

**APPALACHIAN REGIONAL COMMISSION**

**INSPECTOR GENERAL'S**

**SEMIANNUAL REPORT**

**TO CONGRESS**

**APRIL 1 - SEPTEMBER 30, 1996**



November 29, 1996

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, 1996.

During this period, operational activities included issuance of 32 reports, including 24 grant reviews, 4 program surveys, and 4 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. For example, action was initiated on 68 of 94 grants identified for followup action in a prior audit report with deobligations of \$914,857. Also, actions initiated on a report issued during this period resulted in additional deobligations exceeding \$700,000. However, continuing action is necessary for older grants with balances of \$1.2 million. Also, ARC continued action to close out additional projects, including projects administered by basic agencies. Actions included 131 project close outs with recoveries of \$1,346,000 and additional recoveries of \$767,000 in access road funds

A survey of ARC tourism grants, with emphasis on performance and results was initiated during this reporting period. 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. A review of service contracts identified potential deobligations of \$115,500 and \$61,337 had been deobligated by September 30, 1996.

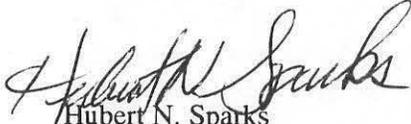
Grant reviews emphasized adequate accounting systems and internal controls as a means of ensuring eligible expenditures. During our reviews, we also provided technical guidance to about ten first-time grantees. For two grantees, our reviews contributed to the closing of grants and deobligation of approximately \$477,000 of funding that could be utilized elsewhere to assist economic development in Appalachia.

In our opinion, a cost-effective, high quality, financial management telelearning seminar sponsored by the Development District Association of Appalachia and ARC was especially noteworthy. This seminar, which highlighted revised OMB Circulars and new legislation, was attended by over 1,000 grant managers and independent accountants at 48 remote sites throughout Appalachia. The average cost per attendee approximated \$20, which is substantially below other training methodologies. This activity reflected the potential for increased use of distant learning methodologies as a means of achieving desired and required training at significantly reduced costs and should be a model for Government, including auditor training programs.

The Office of Inspector General budget for FY 1997 was reduced \$54,000 from FY 1996 level based on a proportionate sharing of a legislated reduction of ARC operating funds. This reduction will have a substantial negative impact on OIG productivity at a time when alternative grantee audit and oversight requirements have been significantly reduced in line with revisions to the Single Audit Act. The negative impact of such a reduction is particularly significant when applied to very small offices, such as the ARC

OIG. We also recognize that, due to the small size of ARC staff and limited entity administrative funding, OIG is subject to fair share resource reductions.

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

## TABLE OF CONTENTS

	<u>Page</u>
Executive Summary .....	ii
Purpose and Requirements of the OIG Semiannual Report .....	iv
<b>I. Introduction</b> .....	<b>1</b>
<b>II. Background</b> .....	<b>1</b>
<b>Appalachian Regional Commission</b> .....	<b>1</b>
<b>Office of Inspector General</b> .....	<b>2</b>
<b>III. OIG Activity</b> .....	<b>3</b>
<b>Audits</b> .....	<b>3</b>
<b>Investigations</b> .....	<b>5</b>
<b>IV. Audit Planning</b> .....	<b>6</b>
<b>V. OIG Hotline</b> .....	<b>6</b>
<b>VI. Legislative &amp; Regulatory Review</b> .....	<b>7</b>
<b>VII. Other</b> .....	<b>7</b>
<b>Appendices</b>	
<b>A. Schedule of Audit Reports Issued         April 1 through September 30, 1996</b>	
<b>B. Schedule of Audit Reports with Questioned or Unsupported Costs</b>	
<b>C. Schedule of Audit Reports with Recommendations that Funds be put         to Better Use</b>	
<b>D. Definition of Terms Used</b>	

## EXECUTIVE SUMMARY

During this reporting period, 32 reports were issued, including 24 individual grant reviews, 4 program surveys, and 4 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, 17 reviews were in process, including 14 grant reviews and 3 program surveys. 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 \$800,000, with the potential for additional substantial deobligations. ARC actions on other projects, including basic agency administered grants, resulted in over 130 additional project close outs and recoveries of \$2.1 million.

