



March 13, 2012

Memorandum for ARC Federal Co-Chairman
ARC Executive Director

Subject: Memorandum Survey Report 12-¹⁰7 – Grant Controls

I. Purpose and Background.

This report summarizes issues related to ARC policies and procedures and the ARC Grant Management System (ARC.net) that surfaced during our surveys of older grants administered by ARC and Basic (Child) Agencies. These issues include the implementation of grant management controls, coordination with Basic Agencies with respect to progress reports and Memorandums of Understanding (MOUs), and utilization of information in ARC.net.

We recognize that ARC.net is continuously being refined and improved as a system to assist in grant management and administration.

II. Results

18 Month Guideline

ARC Project Guidelines, section 4 – Miscellaneous Requirements, paragraph 4.b states that “at the request of a State, the Commission may revoke or revise its approval of any project pursuant to section 303 of the ARDA (excluding projects under section 201) if the work intended to be assisted is not under way within 18 months after the date of approval of such project”. This clause is included in grant agreement documentation and in Memorandums of Understanding with Basic Agencies.

Prior reviews of grants for which work was not underway within 18 months of the date of approval disclosed few, if any instances, where this control was implemented with respect to ARC or Basic Agency administered grants. We concur that this guideline is an appropriate control and recognize that various factors contribute to delayed project status. However, for such a control to be meaningful and effective we recommend increased coordination between all-partners to assure that grants meeting this criteria are reviewed and appropriate actions such as increased use of this control are initiated in order to permit the applicable states to put the available funds to better use on other projects when projects are not underway within 18 months of approval.

Memorandums of Understanding (MOUs) with Basic (Child) Agencies

ARC is currently reviewing active MOUs with the goal of revising or improving these documents. Based on review of the four active MOUs (HUD, USDA, EPA and TVA) we agree with this initiative and the potential to improve coordination and collaboration, including progress reports, between ARC and Basic Agencies.

The progress reports, as identified in MOUs, are primarily financial reports identifying grant approval, obligations, status of funds, and disbursement information and do not generally comment about reasons for project delays or other problems impacting project completion.

One MOU includes language to the effect that ARC will be provided with information on any unusual problems or delay encountered and actions taken or necessary to resolve such problems. Another MOU states that information will be provided to ARC on any unusual problems encountered and any ameliorative actions taken. Although we did not conduct specific testing of project report content or timeliness we did not see information on ARC.net reflecting reasons for significant delays in the start of basic agency administered projects and discussion with ARC staff indicated few progress reports include this type of information.

We recognize basic agencies may consider the provision of such information an added task but believe that project administration responsibilities should include identification of grant status particularly with respect to problems or factors causing lengthy startup delays. Basic agencies could use the 18 month guideline as a basis for reporting such information.

Thus, we recommend that MOUs be revised to include emphasis on project status as noted above and ARC utilize these reports as a management tool to identify needed actions on specific grants.

ARC.net

ARC.net accumulates information about ARC grants and is utilized as a primary grants management control. The system, as noted, is being refined and updated. Our current surveys and prior audit recommendations identified system elements needing attention.

A primary need and recommendation is development of system documentation that identifies the purpose of system reports and clearly defines the meaning of terminology used in these reports. Also, a review of current system information and reports, including elimination of outdated information and unused reports, and separation of reports into categories such as standard reports and special reports requested by individual staff members would allow, in our opinion, quicker access to, and better use of, available information.

For example, one ARC.net report on open grants is titled "No transactions over last 18 months", and notes the number of days since the last transaction. However, the meaning or the purpose of the term last transactions is unclear as it appears the number of days noted relates to grant approval rather than an action such as a disbursement. Table A notes a few examples. We consider a disbursement to be a transaction and identifying such actions as a transaction would increase the value of this report as a control document. Also, it would eliminate the impression that the applicable grants were inactive for longer periods than applicable.

The report also notes zero as the cumulative amount and percentage of funds disbursed although disbursements were made in many cases.

Utilization of available information as effective controls should also be emphasized. For example, the system provides information with respect to expected project end dates for ARC administered projects and the time lapses between receipt of grant application, project approval and project obligations. A comparison of open projects with project end dates disclosed many open ARC administered projects for which end dates had passed but there was no evidence projects had been reviewed to determine appropriate extensions, if justified.

A prior report recommended that basic agencies include an end date for projects administered by these agencies. We recognized that establishment of such dates for construction related projects is often more difficult due to the various factors that can delay such projects. However, such information would provide another control that could trigger follow-up to determine project status and thus we repeat this recommendation.

ARC comments

Grant Controls – 18 Month Guideline and MOUs with Basic Agencies

ARC recognizes the value and need for current and accurate information on all of its grants. We've implanted tools such as automated email reminders to grantees on upcoming deadlines for progress/budget reports and project end-dates have help the grantees meet their reporting requirements to ARC. We have also developed a new Basic Agency Monitoring Report (see attached BAMR) that will be sent out to basic agencies every six months so we have an updated, accurate picture of the status of ARC's construction projects. Projects that have not begun construction within 18 months after approval will be monitored to assess whether the reasons for the delay are reasonable. It is our expectation that these reports will be completed and returned to ARC regardless of any MOU revisions.

Grant Controls – ARC.net

While the design and function of ARC.net has undergone several upgrades, the list of the Standard Reports has not been scrubbed to remove outdated reports. Addressing the usability and functionality of ARC.net's reporting capability will be a high priority during the summer 2012.

OIG Comments

We concur with the ARC comments and actions to obtain additional information from Basic Agencies, monitoring to assess whether reasons for project delays are reasonable and addressing the usability and functionality of ARC.net's reporting capability. As previously noted, since states must request implementation of the 18 month rule, coordination with state partners is necessary if this control is to be effectively implemented.

Hubert Sparks
Inspector General

Enclosure

Table A

ARC Net Information as of 12/30/11

<u>Grant #</u>	<u>Approval date</u>	<u>Noted days since last transaction</u>	<u>Date of last payment action</u>	<u>Days since last payment action</u>
AL-16131	11/7/2008	1148	11/18/2010	408
AL-16210	5/12/2009	962	7/28/2011	156
AL-16237	8/5/2009	877	4/1/2011	273
AL-16431	9/9/2009	842	12/23/2011	7
AL-16441	9/25/2009	826	8/2/2011	151

Basic Agency Reporting Form

APPALACHIAN REGIONAL COMMISSION MONITORING REPORT FOR CONSTRUCTION PROJECTS

PROJECT NAME _____

BASIC AGENCY NAME _____

ARC PROJECT NUMBER _____

GRANTEE _____

ARC PROJECT APPROVAL DATE _____

CURRENT REPORTING PERIOD _____

1. EXPENDITURES: *Please supply the total expenditures by funding source as indicated:*

<i>Funding Source</i>	<i>Funding Amount</i>	<i>Expenditures this Quarter</i>	<i>Total Grant Expenditures</i>
ARC			
Basic Agency			
Other Federal			
State			
Local			
TOTAL			

2. SCHEDULE OF CONSTRUCTION ACTIVITIES: *Please supply the following actual data:*

Date of Advertisement	
Date Bids Opened	
Expected Beginning Date of Construction	
Estimated Date of Completion	
Date of Completion	
Progress of Project	<i>What percent of project is complete? %</i>

3. ADDITIONAL COMMENTS (SIGNIFICANT DELAYS, PROBLEMS ENCOUNTERED, ACTION TAKEN TO RESOLVE ISSUES, ETC):

I certify that the information supplied in this report is correct and can be documented by our project records.

Project Director

Date

Telephone Number

Email Address