

**APPALACHIAN REGIONAL COMMISSION**

**INSPECTOR GENERAL'S**

**SEMIANNUAL REPORT**

**TO CONGRESS**

**OCTOBER 1, 1995 - MARCH 31, 1996**



May 17, 1996

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 (OIG) for the period October 1, 1995, through March 31, 1996.

During this period, operational activities included issuance of 18 reports, including 9 individual reviews, 4 program surveys, and 5 J-1 waiver reviews. Primary recommendations were directed at improved accounting, financial systems, internal controls, and compliance with J-1 waiver program requirements. Emphasis continued to be placed on deobligations of funds and audit followup and resolution. ARC initiated various actions to address issues noted in OIG reports and memorandums. For example, action was initiated on 47 of 94 grants identified for followup action in a prior audit report with deobligations of \$544,713. However, continuing action is necessary for 43 reported older grants with balances of \$1.2 million. Also, ARC initiated action to close out an additional 300 projects, including projects administered by basic agencies, with resulting deobligations exceeding \$3.5 million.

An external quality control review (peer review) of OIG audit operations was conducted during the reporting period. The review concluded that OIG audits are carried out in conformance with Government Auditing Standards.

The Inspector General concluded his 3-1/2 year term 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 32 designated Offices of Inspectors General (OIGs). This responsibility included participating as a member of the President's Council on Integrity and Efficiency (PCIE) and required extensive coordination and liaison between OIGs, OMB, and Congressional sources with respect to OIG activities. The support, cooperation, and assistance provided by ARC management facilitated performance of ECIE Vice Chair responsibilities. The Inspector General is currently a member of the PCIE Audit Committee and has made various recommendations directed at improving OIG operations.

The continued support of the OIG 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.

  
Herbert N. Sparks  
Inspector General

Enclosure

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## EXECUTIVE SUMMARY

During this reporting period, 18 reports were issued, including 9 individual grant reviews, 4 program surveys, and 5 J-1 visa waiver program reviews. Primary recommendations were directed at improved accounting and financial systems and controls and improved grant administration, including fund deobligations. At the end of the reporting period, 12 reviews were in process, including 9 grant reviews and 3 program surveys. Emphasis continued to be placed on deobligation of funds for grants with lengthy periods of inactivity. Management continued to emphasize timely followup and review of expired grants including assigning staff to implement improvements and improved management information systems to facilitate grant tracking. These actions resulted in deobligations approximating \$544,000, with the potential for additional deobligations exceeding \$1 million. Additionally, ARC actions on other projects, including basic agency administered grants, resulted in over 300 project close outs and deobligations of about \$3.5 million.

Of particular significance was a survey of 41 industrial development sites, for which ARC provided funding approximating \$11 million between 1987 and 1992, in order to obtain information about the extent of development and job creation/retention. The survey concluded that in 33 cases grantees reported meeting or exceeding employment goals, 2 grantees chose not to utilize grant funds, 3 grantees have met less than 50 percent of goals to date, and 3 grantees achieved little development primarily due to economic downturns. Actions are continuing by grantees to further increase development.

Our previous semiannual reports highlighted reviews of the J-1 visa waiver program and ARC actions to address the failure of participating providers and physicians to ensure that primary care was provided in health professional shortage areas. During this reporting period, complaints about the J-1 visa waiver program continued to be limited; and we believe increased program compliance has resulted from ARC and State agency actions. During this reporting period, we identified several instances of noncompliance; and ARC initiated actions to ensure full compliance with program provisions.

In line with reinvention and customer service principles, we continued to work with first-time and smaller grantees with respect to the implementation of practical accounting and financial systems and controls sufficient to ensure compliance with grant agreements, identification of eligible costs, maintenance of records and preparation of reports.

An external quality control review (peer review) of OIG audit operations was conducted during the reporting period. The review concluded that OIG audits are carried out in conformance with Government Auditing Standards.

