

1105

**APPALACHIAN REGIONAL COMMISSION**

**INSPECTOR GENERAL'S**

**SEMIANNUAL REPORT**

**TO CONGRESS**

**APRIL 1 - SEPTEMBER 30, 2000**



December 6, 2000

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, 2000.

During this reporting period, 34 reports were issued, including 26 individual grant reviews, 2 advisory reports, 2 program reviews, and 4 J-1 Visa Waiver compliance reviews. At the end of the reporting period, 5 grant reviews and 2 special J-1 reports were in process. Recommendations in grant reviews were directed at improved progress and final reporting and continued emphasis on closing actions. During the reporting period, ARC management continued to emphasize timely followup and review of expired grants. This action resulted in management actions to close 284 projects and deobligate about \$1 million for 64 projects, which included \$373,000 applicable to grants noted in prior audit reports.

Grant reviews disclosed that projects were being implemented in accordance with program requirements and that grantees generally had satisfactory accounting systems and internal controls. Exceptions noted included insufficient documentation of costs and performance of work after the end of the grant period. Questioned costs of about \$137,000 and potential deobligations of about \$167,000 were identified for followup.


Two advisory reports updated the status of several projects with unresolved issues impacting project closing, implementation, or accomplishment of project objectives. The issues pertained to ineligible costs, employment of low- or moderate-income persons, availability of land, and creation/retention of jobs.

Programmatic reviews disclosed that ARC was complying with applicable regulations covering the procurement of goods and services, and officials agreed to improve the documentation with respect to justification of sole source purchases and receipt of goods. In conjunction with ARC staff, followup with Federal agencies administering ARC grants resulted in receipt of information necessary to close about 40 grants with deobligations approximating \$54,000.

Surveys of the J-1 Visa Waiver program in three states disclosed that tested physicians were generally practicing in accordance with program requirements as respects practice location and type of medical services provided. In one state, there appeared to be an excess number of J-1 physicians resulting in insufficient patient workload that necessitated physicians working at other than approved locations, and/or concentrating on services such as nursing home visits or hospital rounds.

During the reporting period, the IG continued as the designated IGs' representative on the Audit Committee of the President's Council on Integrity and Efficiency, addressed an audit forum, and remained active in an ongoing dialogue with GAO about auditor independence.

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

  
Hubert N. Sparks  
Inspector General

Enclosure

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## EXECUTIVE SUMMARY

During this reporting period, 34 reports were issued, including 26 individual grant reviews, 2 program reviews, 4 J-1 Visa Waiver compliance reviews, and 2 advisory reports. At the end of the reporting period, 5 grant reviews were in process. Recommendations in grant reviews were directed at improved reporting and eligibility of expenditures. During the reporting period, ARC management continued to emphasize timely followup and review of expired grants. This action resulted in management actions to close out 284 projects and deobligate about \$1 million from 64 projects during the reporting period. This included deobligation of \$373,000 pertaining to projects noted in prior audit reports.

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.

Grant reviews identified approximately \$137,000 in questioned costs and about \$167,000 in potential deobligations for use on other projects. Generally, projects were implemented in accordance with program requirements and grant agreements, with exceptions noted relating primarily to insufficient support for expenditures, expenditures after the end of the grant period, and lack of progress reports.

In coordination with an ARC initiative to close old ARC grants administered by other Federal agencies, we followed up with TVA regarding 66 open grants. As of the end of the reporting period, ARC had received information to facilitate the closing of about 40 of these grants with potential deobligations of about \$54,000. Followup action is continuing on the remaining open grants for which unused funds approximate \$2 million.

A review of the procurement of goods and services confirmed that ARC was generally following applicable regulations and guidelines; and action was initiated to address recommendations directed toward increased supporting documentation for some procurement actions, including justification for sole source purchases and receipt of goods.

Two advisory reports identifying the status of several projects were issued to assist ARC with decisions impacting project implementation, resolution of open issues, and future projects. These reports identified conditions related to ineligible costs, project delays, objectives not being met, and noncompliance with employment requirements of another funding agency.

Compliance visits in four states disclosed general compliance with J-1 Visa Waiver program requirements. However, in one state, we noted that, due to an apparent excess number of J-1 physicians, which contributed to low patient workloads, J-1 physicians were assigned part time to unapproved locations and/or were devoting substantial time to alternative services such as nursing home visits or hospital rounds.

