



Appalachian Regional Commission

**Inspector General's  
Semiannual Report  
To Congress**

**October 1, 2001 – March 31, 2002**





April 1, 2002

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, 2001, through March 31, 2002.

I am also pleased to report that this is my last semiannual report since I am retiring after 42 years of Federal service, including 12 years as the Inspector General at the Appalachian Regional Commission (ARC). During my tenure at ARC, the agency has advanced from an organization on the brink of extinction to a model of Federal-State partnership programs. The credit for this remarkable turnaround rests with Commission management and staff and its State and local partners. From an oversight view, I have also observed an increased balance between project approval, funding, accountability, and performance that has contributed to the positive image of the Commission.

Management attention to accountability and performance during my tenure at ARC is evidenced by many actions. Actions included deobligations of over \$25 million for use on other priority projects; development and implementation of financial, project management, and personnel policies and procedures; teleconferences and seminars on financial management issues; implementation of strategic plans, goals, and measurements in line with the Government Performance and Results Act (GPRA); and creation of an environment that facilitated increased attention to accountability and performance. Our field observations and review results disclosed similar attention to effective and efficient project implementation, and the initiatives of State and local partners contributed significantly to program accomplishments.

I wish to highlight the long-term support of the OIG by ARC management, and utilization of OIG reports and recommendations has contributed to improved controls and operations. The extent of agency cooperation is illustrated by management's action to permit issuance of this semiannual report coincidental with the last day of the reporting period and my Government service.

During this reporting period, 27 reports were issued, including 20 individual grant reviews, 2 program reviews, and 5 J-1 Visa Waiver compliance reviews. Recommendations in grant reviews were directed at improved reporting and eligibility of expenditures. During the reporting period, ARC management continued to emphasize timely followup and review of expired grants. This action resulted in management actions to close out 299 projects and deobligate about \$1,064,849 during the reporting period. This included deobligation of \$284,266 applicable to 14 projects noted in prior audit reports. Also, all physicians participating in the J-1 Visa Waiver program were contacted to confirm employment locations and availability and to seek information that could be useful in the aftermath of September 11, 2001.

Grant reviews disclosed that projects were generally being implemented in accordance with program requirements and that grantees generally had satisfactory accounting systems and internal controls. Exceptions noted included progress reports not being submitted, interest on advances not properly accounted for, ineligible expenditures, questionable and undocumented matching contributions, reallocation of funds, and an inadequate accounting system. Questioned or unsupported costs of about \$101,000 were noted. A review of purchase and travel cards did not disclose any inappropriate use of funds but emphasized improved implementation of available procedures and controls.

A followup review of expired grants identified continuing ARC actions to reduce the number of open grants with expired performance periods. Overall, the number of open grants with large balances was reduced. Followup should be initiated on expired grants, including 20 grants with balances of \$1,528,419 for which no drawdowns were noted and 88 grants for which the performance period expired as of December 31, 2001.

Surveys of the J-1 Visa Waiver program in three states disclosed that tested physicians were generally practicing in accordance with program requirements. Recommendations were made with respect to several physicians who were practicing at locations other than the approved sites and increased State involvement with program oversight. In one case, a physician had left the Appalachian Region without approval; and in another case, recommendation was made to request the Immigration and Naturalization Service (INS) to revoke a waiver because the physician's whereabouts were unknown.

Followup on a prior review disclosed continuing problems with attracting businesses to industrial sites for which substantial Federal funds were committed.

During the reporting period, the IG continued to serve as the representative of the Executive Council on Integrity and Efficiency on the Audit Committee of the President's Council on Integrity and Efficiency and remained active on various issues impacting the OIG community, including the OIG Auditor Training Academy. Also, the IG continued to serve as the IG of the Denali Commission in line with a Memorandum of Agreement between the Appalachian Regional Commission Inspector General and the Denali Commission Federal Co-Chair.

