments.

In summary, rather than Annual Strategy Statements that repeat much of the information in the State Development Plan or the first Strategy Statement subsequent to a new Governor the subsequent Statements could be a more useful management tool. Recommended actions include using the Annual Statements to update economic conditions in the applicable region, identification of new or changed strategies or objectives, identifying some areas of emphasis in the coming year, including applicable objectives and strategies for these areas and distressed counties, and time lines/goals for application processing.

ARC commented that actions were in process to review and revise Annual State Strategy Statements, including discussion with State ARC Program Managers.