



Performance Periods/End Dates
OIG Report 17-02

September 30, 2016

Summary

Our review identified 106 ARC, State Administered and Basic Agency with balances or payments significantly after the end dates identified by ARC.Net. These grants for which balances or payments after end dates totaling \$17.2 million are at risk if direct project expenditures were or are made after the end date. This included 53 basic agency grants with current balances or payments after the end date totaling \$11.7 million.

Prior reports have recommended addressing this issue including reasonable and supported extensions in line with ARC grant agreements that permit extensions if requested by grantee and approved by ARC.

Based on limited emphasis on this issue, the absence of Basic Agency information and recognizing that some Basic Agency extensions were not entered in ARC.Net our recommendations are directed at emphasis on implementation of program requirements and improving the process for obtaining Basic Agency information about grant expiration dates.

ARC has initiated action to alleviate this condition and better assure grantee requests and support are received prior to the end dates.

Objective, Scope Criteria and Results

The objective was to identify grants with expired end dates and potential consequences. The scope was grants identified on ARC.Net with expired end dates as of September 30, 2016 including open grants and recently closed grants.

The ARC Grant Administration Manual, February 2015, states in item 4, section V, Record Keeping and Audits, that "ARC will not reimburse expenditures occurring after the grant period. As noted in section IV, Project Changes, grant period extensions should be requested and approved by ARC before the grant expires."

2 CFR 200.77 states that the Federal awarding agency or pass through entity must include start and end dates of the period of performance in the Federal Award. Our interpretation is that ARC is the Federal Awarding agency for ARC approved grants.

ARC establishes performance periods for ARC administered grants primarily on periods outlined in grantee application.

Performance periods for State administered grants are based on grantee or BAMR information. Basic agency end dates are based on BAMRs and grantee applications.

Results

Tables A through F identify open and closed grants susceptible to ineligible payments because of potential direct project expenditures after the end of the identified grant period and absence of grantee requests and ARC approval of extended grant performance periods. 106 grants with expired end dates and ARC balances totaling \$17.2 million are included in the tables. The expenditures at risk include balances of open grants with expired end dates, and payments made significantly after the end date for open and closed grants. This includes \$13 million for grants with expired end dates and remaining balances and \$4.24 million for payments made significantly after end dates.

We recognize that payment requests for ARC and State Administered grants generally note that project expenditures were made during the performance period. Similar information for Basic Agency administered grants is not available at ARC.

Although payments were made significantly after the end date and Basic Agency action to extend end dates and notify ARC of the revised end date and reasons therefore was generally lacking we did not, during this review, confirm information reported to ARC. Also for grant identification we eliminated grants with small ARC balances and expired end dates less than three months after the last payment so as to recognize some of the balances are attributable to grantee administrative costs for requesting final payment and delays in obtaining information necessary for a grantee close out report.

Grantee compliance with grant provision to request and support extensions prior to the end of the identified performance period and ARC follow-up when appropriate would significantly reduce potential ineligible expenditures and necessary ARC action.

The following tables break out identified grants in the OIG prior report, additional grants with expired end dates, and payments significantly after the end date.

Table A identifies 11 open ARC administered grants that were included in our prior report for which current potential ineligible expenditures based on current balances and payments after the end date totaled \$482,961.

Table B identifies 23 open basic agency administered grants also included in our prior report for which potential ineligible expenditures based on current balances and prior payments after the end date totaled \$3,992,511. This includes 7 grants totaling \$1,805,000 with no ARC payments and for which approvals were two to eight years prior to September 30, 2016. Also, in several instances all payments were made after end date. For example, all payments for grant KY-17644 for \$589,587 were made after the end date of January 30, 2016 including payments of \$253,729 made in April and May 2016. For grant TN-17189 with an end date of March 2, 2016 \$282,473 was paid significantly after the end date.

