
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

Review of ARC's Grant Administration Process

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Prepared by
Leon Snead & Company, P.C.

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**LEON SNEAD
& COMPANY, P.C.**

416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
fax: 301-738-8210
leonsnead.companypc@erols.com

*Certified Public Accountants
& Management Consultants*

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, N.W.
Washington, D.C. 20009

Leon Snead & Company, P.C. completed a review of the grant administration process of the Appalachian Regional Commission (ARC). The review was made at the request of the ARC, Office of Inspector General (OIG), to assist the office in its oversight of ARC's management systems and programs. Our primary objective was to assess the effectiveness of the ARC grant administration process and controls to ensure compliance with the agency's grant administration policies and procedures and the terms of the grant agreements. The fieldwork was conducted during the period January 23, 2013 through March 1, 2013.

Scope & Methodology

The review procedures were designed to emphasize project coordinator actions relating to the administering and monitoring of grants, starting from the application process through grant closure.

Sample selection emphasized grants administered by ARC and included grants with different funding levels, a variety of grant objectives, and different states. We reviewed 47 closed grant files. These grants were all ARC administered grants. The review covered the files of grants administered by nine different project coordinators. The sample was judgmentally selected by the ARC, OIG. Grants relating to Local Development Districts (LDD), Revolving Loan Funds (RLF), Basic Agency (construction), and ARC Co-Chair Committee grants were not included in the sample. In addition, ongoing ARC efforts to improve ARC Net as a management tool were discussed. We inquired about each project coordinator's usage and opinion of ARC Net.

Lastly, we interviewed seven current project coordinators to solicit their suggestions for improving the grant administration process. We asked them each a series of questions relating to the grant application process, monitoring and oversight of grantees, progress reports, high risk grantees, ARC Net, and whether they had any suggestions for improvements at ARC.

Criteria

The primary criteria used were:

- March 25, 2011 Memorandum from ARC Executive Director titled "Documentation and Administrative Requirements for ARC E-files"
- Grant Administration Manual - Frequently Asked Questions
- ARC Project Guidelines
- ARC Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments
- Grant Agreement Provisions

The review was conducted in accordance with generally accepted government auditing standards and the ARC criteria cited above.

Summary of Review

Our review indicated that ARC's grant administration process was generally in compliance with the agency's grant management guidelines. The grant application and approval process was working properly. Grant files were properly maintained by the grant coordinators. Oversight of grant recipients appeared sufficient to ensure compliance with grant agreements. However, there was a preference among grant coordinators to make more onsite visits to grant recipients which has been limited primarily due to funding constraints. Also, the grant closeout process was working properly. The review indicated that more management attention was needed in the areas of: (a) Progress reporting to reduce late submissions by the grant recipients, and (b) ARC Net to ensure that required data is recorded into the system. Details of these findings are presented in the following findings and recommendations section of the report.

Findings and Recommendations

Grant Application & Approval Process

We found the grant application and approval process to be working properly. Applications were generally submitted in accordance with the ARC Guide for Non-Construction Proposals checklist. We verified that the proposal narratives stated the purpose of the grant, project goals, costs associated with the project, and expected outcomes of the project. Also, we verified that an approved copy of Form 424, Application for Federal Assistance, was submitted with each proposal and that it provided for matching funds for the grant. Grant application amendments, as applicable, were reviewed along with the application. In addition, we verified that signed correspondence from the Governor or state Alternate was included in all but three files. The publication of the project announcement, approved project budget, and approval memo, signed and dated by all appropriate parties, were found in the grant files. However, we noted that some application and approval information was not being entered into ARC Net.

The overall consensus from the coordinators was that the grant application process is working well. We were informed that ARC has an internal deadline of May 31st for the states to allocate 75% of their annual grant funding. Despite the deadline, states are often late in submitting their grant applications. The majority of the grant applications end up being submitted in the fourth quarter each year. The coordinators informed us they balance their workload to allow more time for application review in the fourth quarter, in order to better assure that all applications will receive a thorough review.

It was noted by the coordinators that each of the 13 member states has its own process and timeline for processing grant applications. In addition, depending on when the federal government passes the annual budget, the states don't always know how much money will be available to them at the start of the fiscal year.

The coordinators noted that they remind the states of the application deadlines as often as possible. There was a suggestion to make the submission deadlines earlier in order to help reduce the amount of applications received in the fourth quarter. Also, some of the coordinators noted they try to obtain partially completed applications from the states, as they become available from prospective grantees, in order to begin the application review at ARC and stagger their workload. The coordinators will then complete the application when the official information is received from the states.

Grant Administration

Grant agreements and amendments were found to be on file with ARC, though we noted they were not always entered into ARC Net. We did not find any information regarding site visits, high risk grantees, or any special issues or concerns in the grant files, hardcopy or ARC Net.

