



June 14, 2019

To: Federal Co-Chair  
ARC Executive Director  
ARC General Counsel  
ARC Director, Critical Infrastructure  
ARC Director, Business & Workforce Investment  
ARC Assistant General Counsel

From: ARC Inspector General, Hubert Sparks

Subject: Memorandum Report 19-29, Approvals and Obligations

### Summary

A review of FY 2018 approvals and obligations identified a continued pattern of a large majority of fiscal year approvals being made in the last quarter of the fiscal year. For FY 2018 Area Development approvals, excluding LDDs, POWER and FHWA approvals, 64 percent of approvals were made in the last quarter including 44 percent in September 2018. This resulted in \$55.6 million of \$86.6 million being approved in the last quarter and \$38.1 million of the last quarter approvals being in September 2018. This contributed to last quarter obligations approximately \$55.7 million on 73 percent of FY 2018 obligations, including 47 percent in September 2018.

Although ARC approves applications in a timely manner the overall process, including the current May 31 guideline for submitting 75 percent of applications, does not significantly address an approval process that better assures a more balanced distribution of applications, approvals and obligations. (tables A, B & C)

### Background and Scope

Prior reports have identified significant last quarter approvals and obligations including a significant September actions based on late applications by grantees.

OIG reports have recommended emphasis on timely applications, approvals and obligations to reduce year end approvals that could be interpreted as year-end spending and contributes to a workload imbalance to review and approve applications.

The update emphasized area development (AD) approvals and did not include Local Development District (LDD) grants since these are repetitive annual grants. Also, POWER and FHWA grants were excluded.

ARC.Net, the ARC grant management system and financial reports were used to identify grant approvals.

ARC guidance issued March 2011 advanced application deadline for 75 percent of requested grants from June 30 to May 31. The change was intended to accomplish several objectives, these included: 1) help level out the project load to be more manageable, 2) give states more time to develop and submit backup projects if problems arise with original lists, and 3) increase the likelihood of construction projects being obligated within the fiscal year. Applications within the recommended time frame would reduce last quarter workloads and increase time available for application review and obtaining necessary information, increase fiscal year approvals and obligations, reduce unobligated funds and reduce appearances of year end spending.

States are annually notified that applications received after a certain date may not be processed within the fiscal year.

### Results

Table A notes that \$55.5 million or 64 percent of FY 2018 approvals was approved in the last quarter of FY 2018 including 44 percent or \$38.2 million was approved in September 2018. Table B identifies the approvals by State.

The approval process contributes to large year end obligations. Table C identifies \$55.7 million or 73 percent of obligations in the last quarter of FY 2018, including 47.4 percent in September 2018. Late applications was generally cited as the primary factor for late approvals and obligations. It has been generally agreed by ARC and State representatives that more timely submissions of applications would be beneficial for improving the grant approval process.

Although ARC provides notifications about the need to submit applications timely to assure review and approval within the fiscal year ARC generally accomplishes the process within the fiscal year for applications received after May 31. However, this contributes to unbalanced staff workload that can impact the time available for review of applications and obtaining needed additional information and avoidance of unliquidated obligations.

We recognize that various factors contribute to late FY applications, approvals and obligations. These include finalization of available ARC funding, availability of additional needed funding, including required match, large number of pre-applications and applications needing reviews, differences between ARC and State budget years, Governors review process and retaining ARC allocations in case needed projects are identified near the end of the year.

Continued follow-up with State partners is recommended to identify and address actions to reduce the imbalance of applications, approvals and obligations. Emphasis on receiving 75

percent of applications by May 31 and consideration of earlier submission deadlines unless extensions are requested and justified is recommended.

