



**Older Open Basic (Child) Agency Grants  
OIG Report 17-03**

**January 11, 2017**

Open Older Basic (Child) Agency Grants  
As of December 31, 2016

OIG Report 17-03

Summary

This report updates Report 16-13, dated March 31, 2016 and highlights Basic Agency Grants for which no ARC disbursements were made for grants approved prior to October 1, 2014. The review was performed in accordance with the OIG Quality Standards for Inspections and Evaluations.

Continued emphasis on older grants with no reported expenditures or small balances, including ARC guidance with respect to revising or revoking projects not started within 18 months of grant approval, timely receipt of Basic Agency Monitoring Reports (BAMR), formal revision of the 18 month guidance and expired end dates is recommended.

48 grants approved prior to October 1, 2014 with limited or no activity and no ARC payments and balances totaling \$15,354,254 are noted for additional ARC follow-up. This includes 31 grants identified as priority for follow-up based on the absence of Basic Agency Monitoring Reports (BAMR) in 17 cases or BAMRs that highlight conditions restricting project implementation.

Background and Scope

ARC uses other agencies such as USDA Rural Development, HUD and EPA (Basic Agency) to administer construction related projects. The Basic Agency is responsible for monitoring and reporting on project implementation. Basic Agency is used as terminology although the official terminology for use of other agencies by ARC is Child Agency.

The ARC grant management system and the annual Basic Agency Monitoring Report (BAMR) are primary management tools for identifying the status of grants administered by Basic Agencies and necessary ARC follow-up. These information sources were used to identify grants with no disbursements at least 24 months subsequent to ARC grant approval as a basis for additional ARC follow-up with respect to grant status and necessary action. In some cases available information identified project progress, such as start of construction, despite no request for ARC disbursements.

Although the ARC guidance provides that the Commission, based on a State request, can revise or revoke grant approval if the work intended is not underway within 18 months of grant approval we used 24 months as a reasonable follow-up period. We also recognized that various factors, including delayed Basic Agency approvals or obligations, can delay project implementation.

## Results

The report emphasizes issues and examples in Tables A to F to support recommendations related to older grants including follow-up to identify potential de-obligations and use of unliquidated obligations for other needed projects in Appalachia. Although long term retention of unused obligations can provide a safe haven for grantees against future funding limitations the availability of these funds for other purposes also has merit.

Priority follow-up is emphasized for grants without BAMRs, grants where BAMRs indicate the design phase over a multiple number of years, grants where BAMRs identify specific problems delaying construction, grants where estimated completion dates have passed and grants approved four years prior to October 1, 2016.

We recognize difficulties involving various factors such as land rights, environmental issues, matching funding and Basic Agency obligations can impact construction time frames and a recommendation partially addressing these conditions is included in this report.

Follow-up on the 59 grants identified in prior report 16-13. Disclosed payments in 7 cases and one de-obligation of \$40,779.

Tables A thru F summarize results and include breakouts for the 48 identified grants, and grants approved at least four years since grant approval, grants without BAMRs, grants with expired end dates, grants with smaller or inactive balances, grants with Basic Agency obligation dates significantly after ARC approval and grants included in prior audit 16-31. Some grants in Table A are repeated in Tables B thru F.

Table A identifies 48 grants with no ARC payments or reported expenditures of other available funds for additional follow-up. This includes 27 grants administered by RD with value totaling \$10,485,672, 11 grants administered by HUD with values of \$1,964,918, 6 grants applicable to TVA with values of 1,818,664 and 4 EDA administered grants with values of 1,085,000. The unexpended balances and obligations totaled \$15,354,254. 40 of the 48 grants were included in Report 16-13.

Some examples of comments in available BAMRs include:

- Design phase started noted in several BAMRs. GA-16793, GA-17266, TN-16657, TN-17166, VA-16720 AND WV-15391.
- MD-17542 – Approved 8/23/13 - \$185,000, BAMR 1/29/16, plans and specs not submitted yet.
- NY-17290 – Approved 6/22/12 - \$150,000, BAMR 11/21/16, No activity, waiting on full RD application to proceed.