The Inspector General's term 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 32 designated Offices of Inspector General (OIGs), ended in October 1995 after a 3-1/2 year period. This responsibility included participating as a member of the President's Council on Integrity and Efficiency (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 during the period of ECIE Vice Chair responsibilities. The Inspector General currently serves on the PCIE Audit Committee.

During the reporting period, the Inspector General submitted various comments and recommendations to PCIE with respect to overall OIG operations. The issues included:

- assessment of the results of financial statement audit work, including costs, results, and test methodologies;
- restructuring of OIG audit processes to better reflect audit needs and reduction of reliance on processes and standards developed primarily for the private sector;
- increased cost effectiveness of training related activities through increased use of in-house resources and reduced reliance on higher cost external conferences and seminars;
- communitywide efforts to reduce training related costs involving funding of social and entertainment type activities included in registration fees;
- consideration of alternatives in contracting for audit services, including use of lower cost peer professionals for less complex work.

The Inspector General continues to advocate use of Interservice Agreements by 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 10 designated IG offices and several PCIE entities 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 this regard, the ARC IG has strongly supported PCIE initiatives to encourage and increase the Governmentwide use of a master contractor concept for audit services contracts to achieve substantial economies of scale by eliminating duplicative contracting activities; and the expansion of this process, to include additional agencies, has been approved by the OIG audit community.

## 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 B
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 A
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	App C
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

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\*      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 32 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.

- 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.
- 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.
- The Commission's appropriation for FY 1996 is \$170 million, which is divided approximately \$109 million for highway projects, \$57.4 million for non-highway projects, and \$3.6 million for administrative expenses. ARC is authorized through its current appropriation.
- 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.

- 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 1996 is \$420,000. For FY 1996, approximately 30 percent will be expended for contract audit services; 55 percent, for salaries and benefits; 7 percent, for travel; and

8 percent, for all other activities (training, equipment, space, supplies, etc.). The OIG funding level represents about .0025 percent of the total funds available to the Commission.

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, 18 reports were issued, including 9 individual reviews, 4 program surveys, and 5 J-1 Visa Waiver Program followup reviews. At the end of the reporting period, 9 grant reviews and 3 program surveys were in process. 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 term of the OIG operations at ARC, various recommendations, based on audit testing, have been made to ARC management with respect to improving operations in such areas as accountability, financial management, fund obligations and deobligations based on project activity, implementation of cost principles, and audit followup. Programmatic issues, with respect to grant administration, J-1 visa waiver program, revolving loan funds, and internal control systems, have been addressed and recommendations made with respect to improved program operations or activities.

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 and project closings have been emphasized; and the number of funded projects with large unobligated balances has been substantially reduced. ARC conferences, training, and seminars continue to emphasize accountability, financial management systems, and allowable costs. Additionally, ongoing ARC actions, including revisions of accounting systems and service agreements, and strategic planning, including assessment of appropriate internal and external performance measures, are in line with OIG recommendations and executive and legislative initiatives to improve Government operations.

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.

- During recent reporting periods, continued emphasis was 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). 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. Emphasis was placed on recommendations to improve financial and accounting systems and controls.
  
- During the reporting period, ARC management continued to emphasize actions on grants with substantial periods of inactivity and/or expired performance periods. For example, we noted that closing actions were initiated for 47 of 94 grants identified for followup in our prior report, 95-23(H), May 4, 1995, with deobligations totaling \$544,713. However, as of March 31, 1996, followup action had not been initiated on 37 older grants with balances of \$950,224 that had been included in the prior audit report. Also, 6 grants with balances of \$178,411 had been approved extensions of performance periods; but those extensions had expired without additional actions. Also, additional deobligations exceeding \$1 million are possible with respect to grants expiring as of September 30, 1995. A followup report on this subject will be finalized during the second half of FY 1996. ARC actions and emphasis to improve the grant administration process, including close out procedures, included deobligations of about \$3.5 million between October 1995 and May 1996 and close out of over 300 projects.
  
