

**REPORT ON REVIEW OF
BASIC AGENCIES REPORTING**

**APPALACHIAN REGIONAL COMMISSION
MEMORANDUMS OF UNDERSTANDING AND AGREEMENT
WITH**

- **Federal Highway Administration**
- **Department of Health and Human Services, Health Resources and Services Administration**
- **Department of Education,**
- **Tennessee Valley Authority, and**
- **Department of Agriculture, Rural Development Administration**

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Report Number: 96-3(H)

Date: May 29, 1996

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Prepared by:

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TO: Appalachian Regional Commission
Office of Inspector General (OIG)

FROM: Tichenor & Associates, CPAs
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman
ARC Executive Director

SUBJECT: Memorandum Review Report No. 96-3(H). Review of Basic Agencies
Reporting, Summary of Results

PURPOSE:

This survey was performed in order to determine (i) Appalachian Regional Commission (ARC) policies and procedures in place for providing administrative funding to other Federal agencies, (ii) the extent of services provided by the basic agencies, (iii) the types of reports and records provided by the basic agencies and maintained by ARC documenting the status of pass through grants, and (iv) areas for improvement.

SOURCE:

In performing the review, we relied on the information obtained from the following sources:

- OMB Circular A-34, Instructions on Budget Execution;
- OMB Circular A-11, Preparation and Submission of Budget Estimates;
- Treasury Financial Manual (TFM) 2-4400, Report on Obligations;
- TFM 2-4200, Agency Reports on Unexpended Balances of Appropriations and Funds (FMS Form 2108: Year-end Closing Statement);

- TFM 2-4100, Credit and Debt Management Reporting;
- ARC maintained project files;
- ARC maintained financial files containing required documents; and
- Memorandums of Agreement/Understanding (MOAs and MOUs) between Basic Agencies and ARC.

In addition, we performed numerous interviews with the ARC personnel responsible for tracking the administrative and grant costs passed-through to the basic agencies.

BACKGROUND:

ARC grants may be administered by ARC directly or by other Federal agencies. Other Federal agencies will administer ARC grants when the agency is determined to be the basic agency in line with the ARC Code and based on expertise in the area relative to the grant. ARC sometimes provides administrative funds to the Federal agencies to provide administrative services which would not otherwise have been required by that agency. The basic agency is then responsible for administering the grants, including maintaining the grant awards and obligations, and tracking, monitoring and reporting the project status, including changes to the approved scope and completion dates, to the ARC. The basic agencies that receive administrative funding are the:

- Federal Highway Administration (FHA),
- Department of Health and Human Services, Health Resources and Services Administration (HHS/HRSA),
- Department of Education,
- Tennessee Valley Authority (TVA), and
- Department of Agriculture, Rural Development Administration (RDA)

Also, about 20 other agencies administer ARC grants periodically but do not receive administrative funding from ARC.

SCOPE:

The scope of our review was limited to the review of (1) ARC's policies and procedures pertaining to basic agencies, (2) agency guidance in the OMB Circulars and the Treasury Financial Manual, (3) ARC's requests for documentation related to year-end closing and budget preparation, and (4) the documentation provided by the basic agencies related to year-end closing and budget preparation. Based on an internal review of this area by ARC, we did not review the policies and procedures of the basic agencies in accordance with instructions from the ARC OIG. The specific procedures performed are summarized below.

1. We made inquiries concerning the nature and extent of written and unwritten policies and procedures pertaining to the administrative funds provided to the other Federal agencies.
2. We reviewed the Federal guidance to determine the responsibilities of the agencies and to determine the basic agencies' budgeting requirements and year-end reporting requirements.
3. We reviewed the ARC Code for administrative procedures to be followed by the basic agencies.
4. We reviewed the Memorandums of Understanding and the Memorandums of Agreement between the basic agencies and the ARC to determine if there are any written requirements for administrative procedures or administrative funding.
5. We reviewed the reports submitted by the basic agencies to determine (1) if the basic agencies complied with the established requirements, (2) the extent of services actually provided by the basic agencies, and (3) the types of reports and records maintained, including the extent and nature of reports provided to ARC regarding the status of ARC funded grants.
6. We reviewed information on administrative funding provided by ARC to the basic agencies to determine the amount of funding provided. We performed the following steps:
 - (a) Identified basic agencies that receive administrative funds.
 - (b) Determined the amount of administrative funding provided.
 - (c) Determined the total number of projects and dollar value of the projects administered.
 - (d) Performed analytical review procedures on administrative funding provided to basic agencies in order to identify problem areas.
7. We identified areas for improvement.

