



**Open Child Agency Grants
OIG Report 12-26**

September 30, 2012

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Background

Prior reports highlighted grants with unused balances and limited activity with respect to grants approved prior to 2009. This report updates the status of those grants and includes grants approved prior to 2011 and identifies controls that should better assure timely identification of grants needing follow-up by ARC Project Coordinators and State ARC Program Managers. The review sample emphasized grants for which no ARC funds were noted as disbursed since grant approvals.

ARC has emphasized actions to improve follow-up on inactive grants and completed projects. More than 670 grants were closed during the period July 1, 2011 to September 30, 2012. Actions included implementation of older projects for which grants were approved, cancellations and de-obligations.

ARC approves grants for economic development projects in the Appalachian Region and, by law, relies on other Federal Agencies (Child Agencies) with construction expertise, to administer, manage, and monitor construction related grants and projects. Cooperation and coordination between ARC and Child Agencies is an important program element and the Child Agencies are responsible for providing ARC with project status reports, including information for grant close out when projects are completed and identification of significant problems impacting grant implementation.

Child Agencies were previously referred to as Basic Agencies. The primary Child Agencies are the Rural Development Service (RDS) of the Department of Agriculture, Department of Housing and Urban Development (HUD), Tennessee Valley Authority (TVA) and Economic Development Authority (EDA) of the Department of Commerce.

Summary and Results

Our review of information on ARC.Net as of September 30, 2012 identified 76 grants approved prior to 2011 for which no disbursements were reported. ARC funds related to these grants totaled \$29,831,574. This included 35 grants with ARC funds approximating \$13 million for which no disbursements had been made in three years since approval.

Summarized as follows:

Child <u>Agency</u>	No. of <u>Grants</u>	ARC <u>Funds</u>
RDS	54	\$23,884,341
TVA	13	\$ 3,849,902
HUD	5	\$ 1,047,331
EDA	<u>4</u>	<u>\$ 1,050,000</u>
	76	\$29,831,574

We concluded that continued emphasis should be placed on timely identification and follow-up on grants with inactive balances, including emphasis on instances where no activity is apparent for extended periods.

Update on Grants Noted in Report 11-05, issued July 15, 211

In 21 of 50 instances noted in Report 11-05 where no disbursement has been made, records reflected no disbursements as of September 30, 2012. ARC funds approved for these grants totaled \$8,435,200, with the majority of these grants (15) being administered by RDS. Although contacts with these grantees were made subsequent to Report 11-05 to obtain updated information about grant status most of these contacts were made late in 2011 or early in 2012 and additional follow-up is appropriate to determine if identified actions have been initiated or completed. (Table B)

Actions were noted on the remaining 99 grants in Report 11-05 including closing, pending closing, cancellations, de-obligations and payments.

Actions involving actual or potential recoveries (cancellations and de-obligations) were noted in 35 instances involving ARC finds totaling \$6,062,016. Follow-up actions are needed in some instances to obtain necessary information to finalize intended actions and close grants. (Table C)

Additional Grant Approvals with No Disbursements

For the additional 55 grants approved prior to 2011, including 52 grants approved in 2009 and 2010 plus three grants approved prior to 2009 that were not included in Report 11-05, ARC funds totaled \$21,396,374.

In 34 of the 55 cases, ARC.Net did not contain any additional comments as of September 30, 2012. This included 21 of 24 grants administered by RDS.

Time Frames Between Grant Approval and No Disbursements as of August 31, 2012

As noted, the value of the 76 grants approved prior to 1/1/11 for which no disbursements were made as of 9/30/12 totaled \$29,831,574 in ARC funds.

In 21 cases, the period since grant approval ranged from 48 to 115 months, including 14 cases where the period was 60 to 115 months. The value of these grants was \$8,085,200, including one instance of a one million dollar grant approved in 2003.

For 12 cases with ARC values totaling \$5,231,283 the period since approval was 35 to 47 months.