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
I. Introduction .....	1
II. Background .....	1
Appalachian Regional Commission .....	1
Office of Inspector General .....	2
III. OIG Activity .....	3
Audits .....	3
Investigations .....	6
IV. Audit Planning .....	7
V. OIG Hotline .....	7
VI. Legislative & Regulatory Review .....	8
VII. Other .....	8
Appendices	
A. Schedule of Audit Reports Issued October 1, 2001, through March 31, 2002	
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	



## EXECUTIVE SUMMARY

During this reporting period, 27 reports were issued, including 20 individual grant reviews, 2 program reviews, and 5 J-1 Visa Waiver compliance reviews. Recommendations in grant reviews were directed at improved reporting and eligibility of expenditures. During the reporting period, ARC management continued to emphasize timely followup and review of expired grants. This action resulted in management actions to close out 299 projects and deobligate about \$1,064,849 during the reporting period. This included deobligation of \$284,266 applicable to 14 projects noted in prior audit reports.

Grant reviews disclosed that projects were being implemented in accordance with program requirements and that grantees generally had satisfactory accounting systems and internal controls. Exceptions noted included insufficient documentation of costs, ineligible expenditures, and an inadequate accounting system. Questioned or unsupported costs of about \$101,000 were identified.

Surveys of the J-1 Visa Waiver program in 3 States disclosed that tested physicians were generally practicing in accordance with program requirements as respects practice location and type of medical services provided. Instances of physicians not practicing full time at approved locations, including a physician leaving the Appalachian Region, were referred for corrective action. Correspondence was initiated with all foreign physicians in the ARC-sponsored J-1 Visa Waiver program to confirm availability and practice location and to seek information that could be useful in the aftermath of September 11, 2001. Also, a recommendation was made to revoke the waiver of one physician whose whereabouts could not be determined.

Followup on several grants directed at industrial site development in southwest Virginia disclosed difficulties in attracting and/or retaining commercial businesses and related jobs.

A followup review on expired grants identified 88 grants for which the performance period expired as of December 31, 2001, and where balances of about \$2.5 million remained and an additional 20 open grants expired as of March 19, 2002, with balances of \$1,528,419 for which no drawdowns had occurred since grant approval. Recommendations were made to followup on these grants.

During the reporting period, the IG continued to serve as the Executive Council on Integrity and Efficiency representative on the Audit Committee of the President's Council on Integrity and Efficiency, and remained active on various issues impacting the OIG community. The IG was an active participant in matters impacting the OIG Auditor Training Academy and continued as IG of the Denali Commission under a Memorandum of Agreement with the Denali Commission Federal Co-Chair.

This is the last semiannual report to be prepared by the ARC IG who is retiring after 12½ years in this position. Management attention to accountability and performance during my tenure at ARC is evidenced by many actions. Actions included deobligations of over \$25 million for use on other priority projects; development and implementation of financial, project management, and personnel policies and procedures; teleconferences and seminars on financial management issues; implementation of strategic plans, goals, and measurements in line with the Government Performance and Results Act (GPRA); and creation of an environment that facilitated increased attention to accountability and performance. Our field observations and review results disclosed

similar attention to effective and efficient project implementation and the initiatives of State and local partners contributed significantly to program accomplishments.

## **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 Federal Co-Chairman by April 30 and October 31 and to Congress 30 days later.

The Federal 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 8
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 (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 are 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 48, 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 authorization for FY 2002 is \$88 million. ARC was fully reauthorized by Congress in FY 1999, for the first time since 1982, and reauthorized in March 2002. Also, about \$390 million was appropriated in FY 2002 for carrying out the provisions of section 1069(y) of P.L. 102-240 relating to the construction of, and improvements to, corridors of the Appalachian Development Highway System (ADHS). These funds are derived from the Federal Highway Trust Fund but remain under ARC's programmatic jurisdiction.
- 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 2002 was \$466,000. For FY 2002, approximately 28 percent was expended for contract audit services; 59 percent, for salaries and benefits; 7 percent, for travel; and 6 percent, for all other activities (training, equipment, space, supplies, etc.).



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 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

### **III. OIG ACTIVITY**

#### **A. AUDITS**

During the reporting period, 27 reports were issued, including 20 individual grant reviews, 5 J-1 Visa Waiver compliance reviews, and 2 program reviews. 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 resolution and followup, and physician compliance with J-1 Visa Waiver program requirements.

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, 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. Management actions resulted in 299 closing actions with deobligations of \$1,064,849 during the reporting period.

Other management actions included designing an automated system that will notify grantees by e-mail that payments and progress reports are due. The automated system is expected to reduce the number of projects that have expired with no payment made and remind grantees when reports/payments are due during the grant period. The Finance Office developed a streamline method to track the recovery and reallocation of funds back to the State. This system will expedite recovery of funds to the States and reduce the time spent processing fund recoveries.

