



APPALACHIAN
REGIONAL
COMMISSION

*A Proud Past,
A New Vision*

Office of the Inspector General

November 3, 1995

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 April 1 through September 30, 1995.

During this period, operational activities included issuance of 21 reports, including 18 individual reviews, 2 program surveys, and a J-1 waiver program memorandum. Primary recommendations were directed at improved accounting, financial systems, internal controls, and deobligations of funds. During the reporting period, deobligations of grants noted in reports totaled \$414,237 and potential deobligations exceeding \$2 million were identified for ARC followup. Emphasis continued to be placed on audit followup and resolution. ARC initiated various actions to address issues noted in OIG reports and memorandums.

The Inspector General had continuing responsibilities as the Vice Chair of the Executive Council on Integrity and Efficiency (ECIE), which was established by Executive Order in May 1992 to provide for coordination and cooperation between the 32 designated Offices of Inspectors General (OIGs). This responsibility included participating as a member of the President's Council on Integrity and Efficiency and required extensive coordination and liaison between OIGs, OMB, and Congressional sources with respect to OIG activities. The Inspector General appreciates the support, cooperation, and assistance provided by ARC management to facilitate performance of ECIE Vice Chair responsibilities.

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

1666 CONNECTICUT AVENUE, NW WASHINGTON, DC 20235 (202) 884-7675 FAX (202) 884-7691

Alabama	Kentucky	Mississippi	North Carolina	Pennsylvania	Tennessee	West Virginia
Georgia	Maryland	New York	Ohio	South Carolina	Virginia	

TABLE OF CONTENTS

	<u>Page</u>
Executive Summary	ii
Purpose and Requirements of the OIG Semiannual Report	iv
I. Introduction	1
II. Background	1
Appalachian Regional Commission	1
Office of Inspector General	2
III. OIG Activity	3
Audits	3
Investigations	7
IV. Audit Planning	7
V. OIG Hotline	8
VI. Legislative & Regulatory Review	9
VII. Other	9
Appendices	
A. Schedule of Audit Reports Issued April 1 through September 30, 1995	
B. Schedule of Audit Reports with Questioned or Unsupported Costs	
C. Schedule of Audit Reports with Recommendations that Funds be put to Better Use	
D. Definition of Terms Used	
E. Survey Questionnaire and Summary Results	
F. Vision Statement Summary	

EXECUTIVE SUMMARY

During this reporting period, 21 reports were issued, including 18 individual grant reviews, 2 program surveys, and a J-1 waiver program memorandum. 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, 9 reviews were in process, including 4 grant reviews, 4 program surveys, and a J-1 visa waiver program followup compliance review. Of particular significance during this reporting period were management actions to address issues related to grant administration and the J-1 visa waiver program.

Audit resolution actions also included significant progress toward settlement of open issues and questionable costs. We noted that, in connection with a report dealing with expired grants, actions were initiated to improve control over such grants and about \$414,000 was deobligated during the reporting period for ARC-administered grants. Also, management emphasis on timely followup and review of expired grants included assigning staff to implement improvements and improved management information systems to facilitate grant tracking.

The potential for additional deobligations exceeding \$2 million was identified during this period, and management is reviewing the applicable grants to determine appropriate action.

Our previous semiannual report 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 program were substantially reduced; and we believe increased program compliance has resulted from ARC and State agency actions, such as improved screening and review of J-1 applications, employer certifications of compliance with program requirements, extension of the J-1 waiver period to 3 years, and identification of a standard service period.

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.

An interim strategic plan was developed that emphasized the OIG mission as agents for positive change and identified review priorities for the next 5 years. The strategic plan will be finalized and coordinated with the strategic plan currently being developed by ARC based on input from and discussion with the Federal, State, local, and Commission elements of ARC.

The Inspector General continued as the Vice Chair of the Executive Council on Integrity and Efficiency (ECIE), which was established by Executive Order in May 1992 to provide for coordination and cooperation between the 32 designated Offices of Inspector General (OIGs). This responsibility included participating as a member of the President's Council on Integrity and Efficiency (PCIE) and required extensive coordination and liaison between OIGs, OMB, and Congressional sources with respect to OIG activities. The Inspector General appreciates the support, cooperation, and assistance provided by ARC management to facilitate performance of ECIE Vice Chair responsibilities.

On behalf of the ECIE, the IG testified on August 1, 1995, before the Subcommittee on Government management, Information and Technology of the Government Reform and Oversight Committee, US House of Representatives. Remarks, including personal observations based on 32 years in the civilian IG community emphasized:

- the similarity between the mission, authorities and responsibilities of designated and establishment IGs;
- the benefits resulting from the presence of an independent oversight function at designated entities;
- general support for the National Performance Review recommendations and IG Vision Statement principles and ECIE development of a "Best Practices" paper dealing with the role and relationships of IGs and entity heads;
- some continuing constraints with respect to designated entity heads' interpretation of IG independence, especially with respect to budget execution;
- the negative impacts of the absence of removal for cause provisions for designated IGs;
- a need for the OIG audit community to accept criticisms about timeliness, quality, and scope of work and emphasize actions necessary to increase audit credibility through improved effectiveness and service.