The value of the remaining 43 grants with periods between 23 and 34 months was \$16,515,091 and the majority of these grants had periods of 23-25 months since approval.

Grants with some disbursements noted

Based on a review of grants in prior reports that identified some disbursements but large balances with lengthy periods since prior disbursements and the additional grants approved in 2009 and 2010 we concluded that there were few open grants, other than grants with no disbursements since approval, with large inactive balances. In most cases recent disbursements were noted reflecting ARC follow-up in such cases.

Grant Management

We recognize that initiation of construction related projects often takes considerable time due to various factors such as environmental studies, land rights and availability of matching funds. We were informed that in some cases Child Agencies disburse their own funds prior to disbursement of ARC provided funds. Nonetheless, with respect to older grants with no disbursements over a lengthy period since approval, such as 18 months, we recommend that emphasis be placed on timely follow-up to determine grant status and initiate actions, including cancellation and de-obligations so that funds can be made available for use on other needed project.

We also recognize that ARC relies heavily on feedback and reports from Child Agencies to determine the status of grants administered by these agencies. Follow-up had been initiated on most of the grants included in our prior report and for many of the grants included in this report information was received that the applicable project was still intended to be pursued, including instances where bids were in process or construction was getting underway. In many cases, the follow-up and reported grantee on-going or intended actions needs additional follow-up to determine current grant status.

These are positive steps but do not offset the need for emphasis on timely monitoring and follow-up to better assure a reduction in the elapsed time between grant approval and project start, including increased emphasis on use of the 18 month ARC provision. The adverse impact of cancellations is reduced on individual states since ARC policy results in funds made available from cancellations and de-obligations being returned to the applicable state for other needed projects. Grant requests for cancelled projects can be resubmitted and are made when circumstances allow for overcoming the constraints that restricted project starts, but in the interim period a substantial amount of funds could be made available for other projects. As previously noted, approximately 13 million dollars has been approved in 35 cases for three or more years without any indication of project disbursements. This included 11 grants involving \$4.7 million for which approval was five or more years prior to 9/30/12.

- ARC policies include a provision that the Commission may revoke or revise its approval of any project if work intended to be assisted is not underway within 18 months of the date of approval of such projects. We concluded in this and prior reviews that this provision, which is initiated by the applicable state, has been seldom utilized with respect to inactive older grants. We recommend that this control be utilized more often in line with determining the status of old inactive grants including justifications, if applicable, for continuing grants in an open status.

- MOUs with Child Agencies include provisions for these agencies to notify ARC of unusual problems or delays encountered and actions taken or necessary to resolve such problems. However, we have noted few instances where Child Agencies provide this information to ARC and current reporting forms are basically financial oriented and do not identify reasons for lengthy periods between grant approvals and for example, project start up. This condition was previously noted and ARC has drafted a reporting form titled "Monitoring Report for Construction Projects". This form has not yet been finalized for use by Child Agencies and finalization and implementation is recommended.

- The Government Accountability Office (GAO) recently issued a report emphasizing the need for timely action on older grants with undisbursed funds and zero balances, including use of end dates and periodically available information on undisbursed funds as controls to facilitate grant management, including follow-up actions. Child Agencies do not provide end dates on grants administered by these agencies and since a large portion of ARC funds are administered by these agencies internal ARC emphasis on tracking and follow-up on these grants is considered appropriate.

Thus, standard reports that will provide project coordinators a periodic listing of projects for which there has been no disbursement activity for a lengthy period such as six months is recommended in order to assist the coordinators in identifying grants needing follow-up.

- ARC.Net noted 95 open Child Agency grants with zero balances as of 9/30/12, including 63 approved prior to 2010 and 40 for which no payments were made in FY 2012. Although impacts on overall grant management is limited, we recommend continued follow-up action to obtain information necessary to permit closing of grants with zero balances in a timely manner.

Hubert Sparks
Inspector General