With respect to our report on implementation of GPRA, ARC actions included:

- Steps were taken to share information gathered from GPRA site visits more fully with the State program managers and LDDs. The site visit reports are sent to the State program manager. Staff continues to look for ways to disseminate reports to a broader audience and may be able to use the Resource Center for this purpose.
- The GPRA unit held a briefing with the Commission staff to summarize findings and hold discussions with project managers about the results of validation visits. This meeting led to a good discussion about issues that need to be addressed such as performance measurement definitions, better communications, and documentation of results.

- Reorganization of staff into project review teams by goal area will ensure project measurements in each goal area are appropriate and measurements will be consistent within each goal area. Team review will lead to better coordination efforts to resolve problem projects issues.

Grant reviews disclosed that projects were being implemented in accordance with program requirements and grant agreements. Emphasis was placed on testing the eligibility of expenditures, availability of matching contributions, and achievement of grant objectives. Exceptions were noted in isolated instances with respect to ineligible expenditures, untimely drawdowns, completion of progress reports, reporting of interest earnings, matching contributions and documentation, and adequacy of systems or records. Questioned or unsupported costs approximating \$101,000 were identified for followup and corrective action.

In one instance a grantee has had a history of very late submissions of claims for reimbursement, lack of periodic drawdowns, and unavailability of source documentation to support some expenditures or matching contributions. The grantee finance office agreed to make every effort to expedite the payment process, to initiate drawdowns on a semiannual basis, and to develop a new filing system that should ensure availability of necessary source documentation.

Another review disclosed that the grantee files and documents were incomplete and unorganized and were maintained at two locations but not always reconciled. Approvals were not obtained with respect to transfers of ARC grant funds between mini-grants; and \$64,423 was identified as questionable or unsupported. The grantee agreed to establish new procedures to ensure all actions are coordinated with the regional office and headquarters, to fully document grant expenditures, and to ensure approval is obtained prior to reallocating funds between mini-grants. The grantee also provided documentation to support the questioned costs related to the absence of documentation for expenditures, exceeding approved budgets without approval, and matching contributions. ARC accepted the documentation and approved the transfers of funds between mini-grants. In view of grantee efforts to improve accountability, we accepted decisions to forego additional actions.

In one case, we provided technical assistance during one grant review in order to identify and resolve an accounting problem that resulted in claims for reimbursement exceeding available funds. The situation, which occurred because grant balances were not reduced to reflect transfers of funds to other grants, was resolved by the State agency contributing about \$35,000 to eliminate shortages and ARC revising a grant period. In two other cases, we provided technical guidance to the grantees with respect to required reports and records.

Our followup review noted that 29 of the 75 grants identified in our prior report had been closed with deobligations of \$284,266 in 14 cases. In 15 cases, payment activity was noted or grant periods had been extended. The review identified 108 open grants with expired performance periods for which fund balances totaled about \$4.1 million. This involved 26 cases included in our prior report. For the 108 cases cited in this report as having followup potential, no drawdowns had occurred in 20 cases with balances of \$1,528,419; 18 cases had 50 percent or more remaining funds with balances of \$1,032,633; and 70 cases had less than 50 percent remaining funds with balances of \$1,595,611.

Continued emphasis should be placed on followup on grants for which little activity is noted prior to the end of the performance period in order to ascertain the reasons for the condition and identify the potential for corrective and/or timely action. Such emphasis is particularly applicable to grants for

which no or limited drawdowns have been made during the grant period. Also, followup on grants for which extended performance periods have expired should be emphasized.

Coincidental with our expired grant update, we reviewed the justification and documentation of performance period extensions. This review disclosed that extensions were justified based on information submitted by grantees identifying reasons for project delay and need for extensions. Primary reasons cited included changes in grantee staff, difficulties in obtaining matching funds or contributions, and construction delays. We recommended improved documentation to support oral communications between ARC and grantee staff. Also, emphasis should be placed on project followup where extended performance periods have expired.