A review of service contracts also identified the potential for contract closing and deobligations in a majority of cases reviewed. Potential deobligations of \$115,500 were identified for 59 contracts; and as of September 30, 1996, \$61,337 had been deobligated in 41 cases. Grantee reviews identified areas for improvement with respect to accounting systems, internal controls, reporting, cost claims, and matching contributions. In 2 cases, recommendations for grant closings resulted in deobligations of \$477,000, with the funds becoming available for other economic development projects in Appalachia.

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 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.

During the reporting period, the OIG provided recommendations concerning personnel and investigative matters in connection with a major ARC revision of its primary operating guidelines. The recommendations were incorporated in the revised ARC Code.

Of particular significance during this period was a District Development Association and ARC-sponsored financial management telelearning seminar that was attended by over 1,000 grant managers and independent accountants at 48 remote sites. The IG strongly supported the use of this distant learning methodology as a cost-effective alternative for providing important training and believes the ARC initiative could serve as a model for Government, including auditor, training. The IG, based on the ARC initiative, submitted recommendations for increased assessment and

utilization of telelearning/teleconferencing training to the President's Council on Integrity and Efficiency.

The Inspector General 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 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; and the expansion of this process, to include additional agencies, has been approved by the OIG audit community. During this reporting period, the PCIE Audit Committee, of which the Inspector General is a member, reached agreement with the US Department of Labor (DOL) OIG, wherein the DOL OIG will implement the master contract concept for audit services governmentwide.

## 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 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 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.

- 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 will have a significant 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 Office of Inspector General 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 Inspector General 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 Inspector General 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 Inspector General 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 Inspector General.

### **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 fair share OIG budget reduction for FY 1997 will have a substantial impact on OIG's review capacity at a time when alternative audit requirements for many grantees have been reduced or eliminated in line with revisions to the Single Audit Act. The OIG, in order to reduce the negative impact, will vigorously pursue alternative review strategies such as surveys, targeted reviews, letter reports, highlight memorandums, and possibly joint OIG/program staff reviews.

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, 32 reports were issued, including 24 individual reviews, 4 program surveys, and 4 J-1 Visa Waiver Program followup reviews. At the end of the reporting period, 14 grant reviews and 3 surveys 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, 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 address remaining conditions cited in Report 96-5(H), August 1, 1996. This report noted the need for action on 34 grants with balances approximating \$800,000 that were cited in prior reports and the potential for action in 51 cases open as of March 31, 1996, with balances approximating \$1.7 million. ARC action was evidenced by the closing of 31 grants and deobligations or refunds of \$728,207 between April 1 and June 30, 1996 based on recommendations in our draft report.
- Report 96-25(H) identified the potential for closings and deobligations with respect to internal service contracts and purchase orders. For example, our review of 69 service contracts indicated the potential for action in 59 cases and deobligations of about \$115,500. Based on our draft report, ARC initiated actions and, as of September 30, 1996, closing actions had been initiated in 41 cases with deobligations of \$61,337. We attributed this condition primarily to oversight and the absence of a followup system for identifying service contracts for which the applicable services, e.g., printing, articles, technical assistance, etc., had been received. ARC has initiated action to include these contracts as part of its grant followup system.
- A cash management survey emphasizing advances and timely use of these funds by grantees disclosed that ARC procedures were adequate to minimize the numbers of advances and that grantees generally used the advanced funds in a timely manner.
- Our review of Memorandums of Understanding (MOUs) with other agencies for the administration of ARC projects disclosed a need for some improvements with respect to basic agency reporting to ARC, evaluation of the extent of administrative funds provided to one basic agency, and updating revision of older MOUs. ARC has an internal project directed toward improving ARC/basic agency activities.
- Our grant reviews identified a pattern of underuse of funds by two State agencies receiving annual technical assistance grants and delayed actions to deobligate balances for redistribution to other projects. Three grants related to technical assistance in one state reflected the potential for improved grant administration resulting from improved followup with grantees. The grantee was approved \$175,000 under each of the noted grants. As of March 31, 1996, the remaining balances were \$77,748; \$68,969; and \$73,491, respectively, with grant expiration dates being May 30, 1994; June 30, 1994; and June 30, 1995, respectively. Our on-site review included recommendations for the grantee to advise ARC that \$220,208 should be deobligated and for requesting future funding more in line with actual needs. Deobligation actions had been completed as of the end of the reporting period.