- NY-17520 – Approved 2/9/13 - \$149,988, BAMR 12/31/15, No activity, waiting on RD application to proceed.
- TN-17166 approved 9/21/11, \$135,000, 1/27/16 BAMR - transferred from RD to EDA estimated construction completion 7/15/15.
- TN-17319 – Approved 7/17/12 - \$500,000, BAMR 2/12/15, Applicant refuses to move forward until they have exact amount of new water users under contract (60) and only have roughly 30 at this time.
- VA-15703 – Approved 9/21/07 - \$400,000, BAMR 11/10/16, Project not started.
- VA-16720 Approved 9/24/10, BAMR 11/10/16 – project not started and overbid previously.
- WV-15391 – Approved 9/21/07 - \$1,000,000, BAMR 6/18/16, In process of updating application, no application as of 1/13/15.
- WV-17656 – Approved 9/3/13 - \$1,500,000, BAMR 12/5/16 – nearing authorization to bid.

Table B breaks out 19 grants from table A that have no ARC payments and limited or no reported activity four to ten years after ARC approval. The balances of these grants total \$5,663,918.

Table C identifies 17 of 48 cases with value of \$4,691,918 where no BAMR was available, including 9 of 11 grants administered by HUD. ARC previously initiated the annual Basic Agency Monitoring Reports (BAMR) that provided Basic Agency information on the status of grants administered by the Basic Agency. The report is the primary ARC control for identifying grant status and the absence of BAMR reports significantly reduces the value of this control.

The absence of updated MOUs with Basic Agencies that includes agreement with respect to the BAMR is considered one cause of the absence of BAMRs. Previous recommendations to update the MOUs with Basic Agencies have not been implemented in some cases.

Table D identifies 9 grants with expired end dates and balances of \$3,635,000 that would be at risk based on ARC guidelines that expenditures after the grant period are ineligible. This issue also highlights the need for ARC approval of grantee requests and supporting justification prior to extension of performance periods.

Table E identifies 9 grants with smaller or inactive balances totaling \$305,694 for follow-up. This includes grant MD-15917 with a balance of \$108,759 and a 2013 BAMR notes project is completed.

Table F identifies 19 significant differences between dates of ARC approvals and Basic Agency obligations and is presented to support our recommendation that the control period for start of construction related grants should be the date basic agencies obligate funds to grantees. The difference ranged from 5 to 30 months. ARC previously agreed with a recommendation to use the Basic Agency obligation as the start date for ARC guidelines with respect to projects not started within 18 months of project approval.

State implementation of the 18 month guideline has been limited and although we concur that periodic follow-up and initiation action on inactive or delayed projects is appropriate the use of 18 months from approval with respect to construction projects may be impractical for major construction projects. Various factors such as delayed Basic Agency project approval and/or obligations, and difficulties with respect to land rights, environmental issues or matching funds can contribute to project delays. A revised period such as 24 months after Basic Agency obligation could result in increased State attention and follow-up to identify construction grants needing revisions or revocation.

Although specific identification of grants is not included in this report a review of ARC.Net identified numerous Basic Agency grants with zero balance that appeared subject to closing.

#### Recommendations

- Follow-up actions with respect to grants noted without any ARC disbursements should be continued with emphasis on grants approved many years previous for which limited activity, continuing implementation issues, and no project expenditures were reported.
- Expired performance dates should be addressed based on grantee requests and support for needed extensions.
- The need for timely BAMRs should be emphasized to Basic Agencies in updated MOUs.
- Revise ARC guidance with respect to possible actions on inactive grants and emphasize implementation of policy with respect to project startup.

#### Agency Comments

ARC agreed with the recommendations and comments are included as Appendix A.

Table A

Open Basic Agency Grants Approved Prior to  
October 1, 2014 with no Reported ARC Disbursements

