BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

10,060

Should The Appalachian Regional Commission Be Used As A Model For The Nation?

AGC00157

The Appalachian Regional Commission program is an experiment to see whether effective policy and plans can be made for the economic, social, and environmental growth and development of Appalachia. The Commission considers its program a model for the Nation and recommends the concept be expanded to a nationwide system of multistate commissions.

F/C However, problems with

- --program planning and evaluation,
- --fund allocation procedures,
- --internal controls, and
- --monitoring State expenditures

need to be resolved before the experiment is expanded to serve as an effective model.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives CW000001

This report discusses the Appalachian Regional Commission's administration of nonhighway programs from program inception in 1965 to 1978 and discusses problems and issues that need to be resolved by the Congress, the Office of Management and Budget, and the Commission before the Appalachian experiment can be expanded to a nationwide system of multistate regional commissions.

We are sending copies of the report to the Director, Office of Management and Budget; the Secretary of Commerce; the Federal and States' Cochairmen of the Commission; and the heads of several State and local government agencies which participate with the Commission in planning and carrying out its programs.

Elmer B. Staats
Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

SHOULD THE APPALACHIAN REGIONAL COMMISSION BE USED AS A MODEL FOR THE NATION?

D I G E S T

The Appalachian Regional Commission believes its efforts warrant expansion to a national system of multistate regional commissions. It has been projected that such a program could cost the Federal Government an additional $1.5 to $2 billion annually. However, ~~GAO concludes that~~ such expansion would be premature until the problems and unresolved issues discussed in this report are thoroughly considered.

Despite the Commission's contributions to Appalachia's progress, seven problems limit accomplishment of national objectives:

--The Commission's planning policy allows individual States to omit from their plans common regional problems which originally justified the program.

--Inadequate written guidelines for State and district planners permit State plan deficiencies to continue.

--Unquantified program goals and objectives at all planning levels (multistate, State, and substate) are not sufficient to measure progress and determine successful achievement.

--Allocation procedures may have underfunded some States while overfunding others.

--Serious grant administration problems have resulted from inadequate internal procedures and lack of Federal agency cooperation.

--Commission policy does not adequately address declining State financial share of the Commission's nonhighway programs and increasing use of supplemental funds to replace other unavailable Federal funds.

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CED 79-50

ASSURANCE NEEDED THAT FEDERAL FUNDS ARE DISTRIBUTED EFFICIENTLY AND EQUITABLY

The Commission should use its regional development planning process to establish specific goals in terms of acceptable education, employment, health, housing, income, and other standard of living levels. This will provide better assurance that the Commission's funds are being allocated to the States effectively. For example, efficient and equitable targeting of the Commission's funds between 1965-75 may not have occurred. Tennessee and West Virginia, which continue to experience severe development problems, received an inordinately low per capita nonhighway allocation, while Maryland and South Carolina received a high per capita allocation when all 13 States are measured by a consistent index of relative need. (See pp. 48-51.)

INTERNAL PROCEDURES AND INTERAGENCY COOPERATION NEEDED FOR EFFECTIVE ADMINISTRATIVE CONTROL OVER FEDERAL FUNDS

Using Federal agencies to administer and spend most of the Commission's funds appropriated to the President requires a well-designed internal control system, aggressive management attention, and adherence to the terms and conditions of interagency agreements. The Commission has experienced numerous problems in this regard and has been only partially successful in resolving them. GAO found, for example, that:

--As of March 1977, of over 5,000 projects funded by the Commission between 1965-75, only 454 had been officially closed out.

--Many projects approved early in the program continued to be treated over a decade later in an open status. The Commission was unable to document adequately that funds approved for some projects had been spent.

--No reasonable estimate existed as to the extent that Federal agencies may have disbursed Commission funds in excess of grantee

PROGRAM EVALUATION EFFORTS NEED EXPANSION AND HIGHER PRIORITY

The Commission does not yet have a complete project and program evaluation system identifying project benefits, measuring program effectiveness, and linking the results to ongoing planning and project selection. However, several important benefits have been achieved.

The Commission should define more clearly what each State's evaluation capability should be, set target dates by which that capability should be in place, establish a long-range fiscal plan addressing future Federal and State commitment to the program, and make provisions to evaluate program effectiveness within a reasonable period of time.

The Congress should amend the Appalachian Act to require the Commission to evaluate the impacts of its projects and programs. (See pp. 99 and 100.)

