

APPALACHIAN REGIONAL COMMISSION

INSPECTOR GENERAL'S

SEMIANNUAL REPORT

TO CONGRESS

APRIL 1 - SEPTEMBER 30, 1999

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EXECUTIVE SUMMARY

During this reporting period, 19 reports were issued, including 15 individual grant reviews, a programmatic review, and 3 J-1 Visa Waiver compliance reviews. Recommendations in grant reviews were directed at improved accounting and financial systems and controls, including eligibility of expenditures and identification and support for matching contributions. 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 302 projects and recover about \$1.8 million during the reporting period with recoveries being noted for 67 projects, including several identified in prior OIG reports. A \$300,000 deobligation pertained to a revolving loan fund that had been previously identified as having an excessive balance by OIG and ARC.

Three J-1 Visa Waiver program compliance surveys in two states disclosed that physicians were generally complying with program provisions. However, several instances of noncompliance due to the physician's practicing at locations not previously approved and/or in ineligible areas were noted and actions are in process to ensure physician compliance with ARC requirements. Also, coordination between ARC and OIG is ongoing with the Immigration and Naturalization Service (INS) to ensure the sponsoring agencies, such as ARC, are notified and consulted about INS waiver approvals that could result in participating physicians not completing their required practice in the Appalachian region. This action was based on a case that resulted in a J-1 Visa Waiver program physician seeking an additional waiver from INS, e.g., for extenuating circumstances, and relocating outside the Appalachian region without any notification to ARC or coordination by INS with the sponsoring agency.

We continued to work with first-time and smaller grantees with respect to the implementation of practical accounting and financial systems and controls sufficient to ensure compliance with grant agreements, identification of eligible costs, maintenance of records, and preparation of reports. Primary areas in need of improvement with respect to grantee financial operations included identification and support of matching contributions and program expenditures. For example, initially questioned costs of about \$500,000 resulting from lack of support for matching contributions were substantially reduced based on discussions with grantees and receipt of additional information. Grant reviews also identified about \$75,000 in unspent funds on three completed projects, and recovery actions were in process.

The IG continued to participate actively in discussions related to interpretations of the independence of Designated Inspectors General promulgated by the American Institute of Certified Public Accountants and being considered by the Advisory Council on Government Auditing Standards. The IG strongly believes the IG Act and Amendments mandate that all Inspectors General conduct their operations in a fully independent manner despite the appointment process and actions or proposals that hinder this requirement are ill-advised and conflict with the law and clear intent of Congress. Additionally, such action would significantly and negatively impact on the ability of IGs to accomplish OIG responsibilities. The ARC OIG appreciates the support and cooperation of ARC management in recognizing the responsibilities of the OIG and ensuring that ARC OIG activities are conducted in accordance with statutory requirements.

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 Co-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	*
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 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 1999 was \$66.4 million, which was divided approximately \$62.4 million for non-highway projects and \$4 million for administrative expenses. ARC was fully reauthorized by Congress for the first time since 1982. Also, the Department of Transportation and Related Agencies Appropriation Act for Fiscal Year 1998 (P.L. 105-66) appropriated \$300 million in FY 1999 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). The funding was distributed among the states with unfinished ADHS segments as determined by ARC. For FY 2000, non-highway funding of \$66.4 million was appropriated for ARC, with highway funding expected to be between \$350 million and \$400 million.

- 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 1999 was \$438,000. For FY 1999, approximately 27 percent was expended for contract audit services; 57 percent, for salaries and benefits; 8 percent, for travel; and 8 percent, for all other activities (training, equipment, space, supplies, etc.). The OIG funding level represents about .65 percent of the total funds available to the Commission.

Initial OIG operations included authorization for an Inspector General and a Confidential Assistant. A senior auditor was employed in the latter half of FY 1991; no additional staff have been employed. Grant review activities will continue to emphasize use of contracted services (e.g., independent public accounting firms or other OIG offices) supplemented by programmatic and performance reviews directed by OIG staff. Investigative assistance is provided by other OIG offices on an as-needed basis. This approach has been deemed the most appropriate to date in view of the nature of ARC operations and limited resources. However, we 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, 19 reports were issued, including 15 individual reviews, a programmatic review, and 3 J-1 Visa Waiver compliance 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, 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.

