




September 30, 1999

MEMORANDUM FOR The Federal Co-Chairman
 ARC Executive Director
 Director, Finance and Administration

SUBJECT: OIG Report 99-33(H), Survey of Timeliness of Claims Processing
 and Followup Action

Enclosed is our report dealing with claims processing. The work was performed by auditors with Leon Snead and Company, P.C., under contract to my office.

As noted, no weaknesses were identified; and the report is considered closed.


Hubert M. Sparks
Inspector General

Enclosure

Final Report
on
**SURVEY OF TIMELINESS OF CLAIMS
PROCESSING & FOLLOW UP ACTION BY
THE APPALACHIAN REGIONAL
COMMISSION**

**Submitted to the
OFFICE OF INSPECTOR GENERAL
OF THE
APPALACHIAN REGIONAL COMMISSION**

Report No. 99-33

**Prepared by
Leon Snead and Company, P.C.**

August 5, 1999

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SURVEY OF TIMELINESS OF CLAIMS PROCESSING AND FOLLOW UP ACTION BY THE APPALACHIAN REGIONAL COMMISSION

OBJECTIVES

The objectives of the survey were (1) to evaluate the adequacy and timeliness of the Appalachian Regional Commission's (ARC) actions to process requests for grantee payments and/or initiate follow up actions to obtain necessary information, and (2) to evaluate the adequacy of supporting and required documentation prior to approval of payment requests.

BACKGROUND

Prior to 1997, the ARC utilized the U.S. Department of Commerce to make payments to grantees based on ARC approval. In 1997, ARC implemented an independent financial management system and is now responsible for the entire process, including review, approval, and payment of grantee claims and other payments.

The *ARC Code*, Revised October 1996, provides a codification of current ARC policy. The Code reflects Commission decisions and, in accordance with Section 101(b) of the Appalachian Regional Development Act, is only amended as a result of Commission-adopted resolutions. Section 4.2(b) of the *ARC Code* requires written financial management policies and procedures relating to payments.

The *ARC Financial Management Guidelines*, dated September 1997, provide written financial management policies and procedures for payments, including approval of payments, procedures, and documentation. The *ARC Financial Management Guidelines* state that prompt and accurate payments to persons and organizations doing business with the ARC are critical to the agency mission. Payments may be made only when there is adequate documentation assuring that the proper authority approves payment and that an accurate invoice has been submitted. Payments to grantees warrant special attention and require approval by appropriate program staff who must be reasonably certain that grant requirements are being met.

Two sets of files provide the basic necessary information, project files and finance files. The project file contains information such as general correspondence, grant proposal, grant agreement, progress reports, and a final report. The finance file may also contain some of this information, but primarily contains financial data related to the project. Data includes the Request for Advance or Reimbursement, Project Payment Record, and possibly an internal Payment Request form that includes the project manager's (coordinator's) recommendation.

SCOPE AND METHODOLOGY

The scope of our survey was limited to the procedures enumerated in the following paragraphs. The survey was performed in accordance with *Government Auditing Standards*, 1994 Revision, as amended; the *ARC Code*, Revised October 1996; and the *ARC Financial Management Guidelines*, dated September 1997. We have not audited or reviewed the financial statements of ARC and, accordingly, do not express an opinion or any other form of assurance on them.

The survey was limited to a sample of ARC grants directly administered by the Commission and did not include housing or significant construction projects. The sample included 40 recently closed grants and 40 open grants, including some for which performance periods had expired. Grants were selected to include some grants managed by each of the grant project managers.

We determined the adequacy and timeliness of the ARC's actions to process requests for grantee payments and/or initiate follow up actions to obtain necessary information. We used thirty days as an acceptable period for ARC action on payment requests. We also determined whether the continuance of expired grants in an open status was due to a lack of timeliness of ARC's actions to process requests or to initiate follow up actions.

In addition, we determined the adequacy of supporting and required documentation prior to approval of payment requests, evidence of appropriate approvals, and documentation of ARC's follow up actions to obtain necessary information. We used both project files and finance files to determine the date of payment requests, availability of supporting documentation, and any ARC-initiated action to approve the requests or contact the grantee for additional information. We used finance files to determine the dates that payments were processed.

