

APPALACHIAN REGIONAL COMMISSION

INSPECTOR GENERAL'S

SEMIANNUAL REPORT

TO CONGRESS

OCTOBER 1, 1996 - MARCH 31, 1997



May 22, 1997

MEMORANDUM FOR THE FEDERAL CO-CHAIRMAN

SUBJECT: Semiannual Report to Congress

In accordance with the requirements of the Inspector General Act Amendments of 1988, Public Law 100-504, I am pleased to submit the semiannual report of the Office of Inspector General (OIG) for the period October 1, 1996, through March 31, 1997.

During this period, operational activities included issuance of 23 reports, including 19 grant reviews, 1 program survey, and 3 J-1 waiver reviews. Primary recommendations were directed at improved accounting, financial systems, internal controls, and deobligating of funds for completed or inactive grants. ARC initiated various actions to address issues noted in OIG reports and memorandums. Action was initiated on 70 of 73 grants identified for followup action in a prior audit report with deobligations of \$623,470. However, continuing action is necessary for older grants with balances of about \$1 million. Also, ARC continued action to close out additional projects, including projects administered by basic agencies. For example, actions were initiated in 460 cases, including deobligations approximating \$2.6 million.

Our surveys of the J-1 Visa Waiver program confirmed overall compliance with program provisions and reflected ARC's past and continuing actions to ensure an effective and efficient program for providing medical service to rural and low income communities. In one case, physicians had not performed in accordance with program requirements and their tours of duty in Appalachia were extended based on OIG recommendations.

Grant reviews emphasized adequate accounting systems and internal controls as a means of ensuring eligible expenditures. Recommendations generally involved the need for better grantee identification of matching contributions and support for expenditures.

During this reporting period, the Appalachian Regional Commission initiated and finalized significant actions to implement goals and objectives identified in the ARC Strategic Plan completed in February 1996. Actions included issuance of the final revision of the ARC Code that simplified and highlighted ARC operating and grant administration policies and procedures, including providing states more flexibility in administering their programs. Also, a progress report dealing with implementation of the Strategic Plan, including state strategies for FY 1997, was issued; and a task force was established to identify appropriate performance measures for ARC programs. Further, project guidelines setting forth the criteria for approval of ARC projects were issued.

The continued support of the OIG by ARC management and utilization of OIG reports and recommendations have contributed to improved controls and operations. The Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988, provides that this report be forwarded to appropriate congressional committees within 30 days and that you provide whatever additional comments you consider appropriate.



Hubert N. Sparks
Inspector General

Enclosure

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EXECUTIVE SUMMARY

During this reporting period, 23 reports were issued, including 19 individual grant reviews, 1 program survey, and 3 J-1 visa waiver program reviews. Primary recommendations were directed at improved accounting and financial systems and controls and improved grant administration, including fund deobligations. At the end of the reporting period, 14 reviews were in process, including 13 grant reviews and 1 program survey. Emphasis continued to be placed on deobligation of funds for grants with lengthy periods of inactivity. Management continued to emphasize timely followup and review of expired grants including assigning staff to implement improvements and improved management information systems to facilitate grant tracking. These actions resulted in deobligations exceeding \$623,000, with the potential for additional deobligations. Appalachian Regional Commission (ARC) actions on other projects, including basic agency administered grants, resulted in over 460 additional project actions and deobligations/recoveries of \$2.6 million.

Previous semiannual reports have highlighted reviews of the J-1 visa waiver program and ARC actions to address the failure of participating providers and physicians to ensure that primary care was provided in health professional shortage areas. During this reporting period, complaints about the J-1 visa waiver program continued to be limited; and we believe increased program compliance has resulted from ARC and State agency actions. Our surveys during this reporting period confirmed the overall effectiveness of ARC policies and actions to implement an effective program. In one instance, noncompliance with program provisions by two J-1 physicians resulted in extension of the physicians' tours of duty in Appalachia.

In line with reinvention and customer service principles, we continued to work with first-time and smaller grantees with respect to the implementation of practical accounting and financial systems and controls sufficient to ensure compliance with grant agreements, identification of eligible costs, maintenance of records and preparation of reports. Primary areas in need of improvement with respect to grantee financial operations included identification and support of matching contributions and program expenditures.