ARC and OIG continue to emphasize grant management practices including the timely identification of completed projects and recovery of unused funds. During the reporting period, ARC actions included closing out 302 projects, including 67 projects with deobligations of over \$1.8 million. For FY 1999, agency actions, including followup on projects identified in prior OIG reports, resulted in closeouts of 602 projects with recovery of approximately \$6.5 million that could be reallocated for other priority projects.

One example resulting from an OIG recommendation was a \$300,000 deobligation from a revolving loan fund that had exhibited limited activity during the past years. The funds were reallocated to area development programs, and the revolving loan fund is being monitored to determine the potential for additional transfers. Followup was also initiated to encourage grantees to improve time frames between project expenditures and drawdown actions in order to permit more timely identification of the status of funds and appropriate followup action.

- During this period, we performed 3 compliance surveys in connection with the J-1 Visa Waiver program in two states. ARC participates as a Federal entity sponsor to assist Appalachian region communities in providing health care services to medically underserved areas. The program provides a waiver of the requirement for a foreign physician to return to his/her home country after completion of medical training in the United States. Based on a state request, ARC acts as the interested Government agency within the Appalachian region, with waivers being approved by the INS based on an ARC recommendation.

Our tests disclosed that participating physicians were generally complying with program requirements to provide 40 hours of primary care per week in a medical professional shortage area. However, we noted several instances of noncompliance and a need for action to ensure that physicians cannot avoid fulfillment of ARC program requirements by obtaining other INS waivers without the concurrence of ARC. Our on-site visits disclosed several instances where physicians were not performing the required service at the approved location, one instance where a physician was practicing in an ineligible area and instances where notices identifying the availability of service to all individuals were not posted as required. Based on these reviews, a survey was initiated to obtain employment verification reports from all participating physicians for whom such reports were not available at ARC. Also, the applicable state agencies initiated actions to ensure that the noted physicians' work schedules were revised to ensure that service was provided as required at the approved location.

During the reporting period, we were apprised of 2 J-1 Visa Waiver physicians leaving their employ within the Appalachian region and seeking employment outside the region. Followup determined that the physicians had left the region, with one case being attributed to the closing of the facility and the other apparently resulting from an employer/employee dispute. In one case, the physician is seeking employment at another location in the Appalachian region; but in the other case, the physician is seeking a hardship waiver from INS and believes this waiver relieves him of his responsibility to fulfill his agreement with ARC to provide 3 years of service within the Appalachian region. It is generally agreed that additional waivers, if granted, should be based on coordination with the sponsoring agency and that the approval of additional waivers by INS based on extenuating circumstances does not relieve physicians from fulfilling agreements made with other agencies. For example, in the subject case, the physician's need to relocate due to the facility closing could have been remedied by employment at another location in the Appalachian region. ARC and OIG are coordinating with INS staff to identify a process whereby all interested parties are informed prior to approval of additional waivers.

- 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, although funds were spent and projects completed in accordance with grant agreements, some grantees did not have adequate financial system or accounting controls and, thus, were unable to fully support claims for reimbursement. Also, there was limited understanding with respect to information necessary to support required matching contributions and allocation of costs between different funding sources and allowable costs as noted in the applicable OMB Circulars (A-87 and A-122). We worked with the grantees to identify practical financial and accounting systems. For example, in several cases, documentation was initially unavailable to support matching contributions totaling about \$500,000. The conditions resulted from factors such as using grant funds for

matching purposes, lack of supporting documentation from third party contributors, contributions outside the grant period, and incorrect valuation of equipment used as match. As a result of discussions with grantees and review of additional information, the questioned costs were substantially reduced, and followup is in process to address the open issues.

- Other issues identified in our reviews and recommendations pertained to recovery of \$78,000 in funds not utilized on 3 completed projects and a need to resolve recommendations related to adjustments of indirect cost claims, activities performed prior to the start of the grant period, and receipt of required reports.

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. During the reporting period, the Inspector General conducted followup administrative inquiries with respect to several hotline concerns and coordinated with the Department of Justice and the Immigration and Naturalization Service on cases impacting the J-1 Visa Waiver program.

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 2000 Annual Plan provides the operational details for OIG activities planned during FY 2000 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.

Additional emphasis will be placed on coordinating OIG reviews with ARC implementation of the Government Performance and Results Act (GPRA) and revised operational procedures resulting from reauthorization legislation requirements. In order to provide some coverage of ARC funds that are administered by other agencies, e.g., construction and technical projects, we are coordinating with the

OIGs at the applicable agencies and reaching concurrence for ARC OIG review of some of these projects.