Specifically, we performed the following procedures:

- We discussed the payment process with ARC officials.
- We selected a sample of 40 grants closed in the last 6 months, and identified the date of final payment request.
- We verified that necessary documentation and approvals were available prior to payment.
- For cases where the date of ARC action to process payment was greater than 30 days after receipt of payment request, we identified, to the extent possible, the reasons for the delay and determined whether the delay was justified; i.e., ARC action was necessary to obtain additional information prior to processing payment.
- For cases where final requests for payment were not processed timely, we tested the file for prior requests for payment and related timeliness of ARC actions.
- We obtained a sample of 40 open grants, including some for which the performance periods

had expired, and conducted the same tests as noted above. A secondary purpose of these tests was to determine if the continuance of expired grants in an open status was due, in part, to untimely actions to process requests for payment or follow up for necessary information.

- We discussed cases involving lengthy delays in processing payment requests with the applicable project manager and/or financial officials in order to obtain additional information about the reasons for the delay and the process and time frames for acting on payment requests and/or initiating follow up actions.

RESULTS

The following is a summary of the results of our survey to evaluate (1) the adequacy and timeliness of the Appalachian Regional Commission's (ARC) actions to process requests for grantee payments and/or initiate follow up actions to obtain necessary information, and (2) the adequacy of supporting and required documentation prior to approval of payment requests.

Timeliness

Based on our test samples, ARC actions to process requests for grantee payments were timely, and ARC's actions to initiate follow up to obtain necessary information were timely. We found a few cases where payments were not made within 30 days of the request for payment, but we found that in all of these instances, the delay was proper. The delays were usually due to the unavailability or non-furnishing of a progress report for partial payments, or final report for final payments. In these instances, ARC's actions to obtain necessary information were timely. For those open grants for which the performance periods had expired, we found no instances where the grants remained open as a result of untimely ARC actions. The grants remained open for various justified reasons.

Documentation

Based on our test samples, supporting and required documentation was adequate prior to approval of payment requests, required approvals were obtained prior to payment, and payments were accurate. The extent of documentation varied by type of grant and by project manager, but in all instances documentation was adequate.

We found no instances where payments were made without the required approvals. In accordance with the *ARC Financial Management Guidelines*, dated September 1997, the project manager was authorized to approve all payments for \$25,000 or less, and those exceeding \$25,000 required approval by the Director of the Program Operations Division.

We found no instances in which payments made were inaccurate. We found a few instances where the payment amount was less than requested, but in each of these instances the lower payment amount was correct. In most of these instances, the requested payment exceeded the 90% limit allowed without a final product or report being furnished.

CONCLUSION

Based on our test results, ARC grant payments are timely, accurate, and adequately supported. Based on our test results, controls over ARC grant payments appear to be adequate in design and operating effectively.

DISTRIBUTION

This report is intended for the information and use of the Office of Inspector General and management of the Appalachian Regional Commission and should not be used for any other purpose. However this report is a matter of public record and it's distribution is not limited.

Leon Snead and Company, P.C.

LEON SNEAD AND COMPANY, P.C.

August 5, 1999

REQUEST FOR ADVANCE OR REIMBURSEMENT

Approved by Office of Management and Budget, No. 80-RO183

PAGE OF PAGES

(See instructions on back)

FEDERAL WORKING UNIT SPONSORING AGENCY AND ORGANIZATIONAL ELEMENT TO WHICH THIS REPORT IS SUBMITTED

Appalachian Regional Commission

EMPLOYER IDENTIFICATION NUMBER

25-6001029

7. RECIPIENT'S ACCOUNT NUMBER OR IDENTIFYING NUMBER

RECIPIENT ORGANIZATION

Fayette County
61 East Main St.
Uniontown PA
15401

1. TYPE OF PAYMENT REQUESTED

a. "X" one, or both boxes
 ADVANCE REIMBURSEMENT

b. "X" the applicable box
 FINAL PARTIAL

2. BASIS OF REQUEST

CASH ACCRUAL

4. FEDERAL GRANT OR OTHER IDENTIFYING NUMBER ASSIGNED BY FEDERAL AGENCY
DA-13049-I-302

5. PARTIAL PAYMENT REQUEST NUMBER FOR THIS REQUEST

8. PERIOD COVERED BY THIS REQUEST

FROM (month, day, year)

7-29-98

TO (month, day, year)