AN UNFINISHED AGENDA

The Commission's definition and concept of a regional development plan, which the Senate Committee on Public Works encouraged it to prepare, appears inadequate. For example, the Commission's first such plan does not contain specific enough projections of unmet needs and the quantified objectives, targets, and time frames necessary to meet those needs. Until the Appalachian Regional Commission addresses these and other issues, its resolution calling for a national system of multistate commissions patterned after it will not be convincing. The Appalachian Regional Commission is not yet a model for the Nation. (See p. 102.)

AGENCY COMMENTS

The Commission disagreed with most of GAO's report. The Office of Management and Budget disagreed that it should intervene in problems the Commission has experienced in closing out projects and enforcing interagency agreements.

Contents

CHAPTER 1

INTRODUCTION

> "Regional economic development of Appalachia is required not only to extend the benefits of American prosperity to the citizens of this neglected region. Such development will also be of direct and indirect benefit to the rest of the Nation."1/

In 1965 the Appalachian Regional Development Act (40 App. U.S.C. 1-405) was passed which established the Appalachian Regional Commission (ARC). The act began an experiment in Federal-State-local development planning aimed at correcting economic and social imbalances between Appalachia and the rest of the Nation. The Appalachian experiment tests whether the Commission (13 Governors and a Presidential appointee, the Federal Cochairman) can make effective policy and plan for the growth and development of a multistate region. The program since 1970 has provided about $300 million annually in Federal grants to carry out ARC policies and plans affecting 397 counties and 13 States. A map of Appalachia as defined by the Appalachian Regional Development Act of 1965, as amended (hereafter referred to as the Appalachian Act), appears on page 4.

The Appalachian Act focused on the need to invest in the total resources of a region--its people, natural resources, physical facilities, and its institutions of government--in order to promote overall growth and development. The act's ultimate objective is to eliminate Appalachia's need for special Federal assistance.

EVENTS LEADING TO THE COMMISSION'S CREATION

Planning for the growth and development of large multistate regions originated in 1933 when the Federal Government created the Nation's first multistate planning agency, the Tennessee Valley Authority. At the same time, the Federal Government began providing funds for States to undertake long-range, comprehensive planning efforts, particularly for public works projects. Thirty years later, these two new concepts--comprehensive State planning and multistate regional planning--were combined to produce the Appalachian Regional Commission.

1/S. Rept. 13 (89th Cong., 1st sess.), p. 2 (1965).

President Kennedy to appoint a special task force, the President's Appalachian Regional Commission, in 1963. The Appalachian Act was passed within 1 year of the Presidential Commission's 1964 report.

APPALACHIAN PROGRAM IS UNIQUE

Five factors distinguish the Appalachian program from other Federal aid programs and regional commissions: (1) comprehensiveness of approach, (2) role of State government, (3) amount of funding, (4) method of grant administration, and (5) broadness of mission. Although the Federal Government has established other regional commissions and economic development programs, none possess all five features.

A comprehensive approach to regional development addresses both rural and urban problems; includes all three levels of government; combines planning for human, natural, physical, and institutional resources; and provides funds to carry out plans and projects. The Appalachian program does all of the above.

Unlike most Federal programs, in the Appalachian program State governments share policymaking authority with the Federal Government. States prepare annual development plans, determine geographic and program areas that need assistance, and recommend projects to receive Appalachian program funds.

Federal appropriations for the Appalachian program since 1965 have averaged about $250 million annually. In contrast, the seven other regional commissions established between 1965 and 1975 together averaged only $26 million annually, or less than $4 million per commission per year. ARC is also the only regional commission engaged in a major multistate public works construction project--the 2,900-mile Appalachian Development Highway System--currently authorized by the Congress at a level of $2.9 billion through fiscal year 1981. Even excluding the Appalachian Highway, ARC nonhighway or "area development" project approvals--totaling $1.1 billion in ARC Federal funds between fiscal years 1965-75--contrast sharply with $251 million in approvals by all other commissions during the same period. ARC's $1.1 billion in Federal funds, as shown in appendix III, was matched by an additional $2.1 billion in other Federal, State, and local funds in ARC nonhighway projects.

ARC's method of grant administration is another distinguishing program feature. Unlike other agencies which maintain networks of grants management personnel at Federal headquarters, regional, State, areawide, and even local offices, ARC does not. Instead, ARC functions as a pass-through mechanism, transferring most of its Federal appropriations to Federal agencies to administer, and maintains no offices outside of its Washington, D.C., headquarters. As discussed in chapter 4, between 1965-75 ARC transferred about 95 percent of its Federal funds approved for area development projects to Federal departments and agencies to be administered through their normal grant-in-aid mechanisms.