During this reporting period, ARC management initiated and finalized significant actions to implement goals and objectives identified in the ARC strategic plan completed in 1996. Actions included issuance of the final revision of the ARC Code that simplified and highlighted ARC operating and grant administration policies and procedures, including giving states more flexibility in administering their programs. Also, a progress report dealing with implementation of the strategic plan, including state strategies for FY 1997, and project guidelines setting forth the criteria for approval of ARC projects were issued. Actions are in process to identify appropriate performance measures for ARC programs and a draft financial management handbook was prepared.

The Inspector General (IG) continues to advocate use of Interservice Agreements by IG offices in order to substantially reduce the costs of independently contracting for external auditors. This process, which was initiated by the ARC OIG in 1989, is now used by approximately 10 designated IG offices and several PCIE (President's Council on Integrity and Efficiency) entities and results in a substantial reduction in costs with respect to advertising and bid evaluation, without any

reduction in competition or quality of work. In this regard, the ARC IG has strongly supported PCIE initiatives to encourage and increase the Governmentwide use of a master contractor concept for audit services contracts to achieve substantial economies of scale by eliminating duplicative contracting activities. The use of a master contract was approved by the OIG Audit Committee and will be implemented for FY 1998. During this reporting period, the IG conducted a peer review of another designated OIG office.

The OIG budget for FY 1997 was reduced \$54,000 from FY 1996 based on a proportionate sharing of a legislated reduction of ARC operating funds. The negative impact of this reduction has been reduced by increased emphasis on flexible review and reporting that highlights key issues and expenditures. The ARC has submitted a budget for FY 1998 that restores the OIG funding to FY 1996 levels, and we strongly support this action.

**PURPOSE AND REQUIREMENTS OF THE
OFFICE OF INSPECTOR GENERAL SEMIANNUAL REPORT**

The Inspector General Act of 1978 requires the IG to keep the Federal Co-Chairman and Congress fully and currently informed about problems and deficiencies in the Commission's operations and the necessity for corrective action. In addition, the Act specifies that semiannual reports will be provided to the Chairman by April 30 and October 31 and to Congress 30 days later.

The Co-Chairman may transmit comments to Congress along with the report but may not change any part of the report. The specific requirements prescribed in the Act, as amended (Public Law 100-504), are listed below.

Reporting Requirements

Section 4(a)(2)	Review of legislation and regulations	Page 7
Section 5(a)(1)	Problems, abuses, and deficiencies	Page 3
Section 5(a)(2)	Recommendations with respect to problems, abuses, and deficiencies	Page 3
Section 5(a)(3)	Prior significant recommendations not yet implemented	*
Section 5(a)(4)	Matters referred to prosecutive authorities	*
Section 5(a)(5) and 6(b)(2)	Summary of instances where information was refused	*
Section 5(a)(6)	Listing of audit reports showing number of reports and dollar value of questioned costs	App B
Section 5(a)(7)	Summary of each particularly significant report	**
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs	App A
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	App C
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of the reporting period	*
Section 5(a)(11)	Significant revised management decisions	*

Section 5(a)(12) Significant management decisions with which the Inspector General disagrees *

* None.

** See references to Sections 5(a)(1) and 5(a)(2) for discussion of significant reports.

I. INTRODUCTION

The Inspector General Act Amendments of 1988 (P.L. 100-504) provided for the establishment of an Office of Inspector General (OIG) at 30 designated Federal entities, including the ARC. The ARC OIG became operational on October 1, 1989, with the appointment of an IG and provision of budgetary authority for contracted audit and/or investigation activities.

II. BACKGROUND

A. APPALACHIAN REGIONAL COMMISSION

The ARC was established by the Appalachian Regional Development Act of 1965 (P.L. 89-4). The Act authorizes a Federal/State partnership designed to promote long-term economic development on a coordinated regional basis in the 13 Appalachian States. The Commission represents a unique experiment in partnership among the Federal, State, and local levels of Government and between the public and private sectors. It is composed of the Governors of the 13 Appalachian States and a Federal representative who is appointed by the President. The Federal representative serves as the Federal Co-Chairman with the Governors electing one of their number to serve as the States' Co-Chairman.

