



September 30, 2015

To: Federal Co-Chair
ARC Executive Director
ARC General Counsel
ARC Program Director

From: Hubert Sparks, Inspector General

Subject: Report 15-37, Open HUD Administered Grants Needing De-Obligation

Repeated attempts by ARC Program staff and OIG to obtain HUD cooperation and action to close grants and de-obligate funds for use on other needed projects in Appalachia remains unsuccessful. Several OIG reports have identified this condition and although incremental progress has resulted in some closings and de-obligations there remains \$427,705 in funds available for 14 grants included in prior reports. An additional six grants with balances of \$184,461 that should be addressed to determine closing and de-obligation potential are also noted.

HUD, based on a 1975 Memorandum of Understanding with the Appalachian Regional Commission (ARC) is responsible for administering construction related grants initially approved by ARC and keeping ARC informed of project status, including grant closings and available de-obligations.

ARC records, including payment documentation and progress reports identified projects that have been completed or will not be constructed and the amount of funds that can be de-obligated. HUD confirmation of this information is necessary before available funds can be used for additional grants/projects.

Follow-up on Report 15-16, March 30, 2015 disclosed that the 14 grants identified for needed de-obligations remained open and close out information had not been received from HUD. These cases with available balances had been included in multiple prior OIG reports and are noted in table A.

Table B identifies comments provided by HUD field staff that reflects project status, including completed projects and projects not to be implemented.

Various reasons have been provided by HUD staff over several years with respect to difficulties in providing ARC information to address the open grants. The process necessary to de-obligate funds was noted as complicated with necessary involvement of HUD

Washington, State Representatives and HUD Finance Office in Texas and recently difficulties with HUD grant management system were noted as preventing obtaining necessary information.

We recognize some constraints, including the ARC grants being a very minor part of HUDs grant inventory. However, we do not agree with the lengthy time frames noted with respect to facilitating grant closing and availability of funds for additional projects in Appalachia.

An old (1991) HUD issuance on management of ARC grants notes that HUD Director, Office of Finance and Accounting has responsibilities for recapturing ARC funds from the field for cancelled projects and returns to ARC and periodically reports to ARC approved projects, contracts executed, changes in project costs, cancellations and disbursements. Although HUD responsibilities may now rest with another office we concur with the concept of assigning responsibilities with respect to ARC grants.

We also reported a need to update the 1975 MOU between ARC and HUD and such action should be beneficial in addressing current conditions and issues addressed in this and prior OIG reports.

As noted, table C identifies six additional with limited recent activity or small balances for which follow-up is recommended to determine project status and potential de-obligations with respect to balances totaling \$184,461.

Due to difficulty in timely resolution of this long standing condition we recommend ARC elevate the issue to the HUD Chief Financial Officer and jointly establish policies and procedures, including an updated Memorandum of Understanding to better preclude reported difficulties.