FY 2000 audit work includes about 30 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. 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.

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. During the reporting period, additional legislation impacting IGs was submitted; and the IG commented on the various initiatives noted in the proposed legislation. Specifically, the IG concurred with proposals dealing with term limits, reporting to Congress and additional oversight of OIG offices. With respect to the consolidation of some designated OIGs, the IG recommended that such action be deferred pending additional study, including contact and discussion with the applicable OIGs and parent agencies.

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 is participating on a project intended to assess the extent of oversight being provided to ensure the quality of Single Audit reports that are required in connection with programs financed all or in part with Federal funds. This project is in line with goals to ensure that grant-related information contained in the financial statements of the Federal government is accurate and reliable. In connection with this project, a presentation was made to an Intergovernmental Audit Forum on the status of Single Audit Act implementation.

During the reporting period, the OIG conducted a peer review of another OIG.

Financial management initiatives by ARC during the reporting period included revision of the Revolving Loan Fund (RLF) guidelines to incorporate or clarify provisions for shortening the lead time for advance payments, redefining excess cash, interest on grant advance payments, use of program income, and audit responsibilities. These actions are consistent with OIG emphasis on reasonable fund balances and effective cash management.

During the reporting period, the Development District Association of Appalachia continued its efforts to improve grant management and encourage non-governmental participation by sponsoring satellite broadcasts dealing with grant applications and techniques by which rural communities could extend or increase economic development activities by raising capital through non-traditional and non-governmental approaches. These teleconferences, which reach a sizable audience throughout the Appalachian region, followed a successful financial management broadcast in late 1998.

The IG continued to be an active participant in discussions related to the independence of designated IGs. This issue initially arose because of interpretations by the American Institute of Certified Public Accountants (AICPA) that Presidentially appointed and legislatively confirmed IGs meet the AICPA definition of independence but that designated IGs that are appointed by the head of the designated Federal entity do not meet this definition. The IG strongly disagreed with the AICPA interpretation based on the unique and clear language of the Inspector General Act of 1978 and Amendments of 1988 that provide designated IGs, by statute, with the same authorities for independent performance of their duties as provided Presidentially selected IGs.

Presently, consideration is being given by the Advisory Council on Government Auditing Standards (Council) to recommending that the AICPA bifurcation of the Federal IG community be reflected in the Government Auditing Standards issued by the Comptroller General. This would be accomplished by identifying designated IGs as non-organizationally independent and, therefore, would require designated IGs to qualify their audit work with some language that is certain to call into question the independence of the organization performing the review. Such an action would require designated IGs to either violate the IG Act, which mandates independence by all IGs as clearly expressed in Section 2 (which starts "to establish independent and objective units. . .") in order to comply with the proposed qualifying language, or violate Government Auditing Standards in order to comply with the IG Act. The IG does not believe that designated IGs should be placed in such a position and strongly recommends intervention by the Executive and Legislative Branches to preclude standards

and positions that are contrary to law being considered for, or included in, the Government Auditing Standards.

Designated IGs were not successful in dissuading the AICPA from reaching its conclusion. Based on the Council's apparent intention to pursue this issue, we have also been unsuccessful, to date, in convincing the Council that designated IG independence is mandated by law and that provisions of the IG Act related to IG authorities to independently initiate audits or investigations, full access to all records, subpoena authorities, public disclosure, and reporting to Congress provide a far greater assurance of independence than achievable by a public accounting firm paid directly by the client and having none of the authorities noted above.

Although the Government Auditing Standards apply to audits of Government funds, requiring disclosures that call into question whether designated IGs are fully independent creates the clear perception that none of the IG functions, including investigations, is being performed by an independent unit. This can have a chilling effect on the public perception of Offices of Inspectors General and substantially reduce public confidence in these offices and willingness to cooperate in the identification and prevention of fraud, waste, abuse, inefficiency, or ineffectiveness.

The ARC IG believes the Congress intended Presidentially appointed and agency head appointed IGs to act in a fully independent manner, notwithstanding the appointment process. Congress is urged to ensure another organization reporting to Congress does not issue standards that conflict with specific statutory language and the overall intent of Congress. It is hoped that the Council will rethink its initial position on this important issue and support the concept that designated IGs are fully independent and should not qualify audit reports by including inappropriate disclosures.

