



OCTOBER 25, 1994

OIG REPORT 95-1(H)

MEMORANDUM FOR The Federal Co-Chairman
 ARC Executive Director

SUBJECT: Survey Report--Grant Controls, Performance Criteria, and
 Evaluation

I. PURPOSE

The purposes of our survey were to (a) test the effectiveness of program and management controls with respect to timely use or approval and payment of funds and (b) test the availability and effectiveness of performance measures in grant agreements.

II. BACKGROUND

ARC awards grants and contracts to state and local governments, counties, municipalities, local development districts, nonprofit and for-profit organizations, and other organizations such as colleges and universities. The grants are awarded for a variety of programs aimed at improving the economic and social conditions in the Appalachian region. Grants are awarded in accordance with Section 8-1 of the ARC Code. This code section summarizes the planning process in which ARC, member states, and local governments set forth goals, objectives, priorities, and policies for the region and identify priority programs and projects for ARC assistance. Each member state prepares and submits for ARC approval an annual State Appalachian Development Plan or plan update and an Annual Implementing Investment Program, which take into consideration areawide action programs prepared by local development districts. This process is designed to give each state flexibility to establish goals, objectives, and priorities for the region and to identify programs and projects to receive ARC funding assistance.

ARC project coordinators are assigned to monitor the grants for compliance with the terms and conditions of the grant.

III. OBJECTIVES

The specific objectives of our survey were to:

- o Test the effectiveness of program and management controls with respect to timely use or approval of funds.
- o Test the availability and effectiveness of performance measures for assessing accomplishment of grant objectives and impacts on the economy of Appalachia.
- o Determine controls available to ensure adequacy of information provided to new grantees with respect to applicable regulations and procedures.

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- o Determine program and management controls and the extent of implementation with respect to project coordinator monitoring of projects.
- o Test the controls and implementation related to required reports and documents being available to support payments and/or extensions, including availability of required reports and adequacy of project coordinator followup when the required reports are not received on a timely basis.
- o Determine controls available and implemented with respect to assessing the potential for project success and eligibility prior to recommending approval by the Federal Co-Chairman.

IV. SCOPE

Our survey included a review of grant agreements awarded by ARC and the related project file maintained by the respective project coordinator. Specifically, we chose a sample of newer grant agreements for which testing emphasis included determinations of performance measure identification and reporting requirements in grant agreements, inclusion of information about applicable regulations and procedures with grant agreements, and controls and procedures used by project coordinators to evaluate project proposal and potential for success and eligibility. In addition, we chose a sample of older grants to determine the availability of results and performance information, including any performance reporting requirements in the grant agreements or the grantee reports of results subsequent to grant completion; controls available and implemented with respect to reports and payments; and extent of project coordinator monitoring and followup, including actions to close or obtain necessary justifications for extensions or scope changes. Items checked in connection with each sample are included as Attachments I and II.

In performing the survey, we discussed the program objectives with two of the ARC project coordinators and determined the procedures available to them to evaluate, modify, and recommend projects for ARC funding. We also determined the policies established for monitoring grants and evaluated the level of implementation of those procedures by the project coordinators. Our results and recommendations are based on these procedures.

V. RESULTS

The following results were based on our survey:

A. PROJECT COORDINATION AND MONITORING--GENERAL

ARC assigns a project coordinator to monitor each grant awarded. This includes monitoring the submission of the application, the work plan, the required progress reports, the payment of progress or advance payments, and the evaluation of performance in achieving the objectives and goals of the grant. We discussed the policies and procedures available to and implemented by the ARC project coordinators in performing these monitoring functions.

The award of grants and contracts by ARC is generally limited to projects approved by the Governor of the member states and the Federal Co-Chairman. However, the Federal Co-Chairman also has the ability to award grants from a separate discretionary fund. Applications or preapplications for projects that are identified as a priority in accordance with the state plan, submitted annually to ARC, are reviewed for eligibility and funding by the ARC project coordinator and the State Alternate. Based on this review, the Alternate and the project coordinator discuss the proposed project and either recommend or reject the project for funding.

The accepted applications are then used by the project coordinator as a tool in discussing the scope and objectives of the project directly with the grantee. The project coordinator will work with the grantee to refine the project and develop a suitable and acceptable work plan. It is at this time that the project coordinator can ensure that the intended work is eligible and assess the project's potential success based on the refined scope and objectives. Project coordinators have some control over the adequacy of the work plan and future work since they can recommend withholding payment on the grant until a satisfactory work plan has been submitted.