We noted one problem while reviewing the grantees' progress reports and financial reports (SF-270, "Request for Advance or Reimbursement"). These reports were not being consistently submitted in accordance with the time frames listed in the grant agreements. Typically, the grant agreements and the March 25, 2011 Memorandum from ARC Executive Director titled "Documentation and Administrative Requirements for ARC E-files" (March 25, 2011 Director's memo) call for progress and financial reports to be submitted every 120 days (though some consolidated technical assistance grants are set up in the agreement for semi-annual reporting). When the reporting schedule deviated from the 120 day rule, we did not find consistent documentation in the grant files justifying or approving these changes. In addition, we noted some of these reports were not being entered into ARC Net.

Monitoring and Oversight of Grantees

Grantee monitoring begins when the grantee is awarded a grant. However, the process typically becomes most involved with the submission of the first progress report. The information in the narrative is compared to the application to ensure the grantee is executing the grant as intended. The financial reports (SF-270) are reviewed for accuracy and completeness. During the course of the grant, the coordinators monitor for issues such as a lack of spending or activity with the project. They look for grantees that are having continued issues completing the financial forms or the narrative, and are responsible for assuring that these reports are being submitted on time. Also, the coordinator can assist a grantee by helping to set up its accounting books or its accounting system.

Typical communications between coordinators and grantees are telephone calls and emails, with occasional site visits. A site visit could be for a grantee that is performing poorly or has been designated as a high-risk grantee. Conversely, a site visit could be made to a grantee that is performing exceptionally well, and the coordinator would like to learn from their success. In addition, site visits can be used to help determine potential new projects. Most coordinators noted they try to combine trips if possible to maximize the number of grantees they can visit. In addition, the ARC's Research Division conducts post-grant site visits to validate project results. Not all grantees receive this visit, as the Research Division works with the coordinators to determine which grantees or projects should be validated.

To document the findings and details of a site visit, at least one coordinator summarizes the results and uploads the information into ARC Net. This practice was not noted as being done by all the coordinators, but this may be due to the fact that coordinators conduct visits for different reasons, or that few site visits are conducted.

Most of the coordinators noted they would like to make more site visits, but all cited the limitations of time and money as the reasons they do not. It should be noted that all coordinators said if they really had a need to visit a grantee, then they would be able to do so.

Progress Reports

Progress reports are required for all ARC administered grants. They include a narrative describing the program itself and the SF-270, detailing the financial activity for the grant. These reports are due every 120 days per the grant agreements. Some coordinators said they should be due every four months instead of 120 days. Progress reports for consolidated technical assistance grants are supposed to be due on a semi-annual basis, though our testing and OIG testing found there are inconsistencies in the grant agreements that specify different due dates for the progress reports.

We noted that in some instances if a progress report is late, the next report will be due 120 days from the date the late report was entered and approved in ARC Net, as opposed to the original due date that was determined based on the start of the grant period. It appears this system function benefits those grantees that are late in submitting their reports by potentially decreasing the total progress reports due from the grantee over the course of the grant.

Our review of the ARC Grant Management Report, dated February 1, 2013, showed 63 late progress reports out of 391 total projects. These are the total projects being managed by the nine project coordinators. Also, some prior grant audit reports identified late submission of progress reports.

Grant Closeout

We found the grant closeout process was generally working properly. Project coordinators were consistent in initiating the closeout process. Grant closeouts were initiated after the applicable closeout documents (final progress reports and final financial reports) were received from the grantee. Grant files generally had documentation showing an evaluation of grantee performance as of the grant's closeout (program performance and a final program evaluation of some grants was not available as of their closeout dates). Grants were generally closed in a timely fashion and grant files (both hardcopy and ARC Net) were always annotated as closed. However, we noted that some of the closeout documentation was not being entered into ARC Net.

High Risk Grantees

Coordinators noted several characteristics of grantees that they would consider to be high risk. The most frequently noted characteristic is a grantee that lacks management systems to

adequately track its progress and finances. While many of these organizations tend to be small in size or inexperienced as a grantee, coordinators pay more attention to the competency of the individual staff members than the organization's size or experience. Other characteristics of high-risk grantees include those who have recently undergone a change in key personnel. Repeated actions of non-compliance with the grant agreement and outright fraud are clear high-risk indicators, though these rarely occur. These characteristics reflect the criteria defined in the March 25, 2011 Director's memorandum. However, records and discussions disclosed no grantees were identified as high-risk.

To reduce the risk posed by a high-risk grantee, coordinators noted they increase their level of involvement and contact with the grantee. This includes identifying potential problems at the outset of the grant, providing grantees with frequent reminders to ensure they meet their requirements and deadlines, and working with grantees to improve their grants management systems. Also, the coordinator can ask officials from the ARC state office or LDD officials to assist them with oversight as well.