APPENDIX A

SCHEDULE OF REPORTS ISSUED APRIL 1 TO SEPTEMBER 30, 1999

Report No.	Entity and Title	Program Dollars or Contract/Grant Amount	Questioned/Unsupported Costs*	Funds to Better Use**
99-16(H)	J-1 Visa Waiver Program--Alabama			
99-17(H)	Lake Cumberland Justice/Victims Advocacy Program	\$ 100,000		\$ 2,277
99-18(H)	Training Tomorrow's Work Force, Prestonsburg Community College	289,975		
99-19(H)	Rural Health and Wellness Program, Prestonsburg Community College	355,420	\$ 76,917	
99-20(H)	ADECA—Technical Assistance	156,000		
90-21(H)	ADECA—Strategic Plan for Telecommunications	359,016		
99-22(H)	DeKalb County Tourism/Business Development Center	250,000		
99-23(H)	Jefferson County Distance Learning Project	200,000		
99-24(H)	Technology 2020, Entrepreneurial Initiative	310,000	30,940	
99-25(H)	West Virginia Technical Assistance	692,500		
99-26(H)	Logan County, SW Regional Jail/Industrial Park Water Project	1,600,000		67,425
99-27(H)	Tennessee Quality Award	174,376		
99-28(H)	North Georgia Technical Institute	110,000		
99-29(H)	Rockcastle County Economic Development Initiative	400,000		
99-31(H)	Facilities Master Planning—The Wilds	250,000		
99-32(H)	Ohio University, Technology Outreach Center	300,000	189,000	8,992
99-33(H)	Claims Processing			
99-38(H)	J-1 Visa Waiver Program—New York			
99-39(H)	J-1 Visa Waiver Program--Alabama			
TOTALS		\$ 5,547,287	\$ 296,857	\$ 78,694

* 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
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	3	\$ 21	\$306
B. Which were issued during the reporting period	<u>3</u>	<u>\$ 77</u>	<u>\$219</u>
Subtotals (A + B)	6	\$ 98	\$535
C. For which a management decision was made during the reporting period	3	\$ 21	\$306
(i) dollar value of disallowed costs	-	-	-
(ii) dollar value of costs not disallowed	3	\$ 21	\$306 <u>1/</u>
D. For which no management decision has been made by the end of the reporting period	3	\$ 77	\$219
E. Reports for which no management decision was made within 6 months of issuance	-	-	-

Notes:

1/ Information submitted by grantees was sufficient to justify report closing without additional action. Improved financial management systems were implemented to preclude recurrence.

**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	3	\$ 2,356
B. Which were issued during the reporting period	<u>3</u>	<u>\$ 78</u>
Subtotals (A + B)	6	\$ 2,434
C. For which a management decision was made during the reporting period	3	\$ 1,745
(i) dollar value of recommendations that were agreed to by management	2	\$ 592 <u>1/</u>
--based on proposed management action	2	\$ 592
--based on proposed legislative action	-	-
(ii) dollar value of recommendations that were not agreed to by management	2	\$ 1,153 <u>2/</u>
D. For which no management decision has been made by the end of the reporting period	3	\$ 689 <u>3/</u>
E. Reports for which no management decision was made within 6 months of issuance	-	-

Notes:

1/ Includes deobligations applicable to grants noted in prior reports, including \$300,000 pertaining to a revolving loan fund balance. Also, additional actions, including closings and deobligations, based on ARC management initiatives are summarized in the report body.

2/ Includes final payments justified based on review of grants identified in prior reports.

3/ Includes grants for which ongoing followup action is in process for grants identified in prior and new reports. A management decision was made to followup on cases reported but final action not completed.

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.

**THE OFFICE OF INSPECTOR GENERAL
APPALACHIAN REGIONAL COMMISSION**

serves American taxpayers

**by investigating reports of waste, fraud, or abuse
involving Federal funds.**

**If you believe an activity is
wasteful, fraudulent, or abusive of Federal funds,**

please call

toll free 1-800-532-4611

or (202) 884-7678 in the Washington metropolitan area

or write to:

Office of Inspector General

Appalachian Regional Commission

1666 Connecticut Avenue, NW, Rm 215

Washington, DC 20235

Information can be provided anonymously.

**Federal Government employees are protected from reprisal,
and anyone may have his or her identity held in confidence.**