Agency	Grant No.	ARC approval	Basic agency		ARC funds	End date	BAMR comments
			obligation				
HUD	KY-17861	7/21/2014	10/1/2014		\$500,000.00	6/30/2016	ER needed 1/2/3
	MD-17816	8/14/2014			\$150,000.00	12/31/2014	No BAMR 1/2/
	NY-16270	9/9/2009	10/31/2010		\$144,918.00		No BAMR 1/
	OH-17752	2/28/2014	7/31/2014		\$250,000.00	6/1/2015	No BAMR 1/2/3
	PA-15612	9/21/2007	12/3/2007		\$145,000.00		No BAMR 1/3
	PA-16868	3/3/2011	9/30/2012		\$100,000.00		Design phase 1/3
	PA-16979	8/1/2011	1/31/2012		\$200,000.00		No BAMR 1/3
	PA-17254	6/22/2012			\$100,000.00		No BAMR 1/3
	PA-17660	9/12/2013	7/31/2015		\$150,000.00		No BAMR 1/3
	PA-17661	9/4/2013	7/31/2015		\$125,000.00		No BAMR 1/3
PA-17812	8/4/2014	4/30/2015		\$100,000.00	6/30/2016	No BAMR 1/2/3	
EDA	GA-17933	9/17/2014	9/30/2014		\$300,000.00	6/30/2017	No BAMR 3/
	NY-17685	9/12/2013	6/30/2014		\$150,000.00		No BAMR 1/
	TN-17166	9/21/2011	6/1/2011		\$135,000.00	7/15/2015	Transferred from RD 1/2/3
	SC-17689	9/23/2013	9/30/2013		\$500,000.00	4/27/2017	Construction started
RD	GA-17266	9/26/2012			\$300,000.00	9/11/2017	Design started 1/
	GA-17584	8/23/2013	2/2/2014		\$93,933.00	1/11/2018	Design phase 1/2/3
	GA-17590	9/18/2013	7/8/2014		\$125,000.00	7/15/2017	Design phase 1/
	GA-17618	8/23/2013	9/28/2013		\$300,000.00	9/30/2017	Delayed 1/3
	GA-17671	9/26/2013	7/18/2014		\$225,750.00	3/30/2017	Bids opened 12/1/15 design phase 1/
	MD-17116 C-1	8/15/2013	7/30/2014		\$200,000.00	12/31/2016	Need state approval 1/2
	MD-17383	8/28/2012	9/30/2012		\$275,000.00		ER not approved 1/3
	MD-17542	9/3/2013	1/31/2015		\$185,000.00	5/31/2017	Plans needed 1/
	NC-16996	9/17/2012	4/22/2013		\$300,000.00	6/30/2016	Construction started Est. Compl. 1/30/16 2/3

Agency	Grant No.	ARC approval	Basic agency obligation	ARC funds	End date	BAMR comments
RD	NY-17290	6/22/2012		\$150,000.00	7/11/2018	No RD application 1/3
	NY-17520	7/19/2013		\$149,989.00	5/31/2018	No RD application 1/3
	NY-17743	9/15/2014		\$200,000.00	7/20/2017	No RD application 1/3
	OH-17747	2/28/2014	3/31/2014	\$250,000.00	5/31/2015	No BAMR 1/2/3
	OH-17524	6/3/2013	6/30/2013	\$237,000.00		No BAMR 1/3
	OH-17880	8/7/2014	8/31/2014	\$250,000.00	6/1/2015	No BAMR 1/2/3
	OH-17950	9/25/2014	9/30/2014	\$250,000.00	9/30/2017	No BAMR 1/3
	TN-16038	9/8/2008		\$500,000.00	9/30/2017	ER review 1/2/
	TN-16660 C-1	9/29/2014	9/30/2014	\$450,000.00	8/1/2017	plans needed 1/3
	TN-17319	7/17/2012		\$500,000.00	9/5/2017	Needs water users 1/3
	TN-17379	9/6/2012	9/8/2015	\$404,000.00	7/2/2017	Need land 1/
	TN-17907	9/4/2014	9/25/2014	\$250,000.00	7/1/2017	Matching needed 1/
	VA-15703	9/21/2007	9/26/2007	\$400,000.00	9/30/2017	Not started 1/3
	VA-16720	9/24/2010	3/19/2012	\$100,000.00	9/30/2017	Design phase/ over bid 1/
WV-15391	8/29/2006	8/31/2006	\$1,000,000.00	11/24/2017	Updating application 1/3	
WV-17656	9/3/2013	5/22/2015	\$1,500,000.00	4/1/2017	Design phase 1/3	
WV-17918	9/30/2014	9/30/2014	\$390,000.00	9/30/2017	No BAMR 1/3	
WV-17972	9/25/2014	9/30/2014	\$1,500,000.00	4/30/2016	No BAMR 1/2/3	
TVA	GA-16793	9/18/2010		\$245,000.00	12/12/2016	Need close-out & deobligation
	GA-17305	9/24/2012		\$300,000.00	3/1/2017	Water/sewer delay 1/3
	MS-17625	11/5/2013		\$252,800.00	3/15/2017	Construction started 2/
	NC-17722	2/10/2014	4/30/2014	\$220,864.00	6/1/2017	Need land rights 2/3
	NC-17728	3/5/2014	4/30/2014	\$300,000.00	4/30/2018	Need easement 1/
	TN-16657	9/30/2010	7/31/2015	\$500,000.00	5/1/2018	Need plan approval 1/