Table C identifies an additional open 23 ARC and State administered grants with expired end dates and balances over \$30,000 that totaled \$3,230,455.

Table D identifies an additional 26 basic agency grants with expired end dates and balances over \$30,000 that totaled \$6,655,457.

Table E identifies 10 open additional grantees with expired end dates and potential ineligible expenditures based on balances and payments after the noted end dates. This includes grants with prior payments after the end dates totaling \$1,422,543.

Table F identifies 13 closed grants with reported payments after the grant period that are also susceptible to being ineligible. Potential ineligible expenditures for payments significantly after the end date totaled \$1,456,022.

Although some grantees failed to comply with ARC requirements for obtaining extensions resulting in potential significant ineligible expenditures a mitigating factor is ARCs lack of emphasis on established procedures. Also, in some cases grantees could have used other funds prior to use of ARC funds. Thus, recommendations are directed at improved implementation of program provisions rather than identification of ineligible payments and refunds.

Actions initiated or in process include notifying Federal and State grant administering agencies by e-mail once per quarter with a list of expired grants and initiation of a procedure to prevent drawdowns by State administering agencies if end dates have expired. This control is not currently available for Federal basic agencies. Similar controls are in place for ARC administered grants.

ARC on-going actions with respect to extending performance periods include the following:

- ARC grants can only be extended by amendments. If the project is ARC administered, it can be extended unilaterally by the Project Coordinator if the extension is a year or less – the amendment must include the Division Director’s signature in all other cases. If the project is not ARC administered, it can be extended by the basic agency (on the grantee’s behalf) unilaterally if the extension is three years or less. The basic agency is required to provide an explanation. ARC staff must approve any extensions beyond this time frame.

Additional actions emphasizing grantee responsibilities to request extensions are contemplated.

We fully support the ARC policies with respect to expenditures after the performance period being ineligible and the need for grantees to request and obtain approval of a performance period extension prior to incurring expenditures after identified end dates. Thus, regardless of whether ARC or Basic Agencies make extension determinations emphasis on initial grantee actions rather than unilateral ARC or Basic Agency extension is applicable.

We disagree with unilateral action and note that such action could also result in significant extensions for grants that were inactive for lengthy periods prior to the extensions, projects are substantially completed or have small balances.

Based on the extent of grants with expired end dates it appears that the Basic Agency process for identifying, approving and explaining extensions needs significant improvement. Many BAMRs do not provide explanations for delays or needed extensions and some BAMRs are not received. We recognize that Basic Agencies have responsibility to administer construction grants but ARC, as the grantor, has authority to obtain needed grant management information from these agencies in our opinion. For example, Basic Agency extensions are not always communicated to ARC or are not included in ARC.Net.

We recommend:

- The grant agreement with grantees should emphasize ARC provisions about requesting and supporting extensions and that expenditures after approved period without prior approval are ineligible expenditures.
- Controls with respect to end dates and follow-up actions should be formalized.
- Emphasis should be based on extensions requested by grantees and supported by the need for the extension and the length of the extension should be commensurate with the identified need, including consideration of the project status and fund balance.
- Blanket and unilateral extensions should be avoided.
- Coordinate with Basic Agencies to better assure ARC policies are implemented, including notification to ARC of grant period extensions and reasons therefore.
- Follow-up on open grants with expired end dates.

ARC Response

The attached ARC response notes concurrence with the recommendations and includes comments on actions initiated and ARC policies and procedures. We appreciate the response and offer the following comments.

OIG Comments

We appreciate the attached comments that note concurrence with the recommendations. With respect to recommendation 1, we recognize the grant agreement incorporates guidance on extensions but our recommendation is directed at emphasizing this guidance due to the number of instances where extensions were not requested and grantees are at risk for ineligible expenditures.

For recommendation 2, control with respect to potential direct project expenditures after the end date for ARC administered grants is also recommended.

