

APPALACHIAN REGIONAL COMMISSION

INSPECTOR GENERAL'S

SEMIANNUAL REPORT

TO CONGRESS

APRIL 1 - SEPTEMBER 30, 1993



APPALACHIAN REGIONAL COMMISSION

**OFFICE OF
INSPECTOR GENERAL
1666 Connecticut Avenue, N.W.
Washington, D.C. 20235
202/673-7822**

December 3, 1993

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 for the period April 1 through September 30, 1993.

During this period, operational activities included issuance of 15 individual reports, including 9 grant reviews and 6 program surveys. Primary recommendations were directed at improved accounting, financial systems, and internal controls. We also identified ARC actions with respect to issues previously raised by OIG, including timely use of funds, and noted substantial accomplishment in this area.

Of particular significance was the continuing responsibilities of the Inspector General 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 34 designated Office of Inspectors General. 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 Inspector General addressed several seminars on OIG related issues and led one ECIE peer review team during this reporting period.

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


Hubert N. Sparks
Inspector General

Enclosure

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EXECUTIVE SUMMARY

During this reporting period, 15 reports were issued, including 9 grant reviews and 6 headquarters surveys. Primary recommendations were directed at improved accounting, financial systems, and internal controls. We also identified ARC actions with respect to issues previously raised by OIG, including timely use of funds, and noted substantial accomplishment in this area. At the end of the reporting period, 6 reviews were in process, i.e., 4 grant reviews and 2 surveys, including one dealing with the use of financial audit information by the Local Development Districts (LDDs) in the Appalachian region.

Of particular significance were our continued emphasis on improved grantee financial management systems, accomplishment of grant objectives, eligibility of claimed costs, and adequacy of the entity followup system. Recommendations were made for improvements in these areas.

Our reviews are conducted in accordance with criteria outlined in a draft OMB vision statement that emphasizes the following points relative to OIG activities.

- o working with management to design effective management systems and improve program operations and service delivery;
- o building strong, open relationships with program managers based on a shared commitment to improving program operations;
- o continually improving quality of products;
- o working with management to eliminate excessive audit requirements.

Examples of specific activities related to these elements are noted in the report detail.

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 34 designated Office of Inspectors General. 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 Inspector General addressed several seminars on OIG related issues and led an ECIE peer review during this reporting period.

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 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	App C
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 34 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 1994 is \$249 million, which is divided approximately \$160 million for highway projects, \$85.6 million for non-highway projects, and \$3.4 million for administrative expenses. The FY 1994 appropriation compares with \$190 million for FY 1993. ARC is authorized through its current appropriation.
- 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

review, grant development, technical assistance to States, and management and oversight.

- o 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 1993 was \$380,000. For FY 1993, approximately 39 percent was expended for contract audit services; 50 percent, for salaries and benefits; 4 percent, for travel; and 7 percent, for all other activities (training, equipment, space, supplies, etc.). The OIG funding level represents about 35 percent of the total funds available to the Office of the Federal Co-Chairman. FY 1994 funding for OIG is \$380,000, with the division of expenditures continuing at the approximate percentages as noted for FY 1993.

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, 15 reports were issued, including 9 grant reviews and 6 survey reports. At the end of the reporting period, 4 grant reviews and 2 surveys were in process and followup action to resolve open recommendations was being emphasized. 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 34 statutorily designated Office of 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 program operations in such areas as accountability, financial management, fund obligations and deobligations based on project activity, implementation of cost principles, and audit followup.

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 has been emphasized; and the number of funded projects, including business development and housing revolving loan funds with large unobligated balances, has been substantially reduced. ARC conferences, training, and seminars have emphasized accountability, financial management systems, and allowable costs. For example, training directed at LDD

officials and financial managers emphasized cost allocation plans, use of financial information, use of audit reports, and applicable cost principles. These activities, while sponsored by ARC, provide a Governmentwide benefit since many of the grantees receiving ARC funds also receive substantial funds from other Federal entities. Thus, actions to improve ARC grantee operations, including controls, systems, and implementation of applicable grant requirements, will have residual benefits.

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.