The Inspector General 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 additional 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.

PURPOSE AND REQUIREMENTS OF THE OFFICE OF INSPECTOR GENERAL SEMIANNUAL REPORT

The Inspector General Act of 1978 requires the Inspector General 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 9
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 A
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 B
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 at 32 designated Federal entities, including the ARC. The Appalachian Regional Commission (ARC) Office of Inspector General became operational on October 1, 1989, with the appointment of an Inspector General 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.

- o 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.
- o 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.
- o The Commission's appropriation for FY 1995 was \$282 million, which was divided approximately \$193.6 million for highway projects, \$84.8 million for non-highway projects, and \$3.6 million for administrative expenses. ARC is authorized through its current appropriation. As of this report, FY 1996 appropriations for ARC were not finalized.
- o 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

Funding and Staffing

The OIG Funding level for FY 1996 is \$400,000. For FY 1996, approximately 30 percent will be expended for contract audit services; 55 percent, for salaries and benefits; 7 percent, for travel; and 8 percent, for all other activities (training, equipment, space, supplies, etc.). The OIG funding level represents about .0014 percent of the total funds available to the Commission.

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 are participating with other OIG offices to facilitate sharing of investigative resources in order to strengthen this aspect of OIG operations. The OIG will continue to monitor this situation as well as the efficiency and effectiveness of the use of contracted services.

III. OIG ACTIVITY

A. AUDITS

During the reporting period, 21 reports were issued, including 18 individual reviews, 2 program surveys, and 1 administrative letter. At the end of the reporting period, 4 grant reviews, 4 program surveys, and a J-1 visa waiver program followup review 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 reporting period, the Inspector General continued as Vice Chair of the Executive Council on Integrity and Efficiency (ECIE), which is comprised of 32 statutorily designated Inspectors General and nonstatutory Inspectors General. The Inspector General was heavily involved with efforts to ensure implementation of ECIE responsibilities for effective and efficient OIG operations.

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, J-1 visa waiver program, revolving loan funds, and internal control systems, have been addressed and recommendations made with respect to improved program operations or activities.

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, as noted in prior reports, timely use of funds and project closings have been 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

- The function of the grants management staff now being recruited will be to perform continuous monitoring of grant status and to follow through with ARC staff and staff at other Federal agencies so that appropriate actions are taken and documented. In addition, although the design for data systems on the planned computer network is not yet complete, management anticipates that project status information on the network will include not only implementation status and expiration dates, but also the time frames for grantee actions as recommended in the report.
- Management agrees that report and waiver reviews should be prompt and that waivers should be documented. Commission managers were called to a meeting with the Inspector General to discuss the report, and the problem should not recur.
- With regard to performance measures, the Commission is now undertaking a substantial strategic planning initiative that will include, among many other things, the identification of performance goals and measures associated with the agency's mission. Management sees this analysis as essential to establishing a process of reasonable performance expectations for individual projects that should be designed to carry out the agency mission. In addition, management is considering methods for reorganizing staff program work, including monitoring of projects in the field.
- The recommendation for providing complete basic guidance to small and first-time grantees is well taken, given the complexity of some grant requirements and the various agencies involved. Management has initiated staff work to design a basic package of information. In addition, personnel from the Human Resources staff and the Office of General Counsel have undertaken the planning and implementation of a training session designed to provide basic grant administration information to small not-for-profit or first time ARC grantees.
- Analysis of staff resources and requirements for improved grants/contracts management has resulted in several actions:
 - Management has redefined the position previously allocated for grants management functions, made the position full time, and is recruiting for qualified staff.
 - A part-time person has been retained on contract to immediately and directly address the oldest unclosed grants. There has been significant progress in some areas, such as grants through the Department of Education for library projects and early HUD grants. Current emphasis is on state-managed CDBG projects involving ARC grants and certain health projects.
- The Commission has retained a part-time consultant to advise about appropriate project file contents and the potential organization of file information on a computer network. This work will be the starting point for redesigning and improving record control.

Our followup during this reporting period disclosed that the noted actions were generally in process, including the completion of the enhanced computer system, recruitment of grant management staff and controls to ensure timely attention to expiring and/or expired grants.

A followup review to further identify the current status of program compliance is in process. Additionally, the ARC OIG has held discussions with other Federal entities about the potential for cross-agency reviews of similar type programs.

Business Development Revolving Loan Funds (RLFs)

A survey emphasizing the extent of job creation or retention was completed. The review disclosed that 23 entities receiving about \$34 million in RLF capitalizations during the period surveyed reported about 16,361 jobs had been created or retained. Our visits to 6 entities identified support for the information submitted, and our recommendations pertained primarily to efforts to increase loan activity and bank participation in order to maximize program utilization.