Also, BAMRs are not always received from Basic Agencies and the extended periods are sometimes not entered in ARC.Net. For example, 26 of the 53 Basic Agency grants noted did not have a BAMR.



MEMORANDUM

October 21, 2016

To: Hubert Sparks
Inspector General

Through: Charles Howard *CH*
General Counsel

From: Nancy Eyl *NE*
Assistant General Counsel

Subject: Office of Inspector General (OIG) "Performance Periods/End Date"

Thank you for the opportunity to review and respond to OIG report 17-02, "Performance Periods/End Dates." The Appalachian Regional Commission (ARC) recognizes that even the most well run programs benefit from independent and objective evaluations. We appreciate your work in planning and conducting this review as we continue to enhance our programs.

We agree with all six recommendations and offer the following comments for your consideration in finalizing the report.

Recommendation 1: The grant agreement with grantees should emphasize ARC provisions about requesting and supporting extensions and that expenditures after approved period without prior approval are ineligible expenditures.

Response: Concur. The grant agreement with grantees incorporates guidance on extensions and makes clear that grant funds may only be used for work accomplished within the grant period.

Specifically, ARC's grant agreement incorporates the following guidance, in order of precedence: the provisions of the Appalachian Regional Development Act of 1965, as amended; the ARC Code; ARC Project Guidelines; the grant agreement's special and general provisions; the ARC Grant Administration Manual; and any incorporated Supplements. According to the agreement's general provisions, all ARC grants are administered according to Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards* found in Chapter 2 of Title 2 of the Code of Federal Regulations.

The general rule is that a grantee may charge to a federal award only allowable costs incurred during the period of performance. If a grantee needs more time to complete a project, OMB and ARC offer guidance on how to request an extension. OMB regulations at 2 CFR § 200.308(d)(2) authorize

ARC to extend the period of performance by up to 12 months. In this case, the grantee must provide a reason and a revised end date. The grantee also must notify ARC in writing with a supporting reason.

ARC's *Grant Administration Manual for ARC Non-Construction Grant Agreements* (February 2015) ("Grants Manual") allows a grantee to request an extension on project performance by emailing the ARC project coordinator and state ARC program manager. A grantee must request the revision before the end date and must include a detailed reason. The state must approve the extension. This guidance is also part of the grant agreement.

Recommendation 2: Controls with respect to end dates and follow-up action should be formalized.

Response: Concur. ARC is always looking for ways to increase efficiency and accountability in its operations. We have initiated several changes to our internal controls relating to end dates. For example, before a state basic agency can draw down funds for a payment, the agency must submit a request electronically in ARCnet. An error message will appear and prevent the payment from being authorized if the request relates to work done outside the period of performance.

Under a memorandum of understanding (MOU) with ARC, basic agencies award, administer, monitor, and report on grants. Limited time extensions to the grant performance period (less than three years, and three or fewer extensions) do not require review by the ARC project coordinator.

Although ARC has a limited oversight role over the manner in which basic agencies administer ARC grants, all basic agencies must report on expected end dates on the annual Basic Agency Monitoring Report (BAMR). State basic agencies are required to promptly notify the ARC project coordinator and the state's ARC alternate of the amendment, by email. Federal basic agencies report on amendments during the BAMR process.

ARC has initiated follow-up action to remind basic agencies about their responsibilities with respect to end dates. Specifically, starting in January 2017, ARC's electronic system will send an automated email once per quarter to notify basic agencies about the expired grants under their management. We believe that this practice will serve to remind basic agencies about the importance of following up on end dates.

Recommendation 3: Emphasis should be based on extensions requested by grantees and supported by the need for the extension and the length of the extension should be commensurate with the identified need, including consideration of the project status and fund balance.

Response: Concur. As stated, for ARC-administered grants, ARC's Grants Manual allows a grantee to request an extension on project performance by emailing the ARC project coordinator and state ARC program manager. A grantee must request the revision before the end date and must include a detailed reason. The state must approve the extension. This guidance is also part of the grant agreement.