12-18-98

10. PAYEE (If check is to be sent to different than item 7)

Name

Number and Street

City, State and ZIP Code

COMPUTATION OF AMOUNT OF REIMBURSEMENTS/ADVANCES REQUESTED

PROGRAMS/FUNCTIONS/ACTIVITIES	(a)	(b)	(c)	TOTAL
ARC		DCED Cash-In-kind		
Total program outlays to date (As of date)	\$ 21,747.89	\$ 12,372	\$	\$ 34,119.89
Less: Cumulative program income				
Net program outlays (Line a minus line b)	21,747.89	12,372		34,119.89
Estimated net cash outlays for advance period				
Total (Sum of lines c & d)	21,747.89	12,372		34,119.89
Non-Federal share of amount on line e		12,372		12,372
Federal share of amount on line e	21,747.89			21,747.89
Federal payments previously requested				
Federal share now requested (Line g minus line h)	21,747.89			21,747.89
Advances required by month, when requested by Federal grantor agency for use in making prescheduled advances	1st month			
	2nd month			
	3rd month			

ALTERNATE COMPUTATION FOR ADVANCES ONLY

Estimated Federal cash outlays that will be made during period covered by the advance	\$
Less: Estimated balance of Federal cash on hand as of beginning of advance period	
Amount requested (Line a minus line b)	\$

CERTIFICATION

I certify that to the best of my knowledge and belief the data above are correct and all outlays were made in accordance with the grant conditions or other agreement and that payment is due and has not been previously requested.

SIGNATURE OF AUTHORIZED CERTIFYING OFFICIAL

TYPED OR PRINTED NAME AND TITLE

Vincent Vicites, Commissioner

DATE REQUEST SUBMITTED

4/6/99

TELEPHONE (AREA CODE, NUMBER, EXTENSION)

Appalachian Regional Commission
Payment Request Number: 1

Date: April 14, 1999
To: FINANCE AND ADMINISTRATION SERVICES

Project Title: Fayette County Comprehensive Land Use Plan Project

Payee: Fayette County Project #: PA-13049-I-98-302

Authorized ARC Grant Term: May 15, 1998 through November 30, 1999
Progress Payment Period: May 15, 1998 through December 18, 1998
Advance Payment Period: N/A

Progress Payment Requested:	\$ 21,747.89
Advance Payment Requested:	\$ -0-
ARC Funds Due Now:	\$ 21,747.89 98C13049P1

Total ARC Funds Previously Paid: \$ -0-

Total ARC Cost Through 12/28/98: \$ 21,747.89 (63.7%)

Non-Federal Match Through 12/18/98: \$ 12,372.00 (36.3%)

Total Project Cost Through 12/18/98: \$ 34,119.89 (100.0%)

Max ARC \$ Prior to Final Payment: \$ 90,000

Total ARC Grant: \$100,000

Adjustment in Payment Request: None

<input checked="" type="checkbox"/> Satisfactory Progress Report Received	<input checked="" type="checkbox"/> Satisfactory Budget/Fin. Report Received
<input checked="" type="checkbox"/> Electronic Payment Form Attached or On File	

General status of project: This advance/progress payment is in accordance with the terms of the contract.

Need to verify.

Recommended:

Approved:

Sue Moreland 4/14/99
Sue Moreland Date
Project Coordinator

Judy P. Rae, Director Date
Program Operations Division

ARC PROGRAM OPERATIONS DIVISION

Judy Rae, Director

(202) 884-7760

State	Name	Phone No. (202) area code	State	Name	Phone No. (202) area code
Alabama	David Hughes	884-7740	Ohio	Molly Theobald	884-7767
Georgia	Vince Cobb	884-7753	Pennsylvania	Sue Moreland	884-7754
Kentucky	Eric Stockton	884-7752	South Carolina	Sue Moreland	884-7754
Maryland	Vince Cobb	884-7753	Tennessee	David Hughes	884-7740
Mississippi	Cari Morningstar Vince Cobb	884-7776	Virginia	Molly Theobald	884-7767
New York	Henry King	884-7779	West Virginia	Henry King	884-7779
North Carolina	Harry Roesch	884-7774			

REGIONAL INITIATIVES

	Staff	Phone
Entrepreneurial Development	Ray Daffner	884-7777
Internationalization	David Hughes	884-7740
Telecommunications	Harry Roesch	884-7774
Civic Leadership	Eric Stockton	884-7752

ARC STRATEGIC PLAN

Goals	Staff	Phone
Skills and Knowledge	Cari Morningstar	884-7776
Physical Infrastructure	Molly Theobald	884-7767
Community Capacity	Bob Sokolowski	884-7707
Dynamic Local Economies	Sue Moreland	884-7754
Health Care	Henry King	884-7779

