



REPORT OF REVIEW

STATUS OF SERVICE CONTRACTS  
AS OF JULY 31, 1996

OIG Report 96-25(H)

PURPOSE

To determine the status of open service contracts, including purchase orders and contracts, and evaluate the potential for closing contracts and deobligating unspent funds.

BACKGROUND

ARC obtains a variety of services through purchase orders and contracts. The services include research authoring of various articles for ARC publications, related printing and design costs, advisory services, photographic services, conference technical assistance, etc.

METHODOLOGY

We reviewed 69 service contracts/purchase orders identified as having unspent funds on a March 26, 1996 finance office listing. The status of the cases in the sample was updated to account for additional payments through July 31, 1996; and the files, including purchase orders or other documents indicating the service to be delivered and time frame, if noted, were reviewed to evaluate the potential for closing the file and deobligating funds.

RESULTS

We concluded that there was potential to close 57 of the open service contracts and deobligate \$102,890 remaining in these contracts. A breakout by primary categories of services follows:

- o In 28 instances, the contracts were for research and preparation of articles for ARC publications, especially the *Appalachia* periodical. The files indicated that the contractors had apparently submitted all claims; and unspent balances of \$10,227 in these contracts appeared appropriate. The last noted payments to the contractors were made between May 1993 and April 1996, with the last payment being in 1993 or 1994 in 15 cases. (Table A)
- o In 11 instances, the contracts were for advisory services in connection with the ARC Strategic Planning Process. Payments to the advisors were made between November 1995 and January 1996, and the corresponding purchase orders indicated claims were to be submitted by June 30, 1995. Therefore, the balances, totaling \$26,925, should be deobligated. (Table B)

Also, although purchase orders were issued in February and March 1995, services were generally performed in April 1995, and the purchase order required submission of reimbursement requests by July 31, 1995, records indicate that obligations were not established until payments were made in November 1995. Obligations should be established at the time of funding commitments.

- o In 18 other instances involving contracts for a variety of services, including design, printing, and publication of ARC issuances and technical assistance to ARC conferences, closing action appeared appropriate, with potential deobligations of \$65,738. In several instances, there appeared to be a basis for keeping the contract open; but the absence of revised performance dates resulted in the contract being subject to closing. (Table C)

Examples and other conditions noted include:

- o In several cases, claims for reimbursement were submitted subsequent to the performance period noted by the purchase order. For example, the payment request for 0358-0074 was received about one year after the July 31, 1995 deadline for submitting reimbursement requests. Although the required services appeared to have been performed, timely followup and, if necessary, extensions should be initiated to avoid expired purchase orders.
- o In 4 cases, no requests for reimbursement had been received in connection with purchase orders that were issued 3/15/94, 6/6/94, 7/19/94, and 1/26/95 for \$1,000; \$6,500; \$500; and \$2,450, respectively (0348-0087; 0348-0017; 0348-0130; and 0358-0123). In 2 cases, 0348-0017 and 0348-0130, the contractors had apparently been reimbursed from other funding sources.
- o An example of effective and timely followup action was noted with respect to purchase order 0368-00172. The purchase order was for \$51,800 to reimburse presenters at the April 1996 ARC Telelearning Conference in Binghamton, New York. The purchase order noted that requests for reimbursement must be submitted by July 31, 1996. Based on project coordinator followup in May 1996, expense vouchers from presenters were generally received at ARC by the end of June 1996. Such action should permit a final reconciliation and closing of this purchase order on a timely basis.

A balance of \$36,658 remains in the purchase order as of July 31, 1996. A final reconciliation of this account is necessary to make any further adjustments for hotel and registration fee costs that were paid by ARC directly to the conference hotel and charged, to date, to another fund. If such adjustments are not anticipated, the noted balance should be deobligated.

- o In 2 instances, follow-on contracts had been awarded for similar services; and the services required under the contracts had been performed and/or the performance

period had expired. Therefore, the balances of \$3,659 for contract 94-61, dealing with printing of the *Appalachian* periodical in 1994 and 1995, and \$10,385 for purchase order 0358-0021, for photographic services in FY 1995, should be deobligated.