During this period, the Inspector General continued to represent the Executive Council on Integrity and Efficiency on the Audit Committee of the President's Council on Integrity and Efficiency and made a presentation about designated OIG independence to the Mid-America Intergovernmental Audit Forum.

**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	*

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\* None.

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

## **I. INTRODUCTION**

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

## **II. BACKGROUND**

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

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

- Through joint planning and development of regional priorities, ARC funds are used to assist and encourage other public and private resources to address Appalachia's unique needs. Program direction and policy are established by the Commission (ARC Code) by the vote of a majority of the State members and the affirmative vote of the Federal Co-Chairman. Emphasis has been placed on highways, infrastructure development, business enterprise, and human resources programs.
- Administratively, the Office of the Federal Co-Chairman, with a staff of 11, and the Commission, with a staff of 48, are responsible for ARC operations. The States maintain an Office of States' Representative (3 persons) that has primarily liaison responsibilities. All personnel are located in Washington, DC. The Commission staff's administrative expenses, including salaries, are funded jointly by Federal and State funds; the States' Representative staff is funded entirely by the States; and the Federal Office staff is funded entirely from Federal funds.
- The Commission's appropriation for FY 2001 is \$77.4 million. ARC was fully reauthorized by Congress in FY 1999 for the first time since 1982. Also, about \$641 million was appropriated in FY 2001 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 which will be distributed among the states with unfinished ADHS segments includes about \$390 million for which ARC has allocation authority.



- 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 2001 is \$468,000. For FY 2000, approximately 29 percent will be expended for contract audit services; 57 percent, for salaries and benefits; 7 percent, for travel; and 7 percent, for all other activities (training, equipment, space, supplies, etc.).

Initial OIG operations included authorization for an Inspector General and a Confidential Assistant. A senior auditor was employed in the latter half of FY 1991; no additional staff have been employed. Grant review activities continue to emphasize use of contracted services (e.g., independent public accounting firms or other OIG offices) supplemented by programmatic and performance reviews directed by OIG staff. Investigative assistance is provided by other OIG offices on an as-needed basis. This approach has been deemed the most appropriate to date in view of the nature of ARC operations and limited resources. 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, 34 reports were issued, including 26 individual reviews, 2 program reviews, 4 J-1 Visa Waiver compliance reviews, and 2 advisory reports. At the end of the reporting period, 5 grant reviews and 2 special J-1 reviews 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, such as revisions of accounting systems and service agreements; strategic planning, including assessment of appropriate internal and external performance measures; and issuance of revised policies and procedures and guidance to grantees, are in line with OIG recommendations and executive and legislative initiatives to improve Government operations.

Grant reviews disclosed that projects were being implemented in accordance with program requirements and grant agreements. Emphasis was placed on testing the eligibility of expenditures, availability of matching contributions, and achievement of grant objectives. Exceptions were noted in isolated instances with respect to the continued expenditure of funds after the expiration of the grant period, revisions of budgets without obtaining required approval, travel claims, support for

expenditures, and purchases not included in budget. Questioned costs approximated \$137,000; and potential deobligations for use on other projects approximated \$167,000.

With respect to progress reports, the lack of these reports was noted in six instances; and the lack of ARC followup to obtain these reports indicates a need for ARC to reevaluate the purpose, timing, and extent of these reports and/or implement controls to ensure timely followup to obtain and review progress reports. We recognize that, in some cases, delayed project starts contribute to delayed reporting; but in such instances, timely followup could identify implementation problems and facilitate corrective action or assistance.

The OIG supported ARC's initiative to close ARC grants that were administered by other Federal agencies by initiating followup actions with agencies identified as reporting a substantial number of old open ARC grants to determine the cause of the condition and facilitate closing. The initial review resulted in administering agency action to review 66 identified grants with potential for closing and fund deobligations. As of the end of the reporting period, information necessary to support the closing of about 40 grants had been received by ARC. Approximately \$54,000 in deobligations were identified with the potential for additional deobligations with respect to the approximately \$2 million in unexpended funds available in the remaining old open grants.

In the area of project closeouts, ARC continued aggressive efforts to ensure timely followup and project closings; and during the reporting period, actions included 284 project closings with about \$1 million dollars in deobligations that can be utilized for additional projects. OIG followup indicated that actions included deobligations of about \$373,000 from 8 projects included in prior reports.