- Through joint planning and development of regional priorities, ARC funds are used to assist and encourage other public and private resources to address Appalachia's unique needs. Program direction and policy is established by the Commission (ARC Code) by the vote of a majority of the State members and the affirmative vote of the Federal Co-Chairman. Emphasis has been placed on highways, infrastructure development, business enterprise, and human resources programs.
- Administratively, the Office of the Federal Co-Chairman, with a staff of 11, and the Commission, with a staff of 50, are responsible for ARC operations. The States maintain an Office of States' Representative (3 persons) that has primarily liaison responsibilities. All personnel are located in Washington, DC. The Commission staff's administrative expenses, including salaries, are funded jointly by Federal and State funds; the States' Representative staff is funded entirely by the States; and the Federal Office staff is funded entirely from Federal funds.
- The Commission's appropriation for FY 1997 is \$160 million, which is divided approximately \$99.7 million for highway projects, \$57 million for non-highway projects, and \$3.3 million for administrative expenses. The ARC legislated reduction of \$314,000 in administrative expenses has had some negative impact on OIG operations. ARC is authorized through its current appropriation.
- Program funds are distributed to State and local entities in line with an allocation formula intended to provide fair and reasonable distribution of available resources. ARC staff have responsibilities for program development, policy analysis and review, grant development, technical assistance to States, and management and oversight.

- In order to avail itself of Federal agency expertise and administrative capability in certain areas, the ARC often relies on other departments and agencies for program administration, especially with respect to highways and infrastructure projects. For example, the Appalachian Regional Development Act authorizes the Secretary of Transportation to administer the Commission's highway programs. Under this arrangement, the Commission retains responsibility for priorities, highway locations, and fund allocations.

B. OFFICE OF INSPECTOR GENERAL

The ARC OIG is an independent audit and investigation unit. The OIG is headed by an Inspector General who reports directly to the Federal Co-Chairman.

Role and Authority

The Inspector General Act of 1978 (P.L. 95-452), as amended in 1988, states that the IG is responsible for (1) audits and investigations; (2) review of legislation; and (3) recommendation of policies for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, the program and operations of the establishment. In this regard, the IG is responsible for keeping the Federal Co-Chairman and Congress fully informed about the problems and deficiencies in ARC programs and operations and the need for corrective action. The IG has authority to inquire into all ARC programs and activities that are Federally funded. The inquiries may be in the form of audits, surveys, investigations, personnel security checks, or other appropriate methods. The two primary purposes of these inquiries are (1) to assist all levels of ARC management by identifying and reporting problem areas, weaknesses, or deficiencies in procedures, policies, program implementation, and employee conduct and (2) to recommend appropriate corrective actions.

Relationship to Other Principal ARC Offices

The States and the Federal Co-Chairman, acting together as the Commission, establish policies for ARC's programs and its administration. These policies are codified in the ARC Code and implemented by the Commission staff, which is responsible for monitoring project performance and providing technical assistance as needed. The Federal Co-Chairman, as the Federal fiscal officer, is responsible for the proper use and protection of Federal funds, for ensuring compliance with applicable Federal laws and regulations, and for taking appropriate action on conditions needing improvement, including those reported by the OIG. The operations of the OIG neither replace established lines of operating authority nor eliminate the need for the commission offices to take reasonable measures to protect and enhance the integrity and effectiveness of their operations. All Commission offices are responsible for monitoring and evaluating the programs entrusted to them and reporting information or incidences needing further audit and/or investigation to the IG.

Funding and Staffing

The OIG funding level for FY 1997 is \$366,000, which is a \$54,000 reduction from FY 1996. For FY 1997, approximately 17 percent will be expended for contract audit services; 65 percent, for salaries and benefits; 9 percent, for travel; and 9 percent, for all other activities (training,

equipment, space, supplies, etc.). The OIG funding level represents about .0023 percent of the total funds available to the Commission.

The OIG, in order to reduce the negative impact of reduced funding, is vigorously pursuing alternative review strategies such as surveys, targeted reviews, letter reports, highlight memorandums, and possibly joint OIG/program staff reviews. Also, ARC has submitted an FY 1998 budget that restores OIG funding to the FY 1996 level.

