



March 21, 1996

MEMORANDUM FOR The Federal Co-Chairman
 ARC Executive Director

SUBJECT: Survey Report on Grantee Claims Processing--OIG Report 96-6(H)

A survey conducted to evaluate the processing of FY 1995 grantee claims determined that claims were generally processed timely. A followup survey was conducted by Tichenor and Associates on 35 cases where the processing of grantee claims exceeded 60 days to determine the reasons for delays and extent of file documentation. A copy of the draft survey report was previously provided to the Director, Finance and Administration and the Director, Regional Program Operations.

The enclosed report notes that the primary condition noted was insufficient documentation to identify the reasons for delays. In most instances, project coordinators were aware of the delays and provided us with reasons therefor.

Recommendations, which should be considered in line with ARC reorganization activity, are directed primarily toward documenting contacts with grantees, including problem identification and followup.


Hubert N. Sparks
Inspector General

Enclosure



Date: May 13, 1996

To: Hubert N. Sparks
Inspector General

Subject: Response to Survey on Grantee Claims Processing -- OIG Report 96-6(H)

In response to your memorandum on Grantee Claims Processing, Program Operations Division has taken the following actions:

1. Recent review of procedures to be followed by Program Operations for all Grantee claims resulted in a directive to staff to place the highest priority on all payment requests received, and to prepare the standard request for payment within 10 days from date the Grantee's written request is received, provided all required financial documentation is attached to the payment request.
2. Project Coordinators report that frequently they are not able to make a payment because there is insufficient financial information attached to the 270 Request for Payment or the required narrative report is not attached to the payment request, as required in the Grant Agreement.
3. The Program Operations Division is working with the General Counsel's Office to prepare new instructions to be sent to the Grantee at the time the contract is signed that will provide the grantee with written instructions about preparation of quarterly report and accurate payment requests. New instructions are expected to lead to a more efficient payment process and reduce the number of documented delays that were reported.

Thomas M. Hunter
Executive Director

cc: J. Rae
B. Decker
C. Howard

OK - But for cases where payments cannot be made the file should be documented as to reason there for

APPALACHIAN REGIONAL COMMISSION PROCESSING OF GRANTEES' CLAIMS

PURPOSE:

To evaluate the judgmentally selected sample of processed grantees' claims exceeding 60 days to determine the reasons for delays and to follow-up with project coordinators concerning the timeliness of the payments.

SOURCE:

- ARC Grants with Drawdowns as of Sept. 19, 1995 Report
- Grantee Project Files maintained by ARC
- Grantee Finance Files maintained by ARC
- Interviews with Project Coordinators
- Prior auditor's analysis of payment procedures
- Handbook for Contract Coordinators, ARC April 1989

BACKGROUND:

Payment Process

The Appalachian Regional Commission (ARC) processes Grantee Payment Requests (SF 270) prior to payment by the Department of Commerce. The Grantees submit SF 270s to their designated project coordinator. The project coordinator reviews the SF 270 for adequacy and compares it to contract requirements, i.e. progress report narratives, matching of funds, budgets. If the SF 270 is approved, an authorization letter approving the payment and any pertinent documentation is submitted to ARC's Finance office. The Finance office completes a Public Voucher for Purchases and Services other than Personal (SF 1034) which initiates payment at the Department of Commerce. A payment file is maintained by the Finance Department containing copies of the completed forms. The Finance Department has maintained that the turnaround time for the preparation of the SF 1034 is three (3) days. The ARC estimates that, if no problems arise, the entire payment process takes approximately three (3) weeks.

Responsibility of Project Coordinator

Subsequent to contract award, it is the responsibility of the Project Coordinator to monitor the progress of the contract, including review of the progress reports and financial reports, and review and approval of payment requests. The Handbook for Contract Coordinators (ARC 4/89) describes procedures for project monitoring, report review and the payment process. When problems arise, the handbook states that written notification should be provided to the contractor and if necessary the Division Director. The following are instances requiring written notification:

(i) The handbook describes the importance of 'due dates' for contract requirements, i.e. progress reports and financial reports. If a 'due date' is missed the contractor should be notified. If the time lapse exceeds 30 days, the notification should be in writing.

(ii) When progress reports are received, the coordinator should make a written record of his/her analysis of the report. If a deficient progress report is received with a payment request, the contractor should be notified in writing, and serious deficiencies should be reported to the Division Director.

(iii) Payment requests (SF 270) should be compared to the requirements of the contract and to the budget. If the invoice is deficient, the coordinator should promptly notify the contractor, and if there are serious deficiencies the notification should be in writing.

SCOPE:

1. The payments sampled (35) were chosen for evaluation per discussion with the Inspector General, ARC.
2. Reviewed project files of selected payments for correspondence between project coordinator and the Grantee to determine the reasons for delays in payments to the Grantees.
3. Reviewed finance files of selected payments for correspondence between the project coordinator and the Grantee to determine the reasons for delays in payments to the Grantees.
4. Evaluated the data obtained from the project and finance files to adequately determine the reasons for delay in payments.
5. In the absence of adequate documentation in the files, interviews with the project coordinator concerning the timeliness of payments was the only way to determine the reasons for delayed payments. In some cases, the project coordinator is no longer with the ARC and could not be interviewed. No further investigation could be performed on these payments.
6. Documented the results of file reviews and interviews on a schedule containing (1) the project number and name, (2) the contract number and payment selected, (3) whether the file was adequately documented or if an interview was necessary, and (4) a brief comment as to what caused the delay in processing the approval for payment.

RESULTS OF EVALUATION:

The evaluation of 35 selected payments revealed 13 payments were adequately documented in the project and finance files. Reasons for delays in payments made to grantees are noted as follows:

1. The project coordinator is waiting for a quarterly report from the grantee before approving the payment request (SF 270).
2. The ARC overpaid a grantee on a prior claim. The project coordinator is waiting for a refund from grantee.
3. A site visit to the grantee is necessary to confirm the status of the grant.
4. An increase in obligated funds is necessary to make a payment.
5. Grantee requests for payments exceed contract limitations (i.e. payments can't exceed 90% of contract award); recalculations by the project coordinator were necessary.
6. Numerous meetings were held with the grantee before the first advance payment was made in order to verify that the grantee was ready to begin the contract.
7. The date on the SF 270 prepared by the grantee does not agree with the 'date received' stamp, on the SF 270. According to the date received stamp, the payment to the grantee was made in a timely manner. Only one (1) SF 270 was stamped 'received' out of all 35 items reviewed. This is not, currently, a requirement of project coordinators. See 'Recommendations.'
8. Request for payment was submitted prior to contract final approval. The payment was approved timely subsequent to the approval.

The remaining 22 payments that were not documented as to the reason for delayed payments to grantees were maintained by eight (8) project coordinators. Interviews were held with five (5) coordinators; three (3) coordinators are no longer with the ARC. The project coordinators stated several reasons for the delayed payments to grantees as follows:

1. Additional supporting documentation was required from grantee including: (a) quarterly financial reports supporting costs claimed, and (b) narrative progress reports describing the status of the contract. Frequently, in larger grantees the financial reports come from the grantees' accounting department and the narrative

reports come from the project office. Project coordinators indicated that often the two departments do not communicate. The accounting office will submit the SF 270 and quarterly financial reports, however the project office is late with the narrative progress reports.

2. Some grantees have insufficient accounting systems and payment requests are inadequate. This requires extra time on the part of the project coordinator to evaluate the claim.
3. Two project coordinators indicated excessive workload required them to prioritize their work and other demand assignments were put ahead of processing claims for payment.
4. On one occasion, a project coordinator indicated that his records reflected that payment approval was made in a timely manner and was unaware of the time lapse until the SF 1034 for Dept. of Commerce was completed.

CONCLUSION:

In 22 out of 35 payments evaluated, it could not be determined from the project files what caused the delay in payments because of the lack of documentation by the project coordinator. The files did not contain correspondence with the grantee, (i.e. requests for additional documentation) or telephone logs documenting conversations. Also, the files did not contain written correspondence with the Division Director, even when the request for payment had been received five (5) months prior to payment approval. During interviews with project coordinators concerning the payments to grantees, it was indicated that requests for additional documentation are usually made verbally and the discussions with grantees are not documented in the files because of insufficient time.

It is the responsibility of the project coordinator to monitor and report the progress of contracts to the Commission; to review and recommend payments; and to report any situation that threatens the successful completion or financial integrity of the project. If a payment request is withheld due to the lack of adequate supporting documentation and a grantee does not submit support for up to five (5) months, this may be a sign of a larger problem. In order for project coordinators to achieve their objectives efficiently and effectively, discussions and correspondence should be adequately documented in the project files. Documented files are necessary to create a paper trail for use, not only by the project coordinators, but also by subsequent coordinators and supervisors. Also, when files are adequately documented, recurrent problems will be noted and can be corrected.

RECOMMENDATIONS:

1. Project Files should reflect the correspondence between the project coordinator and the grantee. The project coordinator should use written correspondence, as the Handbook for project coordinators describes, (i) when the grantee is significantly past a due date, (ii) when progress reports are deficient, and (iii) when payment requests are deficient. It should contain reasons for withholding payments from grantee, i.e. lack of quarterly reports. Then the correspondence between the coordinator and the grantee or related party should be filed in the project file. This procedure would create a documented trail of problems that arise so project coordinators would not have to rely on memory. Recurrent problems would be documented and perhaps eliminated if the project coordinator could visually see a pattern developing. Also, the paper trail would aid subsequent coordinators by alerting them to potential problems.
2. All correspondence and documents received from the grantees should be stamped 'received' and contain the date the document was received. This would create a reliable internal control procedure and eliminate confusion when the compilation date of the data or progress report is different from the date in which the information is prepared and is again different from the date the documents are sent. The received stamp would also eliminate confusion on backdated correspondence and enable the ARC to adequately monitor the elapsed days concerning the payment cycle.
3. The project file should contain a telephone log for use by the coordinator to document conversations with or about the grantee. The record of discussion should contain who the project coordinator spoke with, the date of the conversation, and a description of the conversation. This procedure would also create a documented trail of problems that arise so project coordinators would not have to rely on memory. Again, recurrent problems would be documented and perhaps eliminated if the project coordinator could visually see a pattern developing. Also, documented discussions would aid subsequent coordinators by alerting them to potential problems.

10/31/95

**APPALACHIAN REGIONAL COMMISSION
ASSIGNMENT: PROCESSING OF GRANTEES' CLAIMS**

**Results of Evaluation of Judgementally Selected Sample of
Processed Grantees' Claims Exceeding 60 Days**

PROJECT NUMBER & CONTRACTOR	CONTRACT PAYMENT SELECTED	FILE DOCUMENTED NO FOLLOWUP REQUIRED	INTERVIEW/ FOLLOWUP REQUIRED	REASONS FOR DELAY/ AUDITOR'S COMMENTS
CO 11795 TCRD, Tennessee	95-1 # 2 95-1 # 4 95-1 # 5		X X X	Lack of report narrative. Lack of report narrative and final document. Lack of report narrative and final document.
CO 10959 Natchez Trace Parkway Assoc.	92-22 #2		X	Coordinator is no longer with ARC.
CO 10704 Concord College	94-3 #2	X		Funds withheld until grantee refunded prior overpayment.
SC 11800 S.C. Dept. Parks, Recr., Tourism	95-16 #1		X	Coordinator is no longer with ARC.
MS 7763 Mississippi, DECD	92-104 # 5	X		Coordinator required additional info.
MS 7763 Mississippi, DECD	93-79 # 1 93-79 # 3		X X	Coordinator is no longer with ARC. Coordinator is no longer with ARC.
MS 7763 Mississippi, DECD	94-85 #1		X	Coordinator is no longer with ARC.
S.C. 11812 S.C. Division of Community Affairs	95-23 #1		X	Coordinator is no longer with ARC.
KY 11271 Bluegrass Add	93-84 #2		X	Lack of financial reports; excessive workload.
CO 11469B WV Rural Development Council	94-36 #1	X		Final contract approval delayed, payment processed timely.
MS 11309 MS Agriculture/Forestry Expmnt.	93-105 #2 93-105 #4		X X	Lack of narrative reports. Lack of narrative reports.
OH 7781 OH Dept. of Development	93-123 # 2		X	Lack of narrative reports.
CO 11451 Cornell University	94-23 #1 94-23 #3 94-23 #4	X X X		Additional documentation required. Site visit necessary to verify status. Site visit necessary to verify status.
NY 11474 Southern Tier West RPDB	94-35 #3	X		Increase in obligated funds required.

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PROJECT NUMBER & CONTRACTOR	CONTRACT PAYMENT SELECTED	FILE DOCUMENTED NO FOLLOWUP REQUIRED	INTERVIEW/ FOLLOWUP REQUIRED	REASONS FOR DELAY/ AUDITOR'S COMMENTS
PA 10777 Mansfield University	93-106 #4 93-106 #5		X X	Excessive workload, priority work done first. Excessive workload, priority work done first.
KY 11171 U of KY Research Foundation	93-128 #4		X	Lack of comprehensive reports. (Contract is currently being closed.)
NY 11394 Steuben Assn for Ret. Citizens	94-13 #4 94-13 #5	X X		Payment requests over contract limit, recalculations necessary.
CO 11463 S.C. Division of Health	94-20 #1 94-20 #2		X X	Excessive workload, priority work done first. Coordinator approved payment timely.
VA 11496 VA DHCD	94-102 #1		X	Excessive workload, priority work done first.
PA 11344 NE PA Industrial Resource Ctr.	94-161 #2		X	Excessive workload, priority work done first.
GA 11239 Stephens County Bd. of Education	93-34 #2		X	Lack of financial supporting documents.
PA 11546 Erie Area Chamber of Commerce	94-150 #1 94-150 #2	X X		Lack of financial supporting documents. Lack of financial supporting documents.
NY 11594 Southern Tier East RPDB	94-156 #1	X		Numerous meetings held before first advance payment approved.
PA 11344 NE PA Industrial Resource Ctr.	93-107 #3	X		SF 270 stamped received at a date later than stated on the form.
WV 11494 WV Dept. of Education	94-59 #1		X	Coordinator is no longer with ARC.

Source: - Interviews with Project Coordinators
- ARC Grants with Drawdowns as of September 19, 1995 Report