The scope of our review included reviewing the reporting requirements for fiscal year 1994 of the 25 Federal agencies which administered ARC grants, and the budgeting requirements for fiscal year 1995 of the five Federal agencies that received administrative funding from ARC to administer ARC grants. The reporting requirements included standard form (S.F.) 133, Report on Budget Execution; FMS form 2108, Year-end Closing Statement; S.F. 225, Report on Obligations; Report on Receivables Due from the Public; project status reports; and Budgeting Reports.

Our recommendations are intended to be consolidated with an ongoing review of the basic agency process being conducted by ARC staff.

RESULTS:

Our review disclosed areas for improvement in the Year-end Reporting Requirements and in the Administrative Budgeting and Funding requirements of the basic agencies. An explanation of these areas and recommendations for improvements in these areas follow.

Year-end Reporting Requirements

1. There were changes and additions to the Reports on Budget Execution, S.F. 133s, and Year-End Closing Statements, FMS Form 2108, provided by the basic agencies. These changes and additions appear to have been made by ARC personnel after receipt of the reports.

The S.F. 133, Report on Budget Execution, provides data to the Treasury on the status of open treasury accounts (i.e., appropriations, transfers, outlays, obligations, and unobligated balances). In accordance with OMB Circular A-34, Section 51-1, in cases where allocations are made to transfer appropriation accounts (i.e., basic agencies), a consolidated S.F. 133 covering the parent account and transfer allocations is required to be submitted by the parent agency (i.e., ARC). The basic agencies are required to furnish information to the parent agency in accordance with that agency's instructions. ARC requires the basic agencies to submit a S.F. 133 for the transfer allocation accounts for which the ARC is responsible.

We reviewed the fiscal year 1994 year end S.F. 133s for the 25 basic agencies receiving ARC funding, and noted that five reports had numerous changes which appeared to have been made by ARC personnel. The standard forms for the National Park Service and the Department of Housing and Urban Development (HUD) had changes made to the balances in Budgetary Resources (Lines 2 and 4), the Status of Budgetary Resources (Lines 8 and 9), and the Obligations accounts (Lines 12 and 13). The S.F. 133 for HHS/HRSA and HHS/Families and the Department of Education had changes made to balances in the Recoveries of Prior Year Obligations (Line 4), Obligations Incurred (Line 8), and Unobligated Balances Available (Line

9). These two HHS agencies received administrative funding from ARC to administer the ARC grants. However, even with the specific funding for administration, the agencies were unable to complete the reports accurately.

These inaccurate S.F. 133s indicate that the basic agencies are either not accurately accounting for the ARC grants, or do not understand how to complete the standard forms. ARC should not have to make corrections to forms and utilize its resources when it is providing funding to basic agencies to perform such work.

ARC personnel agreed that the basic agencies should be required to complete their own S.F. 133 and stated that the problem is that some agencies do not understand their own accounting systems and are unable to determine what figures are required to appear on the S.F. 133. Also, some agencies do not understand how to complete the standard forms. In previous years, ARC obtained the reports from the basic agencies and would make corrections through telephone conversations with the basic agencies. However, ARC is requiring the agencies to complete their own S.F. 133s for fiscal year 1995. We determined that for fiscal year 1995 the only basic agency S.F. 133 that required corrections was submitted by HUD.

The FMS Form 2108, Year-end Closing Statement is required by the Treasury Department in accordance with TFM 2-4200. The FMS Form 2108 is used to prepare the Treasury's pre-closing trial balance of the central appropriation and fund accounts.

At the end of the each fiscal year, FMS Form 2108 is submitted with the final S.F. 133. Balances on the basic agency's S.F. 133 for the 'Unobligated Balances Available' (Line 9) and 'Net Unpaid Obligations' (Line 13) are carried forward to the basic agency's FMS Form 2108 and both forms are submitted to the Department of Commerce to develop the ARC Treasury Account Balances.

As previously noted, the basic agency S.F. 133s submitted by HUD and the National Park Service had changes, including changes to the "Unobligated Balances Available" and "Net Unpaid Obligations". The changed amounts were carried forward to the FMS Form 2108 as the closing balances for these accounts. Since the corrections were made by ARC, it is unclear if the account balances on the FMS Form 2108 are accurate basic agency account balances or if the basic agencies are relying on the ARC to provide accurate balances.

