

APPALACHIAN REGIONAL COMMISSION

INSPECTOR GENERAL'S

SEMIANNUAL REPORT

TO CONGRESS

OCTOBER 1, 1993 - MARCH 31, 1994



APPALACHIAN REGIONAL COMMISSION

OFFICE OF
INSPECTOR GENERAL
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May 27, 1994

MEMORANDUM FOR THE FEDERAL CO-CHAIRMAN

SUBJECT: Semiannual Report to Congress

In accordance with the requirements of the Inspector General Act Amendments of 1988, Public Law 100-504, I am pleased to submit the semiannual report of the Office of Inspector General for the period October 1, 1993, through March 31, 1994.

During this period, operational activities included issuance of 15 reports, including 14 individual reviews and 1 program survey. Primary recommendations were directed at improved accounting, financial systems, and internal controls. A survey of local development districts identified concerns and constraints, including costs and utilization issues, with respect to annual independent audits required by Single Audit Act legislation. The results of this survey were provided to the Office of Management and Budget for consideration in the on-going process to improve the effectiveness and efficiency of these audits. We continued to assist management in assuring physician and provider compliance with provisions of the J-1 waiver program and with audit resolution.

Of particular significance was the continuing responsibilities of the Inspector General as the Vice Chair of the Executive Council on Integrity and Efficiency (ECIE), which was established by Executive Order in May 1992 to provide for coordination and cooperation between the 34 designated Offices of Inspectors General (OIGs). This responsibility included participating as a member of the President's Council on Integrity and Efficiency and required extensive coordination and liaison between OIGs, OMB, and Congressional sources with respect to OIG activities. The Inspector General appreciates the support, cooperation, and assistance provided by ARC management to facilitate performance of ECIE Vice Chair responsibilities.

The Inspector General addressed a panel on OIG related issues, led one ECIE peer review team during this reporting period, and assisted officials from the Commonwealth of the Northern Marianas in identifying qualified candidates for the position of Public Auditor.

The continued support of the Office of Inspector General by ARC management and utilization of OIG reports and recommendations have contributed to improved controls and operations. The Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988, provides that this report be forwarded to appropriate Congressional committees within 30 days and that you provide whatever additional comments you consider appropriate.


Hubert N. Sparks

Inspector General

Enclosure

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EXECUTIVE SUMMARY

During this reporting period, 15 reports were issued, including 14 individual reviews and 1 program survey. Primary recommendations were directed at improved accounting, financial systems, and internal controls. At the end of the reporting period, 8 reviews were in process, i.e., 6 grant reviews and 2 headquarters surveys dealing with grants management.

Of particular significance were our continued emphasis on improved grantee financial management systems, accomplishment of grant objectives, eligibility of claimed costs, and adequacy of the entity followup system. Recommendations were made for improvements in these areas. Three complaints with respect to the J-1 waiver program, which provides for extension of resident provisions for physicians who agree to work in the Appalachian Region, were reviewed; and entity audit resolution actions include significant progress toward settlement of open issues and questionable costs. Grant reviews during this period identified approximately \$126,000 in questioned and unallowable costs, which we attributed primarily to insufficient grantee accounting systems or controls and limited understandings about allowable costs and provisions of applicable OMB Circulars.

The Inspector General continued as the Vice Chair of the Executive Council on Integrity and Efficiency (ECIE), which was established by Executive Order in May 1992 to provide for coordination and cooperation between the 34 designated Offices of Inspector General (OIGs). This responsibility included participating as a member of the President's Council on Integrity (PCIE) and required extensive coordination and liaison between OIGs, OMB, and Congressional sources with respect to OIG activities. The Inspector General appreciates the support cooperation, and assistance provided by ARC management to facilitate performance of ECIE Vice Chair responsibilities.

The Inspector General addressed a seminar on OIG related issues and led an ECIE peer review during this reporting period.

Also, the Inspectors General Vision Statement was adopted by the PCIE and the ECIE. This document outlines the vision and strategies to be emphasized by OIGs. Key strategies include:

- o working with management to design effective management systems and improve program operations and service delivery;
- o building strong, open relationships with program managers based on a shared commitment to improving program operations;
- o continually improving quality of products;
- o working with management to eliminate excessive audit requirements.

The new head of the entity, confirmed near the end of the reporting period, was provided information about the OIG concept, ARC OIG operations and activities, and the vision statement principles. We anticipate and look forward to continued support of the OIG by ARC management.

PURPOSE AND REQUIREMENTS OF THE OFFICE OF INSPECTOR GENERAL SEMIANNUAL REPORT

The Inspector General Act of 1978 requires the Inspector General to keep the Federal Co-Chairman and Congress fully and currently informed about problems and deficiencies in the Commission's operations and the necessity for corrective action. In addition, the Act specifies that semiannual reports will be provided to the Chairman by April 30 and October 31 and to Congress 30 days later.