- An example of the benefits of timely followup to determine the status of grants was an OIG contact with a grantee to schedule a field review. OIG was informed that the project would not be performed and the \$135,000 advance funding was returned to ARC. In other cases, our contacts, including field visits, have identified unused funds for which a need cannot be identified by the grantee. OIG recommendations continue to emphasize timely followup actions to determine the status of grants for which little or no funds have been expended during the performance period. Recent improvements in ARC information management systems and an internal reorganization should permit improved followup and action that result in more timely identification of funds for other uses.
  
- As a corollary to our emphasis on expired grant followup, we tested ARC claims processing and determined that the claims were processed timely after approval by the applicable project coordinator. However, we noted significant delays in final approval of some claims by some project coordinators and limited file documentation identifying the reasons for delays. Although satisfactory explanations were provided in most cases, our recommendation emphasized timely followup and file documentation for cases where claims submissions lack necessary elements.
  
- A survey of 41 grants, totaling about \$11 million, for industrial site infrastructure development between 1987 and 1992 disclosed that, in most cases, the development had

achieved or exceeded project goals for job retention or creation. The survey did not include a review of the individual infrastructure developments, such as water and sewer lines, since other Federal agencies were generally the cognizant audit agency (multi-agency funded projects) but emphasized project reporting about overall results. The survey indicated that 19 grantees exceeded employment objectives, 8 grantees met objectives, 6 grantees had achieved 50 to 80 percent of objectives, 3 grantees had some success, and 3 grantees had been generally unsuccessful in attracting commercial development due to economic downturns in the geographic area. In two cases, the grantee did not obtain or utilize the ARC grant. We made observation visits to 13 of the sites in connection with other scheduled work in order to visually identify and/or verify the extent of development. We recommended that ARC coordinate, to the extent practicable, with applicable grantees to assist with overcoming obstacles to full success.

- A review of six single audit reports submitted to ARC identified some deficiencies with respect to report preparation, including clarification or support for conclusions noted. These deficiencies, which were not considered material, formed the basis for clarification of entity handling of single audit reports and other grantee audit reports required or received by ARC. OIG, in conjunction with increased capability to identify the audit universe resulting from an improved information management system, will assume additional responsibilities with respect to ensuring receipt of required audit reports and reviews of reports for ARC related issues.
- Continuing reviews of compliance with J-1 Visa Waiver Program requirements identified two employers where approved J-1 physicians were not meeting program requirements to provide service at the applicable Health Professional Shortage Area (HPSA), including one instance where the physician was also practicing a subspecialty to a substantial degree. Recommendations dealing with ensuring compliance with ARC requirements were provided to ARC, and followup actions were initiated to address the conditions noted. On an overall basis, since the implementation of additional controls by ARC and state agencies, the OIG continues to receive few complaints with respect to operation of the J-1 Visa Waiver Program.
- A survey of ARC travel vouchers disclosed that claims were generally in accord with Federal Travel Regulations used by ARC staff. The primary recommendation pertained to use, or development if necessary, of a travel voucher form that can be effectively used to identify and calculate travel reimbursement claims. In conjunction with the subject of travel, grant reports have indicated a need for ARC to clarify the ARC implementing guidance with respect to the travel regulations considered applicable to grantees. The current reference in grantee guidance is outdated and unavailable resulting in grantee confusion about applicable guidance and some audit exceptions. ARC management is considering revised travel policies and procedures in line with recent recommendations in a Joint Financial Management Improvement Project (JFMIP) report, and an ongoing project dealing with ARC policies and procedures will update applicable guidance.
- Audit work in process included 9 grant reviews and 3 program surveys, including Expired Grant Update, Basic Agency Activities, and Cash Management. Issues surfacing in these reviews include the need for revision and/or enforcement of ARC prohibitions on indirect

cost eligibility by state agencies based on claims for such costs by several entities, emphasis on provisions for repayment of interest earnings, and emphasis on requests for technical assistance grants in closer relation to need in order to reduce or avoid delayed or nonuse of approved funds.

- The Office of Inspector General, Tennessee Valley Authority (TVA), provided assistance with respect to auditing an ARC grant that is being administered by TVA program staff. The review denoted an underrun of about \$11,000, which should be returned to ARC.
- An external quality control review (peer review) of OIG audit operations was conducted during the reporting period. The review concluded that OIG audits are carried out in conformance with Government Auditing Standards and appropriate internal controls have been established. Recommendations with respect to audit followup and report preparation are being implemented.

## **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.

During the reporting period, assistance was requested of the TVA Office of Inspector General to review an ARC grant that was identified by state auditors as potentially being impacted by actions of a local official. The review is in process.

## **IV. AUDIT PLANNING**

The OIG will be alert for new or revised areas of ARC operations based on the priorities and emphasis of ARC management, including results of strategic planning initiatives. 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.

Of particular importance is maintaining the flexibility of the audit plan to address changing needs and priorities. Coordination with ongoing ARC efforts to implement an entity-wide strategic plan are considered an important element of FY 1996 planning, and discussions with ARC management have identified several areas for review. Also, planning will include continued emphasis on incorporating elements noted in the Inspectors General Vision Statement.

The OIG's strategies and objectives for the next 5 years are defined in a strategic plan. The FY 1996 Annual Plan provides the operational details for OIG activities planned during FY 1996

to implement this strategic plan. We expect to revise this strategic plan each year until our experiences validate our planning assumptions and we have achieved a comfort level with how we have programmed activities over this extended time period.

During the latter half of FY 1996, audit work will include about 20 individual grant audits in the Appalachian states and additional followup on grants with completed budget periods, grant extensions, project results, and J-1 visa waiver program. Continued emphasis will be placed on audit followup and corrective action plans, including working with agency management to address open issues and achieve audit resolution and closure.

In order to maximize use of available resources directed at reviewing ARC activities, 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.

## **V. OIG HOTLINE**

A regionwide toll-free Hotline was previously 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 continue to be primarily received through ARC staff, on regular OIG phone lines, or from other OIG offices.

During the reporting period, complaints were received with respect to the J-1 visa waiver program and several grants. The ARC OIG initiated reviews in response to these complaints, and the results of these reviews will be noted in future reports.

Also, numerous hotline calls were received with respect to matters for which other agencies have jurisdiction. This resulted primarily from the ARC OIG hotline apparently being the first such OIG listing in some telephone directories, resulting in ARC OIG being contacted by citizens who did not know the appropriate agency for handling their concerns. The ARC OIG facilitated the complaint process by identifying the applicable agency based on complainant information and providing the correct OIG hotline number.

## **VI. LEGISLATIVE AND REGULATORY REVIEW**

Primary efforts in this area continued to be related to 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 continues to support extension of the Program Civil Fraud Penalties Act to include designated entities, improved protection of

designated IG budgets, and criteria consistent with current qualification requirements for Presidentially appointed IGs.

## VII. OTHER

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 10 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 this regard, the ARC IG strongly supports ongoing initiatives to encourage and increase the Governmentwide use of a master contractor concept for audit services contracts to achieve substantial economies of scale by eliminating duplicative contracting activities.

During the reporting period, the Inspector General completed his 3-1/2 year term as the Vice Chair of the ECIE. The Inspector General appreciates the cooperation and assistance provided by ARC management and PCIE and ECIE members, including OMB officials, that contributed to this meaningful experience primarily involving issues related to the 32-member designated IG community.

The Inspector General currently serves as the ECIE representative on the PCIE Audit Committee. In this capacity, and as a 32-year member of the OIG community, the Inspector General submitted various comments and recommendations on issues impacting the OIG community. These included:

- assessment of the results of financial statement audit work, including costs, results, and test methodologies;
- restructuring of OIG audit processes to better reflect audit needs and reduction of reliance on processes and standards developed primarily for the private sector;
- increased cost effectiveness of training related activities through increased use of in-house resources and reduced reliance on higher cost external conferences and seminars;
- communitywide efforts to reduce training related costs involving funding of social and entertainment type activities included in registration fees;
- consideration of alternatives in contracting for audit services, including use of lower cost peer professionals for less complex work.

**SCHEDULE OF REPORTS ISSUED OCTOBER 1, 1995 TO MARCH 31, 1996**

Report No.	Title	Program Dollars or Contract/Grant Amount	Questioned/Unsupported Costs*	Funds to Better Use**
96-1(H)	Tennessee Consolidated Technical Assistance Program	\$ 186,000		
96-2(H)	Brushy Fork Institute	135,000		
96-4(H)	Industrial Park Survey	11,290,000		
96-6(H)	Claims Processing			
96-7(H)	Alderson-Broadus College	93,000	\$ 20,535	
96-8(H)	NW Pennsylvania Regional Planning & Development Commission	390,000	11,712	
96-9(H)	J-1 Visa Waiver Program--Mountain Comprehensive Health Corporation			
96-10(H)	ARC Travel Review		165	
96-14(H)	J-1 Visa Waiver Program--Community Health Systems			
96-15(H)	New York State Consolidated Technical Assistance Program	174,000	622	
96-16(H)	NE Pennsylvania Industrial Resource Center	400,000	444	
96-17(H)	J-1 Visa Waiver Program--7 Facilities			
96-18(H)	J-1 Visa Waiver Program--South Williamson, Kentucky			
96-20(H)	Elmore County Board of Education	175,000		
96-21(H)	J. F. Drake State Technical College	200,000		
96-22(H)	City of Cullman	353,000	1,600	
96-23(H)	Review of Single Audit Reports			
96-26(H)	J-1 Visa Waiver Program--South Carolina			
<b>TOTALS</b>		<b>\$ 13,396,000</b>	<b>\$ 35,078</b>	

\* 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. Includes required matching contributions.

\*\* 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  
QUESTIONED OR UNSUPPORTED COSTS**  
(\$ in thousands)

	No. of Reports	Questioned <u>Costs</u>	Unsupported <u>Costs</u>
A. For which no management decision was made by the commencement of the reporting period	4	\$ 12	\$ 1
B. Which were issued during the reporting period	<u>6</u>	<u>\$ 35</u>	-
Subtotals (A + B)	10	\$ 47	\$ 1
C. For which a management decision was made during the reporting period	4	\$ 12	\$ 1
(i) dollar value of disallowed costs	2	\$ 1	- 1/
(ii) dollar value of costs not disallowed	2	\$ 8	\$ 1
D. For which no management decision has been made by the end of the reporting period	6	\$ 35	\$ -
E. Reports for which no management decision was made within 6 months of issuance	-	-	-

1/ Action continuing to reach final resolution on \$3,000 of questioned costs in one case.

**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	1	\$ 28
B. Which were issued during the reporting period	-	-
Subtotals (A + B)	1	\$ 28
C. For which a management decision was made during the reporting period	1	\$ 28
(i) dollar value of recommendations that were agreed to by management	1	\$ 28
--based on proposed management action	1	\$ 28 (544) <sup>1/</sup>
--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	-	-

<sup>1/</sup> Continuing action on prior audit reports that identified grants for followup action resulted in 47 closings and deobligations of \$544,000.

**DEFINITIONS OF TERMS USED**

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

<b>Questioned Cost</b>	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.
<b>Unsupported Cost</b>	A cost which the OIG questioned because the cost was not supported by adequate documentation at the time of the audit.
<b>Disallowed Cost</b>	A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Commission.
<b>Funds Be Put To Better Use</b>	A recommendation made by the OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation.
<b>Management Decision</b>	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.
<b>Final Action</b>	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.