Initial OIG operations included authorization for an Inspector General and a Confidential Assistant. A senior auditor was employed in the latter half of FY 1991; no additional staff have been employed. Grant review activities will continue to emphasize use of contracted services (e.g., independent public accounting firms or other OIG offices) supplemented by programmatic and performance reviews directed by OIG staff. Investigative assistance is provided by other OIG offices on an as-needed basis. This approach has been deemed the most appropriate to date in view of the nature of ARC operations and limited resources. However, we would welcome initiatives that would facilitate sharing of investigative resources in order to strengthen this aspect of OIG operations.

III. OIG ACTIVITY

A. AUDITS

During the reporting period, 23 reports were issued, including 19 individual reviews, 1 program survey, and 3 J-1 visa waiver program followup reviews. At the end of the reporting period, 13 grant reviews and 1 survey were in process. The division of OIG resources results in audit work being performed by a combination of permanent and contractor staff. Emphasis continues to be placed on surveys of ARC operations and programs, completion of grant audits, audit planning, and audit resolution and followup.

During the term of the OIG operations at ARC, various recommendations, based on audit testing, have been made to ARC management with respect to improving operations in such areas as accountability, financial management, fund obligations and deobligations based on project activity, implementation of cost principles, and audit followup. Programmatic issues, with respect to grant administration, project results, and internal control systems, have been addressed.

OIG followup tests and reviews of statistical information have reflected positive ARC actions to address these issues and resulting improvements in program operations. For example, timely use of funds and project closings continue to be emphasized; and the number of funded projects with large unobligated balances has been substantially reduced. ARC conferences, training, and seminars continue to emphasize accountability, financial management systems, and allowable costs. Additionally, ongoing ARC actions, including revisions of accounting systems and service agreements, and strategic planning, including assessment of appropriate internal and external performance measures and issuance of revised policies and procedures, are in line with OIG recommendations and executive and legislative initiatives to improve Government operations.

The ARC OIG will continue to address these issues, including periodic followup on the extent of actions initiated and results obtained, and, as noted below, will report on issues needing continued attention.

- Of particular significance was ARC's continued emphasis on identifying and closing old and inactive grants, including substantial deobligations to ensure that available funds are made available for other economic development activities in the Appalachian Region. Our followup review reflected continuing action to address open cases cited in prior reports, including additional deobligations, and actions to proactively initiate actions on expired grants. Our most recent update report, which essentially continued followup on Report 96-5(H), August 1, 1996, and the status of additional grants that expired as of September 30, 1996, disclosed that actions had been initiated on 70 of the 73 grants noted in the prior report with deobligations of \$623,470 in 32 cases. Also, there was a potential for further deobligations of \$78,000 from the 3 remaining open grants. In addition, our supplemental review of 98 cases with expirations dates between October 1, 1995, and September 30, 1996, disclosed management action to close 16 grants with deobligations of \$357,931 and 46 extensions of the performance period. As of March 17, 1997, the performance period had expired in 25 cases; and for the additional 36 cases, the performance period had not been extended. Therefore, as of March 17, 1997, 61 grants were identified for potential closing action including 19 grants with fund balances approximating \$1 million that had been expired for over 6 months.

Also, aggressive ARC action continues with respect to closing of basic agency administered grants; and substantial deobligations and use of recovered funds on other projects have resulted from these efforts.

- A review of the J-1 visa waiver program disclosed substantial noncompliance with program provisions because the physicians did not comply with provisions requiring 40 hours of primary care service in a Health Professional Shortage Area (HPSA).

The J-1 visa waiver program provides a waiver of foreign physicians' responsibilities to return to their home country after completion of medical training in the United States. The waiver can be granted for various reasons, including the need for health care services in medically underserved areas in the United States. The Appalachian Regional Commission participates as a Federal entity sponsor in the Appalachian Region and, based on supporting information submitted by physicians requesting a waiver, prospective employers, and the applicable state health agency, recommends, where appropriate, approval of waivers to the United States Information Agency and Immigration and Naturalization Service (INS). Current ARC policies and procedures are that the J-1 physician will serve 3 years in a HPSA in the Appalachian Region and will practice 40 hours of primary care per week. There is no prohibition on J-1 physicians working extra hours or practicing subspecialties after fulfilling primary care requirements. Also, transfers to other HPSAs in Appalachia are permitted. Prior to August 1995, ARC policies provided for a 2-year waiver period.