The Co-Chairman may transmit comments to Congress along with the report but may not change any part of the report. The specific requirements prescribed in the Act, as amended (Public Law 100-504), are listed below.

Reporting Requirements

Section 4(a)(2)	Review of legislation and regulations	Page 7
Section 5(a)(1)	Problems, abuses, and deficiencies	Page 3
Section 5(a)(2)	Recommendations with respect to problems, abuses, and deficiencies	Page 3
Section 5(a)(3)	Prior significant recommendations not yet implemented	*
Section 5(a)(4)	Matters referred to prosecutive authorities	*
Section 5(a)(5) and 6(b)(2)	Summary of instances where information was refused	*
Section 5(a)(6)	Listing of audit reports showing number of reports and dollar value of questioned costs	App A
Section 5(a)(7)	Summary of each particularly significant report	**
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs	App C
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	App B
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of the reporting period	*
Section 5(a)(11)	Significant revised management decisions	*

Section 5(a)(12)

Significant management decisions with which the Inspector
General disagrees

*

* None.

** See references to Sections 5(a)(1) and 5(a)(2) for discussion of significant reports.

I. INTRODUCTION

The Inspector General Act Amendments of 1988 (P.L. 100-504) provided for the establishment of an Office of Inspector General at 34 designated Federal entities, including the ARC. The Appalachian Regional Commission (ARC) Office of Inspector General became operational on October 1, 1989, with the appointment of an Inspector General and provision of budgetary authority for contracted audit and/or investigation activities.

II. BACKGROUND

A. APPALACHIAN REGIONAL COMMISSION

The ARC was established by the Appalachian Regional Development Act of 1965 (P.L. 89-4). The Act authorizes a Federal/State partnership designed to promote long-term economic development on a coordinated regional basis in the 13 Appalachian States. The Commission represents a unique experiment in partnership among the Federal, State, and local levels of Government and between the public and private sectors. It is composed of the Governors of the 13 Appalachian States and a Federal representative who is appointed by the President. The Federal representative serves as the Federal Co-Chairman with the Governors electing one of their number to serve as the States' Co-Chairman.

- o Through joint planning and development of regional priorities, ARC funds are used to assist and encourage other public and private resources to address Appalachia's unique needs. Program direction and policy is established by the Commission (ARC Code) by the vote of a majority of the State members and the affirmative vote of the Federal Co-Chairman. Emphasis has been placed on highways, infrastructure development, business enterprise, and human resources programs.
- o Administratively, the Office of the Federal Co-Chairman, with a staff of 11, and the Commission, with a staff of 50, are responsible for ARC operations. The States maintain an Office of States' Representative (3 persons) that has primarily liaison responsibilities. All personnel are located in Washington, DC. The Commission staff's administrative expenses, including salaries, are funded jointly by Federal and State funds; the States' Representative staff is funded entirely by the States; and the Federal Office staff is funded entirely from Federal funds.
- o The Commission's appropriation for FY 1994 is \$249 million, which is divided approximately \$160 million for highway projects, \$85.6 million for non-highway projects, and \$3.4 million for administrative expenses. The FY 1994 appropriation compares with \$190 million for FY 1993. ARC is authorized through its current appropriation.
- o Program funds are distributed to State and local entities in line with an allocation formula intended to provide fair and reasonable distribution of available resources. ARC staff have responsibilities for program development, policy analysis and

review, grant development, technical assistance to States, and management and oversight.

- o In order to avail itself of Federal agency expertise and administrative capability in certain areas, the ARC often relies on other departments and agencies for program administration, especially with respect to highways and infrastructure projects. For example, the Appalachian Regional Development Act authorizes the Secretary of Transportation to administer the Commission's highway programs. Under this arrangement, the Commission retains responsibility for priorities, highway locations, and fund allocations.

B. OFFICE OF INSPECTOR GENERAL

The ARC Office of Inspector General is an independent audit and investigation unit. The OIG is headed by an Inspector General who reports directly to the Federal Co-Chairman.

Role and Authority

The Inspector General Act of 1978 (P.L. 95-452), as amended in 1988, states that the Inspector General is responsible for (1) audits and investigations; (2) review of legislation; and (3) recommendation of policies for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, the program and operations of the establishment. In this regard, the Inspector General is responsible for keeping the Federal Co-Chairman and Congress fully informed about the problems and deficiencies in ARC programs and operations and the need for corrective action. The Inspector General has authority to inquire into all ARC programs and activities that are Federally funded. The inquiries may be in the form of audits, surveys, investigations, personnel security checks, or other appropriate methods. The two primary purposes of these inquiries are (1) to assist all levels of ARC management by identifying and reporting problem areas, weaknesses, or deficiencies in procedures, policies, program implementation, and employee conduct and (2) to recommend appropriate corrective actions.