Finally, the Appalachian program is unique because of its broad mission. In carrying out the stated purposes of the Appalachian Act--to promote economic development, assist in meeting Appalachia's special problems, and establish a Federal-State-local approach to regional development--ARC serves as a national experiment, testing whether Governors and the Federal Cochairman can effectively make policy, plan, and influence other Federal, State, and local spending to benefit the region. The Congress intends for Appalachia to generate a diversified economy, eventually eliminating the need for separate Federal assistance.

We reviewed these five features of the Appalachian program--comprehensiveness, State role, funding, grant administration, and mission--and discuss our findings throughout this report.

COMPREHENSIVE REGIONAL DEVELOPMENT PLANNING HAS NATIONAL SIGNIFICANCE

While comprehensive planning for economic, social, or environmental problems is not limited to the Appalachian program (see app. X), ARC's integrated approach is. By combining these elements in a single program, scaling comprehensive planning to multicounty, State, and multistate levels, and providing funds to carry out plans developed on a regional basis, the Appalachian approach becomes an important national demonstration of comprehensive regional development planning. Appalachia is the only geographic region in the United States with all its counties (397) included in an established system of 69 substate planning districts funded by a regional commission whose 13 member States have been preparing and carrying out development plans for over a decade.

ARC believes its efforts and the results from this national experiment warrant both continuation and expansion to a nationwide system. In 1977, ARC adopted resolutions calling for extension of its nonhighway programs through

Previous GAO reports to the Congress have dealt with the Appalachian Development Highway System. 1/

This report discusses selected aspects of Appalachian program effectiveness (chs. 2-5) and how much longer Appalachia will need a separate assistance program. (See ch. 3.) Chapter 6 lists four unresolved issues which will limit ARC's influence on national development policies.

To answer our questions, we conducted a review between September 1976 and December 1977, updating some information as needed through April 1979. This review included work at ARC's Washington, D.C., office, supplemented by field work in one State from each of the three Appalachian subregions (Pennsylvania in Northern Appalachia, Kentucky in Central Appalachia, and South Carolina in Southern Appalachia) and one local development district 2/ in each of those States. These districts, shown on the map on page 4, are the Economic Development Council of Northeastern Pennsylvania, headquartered in Avoca, Pennsylvania; the Kentucky River Area Development District, (KRADD) Inc., headquartered in Hazard, Kentucky; and the South Carolina Appalachian Council of Governments, headquartered in Greenville, South Carolina. Chapter 8 details the scope of our review and our methodology.

1/"Highway Program Shows Limited Progress Toward Increasing Accessibility To and Through Appalachia," (B-164497(3), May 12, 1971); and "The Appalachian Development Highway System in West Virginia: Too Little Funding Too Late?" (PSAD-76-155, Nov. 3, 1976).

2/Local development district is the general term used to describe substate planning organizations established by State law and responsible for comprehensive areawide planning within a multicounty area. Different Appalachian States use various terms for their districts, such as Area Development District (Kentucky), Area Planning and Development Commission (Georgia), and so forth. For consistency, this report uses the terms "local development district" or "district" when referring to these organizations.

COMPREHENSIVE REGIONAL DEVELOPMENT PLANNING: ITS CONCEPT, REQUIREMENTS, OBJECTIVES, AND CONSTRAINTS

To understand why ARC should revise its planning policy and issue detailed written guidelines for State planning requires familiarity with four aspects of comprehensive regional development planning: (1) what it is, (2) what the law requires, (3) the objectives of such planning, and (4) constraints against comprehensiveness. The following briefly discuss these four aspects. The balance of the chapter discusses how ARC's planning policy and guidelines hamper comprehensiveness.