We noted that two J-1 visa waiver physicians did not comply with program provisions primarily during the period August 1995 through July 1996 because, during this period, the physicians worked for a subcontractor with primarily a cardiology related practice and/or

did not practice the required time in a shortage area. Our recommendations included compliance with program provisions and determinations with respect to eligibility of service during the noted period, with negotiated extension of service time for periods of ineligibility. State agency actions included agreement with the J-1 physicians to extend their period of primary care medical service in Appalachia in order to fulfill the terms of the J-1 visa waiver they received.

- During our ongoing survey of tourism grants, we provided information to management with respect to the status of actions on tourism grants to one grantee that exceeded \$1 million. This information reflected that a key element of the grants, the Appalachian Tourism Research and Development Center, ceased operation at the conclusion of the last ARC grant in November 1994. Sufficient other income was not generated to sustain the project; and with limited exceptions, the grant expenditures had a limited positive result since key activities such as tourism training programs and maintenance of tourism data bases were terminated. A recommendation was also noted for increased emphasis on identifying alternative funding sources for projects that are intended to continue after conclusion of ARC participation and timely followup on income development or alternative funding plans.
- Continued emphasis was placed on testing first-time program participants in order to determine and evaluate the extent of knowledge and understanding of program procedures and requirements. Our tests disclosed that these grantees often did not have adequate financial systems or accounting controls and, thus, were unable to fully support claims for reimbursement and/or submitted ineligible costs for reimbursement. Of particular significance was limited understandings with respect to information necessary to support required matching contributions and allocation of costs between different funding sources and allowable costs as noted in the applicable OMB Circulars (A-87 and A-122). Also, in several other cases, we worked with the grantee to identify eligible costs prior to the issuance of our final report and, thus, reduced or eliminated questioned costs necessitating additional audit resolution. Emphasis was placed on recommendations to improve financial and accounting systems and controls.

B. INVESTIGATIONS

The Inspector General Act of 1978, as amended, provides that the IG may receive and investigate complaints or information concerning the possible existence of an activity constituting a violation of law, rules, or regulations or mismanagement, gross waste of funds, or abuse of authority. The OIG does not employ special investigators. Should the need arise, the matter would be referred to the Federal Bureau of Investigation or assistance would be contracted with another Federal OIG. Also, the results of investigations may be referred to the appropriate Federal, state, or local prosecutive authorities for action.

IV. AUDIT PLANNING

The OIG will be alert for new or revised areas of ARC operations based on the priorities and emphasis of ARC management, including results of strategic planning initiatives. Audit planning

will include consideration of such initiatives with the overall goal being to ensure coverage of high priority, including high dollar, areas in order to assist management fulfill responsibilities for effective and efficient program operations.

Of particular importance is maintaining the flexibility of the audit plan to address changing needs and priorities. Coordination with ongoing ARC efforts to implement an entity-wide strategic plan are considered an important element of FY 1997 planning, and discussions with ARC management have identified several areas for review. Also, planning will include continued emphasis on incorporating elements noted in the Inspectors General Vision Statement.

The OIG's strategies and objectives for the next 5 years are defined in a strategic plan. The FY 1997 Annual Plan provides the operational details for OIG activities planned during FY 1997 to implement this strategic plan. We expect to revise this strategic plan each year until our experiences validate our planning assumptions and we have achieved a comfort level with how we have programmed activities over this extended time period.

FY 1997 audit work will include about 30 individual grant audits in the Appalachian states; additional followup on grants with completed budget periods, grant extensions, and project results; and tests of the J-1 visa waiver program. Continued emphasis will be placed on audit followup and corrective action plans, including working with agency management to address open issues and achieve audit resolution and closure.

In order to maximize use of available resources directed at reviewing ARC activities and to minimize the impact of OIG FY 1997 budget reductions, emphasis will be placed on nonstandard reporting formats including memorandum, letter, and survey reports. Although such reporting formats reduce the time and resources necessary for review completion, the results and information included in such reports is based on evidence and supporting documentation consistent with generally accepted auditing standards.