ARC Net

Overall, project coordinators view the system favorably, noting that ARC Net enables them to administer grants more efficiently. One coordinator noted that it increases efficiency by 30%. The coordinators are anxious for the ARC Net 2.0 update to become active, and it was noted the system continues to get better over time as it evolves. The update is intended to make the system more flexible and customizable to the needs of each user, and will enable them to more easily assess their own performance and to identify grantees that require their attention. ARC Net 2.0 continues ARC's progression toward a paperless grants management process. In addition, both the grant approval process and the grant closeout process are automated processes in ARC Net.

ARC Net is intended to function as a grants management system. Coordinators upload their grant documents to the system, including email correspondence with grantees. In addition, ARC Net generates reminders for progress report due dates, allows coordinators to generate reports (both standard and custom), and serves as a central database for grantee information.

We did not discern a set pattern or set areas in ARC Net where information is uploaded. For example, emails go directly into the "Correspondence" tab, and sometimes reports or documents that were originally attached to an email are found under this tab as well. If this information is manually uploaded, it normally goes into the "Files" tab. The March 25, 2011 Director's memo mentioned that "it may be appropriate to subdivide the correspondence and files tab in ARC Net to accommodate documents pertaining to different aspects of a project's life cycle." Also, the "Closeout" tab did not contain all closeout documentation, it only contained the date when the grant was closed. In this situation, the documentation was usually located in the "Files" tab or the "Correspondence" tab. Overall, we did not see any continuity in regard to where documents were uploaded into ARC Net.

Recommendations

Emphasis should be placed on obtaining required reports and closeout information in a timely manner. When not received, follow-up action should be initiated to obtain needed information and reports.

Information should be entered into ARC Net timely and in accordance with ARC guidance.

Distribution

This report is intended for the information and use of the OIG and management of the ARC and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Leon Sneed & Company, P.C.
LEON SNEAD & COMPANY, P.C.
March 1, 2013

RESULTS OF REVIEW

Grant Application		Y	N	NA	Total
1	Was application submitted with the proper signature?	44	3	0	47
2	Was application entered into ARC.Net?	3	44	0	47
3	Was there correspondence signed by the Governor or the state Alternate?	44	3	0	47
4	Was this correspondence entered into ARC.Net?	2	45	0	47
5	Preapproval information included in the project file? As applicable	20	0	27	47
6	Was this correspondence entered into ARC.Net?	8	11	28	47
7	Was Federal Form 424 submitted with application?	47	0	0	47
8	Was Form 424 entered into ARC.Net?	1	46	0	47
9	Verify the application provides for matching funds requirements.	47	0	0	47
10	Check for Basic Agency requirements (construction contract).	0	0	47	47
11	Make sure file and ARC.net contain all application amendments.	19	1	27	47
12	Narrative stating the purpose of the project is in the application.	43	4	0	47
13	Verify the project goals are stated.	44	3	0	47
14	Verify the cost of the project is clearly stated.	46	1	0	47
15	Verify the expected outcomes are clearly stated.	42	5	0	47
16	Application submitted with checklist requirements? (Electronic and Hard Copy)	39	8	0	47
17	Timely input of information into ARC.Net?	0	47	0	47
Grant Approval					
1	Verify the publication of the project announcement.	47	0	0	47
2	Verify there is an approved project budget.	46	1	0	47
3	Was the approved project budget entered into ARC.net?	7	40	0	47
4	Verify the Approval Memo has been signed by the appropriate parties and dated.	47	0	0	47
Grant Administration					
1	Verify the file contains the approved grant agreement and amendments, as applicable.	45	2	0	47
2	Verify the grant agreement and amendments, as applicable, have been entered into ARC.Net.	17	30	0	47
3	Verify that the file contains the grantee contact.	47	0	0	47
4	Verify that a report has been generated for all site visits.	0	1	46	47
5	If there was a site visit, was it documented in ARC.net?	0	1	46	47
6	Inquire about visits to High Risk grantees if none have been done, as applicable.	0	0	47	47
7	Were there any special issues of concern? If so, were they resolved appropriately? (ex. Fraud, was it turned over to the IG?, etc.) (Should be tracked separately)	0	0	47	47
8	Were financial reports submitted in accordance with the grant requirements and properly reviewed?	46	1	0	47
9	Were the financial reports included in ARC.Net?	24	23	0	47
10	Were progress reports submitted in accordance with the grant requirements and properly reviewed?	39	8	0	47
11	Were the progress reports included in ARC.Net?	22	25	0	47
Grant Closeout					
1	Verify that the project coordinator initiated the closeout process.	47	0	0	47
2	Were applicable closeout documents received?	42	5	0	47
3	Was there an evaluation of grantee performance at closeout?	43	4	0	47
4	Was the grant closed out in a timely fashion?	38	9	0	47
5	Was the file properly annotated as closed?	47	0	0	47
6	Were appropriate closeout procedures followed?	41	6	0	47