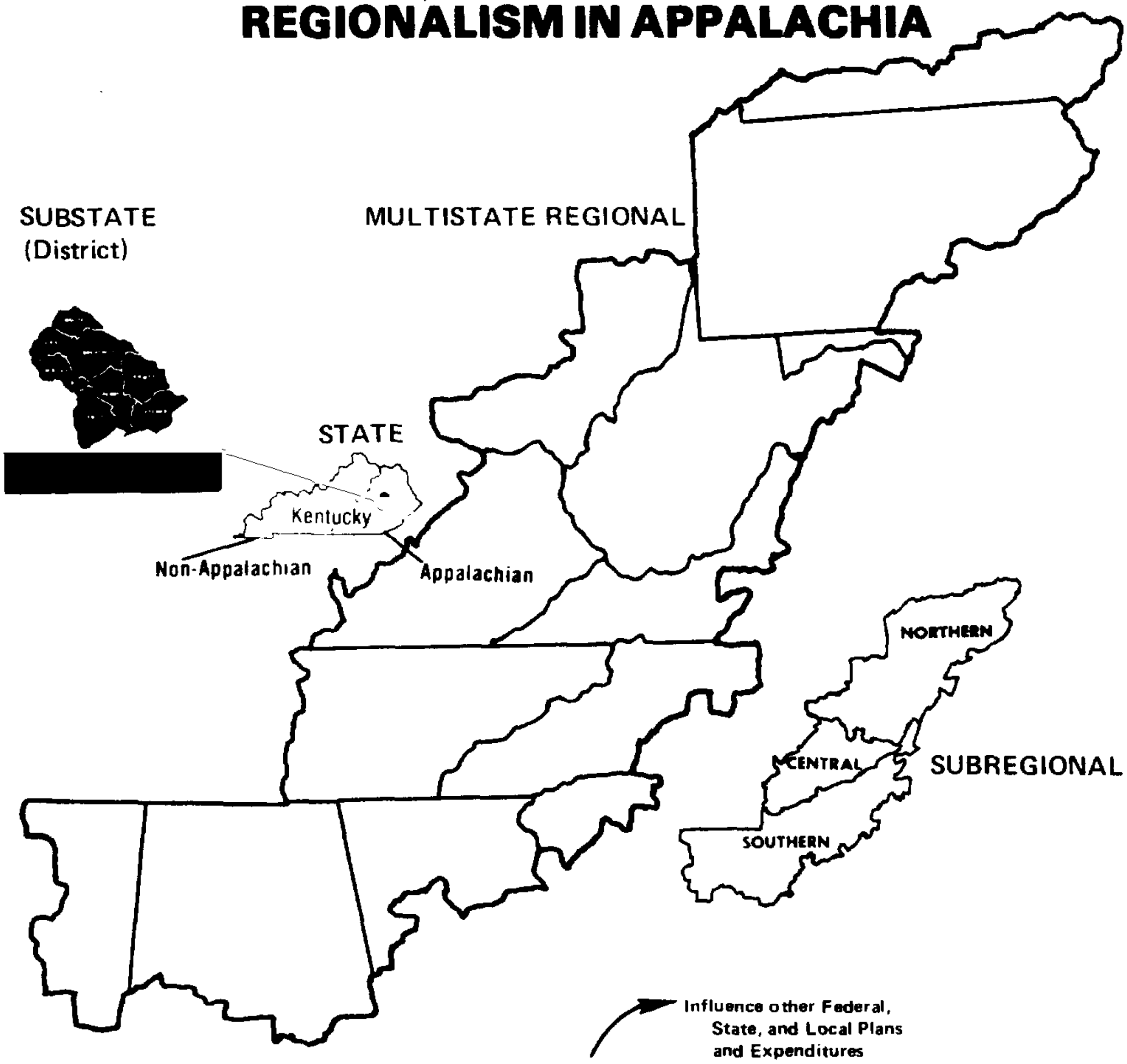
Concept. Comprehensive regional development planning is a systematic process, based on the concepts of regionalism, comprehensive planning, and development. Regionalism focuses on geographic areas sharing common characteristics. Comprehensive planning combines different categories of more specialized planning, such as health, housing, transportation, and economic development, into an overall approach. Development is a continuous process of adjustment to economic and social change. The Appalachian program attempts to merge comprehensive development planning at the local (substate) and State levels into an overall, multistate approach. Page 11 illustrates this concept and lists six steps in a systematic planning process.

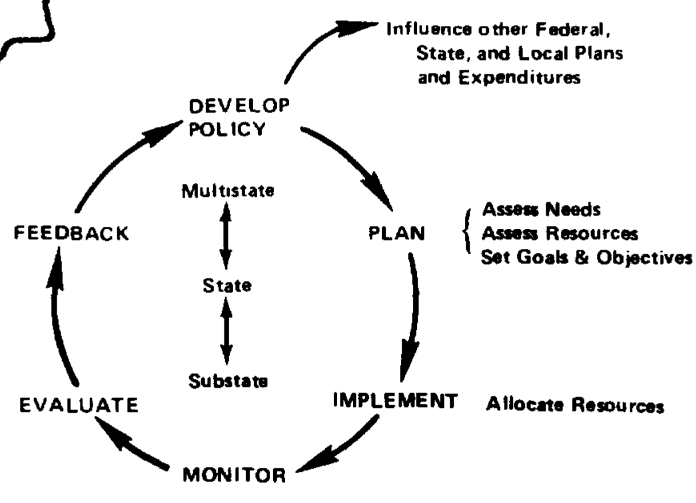
Requirements. The Appalachian Act requires ARC to develop comprehensive and coordinated plans and programs, establish priorities, and develop a planning process linking district areawide action programs 1/ and State plans into an overall regional development plan. The Regional Development Act of 1975 added the requirement for areawide action programs and referred to a regional development plan.

Objectives. ARC planning serves three objectives: (1) address the common problems identified when the region was established; (2) influence other Federal, State, and local plans and expenditures in the region; and (3)

1/An areawide action program is a concept introduced by ARC in 1975 to describe a comprehensive, long-range district planning process which produces a single planning document. ARC intends the document to be used to satisfy the local planning requirements of other Federal programs as well as ARC, such as the community and economic development efforts of the Economic Development Administration and the Department of Housing and Urban Development (HUD).

THE CONCEPT OF MULTISTATE REGIONALISM IN APPALACHIA





emphasis and which will receive less emphasis in and which will be omitted from, the State's Development Plan and Program and a discussion of the rationale for these choices * * *." (Underscoring supplied.) By unanimous vote, Appalachian State representatives chose not to adopt a requirement that they all address the same problems in their State plans and planning processes.

In terms of discretion and flexibility given to individual States, ARC's 1977 planning policy is even less restrictive than the policy which governed Appalachian planning during the program's first 12 years. In 1977, just as in 1966, ARC multistate planning was largely the accumulation of individually prepared State (and to a lesser extent, district) plans. As with State planning, ARC policy does not require districts to address the same problems when preparing areawide action programs; it only requires that State plans describe the districts' role in the State's planning process.

Examples of incomplete State and district planning

We found numerous situations in which Kentucky, Pennsylvania, and South Carolina Appalachian planning processes and documents were incomplete. Because these documents--annual State plans, annual State "investment programs," and district areawide action programs--represent one of the most tangible products from the planning process, incomplete plans reflect an incomplete process. Although most district areawide action programs were in their early stages in 1976 and 1977, our observations about incomplete State planning parallel what we found at the district level.

Situation 1: common problems not addressed

On the surface, the projects which Kentucky, Pennsylvania, and South Carolina submitted to ARC for approval in 1977 (see app. IV) appear to represent a comprehensive approach to regional development planning. These States, for example, submitted a total of 299 projects, seeking $60 million in ARC funds for 8 broad functional program categories, with only 1 program area (environment and resources) not addressed by all States.

A closer examination, however, of the process by which these projects are generated reveals gaps between plan preparation and project selection. Instead of the systematic planning process (previously illustrated on p. 11), in which projects are selected and resources allocated to implement

Situation 2: inadequate goals, needs assessment, and priority setting

We found this situation to be so extensive throughout the Appalachian program that we reserve most of our comments dealing with these problems to chapter 3. (See p. 38.) The following discussion is limited to an overview of these problems at the State level and a brief comparison of differences in the extent to which districts set priorities for the Appalachian program.

ARC written staff comments sent to each of the 13 States concerning deficiencies in their 1977 State plans reveal the extent of inadequate goal setting and needs assessment procedures. Page 16 summarizes these comments in a table. It shows that after 12 years of program operation, all 13 States were criticized for either submitting plans containing inadequate goal statements or failing to quantify or set priorities among their various development goals. All 13 were also criticized for inadequately analyzing or assessing needs upon which to base goals and objectives. These ARC staff comments reinforce our finding that incomplete State planning leaves a gap in the Federal-State-local approach which ARC should be continuingly improving upon.

Setting priorities within each problem category (housing, health, education, etc.) and then trying to merge the various sets of priorities into a single document or integrated list of priorities is one of the most difficult aspects of comprehensive planning. Because Appalachia's unmet needs so far outstripped the Appalachian program's available funds to meet those needs, ARC planning policy has from the beginning emphasized the need to set priorities. Its 1966 guideline document "Policies for Appalachian Planning" stated that the distinguishing feature of Appalachian State plans must be an ability to establish priorities among "alternative investments;" that is, problem categories. ARC's 1978 guidance for preparing areawide action programs also stresses the importance of setting priorities.

At the district level, we found that procedures for setting priorities resulted in project reviews ranging from superficial to rigorous. The Kentucky River Area Development District, for example, solicited project proposals from local government and private sector individuals. During the board meeting at which the district's project priorities for 1977 ARC funding were to be decided, each board member used the list of previously solicited projects as a ballot to rank the projects. Staff compiled the results to produce a final project ranking.

No discussion of the merits of each project preceded the balloting. According to district staff, no attempt is made throughout the year to establish priorities of unmet needs among the 12 problem categories in which the staff specialize.

Likewise, the district's first attempt at preparing an areawide action program document was based largely on individual project submissions from local governments. Priorities were not established either within problem category or among categories, only by anticipated year of funding.

On the other hand, both the Pennsylvania and South Carolina districts used a more rigorous screening process to select projects and set priorities. Both districts' board meetings and those of their various advisory committees and technical assistance panels appeared to give more thorough attention to discussions of project merit and priority setting than did KRADD.

The South Carolina Appalachian Council of Governments (SCACOG) and its associated councils 1/ did establish priorities by category of projects and submit them to the Governor for his final ranking in the 1977 State plan, even though the district was not yet participating in ARC's areawide action program. SCACOG, however, did not attempt to merge the four categories of need (education, health, child development, and community facilities) into one integrated listing, as did our sample district in Pennsylvania.

The Economic Development Council of Northeastern Pennsylvania's (EDCNP's) first areawide action program contained 75 projects with priorities also established within program categories, as had SCACOG. In addition, EDCNP's plan integrated these separate categories into a composite list of all projects, ranked in order of priority from 1 to 75. The district--admittedly the only one of the three which at the time of our visit had received ARC funds to develop an areawide action program--came closest to ARC's hope for a single comprehensive district planning document. Based on our observations of priority setting in the KRADD, prospects for such a document there appeared unlikely. KRADD and SCACOG received ARC areawide action program grants during 1978.

1/SCACOG administers the nonhealth and nonchild development portions of the Appalachian program, while two separate organizations (the Appalachian Health Council and the Child Development Council) are responsible to the State for health and child development planning, including that for ARC programs.

Situation 3: Other financial resources ignored or not mentioned

Except for the State's detailed annual list of proposed projects, which specifies the amount of ARC, other Federal, State, and local funds to be committed, State and district plans we reviewed generally did not show how much other funds are being applied to regional development problems. For example, we found little summary data in Kentucky, Pennsylvania, and South Carolina ARC State or district plans, other than specific project proposals, which systematically lays out how much money Federal, State, and local governments are spending or plan to spend on Appalachia's problems. Instead of a comprehensive presentation, State Appalachian plans often spoke only in generalities about coordination with and funding commitments from other Federal and State programs.

We consider the situation a problem for the following reasons:

--Long-range fiscal planning is one of five basic elements contained in the Federal Government's generally accepted definition of comprehensive planning. 1/

--The Appalachian Act, ARC planning policy (both in 1966 and 1977), and guidelines for district areawide action programs emphasize that ARC planning is supposed to influence, recognize, and be coordinated with other Federal, State, and local planning in the region.

--The Appalachian State plan's usefulness to other planners becomes quite limited because it does not systematically compare unmet needs with available resources.

--Failure to document these other resources and how ARC planning influences them indicates that ARC planners plan largely for ARC funds only.

--Inadequate documentation gives insufficient credit to those States and districts which succeed in using ARC funds to influence the priorities and spending patterns of other Federal, State, and local development programs, as the Congress intends.

1/Public Law 90-577, "Intergovernmental Cooperation Act of 1968," (40 U.S.C. 535(c) (2) (1976)).

At the local project level, incomplete State long-range fiscal planning, as noted on page 20, can ultimately lead to financial dependency on the Federal dollar. For example, Kentucky needed two ARC grants in 1975 and 1976, totaling over $1.4 million, to reduce operating deficits incurred by a nonprofit grantee as a result of initiating seven ARC-funded projects between 1968 and 1971. The Senate Public Works Committee had expressed concern about the financial capability of this ARC grantee in 1971 and received testimony from the grantee stating that it could continue to provide free medical care to a segment of the poverty population in Central Appalachia without jeopardizing its already tenuous financial situation. By 1975, however, the grantee needed ARC assistance to avert a financial crisis.

Our review of ARC's project files and Kentucky project plans and discussions with ARC staff disclosed that inadequate attention to the long-range financing needs of the grantee, the prospects of financial self-sufficiency, and possible operating deficits from the ARC-funded projects eventually contributed to the grantee's need for additional ARC assistance in 1975 and 1976. Although ARC, Kentucky health planners, and the grantee were trying to reduce the future need for such deficit funding, we believe earlier State attention to long-term financial planning and grantee financial needs could have averted the need for ARC's $1.4 million operating deficit grants.

Situation 4: Unmet local needs not systematically reflected in State plans

Although district officials and grantees spoke favorably of the Appalachian program's responsiveness to local needs, our examination of State plans showed considerable inconsistency and incompleteness in terms of States documenting unmet local needs. This situation occurred in virtually every program category.

Such inconsistency in the way different Appalachian State plans address common regional problems can be seen in the following example of inadequate health care and the severity of unmet health needs. ARC revised its health planning policy in 1976, requiring States to give greater emphasis to increasing access to basic health care services in medically underserved areas throughout Appalachia. ARC's flexible approach to State planning produced the following results:

influence policies and plans for State-controlled programs. District officials believe that although the process is a step forward, it must be expanded to include Federal categorical programs as well. Without such integration, the availability of these categorical funds will continue to dictate project priorities and to limit the influence of district planning efforts.

In addition to the problem of district inability to influence Federal and State program priorities, problems can arise at the local level if State and district planning is not coordinated. Because State plans did not systematically reflect unmet local priorities, the effectiveness of some projects in ARC's comprehensive health and child development 5-year demonstration program in Kentucky between 1970-75 was reduced. 1/ For example:

--In the early planning stages (1970-71) of an extensive 16-county multimillion dollar regional child development project (the Kentucky Infant and Preschool Project), the State's plan gave low priority to some services which individual county planners considered to be of high priority, leading to State/local tension in initiating services.

--State and district planners encouraged an ARC and locally funded $828,000 environmental health multicounty solid waste disposal project (the Kentucky River Garbage and Refuse Disposal District) without insuring adequate local financial support. KRADD staff told us that this project's problems provided valuable lessons about the need to insure that local governments are willing to support regional projects. Although the project had survived, at the time of our review three of the district's eight counties were refusing to support the project and four counties intended to construct individual county landfills using primarily local funds. These projects may undermine the fragile financial position of what remains from the originally planned multicounty refuse project.

As indicated earlier concerning incomplete State planning for housing and education needs, our comments about the Kentucky Infant and Preschool Project and the Kentucky River Garbage and Refuse Disposal District are not meant to

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1/See our previous Report to the Senate Committee on Public Works "Review of Selected Activities of Regional Commissions," (B-177392, Mar. 26, 1974, pp. 22-28.)

out problems with State planning efforts, ARC had not considered issuing guidelines for State planning as of November 1978.

Examples of recurring problems in State plans

In numerous instances, States either inadequately responded to or apparently did not respond to suggestions made by the ARC staff during the previous year's plan review. The table on page 16 shows, for example, that 6 of 13 States' 1977 plans were unresponsive to ARC staff suggestions. We cite the following excerpts from comments to Pennsylvania and North Carolina in 1977 to illustrate the problem:

> "The FY 1976 Update review recommended that for FY 1977 a comprehensive assessment of past investments in relation to unmet needs to be made prior to making new public facility and operational program investments. The FY 1977 Update provides no assessment as recommended and there is no indication that planning underway for FY 1978 will provide such an assessment. The Update provides no discussion of state intent regarding the FY 1978 Development Plan.
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> "In addition to a revised assessment of needs, it was recommended that more quantifiable criteria for selection of projects within program areas be developed. This has not been done." (Pennsylvania)
>
> "In summary, the FY 1977 Update * * * does not adequately address the concerns expressed by the Commission in the adoption of the FY 1976 Plan. Specifically, there has not been an assessment of program facility and service needs and problems supported by recent data. The result being there is no way to verify the goals, objectives and priorities established in the Plan." (North Carolina)

In Pennsylvania's case, ARC staff had expressed the same or similar criticisms about the adequacy of the State's plans for 5 out of 6 years between 1972 and 1977.

Pennsylvania's 1977 Appalachian State plan update was so deficient that ARC sent a task force of its staff to help State officials prepare an acceptable document. This situation occurred despite the fact that ARC had provided over $250,000 in State management technical assistance and planning grants to Pennsylvania between 1973-77 to increase that State's planning capacity.

"Thus far the preparation of the development plans and project packages has been dominated by the practical requirements of running a grant-in-aid program. To only a limited extent has it produced a process and documents emphasizing the basic objectives of bringing all of the program components together * * *." 1/

"In many ARC States, the planning function at the State level was either non-existent or quite primitive, a condition which still exists to some degree." 2/

"Planning requirements have no more originated with the states or grown out of their felt needs than in any other grant program. They were proposed by the federal cochairman and staff and more or less passively accepted by the states as an inevitable burden of receiving federal aid * * *." 3/

As late as 1976, a major assessment of Federal aid programs for economically depressed areas made the following observation:

"The emphasis on Appalachian multistate regionalism was to be found mostly in the rhetoric of its proponents, but little in the operations of the Appalachian Regional Commission * * *. Although the commission claims to take subregional goals into account in approving projects, it is clear that the States prefer to maintain as much discretion as they can in expending funds." 4/

Mixed reaction to our suggestion that guidelines will help correct recurring State plan deficiencies

ARC staff and State and local district officials had mixed feelings when we suggested that written planning guidelines would help improve planning effectiveness at all levels. State and local officials generally opposed the idea, while

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1/Appalachian Regional Commission, "The Appalachian Experiment 1965-1970," undated, p. 89.