- o An audit of tourism grants administered by the Appalachian Tourism and Research Development Center at Concord College, West Virginia, disclosed a need for improved financial management systems, including internal controls, to better ensure fiscal accountability and eligibility of claimed costs. We noted questioned or unsupported costs of \$46,869 related primarily to indirect costs, salaries, fringe benefits, and ineligible items such as a feasibility study and incorrect charges. The problems were caused in part by use of the Concord College Foundation rather than the college's accounting system. Also, we noted that the use of the Concord College Foundation resulted in state procurement procedures not being implemented. Grantee actions included transfer of the grant accounts to the college accounting system in March 1992, improved financial and accounting systems, scheduling of an independent audit of recent grants, preparation of a cost allocation plan, and return of \$24,676 to date. Audit resolution is continuing.
- o Other grant audits, especially of new grantees, identified financial system problems resulting in weaknesses with respect to documentation of costs including matching contributions or activities. ARC auditors worked with grantees with respect to needed system improvements and documentation of costs. Additionally, ARC was notified of the need to provide new grantees with the applicable OMB circulars dealing with cost principles in order to preclude continued problems in the noted areas.
- o We reiterated disclosures with respect to untimely reports and/or unapproved scope or grant agreement changes and applicable recommendations for improved ARC and grantee coordination and cooperation to correct such conditions.
- o A review of audit followup policies, procedures, and actions identified a need for improvements in these areas to ensure that OIG reports are reviewed and processed timely, including followup actions to ensure implementation of agreed to recommendations. Recommendations included establishment of a report control system, followup time frames, assignment of responsibilities, identification of auditee actions and increased feedback to OIG. Also, a followup survey was initiated to evaluate the extent of followup on open audit reports.
- o A followup survey on the status of open housing program grants with balances approximating \$350,000 disclosed that actions had been initiated on the 9 grants

noted in our prior survey report. Additionally, ARC had identified several other grants with balances approximating \$150,000 for additional review. As a result, fund deobligations and grant close-outs were initiated. During our followup, we identified 4 additional grants with balances of about \$309,000 that appeared subject to fund deobligations. Actions are in process to close grants that contain most of the unexpended balance.

- o Followup review on the J-1 waiver program, which provides waivers for foreign physicians with respect to a 2-year stay in the US upon completion of medical training, disclosed the program was generally working in accordance with applicable rules and regulations.
- o In-process work includes a survey of 69 LDDs in Appalachia in order to ascertain the extent of costs and use of financial-related audits and recommendations for improvement. The review resulted from grantee comments noted during our regular audit work and at ARC training seminars with respect to the cost and value of these audits in relation to available funds. The results of this review, including any appropriate recommendations, will be included in our next semiannual report and should provide useful information in line with ongoing efforts to improve the format, content, understanding, and use of financial audits and financial statements. An example of the survey questionnaire is included as an attachment.

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.

There were no independent ARC OIG investigations during this period, but a grant audit was coordinated with an ongoing investigation by a state agency. However, several OIG Hotline calls were followed up to determine the need for investigation. In one instance, the complaint was forwarded to another OIG office; and in two cases, it was determined that additional action was not warranted. Also, several citizens' concerns were received by ARC officials and were turned over to the ARC OIG for followup.

IV. AUDIT PLANNING

Emphasis in FY 1994 will be placed on audit followup to determine the extent to which specific report recommendations are addressed and to assess actions completed or necessary with respect to overall issues or causes resulting from individual reports. During FY 1994, audit work will also include individual grant audits in about five states; headquarters surveys, and followup

testing in areas such as staff monitoring and followup on open grants with completed budget periods, administrative expenses, grant extensions, and enterprise development programs.

Also, emphasis will continue to be placed on programmatic and performance reviews. Limited resources generally preclude substantive testing of a specific subject or function, but audit planning includes identification of program subjects that can be tested in conjunction with audits of individual grants. For example, programmatic reviews of subjects such as leadership and tourism grants should provide expanded and overall information with respect to the particular subject areas; and the benefits to management are deemed sufficient to continue this type of work despite a resource induced reduction in the number of individual grant audits and/or the testing of financial and compliance issues.

In a similar vein, Government emphasis on accountability and performance measures will be incorporated in audit planning. Audit effort during the initial years of ARC OIG operations has concentrated on financial management, including use of funds, and testing grantee compliance with grant requirements, including fund control and expenditure. While financial and compliance testing will continue, it is anticipated that testing and evaluation of performance in terms of individual grants achieving intended objectives and overall benefits derived from ARC activities will be the subject of increased audit attention.

In order to maximize use of available resources directed at reviewing ARC activities, increased emphasis continues 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.

The OIG will also be alert for new or revised areas of ARC operations based on the priorities and emphasis of a new administration. 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.

V. OIG HOTLINE

During the prior reporting period, a regionwide toll-free Hotline was 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. Additionally, and possibly as a result of Government initiatives with respect to reinventing Government, ARC officials have received several inquiries from concerned citizens; and the OIG is following up on these concerns. Efforts were initiated during this period to publicize the hotline by notifications to contractors and grantees, and field visits will evaluate the extent to which employees were made aware of this system.