The grant document is prepared by the ARC General Counsel's office. Reporting requirements and payment schedules are established at that time. The grant document is sent to the grantee by the General Counsel's office. However, except for general and administrative requirements, the applicable regulations, including OMB Circulars, are generally not included with the grant document. The project coordinators have recently been given the opportunity to review the draft grant documents. This review is an important control in ensuring the grant language encompasses any recommendations or requirements of the project coordinators.

The project coordinators are responsible for monitoring compliance with grant terms and conditions. However, we noted that there are no formal policies and procedures by which the project coordinators monitor compliance with these requirements. We discussed the monitoring procedures used with several of the project coordinators. They stated that there is no "tickler" or automated system in place to indicate when required reports are due. The project coordinators stated that they generally know the status of their projects and have frequent communication with the grantees who have not submitted the required documentation. However, we noted that this communication, whether written or oral, was not evident in most of the project grant files.,

Approximately twice each year, the project coordinators had received a listing from the Finance Office summarizing the grants that have expired grant periods but were not closed out by ARC. Final payments have not been requested or approved on these grants for various reasons including the lack of submission of required reports such as the final report or the grantee's annual independent audit. The project coordinators stated that many times, after submission of the final report to ARC, the report is returned to the grantee because it is inadequate. In accordance with grant terms, the final report must address the objectives of the grant and include, as applicable, any quantifiable performance measurements. The project coordinators also stated that changes in personnel at the grantee level contribute to the delay in submitting the necessary reports. When this situation occurs, the project coordinators try to work with either the grantee or the Alternate in resolving how the information will be collected and reported.

The project coordinators did not believe that an extension to the grant period of performance is justified in situations where the final report or final annual audit has not been submitted. They stated that an extension may give the grantee the opportunity to incur and claim additional costs related to preparing and submitting the reports. Also, period of performance extensions may result in requirements for additional reports and, again, could lead to delays. This reasoning appears sound if costs incurred after the approved performance period are disallowed; however, it does not appear that such costs are often disallowed.

Although the project coordinators appear to have a good idea of the status of most projects under their supervision, our review of a number of both older and more recent grants and corresponding grant files resulted in recommendations with respect to potential policies and procedures that could be implemented by ARC. These recommendations are included in the following discussion.

B. OLDER GRANTS

1. Sample

From an ARC listing of active grants, dated February 9, 1994, 21 grants were selected for review.

2. Final Reports

Of the 21 grant files reviewed, 5 had final reports in the file. The remaining 16 did not include a copy of the required final report. All of the grants reviewed had periods of performance that ended between June 1992 and October 1993. Because final reports were not yet submitted, funding of 10 percent or more of the total grant amount was being withheld. Receipt of final reports on a timely basis will, in turn, enable the release of the remaining eligible funding and ultimately, the close out of the grant. The option of increasing the amount retained by ARC may provide greater incentive to the grantees to submit the final reports on a more timely basis. In addition, ARC could include provisions that grants must be closed and funds deobligated for projects with expiration dates, including any approved time extensions, in excess of a certain period as established by ARC. We noted that most of the grants for which final reports have not been received are more than 6 months past the grant period of performance, including any approved time extensions. Files generally did not include documentation with respect to contacts with grantees or time frames for receipt of necessary information.

We also noted the following with respect to final reports:

- o A final report was submitted for Contract 92-029 in June 1993; however, no payments have been made.
- o Final reports were submitted for Contracts 91-086, 91-093, 91-139, and 92-102; however, retainage has not been released and the projects have not been closed.

We did not locate correspondence or memorandums from the project coordinators indicating the basis for the lack of payments on these grants.

3. **Progress Reports**

Of the 21 grant files reviewed, 16 had progress reports in the file. However, we noted that most of the grants did not include all of the required progress reports. Most of the grant agreements require either quarterly or semiannual progress reports. These reports must accompany requests for progress payments. We noted that grantees were requesting advance payments, which require only an estimate of the required funding for the period, rather than progress payments, which would require the submission of the progress reports and assessment of performance by the project coordinator prior to payment.