- o In 2 instances, 0358-0081, with a balance of \$6,228, and 0358-0090, with a balance of \$4,344, the purchase orders pertained to services provided in connection with ARC conferences in Birmingham, Alabama, and Charleston, West Virginia, in April and August 1995, respectively. All claims for reimbursement appeared to have been submitted.
- o Purchase order 0358-0015, dealing with mailings of the *Appalachia* periodical had expired September 30, 1995; and a balance of \$2,225 remained as of July 31, 1996. The purchase order was for \$4,200 and included four mailings, only two of which had been completed to date. Although the performance period was expired, we considered this to be an active service contract with sufficient funds for two additional mailings, provided the purchase order expiration date was revised.

### RECOMMENDATIONS

The noted purchase orders and contracts should be closed; and the balances, deobligated. Actions should be initiated to extend performance periods, where necessary, for any services remaining to be provided and to obligate funds at the time commitments are initiated. In the future, timely followup should be initiated to close out the accounts when the applicable services have been completed and/or the purchase order/contract reimbursement and/or expiration dates have occurred.

Hubert N. Sparks  
Inspector General

Attachments  
Tables A, B, C

RECOMMENDED CLOSINGS OF  
PURCHASE ORDERS FOR  
PREPARATION OF ARTICLES

Contract	Total	Last Payment	Balance
0338-0122	\$1,530	5/14/93	\$250
0338-0019	2,600	11/14/94	100
0338-0063	1,600	3/11/93	200
0338-0227	1,950	9/27/93	645
0338-0229	1,900	9/27/93	203
0348-0056	5,200	2/15/94	447
0348-0057	2,000	3/22/94	500
0348-0066	2,500	2/ 1/94	341
0348-0102	2,400	6/14/94	301
0348-0103	1,400	7/14/94	148
0348-0108	2,600	6/14/94	679
0348-0111	1,900	6/14/94	219
0348-0114	2,050	7/14/94	154
0348-0122	950	8/22/94	159
0348-0125	2,500	8/ 1/94	483
0348-0128	2,100	8/19/94	184
0358-0061	950	4/18/94	50
0358-0093	850	5/15/95	27
0358-0123	2,450	No Payment	2,450
0358-0124	3,100	9/21/95	207
0358-0128	2,450	9/ 5/95	921
0358-0129	2,200	8/14/95	172
0368-0039	3,400	1/31/96	15
0368-0040	2,800	1/31/96	539
0368-0048	2,100	2/16/96	521
0368-0060	3,200	2/ 8/96	260
0368-0061	450	3/22/96	50
0368-0062	800	4/ 5/96	2
28	\$59,930		\$10,227

RECOMMENDED CLOSINGS OF  
PURCHASE ORDERS FOR  
STRATEGIC PLAN ADVISORY SERVICES

Contract	Total	Last Payment	Balance
0358-0064	\$3,000	11/17/95	\$2,400
0358-0065	3,000	11/17/95	2,400
0358-0066	3,000	11/17/95	2,400
0358-0067	3,000	11/17/95	2,550
0358-0068	3,000	11/17/95	2,400
0358-0069	3,000	11/15/95	1,950
0358-0070	3,000	11/17/95	2,625
0358-0071	3,000	11/17/95	2,400
0358-0072	3,000	11/17/95	2,550
0358-0073	3,000	11/ 2/95	3,000
0358-0074	3,000	1/ 6/96	2,250
11	\$33,000	1/	\$26,925

Note:

- 1/ Purchase orders issued February and March 1995 noted that requests for payment had to be submitted by June 30, 1995. Obligations were not established until November 1995.

**OTHER RECOMMENDED CLOSINGS OF  
PURCHASE ORDERS AND SERVICE CONTRACTS**

<b>Contract</b>	<b>Total</b>	<b>Last Payment</b>	<b>Balance</b>	<b>Primary Purpose</b>
0348-0017	\$6,500	No Payment 1/	\$6,500	Research Paper
0348-0087	1,000	No Payment 1/	\$1,000	Records Disposal
0348-0130	500	No Payment 1/	500	Research Paper
0358-0013	5,200	2/ 6/95	335	Logo Design
0358-0024	4,200	12/ 5/94	510	Brochures
0358-0040	7,000	6/20/95	429	Standards Manual
0358-0059	3,000	4/20/95	2,660	Leadership Conf 4/95
0358-0081	40,200	8/21/95	6,229	Leadership Conf 4/95
0358-0083	9,000	9/12/95	417	Leadership Conf
0358-0090	21,000	8/31/95	4,344	Leadership Conf
0358-0125	3,000	11/21/95	1,079	Printing Newsletter
0368-0063	800	3/ 4/96	201	Cover Design
0368-0065	400	2/16/96	87	Cover Printing
0368-0070	2,100	3/22/96	1,052	Brochures
0368-0072	51,800	2/	36,658	Telelearning Conf 4/96
94-61	150,000	8/10/95	3,659	<i>Appalachia</i> Printing
94-62	16,500	7/18/94	28	1993 Annual Report
95-22	11,500	2/27/95	50	ARC Portfolios
18	\$333,700		\$65,738	

**Note:**

- 1/ Funds obligated 6/6/94, 3/15/94, and 7/19/94, respectively.
- 2/ Purchase order issued for \$51,800. Individual travel and expense vouchers, submitted as of 7/31/96, totaled \$14,537. Other expenses such as presenter hotel and registration fees were paid from another account, and determinations as to the extent of additional payments to be charged to this purchase order are necessary.



October 1, 1996

MEMORANDUM FOR THE FEDERAL CO-CHAIRMAN

SUBJECT: Review of Service Purchase Orders and Contracts--OIG Report  
96-25(H)

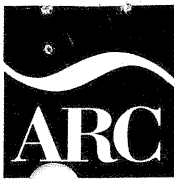
Enclosed is a copy of the final report. As noted, aggressive action was initiated on the open purchase orders and contracts noted in our draft report of August 6, 1996, including closing of 41 of the 59 cases identified for review and deobligations of \$61,337.

Most of the cases pertained to activities for which the services had been performed 1 to 2 years prior to our review. Therefore, in addition to followup on the remaining open cases, our primary recommendation is for the implementation of controls that ensure timely review, followup, and closing of accounts for which services have been completed.

A handwritten signature in cursive script, appearing to read "Hubert N. Sparks", is written over the typed name.

Hubert N. Sparks  
Inspector General

Enclosure



August 8, 1996

MEMORANDUM FOR      ARC EXECUTIVE DIRECTOR


SUBJECT:                      Review of Open Purchase Orders and  
   Service Contracts as of July 31, 1996

As noted in our April 5, 1996 memorandum, we have reviewed the status of 69 open service type purchase orders and contracts noted on a March 26, 1996 Finance Office listing. The attached draft report reflects the status of the sampled cases that remained open as of July 31, 1996.

In 57 of 69 cases reviewed, it appeared the services had been completed and the performance period had expired. Therefore, the potential exists for deobligation of the remaining balances of \$102,890.

The recommendations are directed toward closing the accounts, deobligating funds, extending purchase order dates where applicable, obligating funds at time of commitments, and timely followup in the future to settle accounts when services have been provided and/or the performance period has expired.

Please provide any comments for inclusion in the final report by August 18, 1996.

  
Hubert N. Sparks  
Inspector General

Attachment

cc:      Robert Decker





**REPORT OF REVIEW**  
**STATUS OF SERVICE CONTRACTS**  
**AS OF SEPTEMBER 30, 1996**

OIG Report 96-25(H)

**PURPOSE**

To determine the status of open service contracts, including purchase orders and contracts, and evaluate the potential for closing contracts and deobligating unspent funds.

**BACKGROUND**

ARC obtains a variety of services through purchase orders and contracts. The services include research and authoring of various articles for ARC publications, related printing and design costs, advisory services, photographic services, conference technical assistance, etc.

**METHODOLOGY**

We initially reviewed 69 service contracts/purchase orders identified as having unspent funds on a March 26, 1996 finance office listing and provided a draft report on the status of these contracts as of July 31, 1996. The status of the cases in the sample was updated to account for additional payments through September 30, 1996; and the files, including purchase orders or other documents indicating the service to be delivered and time frame, if noted, were reviewed to evaluate the potential for closing the file and deobligating additional funds.

**RESULTS**

Our draft report concluded that, as of July 31, 1996, there was potential to close 59 of the open service contracts and deobligate \$115,500 noted as remaining in these contracts. Our additional testing disclosed that, between July 31 and September 30, 1996, closing actions had been completed in 41 cases with deobligations of \$61,337 (Table A). We concluded that actions remain appropriate for 17 cases in our initial sample with potential additional obligations totaling \$16,532. In one case, the expenses were paid from another account; and the case is not included as a potential deobligation in this report.

We believe the actions initiated reflect aggressive followup by ARC to close outstanding accounts and recommend that controls be implemented to ensure timely followup and closing actions on future service contracts.

A summary of our review work follows:

- o In 28 instances, the contracts were for research and preparation of articles for ARC publications, especially the *Appalachia* periodical. The files indicated that the contractors had apparently submitted all claims; and unspent balances of \$10,227 remained in these contracts. The last noted payments to the contractors were made between May 1993 and April 1996, with the last payment being in 1993 or 1994 in 15 cases. Of these contracts, 20 were closed between July 31 and September 30, 1996, with deobligations of \$8,763.
- o In 11 instances, the contracts with balances of \$26,925 were for advisory services in connection with the ARC Strategic Planning Process. Payments to the advisors were made between November 1995 and January 1996. As of September 30, 1996, the 11 contracts were closed with deobligations of \$26,925.

Also, for these cases, purchase orders were issued in February and March 1995, services were generally performed in April 1995, and the purchase order required submission of reimbursement requests by July 31, 1995. However, records indicate that obligations were not established until payments were made in November 1995. Obligations should be established at the time of funding commitments.

- o In 18 other instances involving contracts for a variety of services, including design, printing, and publication of ARC issuances and technical assistance to ARC conferences, closing action appeared appropriate, with potential deobligations of \$65,738. In several instances, there appeared to be a basis for keeping the contract open; but the absence of revised performance dates resulted in the contract being subject to closing. As of September 30, 1996, 8 of these contracts were closed with deobligations of \$13,039. Also, in one instance, 0368-0072, the contract was paid out of another account; and the balance of \$36,658 noted in the draft report was not included in our final summary of potential deobligations.
- o Two contracts, 0358-0015 and 0358-0021, with potential deobligations of \$12,610 were included only in the narrative section of the draft report. As of September 30, 1996, these contracts were closed with deobligations of \$12,610.
- o Table B denotes contracts remaining open from our initial sample for which file review indicates no recent payments and completion of services in connection with the applicable projects. Therefore, we recommend that these contracts be closed and the remaining balances of \$16,532 be deobligated.

For example, in 4 instances, 0358-0059, 0358-0081, 0358-0083, and 0358-0090, the purchase orders pertained to services provided in connection with ARC conferences in April and August 1995, respectively. All claims for reimbursement appeared to have been submitted; and the outstanding balances of \$13,650 could be deobligated.

## RECOMMENDATIONS

The noted purchase orders and contracts should be closed; and the balances, deobligated. In the future, timely followup should be initiated to close out the accounts when the applicable services have been completed and/or the purchase order/contract reimbursement and/or expiration dates have occurred.



Hubert N. Sparks  
Inspector General

Attachments  
Tables A & B

SUMMARY OF ACTIONS ON  
CASES IN DRAFT REPORT

Table No.	No. of Cases	Potential Deobligations	Cases Closed	Deobligations
A	28	\$ 10,227	20	\$ 8,763
B	11	26,925	11	26,925
C*	18	65,738	8	13,039
Others	2	12,610	2	12,610
Totals	59	\$115,500	41	\$61,337

Note: \*In one instance, 0368-0072, a contract for \$51,800 that reflected a balance of \$36,658 in the draft report was handled through another account and is not included in this final report.

Table B

OPEN CASES FOR WHICH  
ACTION APPEARS APPROPRIATE

Contract No.	Amount	Last Payment	Balance
0358-0059	\$ 3,000	4/20/95	\$ 2,660
0358-0061	950	4/18/94	50
0358-0081	40,200	8/21/95	6,229
0358-0083	9,000	9/12/95	417
0358-0090	21,000	8/31/95	4,344
0358-0093	850	5/15/95	27
0368-0039	3,400	1/31/96	15
0368-0040	2,800	1/31/96	539
0368-0048	2,100	2/16/96	521
0368-0060	3,200	2/ 8/96	260
0368-0061	450	3/22/96	50
0368-0062	800	4/ 5/96	2
0368-0063	800	3/ 4/96	201
0368-0065	400	2/16/96	87
0368-0070	2,100	3/22/96	1,052
94-62	16,500	7/11/94	28
95-62	11,500	2/27/95	50
17	\$119,050		\$16,532




October 1, 1996

MEMORANDUM FOR      ARC EXECUTIVE DIRECTOR

SUBJECT:                      Review of Service Purchase Orders and Contracts--OIG Report  
96-25(H)

Enclosed is a copy of the final report. As noted, aggressive action was initiated on the open purchase orders and contracts noted in our draft report of August 6, 1996, including closing of 41 of the 59 cases identified for review and deobligations of \$61,337.

Most of the cases pertained to activities for which the services had been performed 1 to 2 years prior to our review. Therefore, in addition to followup on the remaining open cases, our primary recommendation is for the implementation of controls that ensure timely review, followup, and closing of accounts for which services have been completed.

  
Hubert N. Sparks  
Inspector General

Enclosure



MAY 8, 1996

OIG REPORT 96-25(H)

MEMORANDUM FOR The Federal Co-Chairman  
ARC Executive Director

SUBJECT: Cash Management Survey

### Objective

Evaluate ARC systems and controls with respect to advances issued to grantees, including grantee compliance with provisions for timely use of advances.

### Background

Generally, the ARC and grantees should have systems, methods, and procedures in place that minimize the time elapsing between the transfer of funds to recipients of grants and the recipients' need for the funds (OMB Circular A-102, 31 CFR Part 205). States must also expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds.

Interest earned on advances shall be returned at least quarterly to the Federal agency (US Treasury), except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 USC 6501), e.g., state agencies.

Recently, we noted one instance where a grantee had received a 90-percent advance (\$135,000) on May 24, 1995, but had not used any funds as of our contact in October 1995. The grantee informed us that the project was not going to be performed; and based on our recommendation, the funds were returned to ARC for reallocation.

In another case, an audit disclosed significant interest earnings resulting from investment/deposit of advances in interest bearing accounts. We recommended that the interest be returned to the US Treasury.

These cases contributed to decisions to perform this survey.

### Review Methodology

We reviewed 157 grants approved for Fiscal Year 1995 and identified 41 grants for which advances were disbursed. We eliminated 11 small grants (under \$5,000) and advances for a school poster project; 1 RLF grant; and grants for which advances were disbursed after November 1, 1995. Treasury guidance is generally interpreted to require use of advances within a few days of receipt; but for a first-time review, we used a 90-day grace period for this survey.

For the remaining 12 FY 1995 grants with advances prior to November 1, 1995, we reviewed ARC finance and project files and, as applicable, made telephone contacts with the grantees to determine the status of the advances and use expectations. The results of these contacts are noted below.

Summary

ARC makes relatively few large advances; and therefore, the program is subject to few cash management problems with respect to timely use of funds by grantees. Our survey indicated most grantees were using advances within a reasonable period although information on such use was not available to ARC since applicable reports were not due or completed.

Results

Our initial sample of 157 grants disclosed 41 cases where advances were disbursed. This included 4 cases where the advance was for 90 percent of the grant amount; 13 instances where the advance was for 100 percent, including 11 small grants (under \$4,000) for a special project; and 7 grants involving quarterly advances to Pennsylvania local development districts.

Followup was initiated for 13 grants with advances over \$4,000 that were disbursed prior to November 1, 1995. Included in this group was one grant, SC-11812, that audit planning work had previously identified as refundable to ARC because the project was not going to be completed. The results of our followup, which included review of ARC finance and project files and contact with grantees where necessary, are noted in the following table.

Contract No.	Grant No.	Date of Advance	Amount	Status
95-011	AL-11805	5/31/95	\$ 36,400	a
95-023	SC-11812	5/24/95	135,000	b
95-041	MD-11827	5/ 4/95	10,000	c
95-046	VA-11827	5/ 9/95	6,000	d
95-054	WV-11887	5/31/95	47,387	e
95-057	NC-11872	8/18/95	18,888	f
95-064	KY-12041	6/19/95	14,847	g
95-083	NC-11835	10/20/95	64,553	h
95-090	PA-8304	10/31/95	88,000	i
95-091	PA-8290	10/31/95	100,000	i
95-092	PA-8285	10/10/95	100,000	i
95-110	WV-11999	10/26/95	15,532	j



Footnotes:

- (a) The entire advance of \$36,400 was spent on the local high school's computers. Grantee has not formally informed ARC.
- (b) The entire \$135,000 advance was refunded to ARC in February 1996.
- (c) Computers were purchased using the entire advance. Documentation was submitted to the grantee's state representative.
- (d) Computer hardware/software purchased upon award of the grant.
- (e) Advance expended on apprenticeship program throughout the summer of 1995.
- (f) Grantee indicated funds were expended for management plan.
- (g) Three-week seminar in June 1995 expended all but \$258. Progress report was submitted to the project coordinator.
- (h) The advance has almost been entirely expended. An engineering firm was awarded a 1-year contract 1 month prior to the advance. Grantee is ready to request another advance.
- (i) Files reflect that substantial funds were expended as of 12/30/95 per SF-272, Federal Cash Transactions Report.
- (j) Watershed program is currently in progress. Crew members have been trained. Quarterly report submitted to ARC.

As noted, with the exception of SC-11812, funds appear to have been disbursed within a reasonable time after receipt of the advance. In 2 instances, KY-12041 and NC-11835, quarterly progress reports were not available; and we relied on initial letters justifying the need for funds and grantee explanations of the status of funds.

With respect to the 1 case previously noted by field review, OIG Report 96-8(H), dealing with Northwest Pennsylvania Regional Planning and Development Council, with respect to earnings resulting from advances, we have recommended that the \$2,910 identified by the grantee in response to the report be returned to the US Treasury.


Conclusions

The limited number of ARC advances provides primary control with respect to the timely use of advances by recipients. Also, our tests concluded that most grantees are using advances within a reasonable period. Routine field tests will continue to include testing to further evaluate specific time frames and actions with respect to earnings based on advances.

Recommendations

- o Procedures should include a provision for timely followup action to determine the status of funds if information is not provided timely by the grantee indicating use of advances--e.g., absence of required progress reports.

- o Grantees receiving advances should be reminded of the need to minimize time between receipt and use of advances and return of earnings from advances to the US Treasury.

  
Hubert N. Sparks  
Inspector General

JANUARY 26, 1996

## AUDIT SURVEY

### **Cash Management** **Prompt Use of Funds by Grantee**

#### Background

Generally, the agency (ARC) and grantees should have systems, methods, and procedures in place that minimize the time elapsing between the transfer of funds to recipients of grants and the recipients' need for the funds (OMB Circular A-102, 31 CFR Part 205). States must also expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds.

Interest earned on advances shall be returned at least quarterly to the Federal agency (US Treasury), except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 USC 6501)--States.

#### Objective

To determine if ARC grantees that receive advances utilize the funds received in a timely manner.

#### Sample

FY 1995 approved grants for which advances were disbursed. Source of information is the finance office approval and payment file. The SF-269, Financial Status Report, can be used as appropriate, if available; but this form does not provide a good indicator as to whether advances have actually been used.

#### Methodology and Tests

1. Obtain the most current procedures dealing with fund transfers, and identify Treasury requirements and applicability to state, local and nongovernmental units.
2. List the FY 1995 approved grants with advances by:
  - Contract No.
  - Grant No.
  - Name of Grant (Entity and Grant Title)
  - ARC Amount
  - Amount Advanced
  - Date of Advance
  - Additional Progress Payments

3. Separate by grants with advances and no additional payments and grants with advances and additional payments. Followup contacts will be made with grantees who have received an advance and no additional payments have been made. Contacts will be in order of grantees having received advances, with the earliest receivers being contacted first.
4. Contact grantees by phone; explain purpose of call, e.g., determine status of work on grant; and inquire as to the extent to which ARC funds have been disbursed.
5. If it appears no or limited work has been initiated, inquire as to whether ARC funds have been deposited in interest bearing accounts and obtain a time estimate as to when ARC funds will be used. In some cases, the grantee may be using matching funds first.
6. Prepare a schedule showing status of funds including date advanced and amounts disbursed by grantee.