We discussed the changed account balances with ARC personnel who stated that the errors are mainly due to the basic agencies' misunderstanding of the standard form instructions, not inaccurate accounting records. The corrections to the S.F. 133s were made through discussions between ARC and the basic agencies. Differences between ARC's records and the basic agency records are discussed and resolved. Therefore the balances on the FMS Forms 2108 are accurate.

As previously stated, a review of the basic agencies files and records is required to obtain a complete understanding of the problems. Our scope was limited to the ARC policies and records and did not include a review at the basic agencies.

2. The Reports on Obligations, S.F. 225, identifying administrative costs incurred are not consistently provided by the basic agencies receiving administrative funds.

The S.F. 225, Report on Obligations, is required to be submitted to the Treasury Department under TFM 2-4400 for the basic agencies that receive administrative funds from ARC. These agencies include the FHA, HRSA, Department of Education, TVA, and RDA. The S.F. 225 identifies the administrative costs incurred by the basic agency by object classification: personnel compensation, benefits, travel costs, supplies, material, and equipment. In accordance with TFM 2-4440.40, the administrative obligations reported on the S.F. 225 are added to the obligations incurred for grants and the total should agree with Line 8 of the S.F. 133, Obligations Incurred. The submission of the S.F. 225 is necessary to determine what administrative costs were incurred by the basic agencies in order to evaluate the adequacy of the funding, as well as providing support for the S.F. 133 submitted.

ARC requires that copies of the S. F. 225 submitted to the Treasury be provided by the basic agencies with the year-end closing documents. However, we determined that only one of the five basic agencies which required the form had submitted it for that period. ARC confirmed that the basic agencies have not consistently provided the form and some agencies provided the form although it was not required.

ARC agreed that the S.F. 225s should be provided by the basic agencies and were not certain why the agencies had not provided the form.

3. The purpose of the Report on Receivables Due From the Public is unclear to ARC and is not consistently provided by the basic agencies.

The Reports on Receivables Due From the Public (formerly S.F. 220-9), required by the ARC in accordance with TFM 2-4100, Section 4135, is the primary means of reporting accounts and loans receivable. We determined that although this report was included in the year-end documentation request letter, the availability of the report or its need was unclear.

The ARC requests the Report on Receivable due from the Public in accordance with the TFM Section 2-4100. However, we determined that the purpose of the report is uncertain and may not be necessary. We recommend that ARC determine the purpose of the Report on Receivables and its necessity.

4. Project reports, requested by the ARC to provide support for the standard forms, were not always provided by the basic agencies.

ARC requested that some of the basic agencies provide project reports detailing the financial status of all open projects. ARC also requests that the basic agencies provide information on the "Prior Year Completed Projects" report. This information is used to reconcile the cumulative transfer allocation. The basic agencies are required to submit the items requested by ARC in accordance with OMB Circular A-34 Section 51.1 which states that the basic agencies are required to submit any information the parent agency determines is necessary in order to support the agency S.F. 133.

We determined that the requested project reports are not consistently provided by the basic agencies. Two basic agencies, the Department of Education and HUD, did not provide the requested reports to support the fiscal year 1994 S.F. 133s. As a result ARC had to prepare and provide internally generated project reports to support the S.F. 133. In addition, for fiscal year 1995, HHS/HRSA and HHS/Families did not provide project reports. ARC had to determine what projects were closed during the year through discussions with the basic agencies.

Recommendation - Reporting Requirements

We recommend that policies and procedures with respect to agency and ARC reporting responsibilities be developed and included in revised memorandums of understanding, or implementing procedures. Such procedures should identify required forms and reports and responsible party. Follow-up actions should be initiated when required reports are not received and/or are incomplete or inaccurate.

Budgets and Funding

1. Budgets are not required by all agencies that receive administrative funds.

OMB Circular A-11, Preparation and Submission of Budget Estimates, Section 11.7(d), states:

"When reporting budgetary resources, the agency administering the parent account...will obtain the necessary information it needs for this purpose from the receiving agencies."

Administrative budgets for FHA, Department of Education and HRSA were provided as requested. However, no budgets were required to be submitted by TVA and RDA for administration costs. No budgets were required because the administrative funding is calculated based on prescribed formulas established in the Memorandums of Understanding (MOU) with

the ARC. Because budget information is not consistently required ARC is unable to obtain complete information on the intended use of administrative funds.