When a basic agency amends the project's performance period, the agency is requested to enter the new end date in the BAMR. ARCnet keeps track of all original end dates as well as any amendments.

Recommendation 4: Blanket and unilateral extensions should be avoided.

Response: Concur. As a general rule, ARC does not issue blanket or unilateral extensions, and agrees they should be avoided. ARC's Grants Manual requires a grantee to include a reason for an extension.

Recommendation 5: Coordinate with Basic Agencies to better assure follow-up is initiated, including notification to ARC of grant period extensions and reasons thereof.

Response: Concur. As the OIG points out, most of the issues with expired end dates relate to federal basic agency-administered grants. These basic agency grants represent over two-thirds of the total potentially ineligible funds presented in the OIG report. Most of these basic agency grants are managed by the U.S. Department of Agriculture Rural Development (RD) and the U.S. Department of Housing and Urban Development (HUD).

ARC has been working steadily to improve communication and coordination with basic agencies. As discussed, initiatives include basic agency reporting requirements and email reminders. ARC also increasingly routes basic agency projects through state agencies. Partnering with state agencies, rather than federal basic agencies, allows ARC to maintain more control and oversight over its grant funds. As of today, registered state basic agencies (RSBA) are authorized to administer ARC grants in nearly all the states of the Region.

As with grants managed by federal basic agencies, ARC does not manage grant oversight tasks on a daily basis. However, ARC has access to information via new controls implemented in ARCnet, including the BAMRs, progress reports, and current payment information.

Recommendation 6: Follow up on open grants with expired end dates.

Response: Concur. We recognize that follow-up is needed on some of our grants. We have already begun following up on each grant listed on Tables A through F of the OIG report. Several grants on the list are now closed, and more are scheduled for closeout this month.

We understand that the OIG believes that open grants are susceptible to ineligible payments. However, we reviewed the payment history of these grants and are confident that—with a couple of minor exceptions—the payments made were for work performed during the grant period.

Going forward, as stated, an automated email will be sent once per quarter, starting in January 2017, to notify basic agencies about the expired grants that they manage.

Again, thank you for the opportunity to review and comment on this draft report. We look forward to working with you in the future.

Open ARC Adminstered Grants with Expired End Dates
Included in Prior Report

<u>Grant No.</u>	<u>End Date</u>	<u>ARC Balance</u>	<u>Last payment</u>	<u>Amount 1/</u>
AL-17796	12/31/2015	\$53,785.00	3/15/2016	\$37,412.00
NC-17720	12/31/2015	\$11,846.00	6/11/2016	\$25,451.00
NY-17450	12/31/2015	\$21,727.00		
NY-17631	4/30/2015	\$13,803.00		
NY-17873	8/31/2015	\$10,000.00	11/2/2015	\$90,000.00
NY-17875	12/31/2015	\$2,624.00		
NY-7776 C-35	9/30/2015	\$78,635.00		
TN-15808	1/31/2016	\$35,458.00		
VA-17579	12/31/2015	\$25,006.00		
VA-17826	9/30/2015	\$33,198.00		
<u>WV-18008</u>	<u>3/31/2016</u>	<u>\$44,616.00</u>		
11		<u>\$330,098.00</u>	2/	<u>\$152,863.00</u>

1/ Payments significantly after end date

2/ Payments at risk based on end dates.

Open Basic Agency Grants with Expired End Dates
Included in Prior Report

Agency	<u>Grant No.</u>	<u>End Dates</u>	<u>Balance</u>	<u>Last payments</u>	<u>Amount 2/</u>
HUD	KY-17644	1/30/2016	\$48,030.00	2/29 & 5/31/16	\$541,557.00
	NC-17805	10/31/2014	\$27,975.00	11/31/2016	\$31,524.00
	OH-17165	8/29/2014	\$52,000.00		
	OH-17543	3/31/2015	\$7,115.00		
	OH-17752	6/1/2015	\$250,000.00 1/		
	OH-17878	10/31/2015	\$105,000.00 1/		
	OH-17951	9/30/2015	\$19,727.00	7/31/2016	\$9,730.00
RD	GA-17840	3/31/2016	\$300,000.00 1/		
	KY-17384	12/10/2015	\$129,939.00		
	KY-17402	1/31/2016	\$123,839.00		
	KY-17404	2/1/2016	\$6,136.00	4/31/16	\$39,597.00
	KY-17611	1/31/2016	\$12,462.00	5/31/2016	\$76,250.00
	KY-17522	3/31/2016	\$144,256.00		
	KY-17649	12/10/2015	\$58,106.00		
	KY-16913	3/31/2016	\$3,000.00		
	NC-16999	12/7/2015	\$84,813.00	6/30 & 7/31/16	\$115,647.00
	NY-17092	1/31/2016	\$150,000.00 1/		
	OH-17747	5/31/2015	\$250,000.00 1/		
	OH-17880	6/1/2015	\$250,000.00 1/		
	PA-17704	1/31/2016	\$135,588.00	4/30/2016	\$14,167.00
	TN-16038	9/30/2015	\$500,000.00 1/		
	TN-16654	2/2/2016	\$21,342.00	5/31 & 7/31/16	\$97,087.00
	<u>TN-17189</u>	3/2/2016	<u>\$105,151.00</u>	6/30 & 8/31/16	<u>\$282,473.00</u>
	23		<u>\$2,784,479.00</u> 3/		<u>\$1,208,032.00</u> 3/

1/ No reported ARC payments

2/Payments after end dates

3/Payments and potential payments at risk

Additional Open ARC and State Agency Administered Grants with
Balances over \$30,000 and Expired End Dates

<u>Agency</u>	<u>Grant No</u>	<u>ARC balance</u>	<u>End dates</u>
ARC	AL-16924	\$226,942.00	7/31/2016
	CO-17069	\$84,519.00	1/31/2016
	CO-17707	\$50,876.00	12/31/2014
	CO-17084	\$73,105.00	9/30/2016
	GA-17617	\$59,894.00	6/30/2016
	GA-17862	\$158,000.00	8/31/2016
	KY-17099	\$58,125.00	6/30/2016
	KY-17957	\$441,710.00	8/31/2016
	KY-17975	\$250,000.00	6/30/2015
	MD-17909	\$248,555.00	9/30/2016
	MS-16115 C-1	\$62,335.00	9/30/2016
	MS-17652	\$69,720.00	9/30/2016
	MS-17883	\$211,369.00	9/30/2016
	MS-18004	\$69,458.00	4/30/2016
	NC-17387	\$63,904.00	6/30/2016
	NY-17300	\$82,446.00	8/31/2016
	SC-17412	\$67,571.00	6/30/2016
	SC-17832	\$399,100.00	9/30/2016
	TN-15808 C-1	\$131,815.00	9/30/2016
	<u>20</u>	<u>\$2,809,444.00</u>	
State	MS-17910	\$104,881.00	5/31/2016
	OH-17391	\$250,000.00	7/31/2014
	<u>SC-17831</u>	<u>\$66,130.00</u>	9/30/2016
	<u>3</u>	<u>\$421,011.00</u>	
Total	<u>23</u>	<u>\$3,230,455.00</u>	

Additional Open Basic Agency Grants with
Expired End Dates and Balances over \$30,000

