



July 20, 2017

To: ARC Executive Director
ARC General Counsel
ARC Director of Community Investments

From: Hubert Sparks, Inspector General

Subject: Report 17-20, Update of Prior Reports on Older Basic Agency Inactive Grants

Summary

An update of prior reports dealing with older open inactive Basic Agency administered grants disclosed 14 grants with ARC balances totaling \$3,851,907 for which no expenditures were reported at least 36 months after ARC approval and Basic Agency obligation date when identified. (Table A). The inactive period ranged from 36 to 127 months and Basic Agency Monitoring Reports (BAMR) available in 10 instances identified the basic issue delaying project implementation. In some cases successive BAMR's identified the same issue. The noted grants also had \$5,279,029 in other Federal funds identified.

Scope

The report highlights inactive older grants approved at least 36 months prior to April 30, 2017 for which no ARC or other agency expenditures were reported or no Basic Agency Monitoring reports (BAMR) were received. The absence of BAMR's indicating project status or BAMR's noting construction had not started were also criteria used to identify the noted projects. Grants identified as being in the design phase were included since grantees had not requested payments for this activity and in some cases this phase was noted in multiple annual BAMR's for the same project.

Grants with no expenditures but with BAMR comments that construction had started or causes for delay appeared close to resolution were excluded.

We recognize the sensitivity and difficulty of cancelling grants and deobligating funds for use on other needed economic development projects, including concerns that funds may not be available if grantee re-applies for a grant after issues causing delay are overcome. However, identified needed economic development in Appalachia and ARC policy that deobligations are returned to the applicable state the opportunity to utilize significant unliquidated obligations in a more timely manner is also a significant consideration and option.

Thus we recommend;

- Priority ARC emphasis and follow-up in coordination with the applicable Basic Agency on the noted grants to determine the potential for deobligations and use of funds on other needed priority projects.
- Documentation that provides a reasonable expectation that project progress will be forthcoming in the near term should be obtained to support retaining grants in an open status.
- Basic Agencies should be encouraged to provide additional information in the BAMR about expected issue resolution rather than limiting input to projects status, extended performance periods and extended construction completion estimates.

ARC Comment

The attached ARC comments noted concurrence with the recommendations and indicate actions initiated to follow-up on the identified grants.

OIG Comments

OIG will follow-up with respect to the reported on-going actions, including revised work scopes, to determine if actions are successful in achieving progress on long delayed grants. Also, based on OIG discussion with Pennsylvania State officials three BAMR's were received as noted on table A and deobligations of \$345,000 were recommended.

Table A

Grants for inclusion in Update on Open Basic Agency with no Expenditures at Least 3 Years
 ARC Approval and Basic Agency Obligation Date Where Identified

Agency	Grant #	ARC Approval	Obligation	ARC funds	Last BAMR	BAMR comments
HUD	NY-16270	9/9/2009	10/31/2010	\$144,918.00	4/24/2017	Re-scoping
	PA-15612	9/21/2007	12/30/2007	\$145,000.00	6/26/2017	Recommend deobligation 1/
	PA-16868	3/3/2011	9/30/2012	\$100,000.00	6/26/2017	est. compl 1/1/16 – Closeout recommended 1/
	PA-17254	6/22/2012		\$100,000.00	6/26/2017	Cancelled 2014 1/
RD	GA-17266	9/26/2012		\$300,000.00	12/16/2016	Easement problems
	MD-17383	8/28/2012	9/30/2012	\$275,000.00	1/6/2015	ER not approved
	NY-17290	6/22/2012		\$150,000.00	11/21/2016	No RD application
	NY-17520	7/19/2013		\$149,989.00	12/22/2016	Need RD application
	OH-17524	6/2/2013	6/30/2013	\$237,000.00	1/31/2017	Fund request withdrawn 2/
	OH-17747	2/28/2014	3/31/2014	\$250,000.00		No BAMR
	TN-16038	9/8/2008		\$500,000.00	2/2/2017	Need state approval
	VA-15703	9/21/2007	9/26/2007	\$400,000.00	11/10/2016	Not started
	VA-16720	9/24/2010	3/9/2012	\$100,000.00	11/10/2016	Not started
	<u>WV-15391</u>	8/29/2006	8/31/2006	\$1,000,000.00	6/8/2016	Updating application
				<u>\$3,851,907.00</u>		

1/Previously late or not provided BAMR's received after OIG contact with administering agency and indicated \$345,000 for 3 grants could be deobligated.

2/BAMR noted potential for deobligation.



MEMORANDUM

July 14, 2017

To: Hubert Sparks
Inspector General

Through: Charles Howard
General Counsel *CH*

From: Nancy Eyl *NE*
Assistant General Counsel

Subject: Office of Inspector General (OIG) Draft Report—*Update on Prior Older Basic Agency Open Grants* (May 1, 2017)

Thank you for the opportunity to review and respond to OIG draft report, *Update on Prior Older Basic Agency Open Grants*. 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: Priority ARC emphasis and follow-up in coordination with the Basic Agency on the noted grants to determine the potential for deobligations and use of funds on other needed priority projects.

Response: Concur. We agree that it is important to follow up on the noted grants. To that end, we reached out to state program managers and grantees to determine the current status of the various projects, with the intention of determining the potential for using funds for other needed projects, if necessary. We can now report that one project on the list—a construction project managed by HUD—will be completed by September 2017. Another project will begin construction this fall. At least two projects will be cancelled. Finally, several projects were recently rescoped via major amendments and will go forward under amended timelines.

Recommendation 2: Documentation that provides a reasonable expectation that project progress will be forthcoming in the near term should be obtained to support retaining grants in an open status.

Response: Concur. For the several projects that were recently rescoped, we requested a full narrative on why the projects were delayed and assurances that they can be accomplished as set out in the revised scope of work. We will continue to follow up with the state program managers and grantees to ensure that progress is forthcoming in the short term.

Recommendation 3: Basic Agencies should be encouraged to provide additional information in the BAMR about expected issue resolution rather than limiting input to projects status, extended performance periods and extended construction completion estimates.

Response: Concur. We believe that we encourage basic agencies to provide additional information in the BAMR about expected issue resolution rather than limiting input to projects status, extended performance periods, and extended construction completion estimates. Currently, the BAMR elicits a wide range of information relating to a project's progress, financial reporting, and performance measures. In the section covering the progress report, basic agencies are required to enter information relating to the environmental review, design phase start date, project construction start date, and other similar issues concerning a project's status.

In addition to these specific data fields, the BAMR includes an entry field to allow for additional comments. This is where we encourage basic agencies to provide a narrative explanation regarding any unexpected delays or other issues requiring resolution.

In general, we are satisfied with the amount of information that basic agencies provide to us. However, we recognize that some projects have faced delays and, in some cases, did not provide extensive narrative explanations. In these cases, we will follow up with the basic agencies, state program managers, and grantees, as appropriate. This is what we did in response to this OIG report—and plan to continue doing.

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.