Relationship to Other Principal ARC Offices

The States and the Federal Co-Chairman, acting together as the Commission, establish policies for ARC's programs and its administration. These policies are codified in the ARC Code and implemented by the Commission staff, which is responsible for monitoring project performance and providing technical assistance as needed. The Federal Co-Chairman, as the Federal fiscal officer, is responsible for the proper use and protection of Federal funds, for ensuring compliance with applicable Federal laws and regulations, and for taking appropriate action on conditions needing improvement, including those reported by the OIG. The operations of the OIG neither replace established lines of operating authority nor eliminate the need for the commission offices to take reasonable measures to protect and enhance the integrity and effectiveness of their operations. All Commission offices are responsible for monitoring and evaluating the programs entrusted to them and reporting information or incidences needing further audit and/or investigation to the Inspector General.

Funding and Staffing

The OIG Funding level for FY 1993 was \$380,000. For FY 1993, approximately 39 percent was expended for contract audit services; 50 percent, for salaries and benefits; 4 percent, for travel; and 7 percent, for all other activities (training, equipment, space, supplies, etc.). The OIG funding level represents about 35 percent of the total funds available to the Office of the Federal Co-Chairman. FY 1994 funding for OIG is \$380,000, with the division of expenditures continuing at the approximate percentages as noted for FY 1993.

Initial OIG operations included authorization for an Inspector General and a Confidential Assistant. A senior auditor was employed in the latter half of FY 1991; no additional staff have been employed. Grant review activities will continue to emphasize use of contracted services (e.g., independent public accounting firms or other OIG offices) supplemented by programmatic and performance reviews directed by OIG staff. Investigative assistance is provided by other OIG offices on an as-needed basis. This approach has been deemed the most appropriate to date in view of the nature of ARC operations and limited resources. However, we are participating with other OIG offices to facilitate sharing of investigative resources in order to strengthen this aspect of OIG operations. The OIG will continue to monitor this situation as well as the efficiency and effectiveness of the use of contracted services.

III. OIG ACTIVITY

A. AUDITS

During the reporting period, 15 reports were issued, including 14 individual reviews and 1 program survey report. At the end of the reporting period, 6 grant reviews and 2 surveys were in process and followup action to resolve open recommendations was being emphasized. The division of OIG resources results in audit work being performed by a combination of permanent and contractor staff. Emphasis continues to be placed on surveys of ARC operations and programs, completion of grant audits, audit planning, and audit resolution and followup. During the reporting period, the Inspector General continued as Vice Chair of the Executive Council on Integrity and Efficiency (ECIE), which is comprised of 34 statutorily designated Office of Inspectors General and nonstatutory Inspectors General, the Inspector General was heavily involved with efforts to ensure implementation of ECIE responsibilities for effective and efficient OIG operations.

During the term of the OIG operations at ARC, various recommendations, based on audit testing, have been made to ARC management with respect to improving program operations in such areas as accountability, financial management, fund obligations and deobligations based on project activity, implementation of cost principles, and audit followup.

OIG followup tests and reviews of statistical information have reflected positive ARC actions to address these issues and resulting improvements in program operations. For example, as noted in prior reports, timely use of funds has been emphasized; and the number of funded projects, including business development and housing revolving loan funds with large unobligated balances, has been substantially reduced. ARC conferences, training, and seminars continue to emphasize accountability, financial management systems, and allowable costs. For example,

ARC recently initiated a periodic newsletter for local development districts (LDDs); and subjects include financial and accounting issues.

The ARC OIG will continue to address these issues, including periodic followup on the extent of actions initiated and results obtained, and, as noted below, will report on issues needing continued attention.

- o During recent reporting periods, emphasis has been placed on testing first-time program participants in order to determine and evaluate the extent of knowledge and understanding of program procedures and requirements. Our tests disclosed that these grantees often did not have adequate financial systems or accounting controls and, thus, were unable to fully support claims for reimbursement and/or submitted ineligible costs for reimbursement. Of particular significance was limited understandings with respect to information necessary to support required matching contributions and allocation of costs between different funding sources and allowable costs as noted in the applicable OMB Circulars (A-87 and A-122). For example, in two instances, as noted below, we questioned costs approximating \$65,000 due to the absence of basic accounting records. Also, in several other cases, we worked with the grantee to identify eligible costs prior to the issuance of our final report and, thus, reduced or eliminated questioned costs necessitating additional audit resolution. Recommendations to improve financial and accounting systems and controls were directed at grantees and it was recommended that ARC provide increased guidance to new or smaller grantees, including provision of applicable OMB Circulars and ARC regulations at the time of grant approval.
- o Our initial work at the Appalachian Center for Economic Networks, Inc. disclosed about \$31,000 in unallowable or questioned costs primarily due to claims for expenses incurred prior to the grant period or unsupported expenses. This was due primarily because the grantee accounting system could not properly allocate, accumulate, or report allowable costs. We provided the grantee with written guidance on how to properly allocate, document, and account for program costs, including procedures on accounting for salaries and wages, fringe benefits, equipment and software, travel, conferences and educational materials, other direct costs, rent, legal and accounting fees. The grantee revised its accounting system prior to issuance of our final report and determined a need to revise its original claim for first year funding and its budget for second year funding. The first year claim for a total of \$255,000 (including matching contributions) was revised to \$217,416; and audit resolution is in process to address the \$6,338 we continue to question.
- o Similarly, our review of a \$144,000 grant for a Health Manpower Recruitment and Retention program disclosed about \$34,000 in unallowable or questioned costs because accounting records and invoices were not sufficient to support expenses claimed, allocation of costs, or required matching contributions.

Also, we noted that information was not recorded in accounts on a timely basis, contracts were not awarded timely, contractor work was not completed and/or always in accordance with grant agreement provisions, purchased equipment was

not being utilized, and the achievement of grant objectives appeared limited. A recent change in state administration has resulted in a change of officials responsible for grant administration. Audit resolution is in process, but final actions are dependent on completion of a concurrent investigation by a state agency. Also, the grantee has indicated that \$55,623 of unused ARC funds will not be claimed.

- o A review of a state technical assistance grant disclosed questionable costs of \$51,280. This resulted primarily from claims for indirect costs of \$48,446. The ARC Code generally prohibits indirect cost payments to state agencies. This issue is in audit resolution, and OIG has also recommended that ARC review its policy with respect to indirect costs incurred by state agencies.
- o A survey based on LDDs' concerns about the use and cost-benefit of required annual financial audits was completed and the results were forwarded to OMB for consideration in conjunction with on-going efforts to revise and improve the efficiency and effectiveness of the single audit. A copy of the questionnaire and a summary of the results is attached. The survey denoted a wide range of comments, opinions, and costs with respect to these audits that are consistent with input received during other, and larger, studies such as recent single audit reviews by the PCIE and the GAO. Of primary concern was the cost of annual audits in relation to available resources, especially in the case of smaller grantees, and the format report language, including the number of reports, that reduced understanding and usefulness. However, the majority of respondents believed that the annual reports are cost effective. Proposed changes with respect to increasing the dollar threshold for requiring annual financial and compliance audits, improving report language, and reducing reports should be beneficial to the grantees included in this survey.

In the area of single audit, a question was raised by a state entity with respect to ARC requirements for annual audits of housing loan programs funded in conjunction with ARC grants. The states' position essentially is that the availability and applicability of the single audit eliminates the need for additional audit work. The ARC generally accepts single audits as meeting audit requirements despite the inherent absence of testing of grantee compliance with ARC grant provisions due to the limited funding provided by ARC. However, the ARC OIG agrees with ARC that, for larger grants such as housing program grants, single audits do not provide ARC with sufficient information to ascertain if grant provisions are being implemented. It has been the ARC OIG long term position that the elimination of grant specific compliance testing, as occurs under single audit, based on the establishment of arbitrary dollar thresholds is not in the program or public interest. The ARC OIG fully agrees, however, that the extent of such testing should be reasonable and is working with ARC to ensure adequate audit coverage of its concerns, be it by some specific testing of ARC grants during single audit or coverage by the ARC OIG.

B. INVESTIGATIONS

The Inspector General Act of 1978, as amended, provides that the Inspector General may receive and investigate complaints or information concerning the possible existence of an activity

constituting a violation of law, rules, or regulations or mismanagement, gross waste of funds, or abuse of authority. The OIG does not employ special investigators. Should the need arise, the matter would be referred to the Federal Bureau of Investigation or assistance would be contracted with another Federal Office of Inspector General. Also, the results of investigations may be referred to the appropriate Federal, state, or local prosecutive authorities for action.

There were no independent ARC OIG investigations during this period, but a grant audit was coordinated with an ongoing investigation by a state agency. Three complaints to OIG were followed up to determine the need for investigation; and in one instance, the issue was forwarded to a state agency for investigation.

IV. AUDIT PLANNING

Emphasis in FY 1994 continues to be placed on audit followup to determine the extent to which specific report recommendations are addressed and to assess actions completed or necessary with respect to overall issues or causes resulting from individual reports. During FY 1994, audit work will also include individual grant audits in about seven states; headquarters surveys with respect to grants management, including followup testing in areas such as staff monitoring; and followup on open grants with completed budget periods, administrative expenses, grant extensions, and enterprise development programs.

Also, emphasis will continue to be placed on programmatic and performance reviews. Limited resources generally preclude substantive testing of a specific subject or function, but audit planning includes identification of program subjects that can be tested in conjunction with audits of individual grants. For example, programmatic reviews of subjects such as tourism grants should provide expanded and overall information with respect to the particular subject areas; and the benefits to management are deemed sufficient to continue this type of work despite a resource induced reduction in the number of individual grant audits and/or the testing of financial and compliance issues.

In a similar vein, Government emphasis on accountability and performance measures will be incorporated in audit planning. Audit effort during the initial years of ARC OIG operations has concentrated on financial management, including use of funds, and testing grantee compliance with grant requirements, including fund control and expenditure. While financial and compliance testing will continue, it is anticipated that testing and evaluation of performance in terms of individual grants achieving intended objectives and overall benefits derived from ARC activities will be the subject of increased audit attention.

In order to maximize use of available resources directed at reviewing ARC activities, increased emphasis continues to be placed on nonstandard reporting formats including memorandum, letter, and survey reports. Although such reporting formats reduce the time and resources necessary for review completion, the results and information included in such reports is based on evidence and supporting documentation consistent with generally accepted auditing standards.

The OIG will also be alert for new or revised areas of ARC operations based on the priorities and emphasis of a new administration. Audit planning will include consideration of such initiatives with the overall goal being to ensure coverage of high priority, including high dollar,

areas in order to assist management fulfill responsibilities for effective and efficient program operations. As an example a survey was initiated in conjunction with a proposal of the ECIE to evaluate printing and publication costs in line with recommendations of the National Performance Review to identify more efficient and effective methods for conducting Government operations.

A GAO report dealing with operations of the 34 designated OIGs was issued during this reporting period. The primary recommendation pertained to improved strategic planning. The ARC OIG will work independently to improve strategic planning within its office and cooperate with PCIE and ECIE members to identify methodologies for implementing recommendations dealing with performance measures for OIGs.

V. OIG HOTLINE

During the past year, a regionwide toll-free Hotline was established to enable direct and confidential contact with the ARC OIG in line with Governmental and longstanding OIG initiatives as identified in the IG Act of 1978 to afford opportunities for identification of areas subject to fraud, waste, or abuse. Efforts continue to publicize the hotline by notifications to contractors and grantees, and field visits evaluate the extent to which employees were made aware of this system. However, contacts with the ARC OIG relative to public complaints or concerns are primarily received through ARC staff, on regular OIG phone lines, or from other OIG offices. Thus, this system will be evaluated during the next reporting period to determine its efficiency and practicality in relation to costs and other means by which complaints and concerns are received by the OIG, including the availability of other OIG hotline numbers in the Appalachian Region.

During the reporting period, three complaints were received with respect to the J-1 waiver program. In two instances, the complaint was turned over to state agencies for further review; and in one instance, a recommendation was made to ARC with respect to potential program improvements.

VI. LEGISLATIVE AND REGULATORY REVIEW

Primary efforts in this area continued to be related to requests for input about potential legislative initiatives with respect to OIG operations. The ARC OIG continues to support legislation that would provide improved protections for IGs, including designated and career IGs by consideration of alternatives such as removal for cause criteria and term limits. Also, the ARC OIG supports extension of the Program Civil Fraud Penalties Act to include designated entities, improved protection of designated IG budgets, comparable pay for designated IGs, and criteria consistent with current qualification requirements for Presidentially appointed IGs.

VII. OTHER

The Inspector General continued as the Vice Chair of the Executive Council on Integrity and Efficiency, which was established by Executive Order in May 1992. The ECIE, which is chaired by OMB, is comprised of the 34 statutorily designated IGs and other administratively established

IGs and is intended to promote the efficiency and effectiveness of the IG community. As such, the Vice Chair serves as a coordinator and liaison for ECIE members in dealings with OMB, Congress, and the PCIE.

Specific activities, which required considerable resource use during the reporting period, included coordinating monthly ECIE meetings; conducting committee meetings; transmitting IG related information to all members; correlating and summarizing ECIE positions on various issues; representing ECIE members' interests; briefing OMB and Congressional staff; coordinating project activity, annual reports, and training conferences; and representing ECIE at PCIE meetings.

The ECIE Vice Chair responsibilities and workload, although considered of the highest importance by the ARC OIG, required a substantial expenditure of time and resources in order to address member issues and ensure ECIE actions in line with the Executive Order. The normal workload attributable to coordinating and addressing interests and concerns of member entities was increased by the inherent activity and concerns resulting from a change in Administration. Consequently, ARC OIG time was diffused between ECIE and ARC activities during this reporting period; and the OIG appreciates the support of ARC management with respect to the IG's involvement as the ECIE Vice Chair.

The ARC Inspector General performed an external quality review (peer review) during this reporting period in line with requirements for performance of such reviews by all ECIE members. These reviews emphasize compliance with generally accepted auditing standards.

The ARC Inspector General, in line with Governmentwide reinvention efforts, submitted recommendations dealing with a wide range of issues impacting on OIG efficiency and effectiveness. These issues range from audit methodologies and Governmentwide projects to specific subjects such as training and related activities.

During this period, the Inspector General met with the Governor and staff of the Commonwealth of the Northern Marianas in connection with the filling of the position of Public Auditor of the Commonwealth and assisted the Commonwealth in the identification of potential selectees.

The Inspector General continues to advocate use of Interservice Agreements by smaller designated IG offices in order to substantially reduce the costs of independently contracting for external auditors. This process, which was initiated by the ARC OIG in 1989, is now used by approximately ten designated IG offices and results in a substantial reduction in costs with respect to advertising and bid evaluation, without any reduction in competition or quality of work.

In the area of customer service, prior observations of the ARC and Interstate Commerce Commission IGs to the State Department OIG about a servicing problem with respect to obtaining passport applications at a local passport office resulted in notification from the State Department OIG that the issue had been reviewed and discussed with State Department officials and actions were initiated to improve servicing.

SCHEDULE OF REPORTS ISSUED OCTOBER 1, 1993, TO MARCH 31, 1994

Report No.	Title	Program Dollars or Contract/Grant Amount	Questioned Costs*	Funds to Better Use**
94- 1(H)	Ohio Consolidated Technical Assistance	\$ 200,000	\$ 360	
94- 2(H)	Ohio Industrial Training Program	500,000	2,280	
94- 3(H)	Southwest Virginia Housing	500,000		
94- 4(H)	Mississippi Consolidated Technical Assistance	350,000	51,280	
94- 5(H)	Survey of Financial Audits of Local Development Districts			
94- 6(H)	Alabama Health Manpower Recruitment and Retention Program	144,000	34,000	\$ 55,623
94- 7(H)	Regional Education Service Agency of Appalachian Maryland	76,600		
94- 8(H)	Maryland Consolidated Technical Assistance	210,000		
94- 9(H)	J-1 Waiver Program--Mississippi			
94-10(H)	Appalachian Center for Economic Networks	125,000	37,885	
94-11(H)	Alabama Housing Analysis and Plan	210,000		
94-13(H)	Total Quality Management Institute, Erie, PA, Chamber of Commerce	215,000		
94-14(H)	Northeastern PA Industrial Resource Center Workforce Development Program	200,000		
94-16(H)	Hamilton County, TN, Youth Leadership Program	25,000		
94-17(H)	Overton County, TN, Teen Center	48,100		
TOTALS		\$2,803,700	\$125,805	\$ 55,623

* A cost the Office of Inspector General has questioned because of an alleged violation of law, regulation, contract, or other agreements governing the expenditure of funds; such cost is not supported by adequate documentation; or the expenditure of funds for the intended purpose is unnecessary or unreasonable.

** Funds the Office of Inspector General has identified in an audit recommendation that could be used more efficiently by reducing outlays, deobligating program or operational funds, avoiding unnecessary expenditures, or taking other efficiency measures, such as timely use of funds.

**SCHEDULE OF AUDIT REPORTS WITH
RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	No. of Reports	Dollar Value (\$ in thousands)
A. For which no management decision was made by the commencement of the reporting period	2	\$ 329
B. Which were issued during the reporting period	1	<u>\$ 55</u>
Subtotals (A + B)	3	\$ 384
C. For which a management decision was made during the reporting period	3	\$ 384
(i) dollar value of recommendations that were agreed to by management	—	\$ 181 ^{1/}
--based on proposed management action	—	\$ 181
--based on proposed legislative action	—	—
(ii) dollar value of recommendations that were not agreed to by management	—	—
D. For which no management decision has been made by the end of the reporting period	—	\$
E. Reports for which no management decision was made within 6 months of issuance	—	—

^{1/} Primarily represents remaining potential deobligations from inactive revolving loan fund grants. Management has initiated effective actions in this area and is monitoring open grants for additional actions. Action is in process to close out grants containing the bulk of the noted funds.

**SCHEDULE OF AUDIT REPORTS WITH
QUESTIONED OR UNSUPPORTED COSTS**
(\$ in thousands)

	<u>No. of Reports</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision was made by the commencement of the reporting period	4	\$ 522	-
B. Which were issued during the reporting period	5	\$ 126	-
Subtotals (A + B)	9	\$ 648	-
C. For which a management decision was made during the reporting period	4	\$ 522	-
(i) dollar value of disallowed costs	1	\$ 6 ^{1/2}	-
(ii) dollar value of costs not disallowed	3	\$ 126	-
D. For which no management decision has been made by the end of the reporting period	5	\$ 126	-
E. Reports for which no management decision was made within 6 months of issuance	-	-	-

1/ The \$6,000 represents additional recovery on a prior claim.

2/ Includes one report, involving \$396,000, where a management decision was made to pursue the audit recommendations; but final management decisions on disallowances are being finalized. The grantee has agreed with a partial settlement of \$45,000 on one grant; and negotiations are in process on two remaining grants with questioned costs. Thus, the table does not balance at this time.

DEFINITIONS OF TERMS USED

The following definitions apply to terms used in reporting audit statistics:

Questioned Cost	A cost which the Office of Inspector General (OIG) questioned because of an alleged violation of a provision of a law, regulation, contract, or other agreement or document governing the expenditure of funds; such cost is not supported by adequate documentation; or the expenditure of funds for the intended purpose is unnecessary or unreasonable.
Unsupported Cost	A cost which the OIG questioned because the cost was not supported by adequate documentation at the time of the audit.
Disallowed Cost	A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Commission.
Funds Be Put To Better Use	A recommendation made by the OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation.
Management Decision	Management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary. Interim decisions and actions are not considered final management decisions for the purpose of the tables in this report.
Final Action	The completion of all management actions that are described in a management decision with respect to audit findings and recommendations. If management concluded that no actions were necessary, final action occurs when a management decision is issued.

SURVEY QUESTIONNAIRE

Annual Financial Audit obtained: Yes
 No

Performed by: State Auditor
 CPA Firm
 Other

Approximate annual total of Federal grants: \$ _____

Approximate annual cost of audit: \$ _____

Approximate percentage of cost that auditor attributes to financial statement preparation: _____ percent

Little or
None Some Considerable

Degree to which the overall audit report is used by:

Management	_____	_____	_____
Program Officials	_____	_____	_____
Finance Officials	_____	_____	_____

Degree to which the financial statements are used by:

Management	_____	_____	_____
Program Officials	_____	_____	_____
Finance Officials	_____	_____	_____

Degree to which the various reports are understood by:

Management	_____	_____	_____
Program Officials	_____	_____	_____
Finance Officials	_____	_____	_____

Degree to which the financial statements are used to make decisions by:

Management	_____	_____	_____
Program Officials	_____	_____	_____
Finance Officials	_____	_____	_____

Extent of understanding of the financial statements by:

Management	_____	_____	_____
Program Officials	_____	_____	_____
Finance Officials	_____	_____	_____

Cost Effective

Not Cost Effective

Opinion as to the cost benefits or cost effectiveness of the annual audit by:

Management
Program Officials
Finance Officials

Strongly
Agree

Agree

Disagree

Strongly
Disagree

The audit report format could be improved by: Reducing the number of reports and opinions

Simplifying language (e.g., reducing accounting terminology, explaining key financial statement information in layperson terms)

More clearly identifying extent of testing, programs tested, and results

Explaining terms like materiality, reportable conditions, and significance

A revised audit report format would result in increased use of the report

Other comments:

Suggestions for change or improvement:

SURVEY SUMMARY DATA

- o Number of Responses 46 (67 Percent)

- o Performed By:

CPA	42
State Auditor	4

- o Range of Annual Federal Grants \$16,000 – \$7,969,000

- o Range of Annual Audit Costs (Excluding Zero Cost State Audits) \$1,500 – \$31,000

- o Examples of Annual Grant Funds and Audit Costs:

<u>Grant Funds^{1/}</u>	<u>Audit Costs^{1/}</u>
\$ 100,000	\$ 8,500
44,542	4,300
2,702,950	6,500
5,000,000	10,000
2,000,000	7,500
100,000	1,850
7,900,000	15,000
99,191	2,800
88,000	4,500
70,790	8,000
7,900,000	14,000

1/ Since the survey did not obtain information on total available funds, the reported figures may not be representative in all cases. However, the pattern, which is consistent with all responses, reflects that audit costs often have limited relation to the amount of funds available and, thus, generally consume a higher percentage of available funds at smaller entities.

- o Range of Financial Statement Preparation Costs in Relation to Total Audit Costs 6 to 80 Percent

Inspectors General Vision Statement

We are agents of positive change striving for continuous improvement in our agencies' management and program operations and in our own offices.

Mission and Authority

The Inspector General Act of 1978, as amended, creates independent audit and investigative units, called Offices of Inspector General (OIGs), at 61 Federal agencies. The mission of the OIGs, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness and efficiency within the agency.
- Prevent and detect fraud, waste and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers IGs with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

Statement of Reinvention Principles

We Will:

- Work with our agency head and the Congress to improve program management.
- Maximize the positive impact and ensure the independence and objectivity of our audits, investigations and other reviews.
- Use our investigations and other reviews to increase Government integrity and recommend improved systems to prevent fraud, waste and abuse.
- Be innovative and question existing procedures and suggest improvements.
- Build relationships with program managers based on a shared commitment to improving program operations and effectiveness.
- Strive to continually improve the quality and usefulness of our products.
- Work together to address Government-wide issues.

will not abandon or dilute their statutory responsibility for fighting fraud, waste, and abuse. They will make that work even more powerful by emphasizing their efforts to go beyond detection -- by making recommendations that can prevent future fraud, improve program cost-efficiency, and better program services."

Rivlin urged agency managers to work with their Inspectors General, saying, "The Inspectors General can provide the kind of independent, rigorous analysis and technical expertise that will help to improve Federal services and save Federal dollars."

Development of the vision statement began in September, 1993, at the recommendation of Phillip Lader, then Deputy Director for Management and chair of the Inspector General Councils. (Lader is now White House Deputy Chief of Staff.) Lader urged the Inspectors General to respond positively to the Vice President's National Performance Review and determine how -- within their legislative mandate -- they could be most effective during a time of rapid change in Federal programs.

Lader initiated a series of meetings with the Inspectors General, National Performance Review officials, Congressional staff, and outside Government experts. Each of these groups provided input to the draft. The final draft was unanimously endorsed by the Presidentially-appointed Inspectors General at the January 11, 1994, meeting of the President's Council on Integrity and Efficiency and by the agency head-appointed Inspectors General at the January 12, 1994, meeting of the Executive Council on Integrity and Efficiency.

The vision statement was developed by the Inspectors General for their own offices, making the Inspector General councils the first Government-wide councils to conduct extensive self-examination and issue an in-depth description of how they believe they can be most effective.

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PRESIDENT'S COUNCIL on INTEGRITY & EFFICIENCY

January 12, 1994

The Honorable Alice M. Rivlin
Deputy Director
Office of Management and Budget
17th Street and Pennsylvania Avenue, N.W.
Washington, D.C. 20503

Dear Ms. Rivlin:

This letter respectfully transmits the Inspectors General vision statement that was unanimously accepted by the President's Council on Integrity and Efficiency on January 11, 1994, and the Executive Council on Integrity and Efficiency on January 12, 1994. The adoption of this vision statement is the culmination of a review of the concerns raised by the National Performance Review (NPR) and our customers. We appreciate the efforts of Mr. Philip Lader, former Deputy Director for Management of the Office of Management and Budget, in initiating the development of this vision statement.

This combined effort reflects a strong and unwavering commitment to the Inspector General Act of 1978, as amended (IG Act), and a clear determination to positively engage our energies to promote a more cooperative relationship with agency management and improve the operation of our offices. Most noteworthy is that this has been an exercise by all parties to develop a document that will stand the test of time.

Our Vision Statement includes our Mission and Authority and a Statement of Reinvention Principles to foster cooperative relationships. In so doing, we have captured the spirit of the NPR and maintained the independence and objectivity that is the cornerstone of our legislatively mandated mission. We have designed the vision statement for display and use throughout the Inspector General offices.

We have also developed "Strategies to Apply Our Reinvention Principles" which offers specific guidance to be considered when implementing a particular reinvention principle. The vision statement and strategies have been compiled in booklet form which will also be available for distribution.

One of the National Performance Review recommendations concerns the acceptance by Inspectors General of performance bonuses. The Inspectors General will adhere to the Administration policy on this subject. To this end, this Administration will ask future Presidentially-appointed Inspectors General drawn from the ranks of the Senior Executive Service to waive their rights to compete for bonuses determined by their agency head.

Total Quality Management principles have guided our thinking as we constructed the vision statement. We believe that this vision statement will help Inspectors General and their staffs focus their efforts to continuously improve their own operations, as well as agency management and program operations.

Respectfully yours,



Bill D. Colvin
Vice Chair, President's Council
on Integrity and Efficiency



Hubert Sparks
Vice Chair, Executive Council
on Integrity and Efficiency

Attachments