We noted several instances when the project coordinator contacted the grantee regarding late reports before processing payment. However, most grant files included no indication why the reports were not submitted. The project coordinators should more closely track the required due dates of the reports and document any correspondence or discussions with the grantee with respect to reasons for delays in submitting the reports. Where the timing or nature of grants reduces the need for quarterly progress reports, for example, coordinator approval should be noted in the files or the grant agreement should be revised to denote report requirements.

4. **Project Coordinator Monitoring**

Most of the grant files reviewed had documentation that some monitoring had been performed by the project coordinator. We noted that documentation of monitoring, with several exceptions by certain project coordinators, was limited to evaluating requests for budget modifications or time extensions. Documentation of monitoring of performance, reporting, accomplishment of grant objectives, and accounting systems was generally not evident. Based on results of previous surveys and OIG reviews and audits, we believe that a stronger emphasis should be made on monitoring the grantee's performance, reporting, and accounting system.

5. **Period of Performance Extensions and Close Outs**

Requests for extension of the period of performance noted in the grants selected for our review were supported by documentation indicating the basis for the requested extensions. The requests had been reviewed by the project coordinator and recommended for approval. However, as noted in other periodic surveys performed by the ARC OIG, there remain a substantial number of grants where performance periods are not extended timely and/or files are not documented to reflect why such an extension is not considered necessary (e.g. awaiting final report only) or a time frame for finalization. A complementary survey of grants with expired performance periods denoted a similar condition. Recommendations in this area are included in OIG Report 94-19(H).

6. Evaluation Criteria

Evaluation surveys, whenever possible, should be used as an effective tool in measuring the recipients' satisfaction with the various grant objectives. Based on our survey, only 2 grants utilized evaluation forms. It should be noted that evaluation surveys are not conducive to all grant objectives; however, whenever possible, they should be utilized to assess the extent to which projects met objectives.

7. Quantifiable Results

Grant agreements for 14 of the 21 grant files reviewed had quantifiable results, some of which could be verified within the term of the grant. These results could be used by the project coordinator to determine if the grant objectives were being reached. The remaining grants were either surveys or technical assistance grants, the results of which are not always measurable in quantifiable statistics within the grant period. However, we did not note any instances where performance results were requested subsequent to the grant period. Reports of results for projects that require substantial start up time or that will result in future quantifiable measures would be beneficial to ARC and the project coordinators in determining the potential success of similar projects.

We recognize that there are no requirements for grantees to provide information about grant activities or results after the end of the performance period. However, in view of current emphasis on performance measurement, we believe ARC should consider a system of voluntary reporting by grantees and/or followup contacts by project coordinators subsequent to project completion to ascertain the extent of project results. Such information could be valuable in assessing requests for similar type projects or providing assistance to grantees performing similar type projects. See IV-D below for additional discussion of this subject.

8. Budget in Agreement

Of the 21 grant files reviewed, 16 of the grants included a budget in the grant agreement. The budget is a valuable tool in reconciling the grant's expenditures to the budgeted amount for more effective monitoring.

9. Regulations and Procedures

Of the 21 grant files reviewed, none of the grant agreements included a specific reference to the applicable regulations governing the administrative and financial requirements of the grant. In addition, there was no indication that the applicable OMB Circulars had been provided to the grantee with the executed grant agreement. We recognize that general contract and administrative provisions, which are incorporated by reference into the basic grant agreement, identify the applicable OMB Circulars and the ARC Code. However, based on results of prior surveys and OIG reviews and audits, it appears that many new grantees are not familiar with the regulations affecting their Federal grants. Thus, the applicable regulations, or summaries thereof, should be forwarded to the grantee with the grant agreement; and more emphasis should be placed on assessing whether the grantee understands and has the ability to comply with the grant terms and

applicable Federal regulations. A prior recommendation also noted the value of forwarding the applicable OMB Circulars to grantees along with the grant agreement.

C. **NEWER GRANTS**

1. **Sample**

From an active listing of grants, 24 grants were selected for review.

2. **Quantifiable Results and Evaluations Subsequent to Grant Completion**

Of the 24 grant files reviewed, 10 had quantifiable results that allowed for some verification within the term of the grant. These results could be used by the project coordinator to determine if the grant objectives were being reached. Most of the remaining grants were either surveys or technical assistance grants, the results of which are not always measurable in quantifiable statistics. However, we believe several of the grants have performance results that, although not measurable during the period of the grant, would be determinable during a future period.

