



May 24, 2017

To: Federal Co-Chair
ARC Executive Director
ARC General Counsel
Director, Division Community Investment

From: Hubert Sparks, Inspector General

Subject: OIG Report 17-14, Applications, Approvals and Obligations

Summary

A review of FY 2016 area development applications, approvals and obligations identified the continued pattern of a large majority of fiscal year approvals and obligations being made in the last quarter of the fiscal year. Although the majority of States submit applications within ARC guidelines 66 percent of regular Area Development (AD) approvals were made in the last quarter including 40 percent in September resulting in 76 percent, or \$36.6 million of FY 2016 AD allocations being approved in the last quarter including \$21.8 million or 45 percent in September 2016. A contributing factor is late application submissions that involve large requested funds.

Background and Scope

ARC guidance issued March 2011 advanced the application deadline for 75 percent of grant proposals from June 30 to May 31. The change was intended to accomplish several objectives, these included: 1) help level out the project load to be more manageable, 2) give states more time to develop and submit backup projects if problems arise with original lists, and 3) increase the likelihood of construction projects being obligated within the fiscal year.

The review emphasized area development (AD) direct project applications and approvals that included regular AD allocations, distressed county allocations and State technical assistance grants. Grants related to regional priorities including the Southern/South Central Appalachia Workforce Training and the POWER program were not included in the review. Also, the 73 local development (LDD) grants were eliminated since these are repetitive annual grants primarily for LDD staff salaries and are administered by a different unit at ARC.

The review was conducted in accordance with the inspection and evaluation quality standards.

Results

Table A identifies the pattern of State AD applications submitted in FY 2016.

Table B identifies that 76 percent or \$36.6 million of FY 2016 AD allocations were approved in the last quarter of FY 2016, including \$21.8 million or 45 percent in September 2016. The finding results were based on the overall application approval pattern of 66 percent of grant approvals being made in the last quarter.

This pattern of approvals and resulting obligations creates an unbalanced staff workload, including limiting time for review of applications and supporting information, and increases unobligated funds.

The overall pattern is skewed by several States submitting applications with large requested funds late in the fiscal year and/or lack of applications resulting in unobligated balances.

Of particular significance is AD applications from one State that are generally very late in the fiscal year. For FY 2016 the State forwarded one application for the State technical assistance grant of \$350,000 in September resulting in a balance of \$4,020,000 for the FY 2016 State AD allocations as of September 30, 2016. We recognize that the State forwarded 9 AD applications for prior year allocations early in FY 2017 and recommend the FY 2017 allocations be addressed in a timely manner.

ARC Staff and State Officials involved with grant applications have generally agreed that more timely submission of applications would improve the grant approval process.

Prior contacts with ARC State Alternates and Program Managers identified several factors impacting submission of grant applications. These include finalization of available ARC funding, availability of additional needed funding, including required match, large number of pre-applications and applications needing reviews, differences between ARC and State budget years, Governors review process and retaining ARC allocations in case needed projects are identified near the end of the year.

Several states start the pre-application process early in the fiscal year which results in more timely submission of applications and approvals. Also, State Annual Strategy Statements that are due December 15 and according to the ARC Code shall describe the areas of emphasis for the use of ARC funds during the coming year could be a useful document for identifying project priorities and submission of applications in a more timely manner.

Although ARC approves applications in a timely manner the overall process, including the current May 31 guideline for submitting 75 percent of applications, does not significantly address an approval process that better assures a more balanced distribution of applications, approvals and obligations.

We concluded that the overall application and approval process could be improved by providing for earlier submission of State initiated project applications that would allow for earlier FY approvals and significantly reduce year end approvals, obligations, unobligated funds and provide for a more balanced annual workload and by emphasizing the importance of timely applications. Thus, we recommend;

- Emphasize timely submission of applications to better balance ARC workload and reduce extensive year end approvals, obligations and unobligated funds.
- Consider advancing the deadline for 75% of applications to March 31 unless extensions are justified and limiting approvals in the current year for applications received after August 30.

Agency Comments

We concur with the objectives of the recommendations and will consider additional actions to address the issues raised.

cc: Assistant General Counsel

Table A

Applications - FY 2016
(Excludes LDD's and POWER, and Regional Priority Grants)

State	Totals	10/1/15- 6/30/16	Jul-16	Aug-16	Sep-16	Total last quarter	% in last quarter	% Sept. 2016
AL	39	39	0	0	0	0	0	0
GA	18	13	2	1	2	5	28	7
KY	27	6	7	14	0	21	78	0
MD	13	9	1	1	2	4	31	15
MS	36	31	1	3	1	5	14	3
NC	44	32	0	1	11	12	27	25
NY	12	5	6	0	1	7	58	8
OH	22	10	3	6	3	12	55	14
PA	26	21	0	1	4	5	19	15
SC	15	15	0	0	0		0	0
TN	28	2	21	1	4	26	93	14
VA	13	5	6	0	2	8	62	15
WV	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>100</u>	<u>100</u>
Total	<u>294</u>	<u>188</u>	<u>47</u>	<u>28</u>	<u>31</u>	<u>106</u>	<u>36</u>	<u>11</u>

Table B

FY 2016 Approvals (Thousands)
Excludes LDD's, POWER, Regional Priorities and Approvals from Prior Year Applications

States	FY 2016 totals	Last Quarter				Total last quarter	% Last quarter	% Sept 2016
		10/1/15 6/30/16	July	Aug	Sept			
AL	\$3,677	\$1,892	\$802	\$387	\$596	\$1,785	49	16
GA	\$3,019	\$565	\$1,166	\$150	\$1,137	\$2,453	81	38
KY	\$8,195	\$595	\$1,145	\$1,541	\$4,914	\$7,600	93	60
MD	\$1,710	\$640	\$17	\$520	\$533	\$1,070	63	61
MS	\$4,958	\$694	\$1,490	\$1,321	\$1,453	\$4,264	86	29
NC	\$3,850	\$2,182	\$312	\$40	\$1,316	\$1,668	48	34
NY	\$1,016	\$40	\$205	\$28	\$743	\$976	96	73
OH	\$3,511	\$500	\$807	\$362	\$1,842	\$3,011	86	52
PA	\$3,821	\$2,344	\$726	\$74	\$678	\$1,477	39	18
SC	\$3,103	\$1,594	\$348	\$561	\$600	\$1,509	49	19
TN	\$8,208	\$580	\$700	\$1,712	\$5,216	\$7,628	93	64
VA	\$3,155	\$0	\$500	\$200	\$2,455	\$3,155	100	75
WV	<u>\$350</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$350</u>	<u>\$350</u>	<u>100</u>	<u>100</u>
	<u>\$48,573</u>	<u>\$11,626</u>	<u>\$8,218</u>	<u>\$6,896</u>	<u>\$21,833</u>	<u>\$36,946</u>	<u>76</u>	<u>45</u>

9 States with over 60 percent approvals in last quarter

7 States with over 50 percent approvals in September 2016

Hubert Sparks

From: Klemmer, Christopher R <KlemmerC@gao.gov>
Sent: Monday, June 12, 2017 5:27 PM
To: Hubert Sparks
Cc: Moss, Yvonne D; Rowland, Lisa
Subject: FW: GAO Vacancy Information Confirmation - IG Vacancies (101676) - ARC

Good evening,

Based on our review, we have not yet received a response from you in regards to the below email. When can we expect to receive a response?

Thank you,
Chris
202-512-8135

From: Klemmer, Christopher R
Sent: Wednesday, May 31, 2017 11:38 AM
To: 'hsparks@arc.gov'
Cc: Moss, Yvonne D; Rowland, Lisa
Subject: GAO Vacancy Information Confirmation - IG Vacancies (101676) - ARC

Greetings!

GAO has begun its mandated review of inspector general (IG) vacancies, as outlined in the notification letter that Mark Jones, Executive Director of the Council of the Inspectors General on Integrity and Efficiency, provided on April 5, 2017. The engagement title is Inspector General (IG) Vacancies (job code 101676). As part of this review, we will be looking at the duration of the IG vacancies as well as the impact such vacancies have had on the ability to conduct IG work. We have compiled the following data regarding IG vacancies over the past 10 fiscal years (fiscal years 2007 through 2016), and we need your assistance with updating / verifying the information. Please provide us with the updated/verified information, via a reply to this e-mail, by Friday, June 9, 2017.

AGENCY	PAS or DFE	ACTING IG	VACANCY START DATE	VACANCY END/EOD DATE	PERMANENT IG RESIGNATION DATE	NEW APPOINTEE	DATE NOMINATED BY PRESIDENT	DATE RECEIVED IN THE SENATE	DATE CONFIRMED BY THE SENATE
							<i>(Not applicable to DFEs)</i>		
Appalachian Regional Commission	DFE		4/1/2011						

Please note that within the upcoming weeks, you may also receive a survey as part of this review. In addition, at the completion of our review, you may also receive an inquiry to determine if there have been any changes related to your IG vacancy as of September 30, 2017.

Should you have any questions, please contact me at (202) 512-8135.

Thank you for your cooperation in this matter.