48  
\$15,354,254.00

- 1/In prior report
- 2/End date expired
- 3/Considered for priority follow-up

Table B

Open Basic Agency Grants Without any Reported Payments  
over 4 Years Since ARC Approval

This includes no Payments from any Agency per BAMRs when Available

<u>Agency</u>	<u>Grant No</u>	<u>ARC approval</u>	<u>Basic agency obligation</u>	<u>ARC funds</u>	<u>End date</u>	<u>BAMR comments</u>
HUD	NY-16270	9/9/2009	10/31/2010	\$144,918.00		No BAMR
	PA-15612	9/21/2007	12/30/2007	\$145,000.00		No BAMR
	PA-16868	3/3/2011	9/30/2012	\$100,000.00		Design phase/est. compl 1/1/16
	PA-16979	8/11/2011	1/31/2012	\$200,000.00		No BAMR
	PA-17254	6/22/2012		\$100,000.00		No BAMR
RD	GA-17266	9/26/2012	9/30/2012	\$300,000.00	12/31/2016	In design phase multiple years
	MD-17383	8/28/2012	9/30/2012	\$275,000.00		ER not approved
	NC-16996	9/17/2012	4/23/2013	\$300,000.00	6/30/2016	Const tarted/est. comp. 6/30/16
	NY-17290	6/22/2012		\$150,000.00	7/1/2018	No RD application
	TN-16038	9/8/2008		\$500,000.00	9/30/2017	ER review
	TN-17319	7/7/2012		\$500,000.00	9/5/2017	Need water users/est. compl 9/1/16
	TN-17379	9/6/2012	9/8/2015	\$404,000.00	7/2/2017	Need land
	VA-15703	9/21/2007	9/26/2007	\$400,000.00	9/30/2017	Overbid
	VA-16720	9/24/2010	3/9/2012	\$100,000.00	9/30/2017	Overbid
	WV-15391	8/29/2006	8/31/2006	\$1,000,000.00	11/24/2017	Updating application
TVA	GA-16793	9/18/2010		\$245,000.00	12/12/2016	Need to start by spring 2016
	GA-17305	9/24/2012		\$300,000.00	3/1/2017	Water/sewer delay
	TN-16657	9/30/2010	7/31/2015	\$500,000.00	5/1/2018	Need plan approval
	<u>19</u>			<u>\$5,663,918.00</u>		

Table C

Grants with no Payment and no BAMRs

<u>Agency</u>	<u>Grant No.</u>	<u>Grant approval</u>	<u>ARC funds</u>
HUD	MD-17816	8/14/2014	\$150,000.00
	NV-16270	9/9/2009	\$144,918.00
	OH-17752	2/28/2014	\$250,000.00
	PA-15612	9/21/2007	\$145,000.00
	PA-16979	8/1/2011	\$200,000.00
	PA-17254	6/22/2012	\$100,000.00
	PA-17660	9/12/2013	\$150,000.00
	PA-17661	9/4/2013	\$125,000.00
	PA-17812	8/4/2014	\$100,000.00
	EDA	NV-17685	9/12/2013
GA-17933		9/17/2014	\$300,000.00
RD	OH-17524	6/3/2013	\$237,000.00
	OH-17747	2/28/2014	\$250,000.00
	OH-17880	8/7/2014	\$250,000.00
	OH-17950	9/24/2014	\$250,000.00
	WV-17918	9/30/2014	\$390,000.00
	WV-17972	9/25/2014	\$1,500,000.00
	<u>17</u>		<u>\$4,691,918.00</u>

Table D

## Grants with Expired End Dates and and no Payments as of December 31, 2016

<u>Agency</u>	<u>Grant No</u>	<u>End Date</u>	<u>100 % balance</u>	<u>Months</u> <u>since end</u>	<u>date</u>
HUD	KY-17861	6/30/2016	\$500,000.00	6	1/
	MD-17816	12/31/2014	\$150,000.00	9	1/
	OH-17752	6/1/2015	\$250,000.00	16	1/
	PA-17812	6/30/2016	\$100,000.00	3	1/
RD	NC-16996	6/30/2016	\$300,000.00	6	
	MD-17116 C-1	12/31/2016	\$200,000.00	1	1/
	OH-17747	5/31/2015	\$250,000.00	16	1/
	OH-17880	6/1/2015	\$250,000.00	16	1/
	WV-17972	4/30/2016	\$1,500,000.00	5	1/
EDA	TN-17166	7/15/2015	<u>\$135,000.00</u>	16	1/
	<u>7</u>		<u>\$3,635,000.00</u>		

1/ In prior report 16-13

Table E

Basic Agency Open Grants with Smaller or Inactive Balances

Grant No.	ARC approval	ARC funds	Last Payment		Balance	BAMR
			\$	Date		
<b>HUD</b>						
AL-17472	12/19/2012	\$200,000.00	\$6,121.00	10/31/2013	\$15,602.00	No BAMR 1/
KV-17482	2/7/2013	\$500,000.00	\$38,434.00	8/31/2015	\$4,248.00	Extended to 6/16 1/
KV-17792	5/2/2014	\$298,024.00	\$758.00	5/31/2015	\$3.00	No BAMR 1/
MD-15917	4/22/2008	\$750,000.00	\$378,805.00	4/30/2013	\$108,759.00	Completed project 1/2
OH-16258	9/28/2009	\$185,520.00	\$181,988.00	9/30/2015	\$3,532.00	No recent BAMR 1/
OH-16371	8/5/2009	\$136,800.00	(\$24,275.00)	9/30/2015	\$300.00	Completed project 1/
OH-16935	5/4/2011	\$250,000.00	\$13,637.00	8/31/2013	\$1,000.00	Completed project 1/
OH-17543	7/15/2013	\$250,000.00	\$60,696.00	12/31/2014	\$7,115.00	Completed project 1/
<b>TVA</b>						
GA-17306	7/11/2012	\$171,000.00	\$5,862.00	8/31/2013	\$165,137.00	Design phase 1/
<u>9</u>					<u>\$305,696.00</u>	

1/In prior report 16-13

2/BAMR 2013 BAMR notes grant MD-15917 with balance of \$108,759 is completed.

Table F

Grants with no Payment and Basic Agency Obligations at Least  
4 months after ARC Approval

Agency	Grant No.	ARC approval	Basic agency		ARC funds	Months difference
			approval			
HUD	NV-16270	9/9/2009	10/31/2010	\$144,918.00	13	
	OH-17752	2/28/2014	7/31/2014	\$250,000.00	5	
	PA-16868	3/3/2011	9/30/2012	\$100,000.00	18	
	PA-16979	8/1/2011	11/31/12	\$200,000.00	6	
	PA-17660	9/12/2013	7/31/2015	\$150,000.00	22	
	PA-17661	9/4/2013	7/31/2015	\$125,000.00	22	
	PA-17812	8/4/2014	4/30/2015	\$100,000.00	16	
EDA	NV-17685	9/12/2013	6/30/2014	\$150,000.00	9	
RD	GA-17584	8/23/2013	9/30/2013	\$93,933.00	10	
	GA-17590	9/18/2013	9/30/2013	\$125,000.00	10	
	GA-17671	9/26/2013	11/30/2013	\$225,750.00	10	
	MD-17116 C1	8/15/2013	7/30/2014	\$200,000.00	11	
	MD-17542	9/3/2013	1/31/2015	\$185,000.00	17	
	NC-16996	9/17/2012	4/22/2013	\$300,000.00		
	NV-17686	9/23/2013	3/31/2014	\$150,000.00	6	
	TN-17379	9/6/2012	9/30/2012	\$404,500.00	35	
	VA-16720	9/24/2010	3/9/2012	\$100,000.00	18	
	WV-17656	9/3/2013	5/22/2015	\$1,500,000.00	21	
TVA	TN-16657	9/30/2010	7/3/2015	\$500,000.00	10	
	<u>19</u>			<u>\$5,004,101.00</u>		



MEMORANDUM

January 5, 2017

To: Hubert Sparks  
Inspector General

Through: Charles Howard  
General Counsel

From: Nancy Eyl  
Assistant General Counsel

Subject: 17-03, *Open Older Basic (Child) Agency Grants*

Thank you for the opportunity to review and respond to OIG report 17-03, *Open Older Basic (Child) Agency Grants*. The Appalachian Regional Commission (ARC) recognizes that even the most well run programs benefit from independent and objective evaluations. We appreciate your work in planning and conducting this review as we continue to enhance our programs.

We agree with all four recommendations and offer the following comments for your consideration in finalizing the report.

**Recommendation 1:** Follow-up actions with respect to grants noted without any ARC disbursements should be continued with emphasis on grants approved many years previous for which limited activity and no project expenditures were reported.

**Response:** Concur. Even though ARC does not manage grant oversight tasks on grants managed by a basic agency, including making disbursements, we agree that follow-up actions should occur.

ARC has been working steadily to improve communication and coordinate with basic agencies. Initiatives include basic agency reporting requirements and email reminders. ARC also increasingly routes basic agency projects through state agencies. Partnering with state agencies, rather than federal basic agencies, allows ARC to maintain more oversight over its grant funds. As of today, registered state basic agencies (RSBA) are authorized to administer ARC grants in nearly all the states of the Region.

**Recommendation 2:** Expired performance dates should be addressed based on grantee requests and support for needed extensions.

**Response:** Concur. If a grantee needs more time to complete a project managed by a basic agency, OMB and ARC offer guidance on how to request an extension. Specifically, OMB regulations at 2 C.F.R. § 200.308(d)(2) authorize federal agencies to extend the period of performance by up to 12 months. The recipient must notify the federal awarding agency in writing with the supporting reasons

and revised period of performance at least 10 calendar days before the end of the period of performance specified in the grant.

ARC authorizes basic agencies to grant limited time extensions to the grant performance period without requiring ARC review or permission. When a basic agency amends the project's performance period, the agency is requested to enter the new end date in the BAMR. ARCnet keeps track of all original end dates as well as any amendments.

**Recommendation 3:** The need for timely BAMRs should be emphasized to Basic Agencies in updated MOUs.

**Response:** Concur. ARC recognizes the important role that BAMRs play in increasing oversight over grants. ARC has initiated follow-up action to remind basic agencies about their responsibilities with respect to BAMRs. Starting in January 2017, ARC's electronic system will send quarterly, automatic email messages to basic agencies about expired end dates. In light of this recommendation, we will revise the message to also address the requirement to submit annual BAMRs. We hope that these messages will remind basic agencies about the importance of keeping all information on the BAMR up-to-date.

In addition, ARC has been working steadily on updating MOUs with federal basic agencies. This year ARC and the U.S. Economic Development Agency (EDA) signed an updated MOU. We have been revising the MOU with the U.S. Department of Agriculture Rural Development (RD) and plan to sign it early next year. In addition, as mentioned, ARC has signed MOUs with most states in the Region that allow state basic agencies to administer ARC grants. These MOUs will emphasize the need to provide timely BAMRs.

**Recommendation 4:** Revise ARC guidance with respect to possible actions on inactive grants and emphasize implementation of policy with respect to project startup.

**Response:** Concur. We understand that the OIG believes that 18 months is an "impractical" time period after which a State may request to revoke grant approval based on inaction. The OIG believes that 24 months would allow a more "reasonable" period. We agree and will consider changing our policy.

We also understand that the OIG recommends the control period for the start of construction-related projects should be the date the basic agencies obligate funds to grantees. Currently, this is ARC policy with respect to grants administered by federal basic agencies. The start date for ARC grants administered by a federal basic agency is the date that agency obligates funds. The start date for ARC grants administered by a state basic agency, however, is the date on the SF424. This is because state basic agencies do not obligate funds the way federal basic agencies do.

Again, thank you for the opportunity to review and comment on this draft report. We look forward to working with you in the future.