V. OIG HOTLINE

A regionwide toll-free Hotline was previously established to enable direct and confidential contact with the ARC OIG in line with governmental and longstanding OIG initiatives as identified in the IG Act of 1978 to afford opportunities for identification of areas subject to fraud, waste, or abuse. Efforts continue to publicize the hotline by notifications to contractors and grantees, and field visits evaluate the extent to which employees were made aware of this system. However, contacts with the ARC OIG relative to public complaints or concerns continue to be primarily received through ARC staff, on regular OIG phone lines, or from other OIG offices.

During the reporting period, complaints were received with respect to the J-1 visa waiver program and several grants. The ARC OIG initiated reviews in response to these complaints.

Also, numerous hotline calls were received with respect to matters for which other agencies have jurisdiction. This resulted primarily from the ARC OIG hotline apparently being the first such OIG listing in some telephone directories, resulting in ARC OIG being contacted by citizens who did not know the appropriate agency for handling their concerns. The ARC OIG facilitated the

complaint process by identifying the applicable agency based on complainant information and providing the correct OIG hotline number.

VI. LEGISLATIVE AND REGULATORY REVIEW

Primary efforts in this area continued to be related to potential legislative initiatives with respect to OIG operations. The ARC OIG continues to support legislation that would provide improved protections for IGs, including designated and career IGs by consideration of alternatives such as removal for cause criteria and term limits. Also, the ARC OIG continues to support extension of the Program Civil Fraud Penalties Act to include designated entities, improved protection of designated IG budgets, and criteria consistent with current qualification requirements for Presidentially appointed IGs. Proposed ARC legislation to amend the Appalachian Regional Development Act was reviewed.

VII. OTHER

The IG continues to advocate use of Interservice Agreements by smaller designated IG offices in order to substantially reduce the costs of independently contracting for external auditors. This process, which was initiated by the ARC OIG in 1989, is now used by approximately 10 designated IG offices and results in a substantial reduction in costs with respect to advertising and bid evaluation, without any reduction in competition or quality of work. In this regard, the ARC IG strongly supports ongoing initiatives to encourage and increase the Governmentwide use of a master contractor concept for audit services contracts to achieve substantial economies of scale by eliminating duplicative contracting activities. Based on the PCIE Audit Committee reaching agreement with the Department of Labor OIG wherein the DOL OIG will administer an OIG-wide master contract for Government audit services. This concept will be implemented for FY 1998. Such action should, if utilized by eligible agencies, substantially reduce the costs of initiating and administering these contracts.

During the reporting period, the IG conducted a peer review of another designated entity and continued to serve on the PCIE Audit Committee and remained an active participant on the Executive Council on Integrity and Efficiency. The IG served on the program committee for the Institute of Internal Audits' government auditing conference in Washington, DC, in February 1997.

Also, during this period, ARC management initiated and finalized significant actions to implement goals and objectives identified in the ARC Strategic Plan completed in 1996. Actions included issuance of the final revision of the ARC Code that simplified and highlighted ARC operating and grant administration policies and procedures, including giving states more flexibility in administering their programs. Also, a progress report dealing with implementation of the Strategic Plan, including state strategies for FY 1997, and project guidelines setting forth the criteria for approval of ARC projects was issued. Actions are in process to identify appropriate performance measures for ARC programs, and a draft financial management handbook was prepared.