A programmatic review of ARC's purchases of goods and services disclosed that ARC was generally complying with applicable regulations and good business practice. Recommendations were made with respect to improved documentation of actions, including justification of sole source purchases and receipt of goods, identification of potential small and minority owned business services, and written procedures for goods and services. Management agreed to initiate actions consistent with the limited extent of ARC procurement activity and to re-emphasize internal controls applicable to procurement.

Two advisory reports identifying the status of projects were issued to assist ARC with decisions relative to project implementation, impact on future grants, and project completion. In one instance, the closing of a large infrastructure improvement project budgeted at about \$4 million, including \$1 million from CDBG and \$500,000 from ARC, was delayed pending resolution of issues with respect to grantee and subrecipient compliance with regulations and requirements. The grants were made to the Town of Bridgeport, Alabama, for use in infrastructure development to ensure a large industrial business located and built a plant in Bridgeport. As of our involvement, the work had been completed; but ARC funds had not been released pending resolution of issues primarily relating to the business not meeting HUD low- or moderate-income employment objectives, substantial costs identified as ineligible due to the absence of competitive bidding and the impact of this condition on overall eligible costs and matching contributions, and completion of an independent audit of the grantee organization. As of the end of the reporting period, there had not been resolution of the noted issues.

The second advisory report was initiated based on citizen concerns about the status of projects funded substantially with government grants and administered by a development authority in southwest Virginia. Our on-site visit and discussions identified a communications gap between project administrators and local populace that created tensions and resulted in public expressions of concern about project implementation. Also, in three of four cases, the projects had not achieved objectives with respect to creation and retention of jobs; and in one of the cases, there was also a substantial delay in project implementation due to the continuing unavailability of land to implement project plans for a high technology industrial park. Consequently, financial burdens on the administering development authority were increasing and the confidence of other local authorities could be negatively impacted. Recommendations were made with respect to closing of one project and followup on the other projects to assess the outcomes and viability of the grantee for future assistance.

During this period, we performed compliance surveys in connection with the J-1 Visa Waiver program in four 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. ARC acts as the interested Government agency within the Appalachian region, with waivers being approved by the US Department of State and the Immigration and Naturalization Service based on ARC recommendations.

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, in one state, we noted that J-1 physicians were working, at least part time, at locations not identified on sponsor applications and/or were performing substantial alternate-type service such as visits to nursing homes or making rounds at local hospitals rather than full-time service at the approved site. Also, in two cases, J-1 physicians were no longer employed due to a serious dispute with their former employer. We attributed this situation to the number of J-1 approvals, which resulted in limited patient caseloads at the approved practice locations. Interim recommendations were made with respect to identification of physician need, periodic followup to monitor compliance with program requirements, notification to employers and J-1 physicians to report changed conditions, and identification of eligible services.

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.

## **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 several additional inquiries are in process.

#### **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 2001 Annual Plan provides the operational details for OIG activities planned during FY 2001 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 2001 audit work includes about 40 individual grant audits in the Appalachian States; additional followup on grants with completed budget periods, grant extensions, and project results; and tests of the J-1 Visa Waiver program. Continued emphasis will be placed on audit followup and corrective action plans, including working with agency management to address open issues and achieve audit resolution and closure.

In order to maximize use of available resources directed at reviewing ARC activities, emphasis will continue to be placed on nonstandard reporting formats including memorandum, letter, and survey reports. Although such reporting formats reduce the time and resources necessary for review completion, the results and information included in such reports is based on evidence and supporting documentation consistent with generally accepted auditing standards.

#### **V. OIG HOTLINE**

A regionwide toll-free hotline was previously established to enable direct and confidential contact with the ARC OIG in line with governmental and longstanding OIG initiatives as identified in the IG Act of 1978 to afford opportunities for identification of areas subject to fraud, waste, or abuse. However, contacts with the ARC OIG relative to public complaints or concerns continue to be primarily received through ARC staff, on regular OIG phone lines, or from other OIG offices. During the reporting period, followup action was initiated on calls identifying concerns with actions by several grantees.



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

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

Primary efforts in this area continued to be related to potential legislative initiatives with respect to OIG operations. The ARC OIG continues to support legislation that would provide improved protections for IGs, including designated and career IGs, by consideration of alternatives such as removal for cause criteria and term limits. During the reporting period, additional legislation impacting IGs was resubmitted; 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 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.

During the reporting period, consideration continued to be 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 OIGs 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.