We conducted J-1 Visa Waiver program compliance reviews in 3 states and also issued a report on one physician who had left the Appalachian Region. The J-1 Visa Waiver program provides a waiver of the requirements for a foreign physician to return to his/her home country after completion of medical training in the United States. ARC participates as a Federal Entity sponsor to assist Appalachian Region communities in providing healthcare services to medically underserved areas. The applicable ARC policies and procedures require J-1 physicians to practice 40 hours of primary care per week in a designated Health Profession Shortage Area (HPSA) in the Appalachian Region. The ARC program requires the physician to serve at least 3 years (unless a state has a longer period). There is no prohibition on J-1 physicians working extra hours or practicing subspecialties after fulfilling primary care requirements.

Generally, physicians were complying with program requirements, although we noted several instances where physicians were practicing part-time at locations that were not reported to, or approved by, the applicable States or ARC. Such situations usually occur because of insufficient patient workload at the approved locations; and in most cases, the additional practice is performed in medically underserved areas in close proximity to the approved locations. In 2 cases, the additional practice sites were outside the Appalachian Region; and recommendations were made to extend the waiver period to ensure 3 years of service at eligible ARC locations. We also noted that physicians with subspecialties, such as cardiology, performed some subspecialty procedures. Although such practice is acceptable, providing the 40 hours of primary care requirement is met, we recommended increased State monitoring, especially of physicians with subspecialties, to ensure continued compliance with program requirements. Facilities that did not have notices posted about the availability of service to all persons were notified of the need to post such notices in the lobby area. We did not identify any providers that were not providing services to all persons.

In one case, a J-1 physician had left the Appalachian Region without notifying State or ARC officials. Our review disclosed that the physician had relocated in eastern North Carolina, and ongoing followup is in process to determine the eligibility of this location and/or its acceptance by ARC. In another case, a physician's whereabouts were reported as unknown; and a recommendation was made to notify INS and request termination of the J-1 Visa Waiver.

Subsequent to September 11, 2001, we contacted by mail over 300 foreign physicians participating in the J-1 Visa Waiver program and employed at locations in the Appalachian Region. The purposes of this correspondence were to confirm the availability and location of participating physicians and to inquire if any of the physicians had information that could be useful to the Government regarding events of September 11 and thereafter. We followed up on cases where correspondence could not be

delivered and, with the exception noted in the preceding section, identified the location and availability of the participating physicians

A review of purchase and travel card use, procedures, and controls determined that procedures and controls were generally adequate; our samples disclosed no instances of improper card use. Recommendations were directed at ensuring the application of procedures and controls by persons authorized to use purchase cards. These procedures and controls dealt with purchase approvals, documentation of the receipt of goods and services, and documentation of noncompetitive purchases. Management noted various actions to ensure staff implementation of procedures and to improve overall efficiency, including delegations of authority.

A prior report, in May 2000, identified concerns and problems with respect to four projects in Southwest Virginia for which \$968,000 in ARC funds were expended primarily for infrastructure development. We noted factors impacting the projects that could result in restriction of the development envisioned in project proposals. Divergent views among project sponsors, local officials, and local citizens; uncertain prospects for attracting additional businesses for the industrial park sites; difficulties in obtaining land necessary for the innovation park; and decision by a perspective major tenant not to occupy constructed space were noted as factors impacting long-term project successes.

In March 2002, followup contacts disclosed that the only business at one industrial site had closed with the loss of about 100 jobs. The two businesses at another industrial site remained active, but efforts to attract additional business have been unsuccessful; plans for an innovation park remained on hold due to lack of agreement with the US Forest Service about a land purchase; and a wastewater treatment plant, while serving two new schools, was not serving any additional businesses as intended.

There appeared to be continued polarization of divergent views among project sponsors, local officials, and local citizens, including the use of land in the industrial park site for other purposes. Although the local development authority involved with the projects was in financial difficulties, local officials indicated that efforts were ongoing to attract new businesses.

## **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; mismanagement; gross waste of funds; or abuse of authority. The OIG does not employ criminal 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. The OIG has initiated followup with respect to the J-1 Visa Waiver program, with emphasis on ensuring participating physicians are practicing at assigned locations.



#### **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 to fulfill their 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 is considered an important element of planning, and discussions with ARC management have identified several areas for review.

The OIG's strategies and objectives for the next 5 years are defined in a strategic plan. The FY 2002 Annual Plan provides the operational details for OIG activities planned during FY 2002 to implement this strategic plan. We expect to revise this strategic plan periodically 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.

Planned FY 2002 audit work includes about 50 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, emphasis will continue to 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. 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, followup action was initiated on calls identifying concerns with actions by several grantees.

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. As noted below, the IG disagrees with proposals about consolidation of designated IG offices.

## **VII. OTHER**

The Inspector General continued to serve as the Executive Council on Integrity and Efficiency representative on the Audit Committee of the President's Council on Integrity and Efficiency and was involved with issues related to The OIG Auditor Training Academy. The IG continued to serve as the IG of the Denali Commission in line with a Memorandum of Agreement between the ARC IG and the Denali Commission Federal Co-Chairman.

During the reporting period, GAO continued a survey related to the possible consolidation of some designated OIGs. Although GAO conclusions and recommendations were not available at the end of the reporting period, the IG disagrees with the premise that consolidation would improve the effectiveness and efficiency of the oversight of designated entities. Also, the survey methodology, which emphasized questionnaires to President- (PAS) and Agency Head-selected IGs and limited reviews of designated IG semiannual reports, did not provide sufficient information on which to assess designated IG operations or contributions and/or make comparisons with the operations or effectiveness of PAS IGs.

Although operational weaknesses—be they in the PCIE or ECIE OIG community—should be addressed, the basic organizational structure of placing an OIG as a statutorily independent unit within an agency provides far greater benefits than assigning oversight responsibilities for designated entities to an external agency with limited knowledge about, or priority for, conducting oversight of the assigned entity.

The OIG community responses to the GAO questionnaire provide a unique perspective about the status of designated OIGs. The OIG community is generally divided, with PAS IGs favoring consolidation of designated IGs, while designated IGs believe this action would negatively impact oversight of designated entities. However, a majority of PS IGs concluded that there would be a reduction in program expertise, oversight of designated entities would be weakened, less attention would be paid to designated entities, prevention would be lessened, and timeliness would be reduced if consolidations resulted. Since these areas are some of the most critical elements for a successful OIG operation, the downgrading of these elements would have a negative impact on oversight of designated entities. Also, since the establishment of designated IGs in 1988, the designated IG budgets, on a percentage basis, have fared better than PAS IG budgets; staff turnover has not been significantly different; and, discounting normal retirements, there have been fewer changes of designated IGs than PAS IGs. With respect to independence, the IG Act provides designated IGs with the same authorities and protections to ensure independence as provided PAS IGs.

I concur with the opinion expressed by others that having someone at the water cooler is better than having someone at a distant location or reporting to an external source. Thus, I would urge that emphasis be placed on correcting any identified operational weaknesses rather than tampering with a structural concept that, on balance, has provided substantial value, especially as a deterrent and monitor at designated entities.

In summary, if oversight of designate entities is desired by the Executive and Legislative Branches, it does not appear that the benefits of a cost-neutral solution of consolidating designated OIGs with larger entities outweighs the negative implications of such action.

As I end 42 years of Federal service, including 39 years at civilian Offices of inspectors General and my last 12½ years as Inspector General at the Appalachian Regional Commission, I would like to express my appreciation for the opportunity to have participated in the institutionalization of the OIG concept and observe the many benefits resulting from the unique and groundbreaking legislation establishing OIGs. During my career, opportunities for personal satisfaction and contributions to better government have been abundant; and I have tried to take advantage of both. As a participant in all aspects of OIG operations and as an interested observer of the OIG community since the administrative establishment of the first Office of Inspector General at the US Department of Agriculture in 1962, I have gleaned unique insights about the OIG concept and its implementation, its strengths and weaknesses, its successes and failures, and its needs and opportunities.

I hope to continue my interest in the OIG concept and community as a private citizen since I believe the OIG community is at a crossroads as it enters the 25<sup>th</sup> year since the statutory enactment of the IG Act. Many challenges exist as the community enters the 21<sup>st</sup> century, ranging from acceptance of the status quo that often leads to stagnation and decline to the difficult challenges of successfully addressing the technology age. The world is changing rapidly; and OIGs' ability to retain credibility and impact by keeping abreast of increased program complexities and rapidly developing new technologies, especially in the audit and investigation areas, is debatable unless some conceptual and operational changes are initiated.

Also, the OIG community must effectively deal with the diverse tasks of increasing public knowledge about its mission, responsibilities, accomplishments, and contributions and ensuring its unique responsibility for self-accountability is buttressed by stringent implementation of self-guidance and self-policing of its activities. For example, the recently surfaced conditions impacting the public accounting profession significantly increase the OIG community's need to reexamine its operating policies and procedures to ensure the adequacy and independence of its quality assurance processes and practices related to performance.

I wish everyone in the OIG community the best and hope that the efforts of the thousands of dedicated employees who have contributed to the institutionalization of the OIG concept will be carried forward and strengthened by our successors.

# APPENDIX A

## SCHEDULE OF REPORTS ISSUED OCTOBER 1, 2001, TO MARCH 31, 2002

Report No.	Entity and Title	Program Dollars or Contract/Grant Amount	Questioned/Unsupported Costs*	Funds to Better Use**
02-1(H)	Foundation for Appalachian Ohio	\$ 100,000		
02-2(H)	Shawnee State University	198,000		
02-3(H)	Golden Triangle Airport Authority	127,750		
02-4(H)	Bluegrass Child Advocacy Group	467,140	\$ 4,076	
02-5(H)	Mississippi Technical Assistance	350,000		
02-6(H)	Fresh Start Community Career Center	100,000		
02-7(H)	Maryland Technical Assistance	422,250	64,423	
02-8(H)	Pennsylvania Technical Assistance	730,000		
02-9(H)	Hardy County Schools Mobile Technology	163,000		
02-10(H)	Calhoun County Mobile Technology	320,000		
02-11(H)	Summersville High School Mobile Technology	218,000		
02-12(H)	McDowell County Mobile Technology	250,000		
02-13(H)	J-1 Visa Waiver Program—NE Pennsylvania			
02-14(H)	J-1 Visa Waiver Program—Alabama			
02-15(H)	J-1 Visa Waiver Program—Kentucky			
02-15a(H)	J-1 Visa Waiver Program—Kentucky Supplemental Summary			
02-16(H)	Nature Conservancy	100,000	3,205	
02-17(H)	Marshall University Research Center	350,000		
02-18(H)	ARC Purchase & Travel Cards	250,000		
02-19(H)	FAIR, Ohio	250,000	29,535	
02-20(H)	Ohio Technical Assistance	200,000		
02-22(H)	Expired Grant Update	3,000,000		\$ 1,000
02-23(H)	J. F. Ingram College Computer Assessment	57,642		
02-24(H)	Grant Extensions			
02-26(H)	CAEZ Entrepreneurial Development	65,000		
02-27(H)	West Virginia Community and Economic Development Virtual Network	123,000		
02-29 (H)	J-1 Visa Waiver Program—Special Report, North Carolina/Kentucky			
TOTALS		\$ 7,841,782	\$ 91,239	\$ 1,000

\* 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	2	\$ 28	\$ 20
B.	Which were issued during the reporting period	<u>4</u>	<u>\$ 38</u>	<u>\$ 63</u>
	Subtotals (A + B)	6	\$ 66	\$ 83
C.	For which a management decision was made during the reporting period	3	\$ 29	\$ 83
	(i) dollar value of disallowed costs	1	\$ 11	\$ -
	(ii) dollar value of costs not disallowed	2	\$ 18	\$ 83 <u>1/</u>
D.	For which no management decision has been made by the end of the reporting period	3	\$ 37	\$ -
E.	Reports for which no management decision was made within 6 months of issuance	-	-	-

Notes:

- 1/ Information obtained to support questioned and unsupported costs, including action to improve financial systems.

**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	2	\$ 248
B.	Which were issued during the reporting period	<u>1</u>	\$ 1,000 <u>1/</u>
	Subtotals (A + B)	3	\$ 1,248
C.	For which a management decision was made during the reporting period	2	\$ 248
	(i) dollar value of recommendations that were agreed to by management	1	\$ 200 <u>2/</u>
	--based on proposed management action	1	\$ 200
	--based on proposed legislative action	-	\$ -
	(ii) dollar value of recommendations that were not agreed to by management	1	\$ 48
D.	For which no management decision has been made by the end of the reporting period	1	\$ 1,000
E.	Reports for which no final management decision was made within 6 months of issuance	-	\$ - <u>1/</u>

Notes:

1/ Report issued at end of reporting period identifies open grants with balances of \$4.1 million for followup. Based on prior reports and management actions, it is estimated about \$1 million will be deobligated for use on other projects.

2/ Followup on prior audits also resulted in deobligations of \$284,266.



**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.