VI. LEGISLATIVE AND REGULATORY REVIEW

Primary efforts in this area continued to be related to requests for input about potential legislative initiatives with respect to OIG operations. The ARC OIG supports 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 supports extension of the Program Civil Fraud Penalties Act to include designated entities, improved protection of designated IG budgets, comparable pay for designated IGs, 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 34 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.

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 training conferences, and representing ECIE at PCIE meetings.

Primary ECIE activities undertaken with the support and assistance of ECIE members, especially the TVA OIG, have included completion of the first ECIE annual report summarizing FY 1992 audit and investigative results at 34 designated IG offices; the annual ECIE training conference, which emphasized inspections and evaluations; preparation of an ECIE Action Plan denoting various projects and activities, including an investigative assistance project to improve investigative proficiency; and development of an automation/information sharing/advance techniques forum to assist ECIE members to maximize use of limited resources.

The ECIE Vice Chair responsibilities and workload, although considered of the highest importance by the ARC OIG, required a substantial expenditure of time and resources in order to address member issues and ensure ECIE actions in line with the Executive Order. The normal workload attributable to coordinating and addressing interests and concerns of member entities was increased by the inherent activity and concerns resulting from a change in Administration. Consequently, ARC OIG time was diffused between ECIE and ARC activities during this reporting period; and the OIG appreciates the support of ARC management with respect to the IG's involvement as the ECIE Vice Chair.

The PCIE Task Force on Single Audit, which included the ARC Inspector General, issued its report and recommendations to OMB for consideration. The report highlights new and revised single audit policy and procedures that should ensure improved and more meaningful single audit reports. The Inspector General made presentations at several seminars with respect to the study.

Of particular importance to the ARC OIG were issues relating to single audit coverage of nonmajor programs; the adequacy of audit coverage, especially the sufficiency of testing relating to compliance with laws and regulations; and presentation of results in formats and language understandable to the report recipients and the public. The recommendations of the task force, if adopted, should substantially improve the single audit process and better identify the realistic expectations of single audit, which in turn could reduce the criticisms of single audit especially with respect to providing Federal managers with information needed in connection with their program and oversight responsibilities.

The ARC Inspector General performed an external quality review (peer review) during this reporting period in line with requirements for performance of such reviews by all ECIE members. These reviews emphasized compliance with generally accepted auditing standards.

The ARC Inspector General, in line with Governmentwide reinvention efforts, has submitted recommendations dealing with a wide range of issues impacting on OIG efficiency and effectiveness. These issues range from audit methodologies and Governmentwide projects to specific subjects such as training and related activities.

VIII. REINVENTING GOVERNMENT AND VISION STATEMENTS

Recent reports, recommendations, and publicity have identified concerns about OIG audit operations, including criticisms about cooperation and coordination with agency management (auditees) and development of adversarial relationships that have had negative impacts on program operations. Consequently, there has been substantial discussion and reinforcement of criteria and actions for strengthening management/OIG relationships without impeding OIG independence or involving OIGs with prohibited program responsibilities. Some of the criteria being considered for an OIG vision statement by the PCIE and the ECIE includes working with management, open relationships with program managers, improving quality, and eliminating excessive audit requirements.

The ARC OIG supports these criteria and has strived to operate in accord with similar concepts. Recent examples include:

- o A fast response to an entity request for information necessary to determine the validity of a request for a physician waiver.
- o IG attendance and participation at two seminars directed at improving grantee financial operations.
- o IG coordination with an independent accounting firm to avoid duplication of review efforts.
- o Auditor efforts to render constructive assistance during reviews. Two recent responses to draft survey reports from different auditees noted in part as follows: "We appreciate the professional manner in which ARC auditors conducted this audit of our project. They were most helpful in pointing out ways to improve our

financial management of this initiative" and "I would like to compliment Ms. ... of your staff who we found to be very knowledgeable and helpful during the course of the audit."