APPENDIX A

SCHEDULE OF REPORTS ISSUED APRIL 1 TO SEPTEMBER 30, 1996

Report No.	Title	Program Dollars or Contract/Grant Amount	Questioned/Unsupported Costs*	Funds to Better Use**
97-1(H)	Forward in the Fifth	\$ 135,000	\$ 4,490	
97-2(H)	Southern Economic Development Corporation	75,000		
97-3(H)	Cooperation Tourism Marketing Program	24,500		
97-4(H)	Alliance for Manufacturing Competitiveness	149,965		
97-5(H)	Enhancing Manufacturing Competitiveness in Appalachia	200,000	2,988	
97-6(H)	Newborn Screening Project	141,703		
97-7(H)	Natchez Trace Parkway Association	20,000		\$ 2,938
97-8(H)	Tourism	14,185	1,422	
97-9(H)	Southern Tier West RP&DB Administrative Grant	139,000	360	
97-10(H)	Southern Tier West RP&DB Housing Technical Assistance	150,000		
97-11(H)	Southern Tier West RP&DB Rail Line Preservation	50,000	2,669	
97-12(H)	Southern Tier West RP&DB Municipal Partnership Demonstration	52,000		
97-13(H)	Cornerstone Care, Inc.	114,225	2,984	
97-14(H)	J-1 Visa Waiver Program--Mississippi			
97-15(H)	Expired Grants and Contracts	4,500,000		1,000,000
97-17(H)	Heritage Corridor Project	145,212	7,004	6,910
97-19(H)	Tennessee Tomorrow	50,000		
97-23(H)	Greenville, South Carolina, Hospital System	329,691	3,827	
97-31(H)	J-1 Visa Waiver Program--Greenville, South Carolina			
97-33(H)	J-1 Visa Waiver Program--McKee, Kentucky			
97-34(H)	Tourism--Maryland Department of Business and Economic Development	45,000	9,192	
97-35(H)	South Carolina Appalachian Council of Govt Telecommunications Project	127,000		
97-38(H)	South Carolina Appalachian Council of Govt Development Support System	120,000		
TOTALS		\$ 6,582,481	\$ 34,936	\$ 1,009,848

* A cost the Office of Inspector General has questioned because of an alleged violation of law, regulation, contract, or other agreements governing the expenditure of funds; such cost is not supported by adequate documentation; or the expenditure of funds for the intended purpose is unnecessary or unreasonable. Includes required matching contributions.

** Funds the Office of Inspector General has identified in an audit recommendation that could be used more efficiently by reducing outlays, deobligating program or operational funds, avoiding unnecessary expenditures, or taking other efficiency measures, such as timely use of funds.

**SCHEDULE OF AUDIT REPORTS WITH
QUESTIONED OR UNSUPPORTED COSTS**

(\$ in thousands)

	<u>No. of Reports</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision was made by the commencement of the reporting period	10	\$118	-
B. Which were issued during the reporting period	<u>9</u>	<u>\$ 35</u>	-
Subtotals (A + B)	19	\$153	-
C. For which a management decision was made during the reporting period	13		-
(i) dollar value of disallowed costs		\$ 36	-
(ii) dollar value of costs not disallowed		\$ 30	-
D. For which no management decision has been made by the end of the reporting period	6	\$87	- 1/
E. Reports for which no management decision was made within 6 months of issuance	-	-	-

1/ Includes two reports from prior period for which management decision was made but resolution continues.

**SCHEDULE OF AUDIT REPORTS WITH
RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	<u>No. of Reports</u>	<u>Dollar Value (\$ in thousands)</u>
A. For which no management decision was made by the commencement of the reporting period	-	-
B. Which were issued during the reporting period	3	\$1,010
Subtotals (A + B)	-	\$1,010
C. For which a management decision was made during the reporting period	-	\$ 1/
(i) dollar value of recommendations that were agreed to by management	-	-
--based on proposed management action	-	-
--based on proposed legislative action	-	-
(ii) dollar value of recommendations that were not agreed to by management	-	-
D. For which no management decision has been made by the end of the reporting period	3	\$1,010
E. Reports for which no management decision was made within 6 months of issuance	-	-

1/ Closing actions initiated as of end of reporting period on grants or service contracts noted in prior reports include deobligations of about \$624,000. Action continuing on other grants and service contracts noted in reports. Management action includes review of all identified grants with resulting final actions including payments and/or deobligations.

DEFINITIONS OF TERMS USED

The following definitions apply to terms used in reporting audit statistics:

Questioned Cost	A cost which the Office of Inspector General (OIG) questioned because of an alleged violation of a provision of a law, regulation, contract, or other agreement or document governing the expenditure of funds; such cost is not supported by adequate documentation; or the expenditure of funds for the intended purpose is unnecessary or unreasonable.
Unsupported Cost	A cost which the OIG questioned because the cost was not supported by adequate documentation at the time of the audit.
Disallowed Cost	A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Commission.
Funds Be Put To Better Use	A recommendation made by the OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation.
Management Decision	Management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary. Interim decisions and actions are not considered final management decisions for the purpose of the tables in this report.
Final Action	The completion of all management actions that are described in a management decision with respect to audit findings and recommendations. If management concluded that no actions were necessary, final action occurs when a management decision is issued.