As of the end of the reporting period, it appeared that the Advisory Council and the GAO had become knowledgeable about and sensitized to the adverse impacts of the proposed report qualifications on designated OIGs. Although final recommendations for changes in the Government Auditing Standards have not been issued, it appears that revised language may recognize the independence and unique operational authorities of designated OIGs. Also, the Comptroller General publicly stated that a designated IG would be appointed to the Advisory Council on Auditing Standards. These actions, when implemented, will better ensure the continued operation of all OIGs in line with legislative mandates and intents.

SCHEDULE OF REPORTS ISSUED APRIL 1 TO SEPTEMBER 30, 2000

Report No.	Entity and Title	Program Dollars or Contract/Grant Amount	Questioned/Unsupported Costs*	Funds to Better Use**
00-6(H)	North Carolina Technical Assistance	\$ 1,220,797	\$ 4,271	\$ 108,324
00-7(H)	ARC Procurement	1,000,000		
00-9(H)	Tri-County Council	253,808	60,253	
00-11(H)	Three Rivers Land and Court Imaging	517,880		
00-25(H)	Virginia Department of Housing and Community Development	122,044		
00-27(H)	Casey County 911 Project	206,000		
00-30(H)	University of South Alabama—Learning Logic Program	160,000	27,434	
00-32(H)	Auburn University Youth Leadership Incubator	200,000	4,125	
00-34(H)	Georgia Technical Assistance	431,466		
00-35(H)	Off-Campus Learning Centers	210,596		
00-36(H)	School to Work Partnership Program	441,256		
00-37(H)	Challenger Learning Center	700,000		
00-38(H)	Enhanced Planning Project	240,000		
00-39(H)	West Virginia Department of Education—Workforce Training	250,000		
00-40(H)	Wood Technology Center	227,500	28,405	3,720
00-41(H)	Mountaineer Food Bank	186,008	12,183	
00-42(H)	J-1 Visa Waiver Program—Kentucky			
00-43(H)	University of Tennessee—Telecommunications Initiative	770,337		
00-44(H)	Welfare Parent Empowerment	180,200	534	
00-46(H)	Handmade in America Leadership Initiative	153,400		
00-47(H)	Greenville Community Health Center Program	200,000		
00-48(H)	South Carolina Upstate Information/Telecommunications	420,000		
00-49(H)	East Kentucky Women In Leadership	155,000		
00-50(H)	J-1 Visa Waiver Program—Tennessee			
00-51(H)	J-1 Visa Waiver Program—Pennsylvania (Interim)			
00-52(H)	TVA-Administered Grants	1,846,344		54,716
00-54(H)	J-1 Visa Waiver Program—New York			
00-55(H)	State University of New York Meat Processing Program	149,998		
00-56(H)	South Central New York R&CDP—Technical Assistance	148,500		
00-57(H)	Thompkins County Communications Project	95,000		
00-59(H)	Unicoi County High School Communication and Technology System	106,116		
00-60(H)	Economic Ventures—Training Program	100,000		
TOTALS		\$ 10,691,850	\$ 137,205	\$ 166,760

\* 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	15	3
B. Which were issued during the reporting period	<u>7</u>	<u>\$ 137</u>	<u>\$ 2</u>
Subtotals (A + B)	10	\$ 152	\$ 5
C. For which a management decision was made during the reporting period	4	-	-
(i) dollar value of disallowed costs	-	-	-
(ii) dollar value of costs not disallowed	4	19	3
D. For which no management decision has been made by the end of the reporting period	6	\$ 133	\$ 2
E. Reports for which no management decision was made within 6 months of issuance	-	-	-

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

	<u>No. of Reports</u>	<u>Dollar Value (\$ in thousands)</u>
A. For which no management decision was made by the commencement of the reporting period	1	\$ 1,124
B. Which were issued during the reporting period	<u>3</u>	<u>\$ 167</u>
Subtotals (A + B)	4	\$ 1,291
C. For which a management decision was made during the reporting period	1	\$ 993 <u>1/</u>
(i) dollar value of recommendations that were agreed to by management	1	\$ 373 <u>1/</u>
--based on proposed management action	1	\$ 373 <u>1/</u>
--based on proposed legislative action	-	-
(ii) dollar value of recommendations that were not agreed to by management	1	\$ 620 <u>2/</u>
D. For which no management decision has been made by the end of the reporting period	3	\$ 298 <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. 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:

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