March 1999

may

Project Payment Record

As of 04/16/1999

Project Number: 13049 Suffix: 0 Phase: I State: PA FY: 1998

Project Title: Fayette County Comprehensive Land Use Plan

Grantee: Fayette County Office of Planning & Community Development

Effective Date: 05/15/1998

Expiration Date: 11/30/1999

Project Coordinator: MorelanS

Retention: \$10,000.00

Status: Open

Item #	Date	Transaction	Notes	Amount (\$)	Balance
	08/05/1998	OBLIG		100,000.00	
1	04/16/1999	PROGRESS		-21,747.89	
				Balance:	\$78,252.11

payments can also be
shown as "Advances"

June 30, 1999

**Survey of Timeliness of Claims
Processing and Followup Action by ARC**

Background:

Prior to 1997, ARC utilized the Department of Commerce to make payments to grantees based on ARC approval. In 1997, ARC implemented an independent financial management system and is now responsible for the entire process, including review, approval, and payment of grantee claims and other payments.

During the course of field reviews, we have noted and have received some grantee comments regarding instances of lengthy periods between grantee submission of payment requests and ARC actions to process payments and/or initiate followup action to obtain any necessary reports.

ARC policies provide for project managers to review requests for payments, including supporting documentation, and forward the claim to the finance office for processing or notify the grantee as to the reasons a payment request cannot be processed. Reasons can include not receiving required progress or final reports or insufficient supporting evidence. Although time frames are not specified, common business practice dictates timely ARC action on payment requests since, except for requests for advances, the grantee has expended funds from other sources. The ARC procedures are noted in the Financial Management Guidelines, Payments, on page 15.

Two sets of files provide the basic necessary information—project files and finance files. The project file contains information such as general correspondence, grant proposal, grant agreement, progress reports, and final report. The finance file may contain some of this information but, primarily, contains financial data related to grant budget, requests for payment, and payment status. Data includes the Request for Advance or Reimbursement, Project Payment Record, and possibly an internal Payment Request form that includes the project manager's (coordinator's) recommendation.

Methodology:

Select a sample of recently closed (final payment made) and a sample of open grants, including some for which performance periods have expired. Test the grants to determine if requests for payment are handled timely by ARC, including availability of supporting documentation, necessary approvals, and necessary followup actions. The testing will denote the key dates and type of actions, and conclusions will be predicated on 30 days being subjectively considered as a reasonable period for action on payment requests.

Use project files (project control and finance files) to identify the date of payment requests, availability of supporting documentation, and any ARC-initiated action to approve the request;

or contact grantee for additional information. Finance files will be used to determine the dates that payments were processed. In some instances, information normally expected to be in the project file could be available in the finance file.

Objectives:

To evaluate the adequacy and timeliness of ARC actions to process requests for grantee payments and/or initiate followup actions to obtain necessary information. Evaluate adequacy of supporting and required documentation prior to approval of payment requests.

Potential Problems:

Requests for payments are not processed timely and/or accurately. More than 30 days elapses without documentation as to reason for the delay; timely followup action is not initiated to obtain necessary information; payment may be for wrong amount or to wrong grantee; necessary documentation or certifications not available.

Sample Criteria:

Select 3 to 5 grants in each category for each project manager with the heaviest workloads and 2 to 3 grants for other project managers. Expand the sample for a particular project manager if the tests reflect a high incidence of untimely and/or insufficient actions.

Tests:

1. Discuss payment process with ARC officials.
2. Select a sample of 40 grants closed in the last 6 months, and identify the date of final payment request.
3. Verify that necessary documentation and approvals were available prior to payment. (The extent of documentation varies by type of grant and probably by project manager.)
4. For cases where date of ARC action to process payment was greater than 30 days after receipt of payment request, identify, to the extent possible, the reasons for the delay:
 - No identifiable reason.
 - ARC action necessary to obtain additional information prior to processing payment.
5. For cases where final requests for payment were not processed timely, test the file for prior requests for payment and related timeliness of ARC actions.
6. Obtain a sample of 40 open grants, including about 20 for which the performance periods have expired; and conduct the same tests as noted above. A secondary purpose of these tests

is to determine if the continuance of expired grants in an open status is due, in part, to untimely actions to process requests for payment or followup for necessary information.

7. Discuss cases involving lengthy delays in processing payment requests with the applicable project manager and/or financial officials in order to obtain additional information about the reasons for the delay and the process and time frames for acting on payment requests and/or initiating followup actions.
8. Summarize results in a survey report.