

**APPALACHIAN REGIONAL COMMISSION**

**INSPECTOR GENERAL'S**

**SEMIANNUAL REPORT**

**TO CONGRESS**

**APRIL 1 - SEPTEMBER 30, 1997**



November 25, 1997

MEMORANDUM FOR THE FEDERAL CO-CHAIRMAN

SUBJECT: Semiannual Report to Congress

In accordance with the requirements of the Inspector General Act Amendments of 1988, Public Law 100-504, I am pleased to submit the semiannual report of the Office of Inspector General (OIG) for the period April 1 through September 30, 1997.

During this reporting period, 24 reports were issued, including 21 individual grant reviews, 1 program survey, and 2 J-1 visa waiver compliance 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, 5 reviews were in process, including 3 grant reviews and 2 program surveys. Management continued to emphasize timely followup and review of expired grants and improved management information systems to facilitate grant tracking. These actions resulted in deobligations exceeding \$634,000, for 28 projects noted in our prior report. Appalachian Regional Commission (ARC) actions on other projects, including basic agency administered grants, resulted in over \$2.5 million in fund recoveries to ARC through project deobligations, withdrawals, and closeouts between April 1 and September 30, 1997.

Several reviews were conducted in response to concerns raised about use and/or accountability for ARC grant funds. This included concerns about the accountability and administration of a revolving loan fund. Our review determined that the grantee had initiated actions to correct deficiencies noted in prior ARC internal reviews and that the revolving loan fund was being administered in accordance with grant agreements and program requirements. We also determined that differences in reports of disbursements over the 20-year life of the program were attributable to a combination of reporting errors and lack of information, especially with respect to older loans.

In another instance, a review of grantee contracting and procurement practices disclosed no deficiencies with respect to the use of ARC funds. However, based on media publicity and our record review, we referred one contract to the State of Pennsylvania Office of Inspector General.

We completed a survey of 45 tourism grants awarded by ARC between 1990 and 1995, including visits to 15 grantees. Survey conclusions related to implementation of a coordinated strategy, improved project reporting system, post-grant assessments, and identification of performance measures. ARC noted development of an overall strategy for tourism grants, increased capability to monitor and followup on approved projects through a new data base system, intention to obtain improved memorandums of understanding, and development of performance measures and post-grant assessment procedures.

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During this reporting period, ARC management continued actions to implement goals and objectives identified in the ARC strategic plan completed in 1996. Action included the establishment of performance goals for FY 1998 based on input from the ARC Policy Development Committee and the Federal Co-Chairman. Project proposals will contain projected outputs and outcomes and progress in achieving goals. Goals will be evaluated quarterly. Also, ARC reported substantial achievements in the five primary goal categories of education, infrastructure, leadership/civic capacity, dynamic economy, and health identified in its strategic plan. Financial management guidelines covering a wide range of internal control and financial issues impacting receipt and disbursement of funds and administrative operations were finalized; and the recently expanded ARC computer network system that allows staff to track contract proposals from the time of approval through closeout will facilitate project monitoring, early warning, and timely followup.

Research Requirements

Page 7	Review of legislation and regulations	Section 4(a)(2)
Page 7	Problems, abuses, and deficiencies	Section 5(a)(1)
Page 3	Recommendations with respect to problems, abuses, and deficiencies	Section 5(a)(2)
	Reorganizational recommendations not yet implemented	Section 5(a)(3)
	Matters referred to prosecutive authorities	Section 5(a)(4)
	Summary of instances where information was refused	Section 5(a)(5) and (b)(2)
APP A	Listing of audit reports showing number of reports and dollar value of questioned costs	Section 5(a)(6)
**	Summary of each particularly significant report	Section 5(a)(7)
APP B	Statistical table showing number of reports and dollar value of questioned costs	Section 5(a)(8)
APP C	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	Section 5(a)(9)
	Summary of each audit issued before the reporting period for which no management decision was made by end of the reporting period	Section 5(a)(10)
	Management revised management decisions	Section 5(a)(11)
	Significant management decisions with which the Inspector General disagrees	Section 5(a)(12)

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

## **I. INTRODUCTION**

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

## **II. BACKGROUND**

### **A. APPALACHIAN REGIONAL COMMISSION**

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

- Through joint planning and development of regional priorities, ARC funds are used to assist and encourage other public and private resources to address Appalachia's unique needs. Program direction and policy is established by the Commission (ARC Code) by the vote of a majority of the State members and the affirmative vote of the Federal Co-Chairman. Emphasis has been placed on highways, infrastructure development, business enterprise, and human resources programs.
- Administratively, the Office of the Federal Co-Chairman, with a staff of 10, and the Commission, with a staff of 51, 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 1998 is \$170 million, which is divided approximately \$102.5 million for highway projects, \$63.9 million for non-highway projects, and \$3.6 million for administrative expenses. 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



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, 24 reports were issued, including 21 individual reviews, 1 program survey, and 2 J-1 visa waiver program followup reviews. At the end of the reporting period, 3 grant reviews and 2 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 and issuance of revised policies and procedures, are in line with OIG recommendations and executive and legislative initiatives to improve Government operations. During the reporting period, ARC issued management guidelines covering numerous financial and administrative areas.

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 unused funds are made available for other economic development activities in the Appalachian Region. For example, deobligations approximating \$634,000 were initiated on 28 grants noted in a prior OIG report. Actions are continuing on grants noted in prior reports. Also, ARC actions on other contracts/grants resulted in recoveries of approximately \$2.5 million from project deobligations, withdrawals, and closeouts for the period April 1 to September 30-, 1997.
- A survey of 45 tourism grants made between 1990 and 1995, including visits to 15 sites, determined that most of the projects visited had been implemented in accordance with grant

We also made several program recommendations including reclassification of \$150,000 from an asset to an expense, increased coordination between local area agencies implementing revolving loan funds capitalized with Federal funds and acceleration of payment in one case.