A similar type situation applied to four \$350,000 annual grants for another state technical assistance program. These grants had initial and/or revised expiration dates of March 31, 1994; November 30, 1993; September 30, 1994; and September 30, 1995, respectively, and were identified in prior expired grant survey reports and individual grant reviews as being open substantially after noted expiration dates. These grants were closed on February 29, 1996; December 7, 1995; January 31, 1996; and June 5, 1996, respectively, including deobligations of \$131,780; \$85,888; \$171,638; and \$138,021, respectively. Controls to ensure timely followup and procedures allowing action in such cases could result in more timely deobligation and redistribution of funds. Also, information about underuse of funds should be used when evaluating grant requests.

- 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.
- The Office of Inspector General, Tennessee Valley Authority (TVA), provided assistance with respect to auditing an ARC grant that was being administered by TVA program staff. The report identified questioned or unsupported costs approximating \$23,000.

Program issues and recommendations included a need for increased efforts to identify grants for which performance periods are about to expire, contacts with grantees about the project status, justified extensions of performance periods, and action to address the core grants remaining open for extensive periods after the grant expiration period.

A recent ARC reorganization impacting on grant administration activities should permit more effective and efficient grant administration. Resources have been assigned to address the noted condition, and the OIG is working with program staff to facilitate improved audit followup. 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 this effort.

## **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.

#### **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 20 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 nationwide 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. 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.

## **VII. OTHER**

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 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. During this reporting period, the Audit Committee of the President's Council on Integrity and Efficiency (PCIE) reached agreement with the Department of Labor OIG wherein the DOL OIG will administer an OIG-wide master contract for Government audit services. Such action should, if utilized by eligible agencies, substantially reduce the costs of initiating and administering these contracts.

The Inspector General serves as the Executive Council on Integrity and Efficiency representative on the PCIE Audit Committee. Various recommendations have been made with respect to issues impacting the OIG audit community, including recent recommendations for increased assessment and use of telelearning/teleconferencing as an effective means to reduce Government and OIG training costs. These recommendations were based on an ARC supported training initiative noted below.

Of particular significance during this reporting period was ARC and grantee actions to address financial management issues. For example, the District Directors Association of Appalachia and

ARC sponsored a telelearning financial management seminar to educate grantees and independent accountants/auditors about revised OMB Circulars and the new Single Audit Act. This seminar, which was transmitted to 48 remote sites and attended by more than 1,000 persons, afforded a very cost-effective training methodology. At a cost of about \$20 per attendee, this training methodology resulted in substantial overall savings to the grantees, other attendees, and the Government by elimination of costs normally associated with having to travel to a distant location for such training and substantial registration fees. The OIG strongly supported this initiative and believes it should be used as an example and model of potential cost-effective alternatives.

Another recent significant agency action impacting positively on program operations was the finalization of the ARC strategic plan, which includes provision for a new performance-based evaluation strategy to help ensure maximum return on ARC's investments. This expanded management program evaluation is being addressed by an ARC task group; and implementing guidance, including revised project planning guidelines, is being finalized.

## 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**
96-3(H)	Memorandums of Agreement			
96-5(H)	Expired Grant Update	\$ 3,600,000		\$ 2,136,792
96-12(H)	West Virginia Region VI PDC	110,000	\$ 1,447	
96-19(H)	Mississippi Technical Assistance	525,000	10,303	220,208
96-24(H)	Cash Management Survey			
96-25(H)	Purchase Orders and Contracts	573,000		115,500
96-26(H)	J-1 Visa Waiver Program--South Carolina Med Central			
96-27(H)	Immunization Outreach, South Carolina	75,000	4,568	
96-30(H)	Pennsylvania Technical Assistance	700,000	37,900	138,021
96-31(H)	Northern Tier RP&DC	346,000	5,593	
96-32(H)	Binghamton University, Manufacturing Competitiveness	200,000		
96-33(H)	Alliance for the Arts, West Virginia	150,000		
96-34(H)	Kanawha County Schools, Training	200,000	70	
96-36(H)	National Institute of Flexible Manufacturing, Training	200,000	12,304	
96-37(H)	Southwest Pennsylvania RDC	400,000		
96-41(H)	Southern Tier East RP&DB	365,000		
96-43(H)	West Virginia Development Council	58,000		
96-44(H)	Smart Start Program, North Carolina	1,050,00	24,704	
96-46(H)	J-1 Visa Waiver Program--North Hills Clinic, South Carolina			
96-49(H)	Dropout Prevention, Towns County, Georgia	63,520	19,752	
96-50(H)	Apprenticeship Training, Murray County, Georgia	52,000	825	
96-51(H)	Apprenticeship Training, Whitfield County, Georgia	94,800	300	
96-55(H)	Southern Technology Council, North Carolina, Technical Assistance	200,000	848	
96-56(H)	Southern Growth Policies Board, North Carolina, Training and Technology	50,000		
96-59(H)	Bicentennial Volunteers, Tennessee	75,000		
96-60(H)	Virginia Water Project	50,000	6,326	
96-61(H)	New River Valley PDC, Virginia	170,600		
96-62(H)	Cumberland Plateau PDC, Virginia	120,500	250	
96-63(H)	Jesse Owens Park, Lawrence County, Alabama	75,200		
96-67(H)	J-1 Visa Waiver Program--Georgia			
96-68(H)	Southern Technologies Council, North Carolina, SRA	50,000	248	
96-72(H)	J-1 Visa Waiver Program--Tennessee			
TOTALS		\$ 9,553,620	\$ 125,438	\$ 2,610,521

\* 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.

## APPENDIX B

**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	6	\$ 35	-
B. Which were issued during the reporting period	<u>15</u>	<u>\$125</u>	-
Subtotals (A + B)	21	\$160	-
C. For which a management decision was made during the reporting period	11	\$ 42	-
(i) dollar value of disallowed costs	7	\$ 20	-
(ii) dollar value of costs not disallowed	5	\$ 22	-
D. For which no management decision has been made by the end of the reporting period	10	\$118	-
E. Reports for which no management decision was made within 6 months of issuance	-	-	-

**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	4	\$2,611
Subtotals (A + B)	4	\$2,611
C. For which a management decision was made during the reporting period	4	\$2,611
(i) dollar value of recommendations that were agreed to by management	4	\$2,611 <sup>1/</sup>
--based on proposed management action	4	\$2,611
--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	-	-
E. Reports for which no management decision was made within 6 months of issuance	-	-

<sup>1/</sup> Closing actions initiated as of end of reporting period on grants or service contracts noted in reports include deobligations of \$927,565. 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:

<b>Questioned Cost</b>	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.
<b>Unsupported Cost</b>	A cost which the OIG questioned because the cost was not supported by adequate documentation at the time of the audit.
<b>Disallowed Cost</b>	A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Commission.
<b>Funds Be Put To Better Use</b>	A recommendation made by the OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation.
<b>Management Decision</b>	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.
<b>Final Action</b>	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.