3. **Progress Reports**

Of the grant files reviewed, 18 did not have all required progress reports in the file. In addition, one of the progress reports on file was submitted to ARC more than 30 days after the date required by the grant. However, we noted that only one project coordinator documented communication with the grantee to determine the status of the project and the progress report. Most of the grant agreements require either quarterly or semiannual progress reports. These reports must accompany requests for progress payments. The project coordinators should more closely track the required due dates of the reports and document any correspondence or discussions with the grantee with respect to reasons for delays in submitting the reports. Also, agreements to forego some progress reports should be noted in the project file.

4. **Grant Payments**

We noted that no payments had been made on 13 of the grants reviewed. The grant files did not include any requests from the grantee for either advances or progress payments. Many of these grants are halfway or more through the period of performance. There was no indication of communication with the grantee by the project coordinator to determine the status of the project.

5. **Other**

Results of our survey with regard to budgets, regulations, and other procedures were similar to those reported above with respect to older grants. All of the grants included a budget that the grantee is to comply with in incurring and claiming costs for reimbursement under each grant. However, there was no indication that the applicable OMB Circulars had been provided to the grantee with the executed grant agreement.

D. PERFORMANCE GOALS AND MEASUREMENT

Of particular significance, in our opinion, is the area of performance goals, including objective, quantifiable, and measurable goals and indicators, and assessment of progress in meeting goals.

The current emphasis on performance and results is highlighted in the Government Performance and Results Act (GPRA) of 1993, P.L. 103-62. This Act requires Federal agencies to phase in over the next 5 years, the development of strategic plans; prepare annual plans setting performance goals; and report annually on actual performance compared to goals. Ten pilot projects are underway to test and demonstrate annual performance plans, reports and managerial accountability and flexibility. Attached are excerpts from a report of the Senate Committee on Governmental Affairs summarizing performance goals, performance indicators, and performance measurement as noted in the GPRA.

ARC may not presently be subject to the GPRA, which covers all Federal entities as defined by 5 U.S.C. 105. However, the overall purpose and intent of the legislation and the Administration's commitment to implementation of its provisions provides opportunity for all Federal entities to comply with the thrust of the provisions to improve planning, performance, and measurement. The nature of ARC activities provides a unique opportunity to increase emphasis in these areas. As noted in above sections, there appears to be an opportunity to increase the identification of performance goals, including grant agreement identification of reasonable/quantifiable goals and verification/evaluation of the extent to which performance goals are achieved.

For example, in the area of performance goals and measures, grant agreements could identify measurements that are considered to provide a realistic indicator of project success; and followup contacts could obtain information consistent with performance measures that the grantee was made aware of at the time of grant approval. As previously noted, ARC could request grantees who receive grants that are intended to create future results based on the implementation of the grant to report on the quantifiable or performance results of the grant at a time subsequent to the actual grant period. Similarly, project coordinators could initiate contact to ascertain project results. Thereby, project coordinators could better assess the results and potential success of future grants of the same type.

As an example, we noted, during a recent review, that language in grant agreement AL-11008-92, ARC Contract 92-109 (not in sample), Rural Health Emergency Medical System, provided for an evaluation of the impact of the training using pre- and post-project instruments and evaluation of the financial base for each unit in the project to see if improvements in billing, reimbursement, and management have occurred. Also, the grant application, which becomes part of the grant agreement, states that, in years 1 and 2 after the project has ended, the Office of Rural Health will evaluate the project sites to determine if improvement has been maintained and if self-sufficiency has occurred.

We believe these are excellent evaluation provisions and should provide information that can be effectively utilized to assess project success and necessary actions and provide a better basis on which to initiate similar type projects. Similar type information would be very valuable to ARC for assessing results and determining future approval priorities.

In many cases, final project reports that address the period of grant performance, cannot effectively address project results or success since the full implementation of ARC funded projects often occurs after the end of the grant period. This is particularly true for projects related to training, studies, job development, etc. and instances where continued operations are dependent on the grantee creating funds internally or obtaining assistance from sources other than ARC.

As noted above, we recognize that requiring post-performance period reports or information from grantees may be difficult although it appears such requirements are included in some agreements. However, identification of performance goals and indicators in grant agreements and requesting information subsequent to the performance period and/or having project coordinators contact grantees to discuss project status and results appear to be reasonable actions consistent with current Governmentwide efforts to identify and evaluate performance measures. Such actions could be supplemented by audits to test the accuracy of reported information, but primary emphasis should be on management actions to identify and evaluate results.