- A survey of the J-1 visa waiver program in one state disclosed substantial noncompliance with program provisions by one physician who did not comply with provisions requiring 40 hours of primary care service in a Health Professional Shortage Area (HPSA). We noted that the J-1 visa waiver physician was working a substantial amount of time at an ineligible location. This occurred primarily because of limited workload at the approved location.

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

Actions were initiated to ensure the physician provided primary care practice in a HPSA.

- Grantee audits surfaced program issues with respect to the allocation and verification of personnel assigned to grant activities and the extent of subrecipient monitoring necessary by grantee. Auditors questioned substantial costs due to the absence of information about time spent on grant activities and lack of grantee review of subrecipient documentation supporting claimed costs. The grantee noted that resources were budgeted based on planned project activities and work was summarized in progress reports and monitored by the project director. For subrecipients, the grantee noted that independent audits of subrecipients and other state legislated controls eliminated a need for subgrantees to provide supporting documentation to the grantee. We generally accepted the grantee's positions but recommended that time utilized by persons not assigned full time to grant activities should be documented and that subrecipient monitoring include some testing of subgrantee activities in accord with revised OMB Circular A-133.
- Work in process included finalization of 3 grant reviews, a survey of approximately 100 infrastructure grants with job creation objectives, and a review of the new ARC financial management system. Initial results of the infrastructure grant survey indicates a high degree of accomplishment with respect to job creation attributable to project implementation.
- 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

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 and several grants. The ARC OIG initiated reviews in response to these complaints.

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

## **VI. LEGISLATIVE AND REGULATORY REVIEW**

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

## **VII. OTHER**

The Inspector General continues 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.

The IG continues to advocate use of Interservice Agreements by smaller designated IG offices in order to substantially reduce the costs of independently contracting for external auditors. This process, which was initiated by the ARC OIG in 1989, is now used by approximately 10 designated IG offices and results in a substantial reduction in costs with respect to advertising and bid evaluation, without any reduction in competition or quality of work. In this regard, the ARC IG strongly supports ongoing initiatives to encourage and increase the Governmentwide use of a master contractor concept for audit services contracts to achieve substantial economies of scale by eliminating duplicative contracting activities. This concept will be implemented for FY 1998 by the



APPENDIX A

**SCHEDULE OF REPORTS ISSUED APRIL 1 TO SEPTEMBER 30, 1997**

Report No.	Title	Program Dollars or Contract/Grant Amount	Questioned/Unsupported Costs*	Funds to Better Use**
97-16(H)	North Carolina Technical Assistance	\$ 400,000		
97-18(H)	Oak Ridge Chamber of Commerce	203,000	\$ 15,000	
97-20(H)	Kentucky Mountain Assn for Economic Development	100,000		
97-21(H)	Kentucky Department of Local Government, Strategic Planning	300,000		
97-22(H)	Pennsylvania Statewide Manufacturing Marketing Network	250,000		
97-24(H)	Kentucky Highlands Investment Corporation	250,000	5,158	
97-25(H)	Crystal Lake Study, Kentucky	165,000	10,000	
97-26(H)	Coosa Valley Technical Institute	115,000	3,649	\$ 2,525
97-27(H)	Pickens Technical Institute	140,000	1,278	
97-28(H)	Maryland Canal Parkway Design	325,000		
97-29(H)	North Carolina Empowerment Zones/Enterprise Communities	500,000		
97-32(H)	Tourism Summary Review	1,919,000		
97-36(H)	Chautauqua, New York Revolving Loan Fund			
97-37(H)	J-1 Visa Waiver Program--Alabama			
97-39(H)	Kentucky Technical Assistance	446,000		
97-40(H)	Northern Tier Pennsylvania Industry and Education Consortium	137,611	219	
97-41(H)	SEDA-COG GIS	150,000	207	
97-42(H)	Earth Conservancy, Pennsylvania	350,000		
97-43(H)	Private Industry Council of Chautauqua, New York	148,950		
97-44(H)	Business and Industry Center, New York	74,650		
97-48(H)	Cornell University Enhancing Microcomputer Capacity	90,000		
97-49(H)	Rural New York Health Networking Project	182,114		
97-62(H)	Southern Alleghenies Planning and Development Commission			
97-65(H)	J-1 Visa Waiver Program--West Virginia			
<b>TOTALS</b>		<b>\$ 6,246,325</b>	<b>\$ 39,536</b>	<b>\$ 2,525</b>

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

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

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

	No. of Reports	Dollar Value (\$ in thousands)
A. For which no management decision was made by the commencement of the reporting period	3	\$1,010
B. Which were issued during the reporting period	<u>1</u>	<u>\$ 2</u>
Subtotals (A + B)	4	\$1,012
C. For which a management decision was made during the reporting period	3	\$1,012
(i) dollar value of recommendations that were agreed to by management	-	-
--based on proposed management action	3	\$ 634 <sup>1/</sup>
--based on proposed legislative action	-	-
(ii) dollar value of recommendations that were not agreed to by management	2	\$ 368
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 noted in our prior report include deobligations of about \$634,000 as of the end of the reporting period. Action continuing on other grants noted in reports. Management action includes review of all identified grants with resulting final actions including payments and/or deobligations.