SCHEDULE OF REPORTS ISSUED APRIL 1 TO OCTOBER 30, 1993

Report No.	Title	Program Dollars or Contract/Grant Amount	Questioned Costs*	Funds to Better Use**
93-9(H)	Concord College---Tourism Grants	\$ 496,629	\$ 46,869 ^{1/}	
93-10(H)	Headquarters Travel	263,473		
93-11(H)	Audit Followup			\$309,671
93-13(H)	Status of Housing Program Activity	309,671		
93-15(H)	South Carolina Infrastructure/Economic Development Planning Project	231,300	8,043	
93-16(H)	Technical Business Information Center	200,460		19,044
93-17(H)	Center for Excellence in Manufacturing	550,786	72,000	
93-18(H)	Technology Development Incubator	827,726	45,500	
93-22(H)	Technical Assistance Georgia Department of Community Affairs	257,775	204	
93-23(H)	GIS, Georgia Mountains Regional Development Center	50,000	41	
93-24(H)	North Georgia Community Action, Inc.	136,500		
93-26(H)	J-1 Waiver Program			
93-27(H)	ARC Imprest Fund	3,000		
93-28(H)	J-1 Waiver Program			
93-30(H)	Middle Fork, Virginia Child Care Center	48,360		
TOTALS		\$3,375,680	\$172,657	\$328,715

APPENDIX A

* 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.

** 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/} Approximately \$25,000 recovered to date.

APPENDIX B

**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	0	-
B. Which were issued during the reporting period	2	\$ 329 ^{1/}
Subtotals (A + B)	2	\$ 329
C. For which a management decision was made during the reporting period	-	-
(i) dollar value of recommendations that were agreed to by management	-	-
--based on proposed management action	-	-
--based on proposed legislative action	-	-
(ii) dollar value of recommendations that were not agreed to by management	-	-
D. For which no management decision has been made by the end of the reporting period	2	\$ 329
E. Reports for which no management decision was made within 6 months of issuance	0	0

1/ Primarily represents potential deobligations from inactive revolving loan fund grants. Management has initiated effective actions in this area and is monitoring open grants for additional actions. Action is in process to close out grants containing the bulk of the noted funds.

APPENDIX C

**SCHEDULE OF AUDIT REPORTS WITH
QUESTIONED OR UNSUPPORTED COSTS**
(\$ in thousands)

	No. of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision was made by the commencement of the reporting period	2	\$ 422	-
B. Which were issued during the reporting period	6	\$ 173	-
Subtotals (A + B)	8	\$ 595	-
C. For which a management decision was made during the reporting period	4	\$ 73	-
(i) dollar value of disallowed costs	3	\$ 47 ^{1/}	-
(ii) dollar value of costs not disallowed	1	\$ 26	-
D. For which no management decision has been made by the end of the reporting period	4	\$ 522	- ^{2/ 3/}
E. Reports for which no management decision was made within 6 months of issuance	1	\$ 396	- ^{2/}

1/ Includes \$24,921 recovered to date and \$22,079 on which final actions are in process.

2/ Includes one report, involving \$396,000, where a management decision was made to pursue the audit recommendations; but final management decisions on disallowances are being finalized.

3/ Includes two reports where management decisions to pursue the audit recommendations have been made but audit resolution is in process.

DEFINITIONS OF TERMS USED

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

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

SURVEY QUESTIONNAIRE

Annual Financial Audit obtained: Yes
 No

Performed by: State Auditor
 CPA Firm
 Other

Approximate annual total of Federal grants: \$ _____

Approximate annual cost of audit: \$ _____

Approximate percentage of cost that auditor attributes to financial statement preparation: _____ percent

Little or
None Some Considerable

Degree to which the overall audit report is used by:	Management	_____	_____	_____
	Program Officials	_____	_____	_____
	Finance Officials	_____	_____	_____

Degree to which the financial statements are used by:	Management	_____	_____	_____
	Program Officials	_____	_____	_____
	Finance Officials	_____	_____	_____

Degree to which the various reports are understood by:	Management	_____	_____	_____
	Program Officials	_____	_____	_____
	Finance Officials	_____	_____	_____

Degree to which the financial statements are used to make decisions by:	Management	_____	_____	_____
	Program Officials	_____	_____	_____
	Finance Officials	_____	_____	_____

Extent of understanding of the financial statements by:	Management	_____	_____	_____
	Program Officials	_____	_____	_____
	Finance Officials	_____	_____	_____

Opinion as to the cost benefits or cost effectiveness of the annual audit by:

Management
 Program Officials
 Finance Officials

Cost Effective

Not Cost Effective

_____	_____
_____	_____
_____	_____

Strongly

Agree

Agree

Disagree

Strongly

Disagree

The audit report format could be improved by: Reducing the number of reports and opinions

_____	_____	_____	_____
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Simplifying language (e.g., reducing accounting terminology, explaining key financial statement information in layperson terms)

_____	_____	_____	_____
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More clearly identifying extent of testing, programs tested, and results

_____	_____	_____	_____
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Explaining terms like materiality, reportable conditions, and significance

_____	_____	_____	_____
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A revised audit report format would result in increased use of the report

_____	_____	_____	_____
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Other comments:

Suggestions for change or improvement: