



June 26, 2017

To: Federal Co-Chair
Executive Director
ARC General Counsel
ARC Director Community Investments
ARC Assistant General Counsel

From: Hubert Sparks, Inspector General

Subject: Memorandum Report 17-19 – HUD Administered Grants in Pennsylvania

A continuing problem was identified with respect to receipt of Basic Agency Monitoring (BAMR) reports for ARC grants in Pennsylvania for which the Department of Housing and Urban Development (HUD), Community Development Block Grant (CDBG) is the Federal Basic Agency. Consequently, ARC does not have sufficient information with respect to determining the status of grants that were inactive for significant periods and for which no Appalachian Regional Commission (ARC) payments were reported.

ARC grants for which HUD is the Federal Basic Agency are administered for HUD by the Center for Monitoring and Training in the Pennsylvania Department of Economic and Community Development (DECD). Consequently HUD and DECD have responsibilities for BAMR's.

The review was conducted in accordance with Inspection and Evaluation Quality Standards.

In seven of eight instances BAMR's were not received for Pennsylvania grants approved between 12/5/07 and 7/27/15 with no ARC payments and balances totaling \$870,000. In another instance the last BAMR for a \$100,000 project approved 3/3/11 and for which no payment was reported was dated 4/15/14 and noted the project would be completed by 1/1/16. In three cases grants totaling \$350,000 had expired end dates. The status and reasons therefore are significant with respect to inactive grants. Table A notes the eight grants.

This is a long term issue and ARC and Pennsylvania State Officials have previously addressed their concerns with Basic Agency staff. They also are in the process of implementing ARC State administered grant provisions that should alleviate this situation.

ARC uses Federal and State agencies to administer, monitor and report on construction related projects based on the engineering and construction capabilities of these agencies. Responsibilities of these agencies include assuring grantee compliance with Federal Regulations, identifying project implementation problems, providing the annual BAMR and

providing information to permit grant close out. ARC retains primary responsibility for grant implementation in accordance with Federal and ARC grant requirements.

ARC requests annual BAMR's one year after project approval including projects for which no payments are identified. The current Memorandum of Understanding with HUD is dated 1976 and does not include BAMR responsibilities.

Limited staff and resources were cited as the primary factors for absence of BAMR's.

Recommendations

1. ARC consider rejecting approval of additional HUD administered grants in Pennsylvania pending agreement between HUD and ARC for implementation of ARC reporting policies.
2. ARC determine project status and potential for deobligation of funds approved for inactive projects. Extensions should be based on supportable expectations of progress.
3. ARC update the old Memorandum of Understanding with HUD including inclusion of Basic Agency Monitoring Report responsibilities.

ARC Comments

ARC did not concur with the recommendation 1 and noted that the recommendation was not in the best interest of ARC or its grantees and ARC still may require HUD's assistance for certain projects.

The ARC response is attached as Exhibit A.

OIG Response

The OIG position remains that pending agreement between ARC and HUD with respect to reporting grant status that sufficient information is available to support the recommendation that applies to future Pennsylvania grants that can be administered by other Federal Agencies or the State when the Registered State Basic Agency Agreement is approved.

With respect to updated Basic Agency MOU's we recommend that the MOU include provisions for termination for non-compliance with agreed with provisions, annual BAMR's, and that a revised construction schedule be provided if projects are not started within 18 months of grant approval.

We concur with establishment of a Registered State Basic Agency for Pennsylvania but recommend that State agreements to use other agencies to administer and monitor ARC

grants also include provisions for termination of the agreement for non-compliance with agreed provisions.

We appreciate the information about the eight grants noted in the report and will follow-up to identify final actions and results.

Enclosure: Exhibit A

Table A

Pennsylvania HUD Grants with no Payments

<u>Grant #</u>	<u>ARC approved</u>	<u>HUD approved</u>	<u>ARC funds</u>	<u>BAMR</u>
PA-18129	7/27/2015	1/31/2016	\$200,000.00	No End Date 12/31/15 Est. completion 1/1/16 -
PA-16868	3/31/2011	9/30/2012	\$100,000.00	4/15/14
PA-17812	8/4/2014	4/30/2015	\$100,000.00	No End Date 6/30/16
PA-15612	9/21/2007	8/23/2007	\$145,000.00	No
PA-17660	9/12/2013	7/31/2015	\$150,000.00	No
PA-17254	6/22/2012		\$100,000.00	No
PA-17661	9/4/2013	7/31/2015	\$125,000.00	No
PA-18048	<u>2/25/2015</u>		<u>\$50,000.00</u>	No End Date 6/1/16
	<u>8</u>		<u>\$970,000.00</u>	



MEMORANDUM

June 1, 2017

To: Hubert Sparks
Inspector General

Through: Charles Howard *CH*
General Counsel

From: Nancy Eyl *NE*
Assistant General Counsel

Subject: Office of Inspector General (OIG) Draft Report—*HUD-Administered Grants in Pennsylvania*

Thank you for the opportunity to review and respond to OIG draft report, *HUD-Administered Grants in Pennsylvania*. The Appalachian Regional Commission (ARC) appreciates the opportunity to respond to the findings and recommendations in this report. We also appreciate the time and attention given to the review and the in-person meetings to discussing the recommendations.

We offer the following comments for your consideration in finalizing the report.

Recommendation 1: ARC consider rejecting approval of additional HUD-administered grants in Pennsylvania pending agreement between HUD and ARC for implementation of ARC reporting policies.

Response: Non-concur. We do not concur with this recommendation because we do not believe it is in the best interest of ARC or its grantees. The State of Pennsylvania is currently working with us to establish a Registered State Basic Agency (RSBA). The RSBA will join the ranks of states that rely on state agencies to manage ARC grants. However, the parameters of the Pennsylvania program are still under discussion. Even if the Pennsylvania RSBA agrees to manage all ARC projects within the state, we still may require HUD's assistance for certain projects.

We will work on revising the Memorandum of Understanding with HUD, as discussed in our response to OIG recommendation number 3, to include necessary provisions relating to reporting requirements. But we will not keep projects on hold pending the final revision of this MOU, which is what we understand this recommendation requires.

Recommendation 2: ARC determine project status and potential for deobligation of funds approved for inactive projects. Extensions should be based on supportable expectations of progress.

Response: Concur. We followed up on all nine of the projects listed on Table A. We believe that the following information is sufficient to close this recommendation:

- Two projects were completed. One is still open because the LDD is checking on a drawdown; the other will be open until the U.S. Department of Agriculture's Rural Development submits a BAMR to initiate the return of \$50,000 of unspent funds.
- Two projects are nearly at the construction stage and are expected to be completed this year.
- One project will be bid shortly; the grantees are waiting on the final environmental review, which is expected shortly.
- Three projects will not be completed. One project was cancelled, but HUD has not yet returned the unspent funds. Two projects are in the process of being cancelled.

Recommendation 3: ARC update the old Memorandum of Understanding with HUD including Basic Agency Monitoring Report responsibilities.

Response: Concur. We have been in discussions with HUD about revising the Memorandum of Understanding for some time. Given this OIG report, we will reinitiate talks with HUD to ensure that the revised MOU contains provisions relating to ARC's new reporting requirements.

We would be very happy to discuss these recommendations further at your convenience. Again, thank you for the opportunity to review and comment on this draft report. Addressing the issues raised in the report will strengthen ARC's operations. We look forward to working with you in the future.