Table A

**FY 2018 Approvals**  
**(Excludes LDDs, POWER, CO, FHWA)**

<u>State</u>	<u>FY 2018</u>	<u>Oct 1/17 - 6/20/18</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Last Quarter 2018</u>
AL	6,390,318.47	3,991,501.47	248,817.00		2,150,000.00	2,398,817.00
GA	7,839,620.00	3,156,410.00		1,801,075.00	2,882,135.00	4,683,210.00
KY	19,023,085.00	1,169,474.00	500,000.00	1,254,320.00	16,099,291.00	17,853,611.00
<b>MD</b>	<b>2,451,634.00</b>	<b>1,617,634.00</b>	<b>54,000.00</b>	<b>30,000.00</b>	<b>750,000.00</b>	<b>834,000.00</b>
MS	14,450,046.00	5,168,218.00	1,656,919.00	3,001,904.00	4,623,005.00	9,281,828.00
NC	5,039,857.00	1,701,864.00			3,337,993.00	3,337,993.00
NY	2,176,808.00	1,031,071.00	240,400.00	455,337.00	450,000.00	1,145,737.00
OH	4,387,373.00	2,507,312.00	403,750.00	800	1,475,511.00	1,880,061.00
PA	4,241,328.00	323,748.00	232,975.00	2,916,000.00	768,605.00	3,917,580.00
SC	3,915,088.00	2,955,125.00		459,963.00	500,000.00	959,963.00
TN	7,085,964.71	2,545,832.71	1,086,500.00	2,125,000.00	1,328,632.00	4,540,132.00
VA	4,256,302.00	1,812,869.00		625,000.00	1,818,433.00	2,443,433.00
WV	5,314,210.00	3,043,820.00	290,000.00		1,980,390.00	2,270,390.00
<b>Grand Total</b>	<b>86,571,634.18</b> 100%	<b>31,024,879.18</b> 36%	<b>4,713,361.00</b> 5%	<b>12,669,399.00</b> 15%	<b>38,163,995.00</b> 44%	<b>55,546,755.00</b> 64%

**FY2018 Approvals**  
**(Excludes LDDs, POWER, CO, FHWA)**

<u>State</u>	<u>FY2018</u>	<u>Oct 1/17 - 6/2018</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Last Quarter</u>	
AL		32	26	2		4	
GA		17	10		4	3	
KY		20	5	1	1	13	
MD		20	16	1	1	2	
MS		42	18	3	6	15	
NC		23	14			9	
NY		21	11	2	5	3	
OH		23	11	3	1	8	
PA		28	5	4	11	8	
SC		13	11		1	1	
TN		28	7	5	7	9	
VA		16	8		3	5	
WV		14	11	1		2	
<b>Grand Total</b>		<b>297</b> 100%	<b>153</b> 51.5%	<b>22</b> 7.4%	<b>40</b> 13.5%	<b>82</b> 27.6%	<b>144</b> 48.5%

Table B

Percent of Last Quarter Approvals

State	Percent of last quarter approvals	Percent of September approvals
AL	37	9
GA	60	61
KY	94	90
MD	34	90
MS	65	50
NC	67	100
NY	53	39
OH	43	78
PA	92	20
SC	24	52
TN	64	29
VA	57	74
WV	43	87

Table C

**FY2018 Obligations  
(Excludes LDDS, POWER, CO, FHWA)  
Amount**

<u>State</u>	<u>FY 2018</u>	<u>Oct 1/17 - 6/2018</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Last Quarter 2018</u>
AL	6,450,318.00	3,740,343.00	498,817.00	261,158.00	1,950,000.00	2,709,975.00
GA	7,377,076.00	916,200.00	1,282,666.00	2,296,075.00	2,882,135.00	6,460,876.00
KY	17,423,085.00	200,000.00	1,044,474.00	125,000.00	16,053,611.00	17,223,085.00
MD	1,751,634.00	1,270,543.00	326,091.00	105,000.00	50,000.00	481,091.00
MS	12,670,046.00	3,242,912.00	2,109,946.00	2,694,183.00	4,623,005.00	9,427,134.00
NC	5,057,126.17	1,719,133.17			3,337,993.00	3,337,993.00
NY	1,670,408.00	749,671.00		620,737.00	300,000.00	920,737.00
OH	3,606,973.00	2,257,312.00	323,350.00	800.00	1,025,511.00	1,349,661.00
PA	3,922,328.00	197,558.00	190,165.00	2,791,000.00	743,605.00	3,724,770.00
SC	3,198,538.00	1,712,350.00	526,225.00		959,963.00	1,486,188.00
TN	7,085,965.00	1,915,833.00	1,000,000.00	2,116,500.00	2,053,632.00	5,170,132.00
VA	4,256,302.00	1,277,869.00	500,000.00	535,000.00	1,943,433.00	2,978,433.00
WV	1,719,210.00	1,248,820.00	290,000.00		180,390.00	470,390.00
<b>Total</b>	<b>76,189,009.17</b>	<b>20,448,544.17</b>	<b>8,091,734.00</b>	<b>11,545,453.00</b>	<b>36,103,278.00</b>	<b>55,740,465.00</b>
	100%	26.8%	10.6%	15.2%	47.4%	73.2%