Work in Process

Functional or programmatic reviews with respect to (a) the extent of development and job creation at industrial sites where ARC contributed funds for infrastructure development between 1987 and 1992; (b) administrative fund contributions, and related memorandums of understanding, with respect to grant administration services provided by basic agencies; (c) ARC claims processing; and (d) periodic followup on expired grants are in process and will be finalized during the next reporting period.

B. INVESTIGATIONS

The Inspector General Act of 1978, as amended, provides that the Inspector General 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 Office of Inspector General. Also, the results of investigations may be referred to the appropriate Federal, state, or local prosecutive authorities for action.

During the reporting period, there was no new investigation activity.

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 develop an entity-wide strategic plan are considered an important element of FY 1996 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.

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 waiver program and several grants. The ARC OIG initiated reviews in response to these complaints, and the results of these reviews will be noted in future reports.

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.

VII. OTHER

The Inspector General continued as the Vice Chair of the Executive Council on Integrity and Efficiency, which was established by Executive Order in May 1992. The ECIE, which is chaired by OMB, is comprised of the 32 statutorily designated IGs and other administratively established IGs and is intended to promote the efficiency and effectiveness of the IG community. As such, the Vice Chair serves as a coordinator and liaison for ECIE members in dealings with OMB, Congress, and the PCIE. The IG's Vice Chair term ended on September 30, 1995, after 3-1/2 years, based on the IG's request and his interest in pursuing through other outlets professional interests related to the overall effectiveness and efficiency of OIG operations, especially the need for basic re-engineering of overall OIG audit methodologies and strategies to restore the credibility of this primary OIG function.

Specific activities, which required considerable resource use during the reporting period, included coordinating monthly ECIE meetings; conducting committee meetings; transmitting IG related information to all members; correlating and summarizing ECIE positions on various issues; representing ECIE members' interests; briefing OMB and Congressional staff; coordinating project activity, annual reports, and training conferences; and representing ECIE at PCIE meetings and before Congress. The IG was also the ECIE representative on the PCIE Audit Committee.

SCHEDULE OF REPORTS ISSUED APRIL 1 TO SEPTEMBER 30, 1995

Report No.	Title	Program Dollars or Contract/Grant Amount	Questioned/Unsupported Costs*	Funds to Better Use**
95-10(II)	New York Summer Institutes and Kupernick Space Education Center	\$ 120,000	\$ 125,656	
95-12(II)	Business Development RLFs	6,481,906 ^{1/}		
95-12f(II)	Tri-County Council for Western Maryland RLF	2 ^{2/}		
95-13(II)	North Carolina Technical Assistance	350,000		
95-21(II)	Friendship House	150,000		
95-22(II)	Education Excellence	48,000		
95-23(II)	Followup on Expired Contracts and Grants Needing Action	2,867,487		2,143,202 ^{3/}
95-24(II)	I-1 Visa Waiver Program--Bibb Medical Center			
95-25(II)	SW Virginia Education and Training Network	350,000	1,221	
95-27(II)	Western Maryland Community College Video Network	100,000	6,851	
95-32(II)	Dental Care for Appalachian Children	140,000		
95-33(II)	Woodlands Mountain Institute	320,325	4,527	
95-34(II)	Eastern Kentucky Teachers Network Technical Assistance	85,000		
95-35(II)	Hindman Settlement School	87,081		
95-36(II)	Western Maryland Multi-Bank Community Development Corporation	20,000		
95-41(II)	Tennessee Adult Literacy	500,000		
95-42(II)	Tennessee Center for Research and Development	50,000	474	
95-44(II)	West Virginia Telelearning Network	158,067		
95-46(II)	Appalachian Center for Economic Networks	125,000		
95-48(II)	Health Care Information Connection	123,750		27,806
95-49(II)	Appalachian Industrial Retraining	500,000		
TOTALS		\$12,476,616	\$ 138,727	\$2,171,008

* 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.

1/ Survey included 24 RLFs with capitalizations totaling \$34,645,893. Visits made to six entities with RLF capitalizations of \$6,481,906.

2/ The \$1,551,188 RLF capitalizations were included under Report 95-12(II).

3/ Includes continued potential for increased funds to better use of \$1,076,129 identified in prior reports.

APPENDIX C

**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	1	\$ 6
B.	Which were issued during the reporting period	<u>2</u>	<u>\$2,171</u>
	Subtotals (A + B)	3	\$2,177
C.	For which a management decision was made during the reporting period	3	\$2,149 ^{1/}
	(i) dollar value of recommendations that were agreed to by management	2	\$2,143
	--based on proposed management action	2	\$2,143
	--based on proposed legislative action	-	-
	(ii) dollar value of recommendations that were not agreed to by management	1	\$ 6
D.	For which no management decision has been made by the end of the reporting period	1	\$ 28
E.	Reports for which no management decision was made within 6 months of issuance	-	-

^{1/} Pertains to reports and ongoing actions with respect to the closing of expired grants and deobligation of funds. In some cases, final actions will include payments to grantees based on submission of eligible claims; and in other cases, fund deobligations will occur. For example, during the reporting period, we noted deobligations of \$414,237 for grants included in our reports.