The basic agencies used to have to account for a certain number of full-time equivalent (FTE) personnel to be utilized in administering the ARC grants. However, this information is no longer required in the year-end reporting. Therefore, it is not possible for ARC to evaluate the adequacy of administrative funding provided. However, the budget process requires that this information be provided in the form of budget by object classification (OMB A-11, Section 35.2). Therefore, requiring budget information to be provided by all basic agencies receiving administrative funding would better enable ARC to evaluate the use of the administrative funds.

2. The administrative funding received by HHS/HRSA agency appears to be excessive based on the related workload.

We determined that administrative funding provided to HHS/HRSA equals more than 40 percent of the project costs administered by that agency. During fiscal year 1994, ARC provided funding for two FTEs at HHS/HRSA. Each FTE was responsible for administering approximately \$120,000 in project obligations that year. However, we determined that FTEs at other basic agencies are responsible for project obligations of between \$1 million and \$8 million. Therefore, it appears that the number of FTEs at HHS/HRSA may be excessive based on the workload.

ARC indicated that they were aware of this issue and were currently considering alternatives that would provide administrative funding in line with needs.

3. The Department of Education grants do not require technical expertise to administer.

We determined that the grants administered by the Department of Education were predominantly for Section 211 grants, equipment purchases by vocational schools. ARC provided administrative funds to the Department of Education to administer these pass-through grants consistent with statutory requirements. It appears that ARC has sufficient expertise to administer these grants since similar type grants to non-vocational education schools are currently administered by ARC.

ARC indicated that these Section 211 grants were administered by the Department of Education due to the statute and because ARC does not have enough personnel to administer the grants. Also, there is proposed legislation to eliminate Section 211 grants.

4. Memorandums of Understanding (MOU)

The ARC Office of Inspector General had previously recommended revision of MOUs with basic agencies in order to update the MOUs and clarify responsibilities. We understand that the ongoing internal basic agency review is dealing with this issue and we concur with the need for revised MOUs with most basic agencies.

Recommendation - Budgeting and Funding

Administrative budgets should be completed in accordance with OMB Circular A-11, Section 35.4 by applicable basic agencies. Actions should be initiated to adjust the HHS/HRSA Administrative funding to more closely reflect required services and the handling of Section 211 grants should be reviewed as part of the ongoing ARC study.

Tichenor & Associates

TICHENOR & ASSOCIATES
Certified Public Accountants
Woodbridge, Virginia
May 29, 1996




June 19, 1996

MEMORANDUM FOR The Federal Co-Chairman ✓
ARC Executive Director

SUBJECT: Basic Agency Survey, OIG Report 96-3(H)

Enclosed is a copy of the survey report previously issued in draft on March 19, 1996. In view of an internal ARC review of this area, we did not visit basic agencies to review or discuss procedures used to account for ARC funds, administer ARC grants, or identify purposes for which ARC administrative funds were used.

The noted recommendations dealing with basic agency preparation of reports, updating Memorandums of Understanding, and adjusting administrative funding for one agency (HHS) should be integrated with ARC actions relative to basic agency funding. Also, we recently provided ARC staff with information about an anticipated request from TVA for substantially increased ARC administrative funding to support the ongoing level of TVA grant administration activities.


Hubert N. Sparks
Inspector General

Enclosure

cc: Robert Decker
Sakina Thompson

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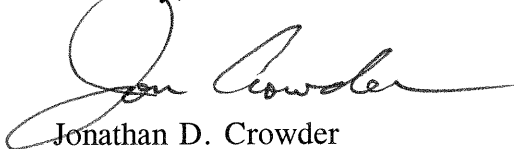
May 31, 1996

Mr. Hubert N. Sparks
Inspector General
Appalachian Regional Commission
1666 Connecticut Avenue, NW
Washington, DC 20235

Dear Mr. Sparks:

Enclosed please find two bound and one unbound copy of the final memorandum review report on Basic Agencies Reporting. As you know, ARC representatives did not provide comments on the draft report previously issued. Therefore, at your direction, we have issued the enclosed report in final without any ARC comments. If you have any questions or comments, please feel free to contact me or Deirdre Reed.

Sincerely,



Jonathan D. Crowder
TICHENOR & ASSOCIATES

Enclosures