<u>Agency</u>	<u>Grant No.</u>	<u>End date</u>	<u>balance</u>
EDA	CO-18306	8/14/2016	\$75,000.00
HUD	KY-17482	3/1/2016	\$144,257.00
	KY-17861	6/30/2016	\$500,000.00
	NY-16270	1/31/2016	\$144,918.00
	OH-18076	12/31/2015	\$216,495.00
	OH-18140	7/1/2016	\$131,597.00
	OH-18161	10/1/2016	\$250,000.00
	PA-17812	6/30/2016	\$100,000.00
	PA-18129	12/31/2015	\$200,000.00
RD	GA-17584	8/1/2016	\$93,933.00
	KY-16731	7/31/2016	\$107,097.00
	KY-17947	4/1/2016	\$34,713.00
	KY-18199	9/30/2016	\$91,687.00
	KY-18250	1/1/2016	\$475,000.00
	KY-18258	3/1/2016	\$500,000.00
	KY-18296	6/30/2016	\$218,000.00
	NY-17686	5/1/2016	\$150,000.00
	NY-18178	5/1/2016	\$150,000.00
	OH-17950	10/1/2016	\$250,000.00
	PA-18045	1/31/2016	\$200,000.00
	PA-18207	3/1/2016	\$105,750.00
	TN-17174	5/3/2016	\$131,732.00
	TN-17672	7/4/2016	\$299,245.00
	TN-17924	6/1/2016	\$300,000.00
	WV-17969	9/30/2016	\$286,033.00
	<u>WV-17972</u>	<u>4/30/2016</u>	<u>\$1,500,000.00</u>
	<u>26</u>		<u>\$6,655,457.00</u>

Additional Grants with Payments after End Dates

<u>Agency</u>	<u>Grant No.</u>	<u>End date</u>	<u>Payments after end date</u>	
			<u>Amount</u>	<u>Date</u>
ARC	MD-17925	9/30/2015	\$7,500.00	8/30/2016
	NY-17293	9/30/2015	\$43,375.00	4/28/2016
	PA-17941	12/31/2015	\$47,227.00	4/6/2016
	TN-17695	9/30/2015	\$200,000.00	4/6/2016
	VA-17311	9/30/2015	\$31,700.00	4/13/2016
	VA-17382	3/31/2014	\$32,210.00	6/28/2016
RD	KY-17934	3/31/2016	\$340,531.00	4/30 thru 7/30/16
	MD-17946	9/30/2015	\$20,000.00	6/30/2016
	PA-17799	2/15/2016	\$200,000.00	6/30/2016
	<u>TN-17915</u>	2/9/2016	\$500,000.00	7/31/2016
	<u>10</u>		<u>\$1,422,543.00</u>	

Closed ARC Grants 1/

<u>Grant #</u>	ARC NetEnd <u>date</u>	Last Payment		<u>Months between end date and last</u>
		<u>Date</u>	<u>Amount</u>	
AL-17517	5/30/2014	12/8/2015	\$34,527.00	62
KY-17015	9/30/2013	4/13/2015	\$452,406.00	18
KY-16468 C-1	9/30/2014	5/8/2015	\$315,258.00	19
GA-7769 C-33	6/30/2014	1/5/2015	\$176,836.00	6
NC-16686 C-1	7/31/2014	1/12/2015	\$100,000.00	15
NY-16342	10/30/2012	5/19/2015	\$81,831.00	30
MS-17039	8/31/2014	12/1/2014	\$50,000.00	3
VA-16944	8/31/2014	7/25/2015	\$50,000.00	4
AL-17217	6/30/2014	6/16/2015	\$18,953.00	11
NY-17018	7/31/2014	11/13/2014	\$46,555.00	3
AL-17220 C-1	7/31/2014	12/1/2014	\$20,133.00	4
TN-17551 C-1	6/30/2015	4/6/2016	\$71,752.00	3
CO-17078 C-1	6/30/2014	3/16/2015	<u>\$37,771.00</u>	8
<u>13</u>			<u>\$1,456,022.00</u>	

1/ A small sample of grants disclosed payments were made at least 3 months after performance end dates and requests for extension were not requested or approved.

Significant direct project made after end dates, if confirmed, are ineligible per ARC and Federal policy.