VI. GENERAL

During the past 2 years, we have emphasized reviews of first-time grantees in order to determine understandings and compliance with applicable requirements.

In many instances, our reviews have disclosed limited understanding or knowledge about applicable requirements, such as accounting systems, supporting invoices and records, identification of in-kind contributions, separation of funds, allowable costs, etc. In view of the first-time nature of most of the noted grants, we have taken a moderate position with respect to questioning costs. However, we believe there is a need and an opportunity to provide improved guidance, especially to new or small grantees, that will ensure improved compliance with requirements without increases in workload. For example, the absence of required information often results in a reconstruction of records, a task that is generally more time consuming than initial maintenance of required documents. Also, as noted in our reports, the absence of information does result in reduced payments to, or refunds from, grantees.

In addition to the above recommendation to provide applicable circulars, we will provide, under separate cover, a summary of items noted during our prior reviews and a listing of specific subjects that can be emphasized to new or smaller grantees at the time of grant approval.

VII. RECOMMENDATIONS

Recommendations contained in the applicable sections are summarized as follows:

- o Provide, for timely followup, project file documentation with respect to projects for which the performance period is near expiration or has expired and action to identify project status and necessary action, including establishment of time frames for project completion, receipt of required reports, and/or deobligation of funds.

- o Ensure necessary progress reports are received and reviewed and identify waivers or changes of progress report requirements in grant files.
- o Emphasize identification of performance goals, indicators, and measures, to the extent practical, in grant agreements and identify additional methods to obtain information necessary to assess project results in relation to goals--e.g., the evaluations at end of performance period, at time of closing, and subsequent to project completion in cases where project results are long term.
- o With the exception of major entities, e.g., large state entities or educational institutions, provide grantees with copies of the applicable OMB Circulars or summarized guidance simultaneous with grant agreement approval and completion.

VIII. DISCUSSION OF RESULTS

The results of our survey were discussed on September 8, 1994, with the following ARC officials:

- o Executive Director
- o General Counsel
- o Director, Community Development Division
- o Director, Human Resources Division
- o Director, Finance and Information Services Division
- o Director, Local Development Districts
- o Budget Officer

These officials generally concurred with the results and recommendations and noted that the issues would be included in organizational and operational strategies and procedure being reviewed and/or developed as part of an in-depth strategic planning process. For example, officials indicated that guidance for grantees highlighting important requirements, including financial management practices, was being developed.

We will follow up within 60 days to obtain an update on actions planned or initiated in the areas noted.


Hubert N. Sparks
Inspector General

Attachments 2

TABLE I--OLDER GRANTS

CONTRACT NO.	CONDITION									
	No Final Report in File--Past Due	Progress Reports in File	No Payments Made	Monitoring Evidence in File	ARC Approved Extension Request	Evaluation Survey to Measure Performance	Quantifiable Results in Scope of Work			
92-014	X	X			X		X			
91-056	X	X								
92-029			X				X			
91-135	X	X		X	X					
92-006	X	X		X		X	X			
92-104	X	X		X	X					
92-129	X	X		X	X		X			
92-133	X	X				X	X			
91-086		X		X	X		X			
91-001	X			X			X			
91-163	X	X		X	X		X			
92-101	X	X		X			X			
92-102				X						
88-116	X						X			
91-093		X		X	X		X			
77-98	X	X			X		X			
92-011	X	X			X					
92-166	X			X	X		X			
92-152	X	X		X						
90-135	X	X		X						
91-139		X		X			X			
TOTALS	16	16	1	14	10	2	14			

TABLE II--NEWER GRANTS

CONTRACT NO.	CONDITION									
	No Final Report in File--Past Due	Progress Reports in File	No Payments Made	Monitoring Evidence in File	ARC Approved Extension Request	Evaluation Survey to Measure Performance	Quantifiable Results in Scope of Work			
93-063										
93-090		X		X	X					
93-124			X							
93-102		X								
93-092			X							
93-059			X							
93-098							X			
93-109			X				X			
93-061				X	X		X			
93-080			X							
93-078		X					X			
93-101			X	X			X			
93-045										
93-085			X				X			
93-084			X				X			
93-100		X		X						
93-065		X	X	X	X					
93-087		X		X			X			
93-110			X	X			X			
93-081										
93-107			X							
93-095			X							
93-091			X							X
93-089										
TOTALS	0	6	13	7	3	0	10			