2/Advisory Commission on Intergovernmental Relations, "Multistate Regionalism," 1972, p. 213.

3/Martha Derthick (Brookings Institution), "Between State and Nation," 1974, p. 104.

4/Sar Levitan and Joyce Zickler, "Too Little But Not Too Late," 1976, p. 97.

ARC needs to find a more effective means of eliminating recurring State plan deficiencies.

Fiscal incentives or penalties (for example, additional planning and program funds for States which make substantial improvements or withholding funds from States which do not) appear politically impractical as well as unenforceable under ARC's somewhat guaranteed funding approach. Guidelines, coupled with the ARC Code and continued ARC staff technical assistance, is an alternative which could succeed where previous ARC efforts have not.

CONCLUSIONS

ARC planning policy does not require States to address the same categories of problems when preparing their Appalachian development plans. Instead, its policy allows States to omit problems and program areas from their plans. Thus, the policy becomes a constraint against comprehensive planning, unnecessarily adding to those external constraints ARC has labored under since 1965.

In addition, ARC has not established adequate written guidelines for State and district planning. Without more detailed guidance than the ARC Code, no objective criteria exists to systematically improve weak plans and planning processes. As it now stands, inadequate guidelines contribute to a weakening of the development planning process, inefficient and ineffective measures to correct longstanding State plan deficiencies, and an unsatisfactory situation in which Appalachian planners compromise the legislative mandate for comprehensive planning.

The Congress expects multistate regional planning commissions like ARC to influence future national policy and planning decisions. Unless ARC can achieve greater consistency and comprehensiveness in individual State planning efforts, congressional expectations will be frustrated. Furthermore, if ARC expects to improve the integrated planning process which section 225 of the Act requires, or to serve as the model for a nationwide system of regional commissions, it needs to revise its planning policy and issue more specific written guidelines to supplement the ARC Code for State and district planning. These improvements will help Federal, State, and local governments to (1) set more specific goals and objectives for the region, (2) assess the region's remaining needs more comprehensively and consistently, and (3) allocate resources to meet those needs more effectively. Chapter 3 discusses the need for better goal setting and resource allocation.

CHAPTER 3

ARC SHOULD QUANTIFY ITS GOALS AND OBJECTIVES AND REEXAMINE ITS METHOD OF ALLOCATING FUNDS TO THE STATES

> "How long a period should be allotted to carry through on a program and when should we be able to determine that the Appalachian problem is no longer self-generating? The answer suggested is one generation." 1/

> "The committee does not intend to create an Appalachian program in perpetuity. It anticipates that the benefits of this program will justify ending the Federal Government's special effort." 2/

ARC has not established quantified goals and objectives or specific time frames needed to determine when its efforts to reduce disparity with the Nation and achieve regional economic self-sufficiency are accomplished on either a program or geographic basis. ARC nonhighway program fund allocation procedures provide inadequate assurance that funds are being distributed effectively and fairly. Without criteria such as time frames and quantified targets for reducing the region's remaining problems to acceptable levels, there is

- --no objective method to determine when Appalachia, or various portions of the region, no longer need special assistance;
- --no assurance that Federal funds appropriated to ARC are being used most effectively;
- --no constraints to prevent the Appalachian States from believing the program will go on indefinitely.

ARC should (1) establish quantified regional goals, specific time frames, and regional standards to determine when disparity has been reduced to an acceptable level and self-sufficiency achieved, (2) adopt guidelines requiring States and districts to quantify their goals and objectives,

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1/Thomas A. Ford, ed., "The Southern Appalachian Region: A Survey," 1962, p. 298.

2/S. Rept. 13, (89th Cong., 1st sess.), p. 25 (1965).

the ultimate goal of eliminating the need for separate assistance, can thus be summarized in two more specific goals:

(1) Reduce the region's disparity to acceptable levels.

(2) Reduce excessive social dependency on the need for public assistance payments by increasing economic diversification; that is, achieve economic self-sufficiency. 1/

The Senate Public Works Committee report preceding the Appalachian program's extension in 1975 commented on the importance of retaining the concept of ARC as an agency of limited duration with a stated mission. 2/

If this program is not intended to run indefinitely, then specific criteria need to be established to objectively determine when this separate Federal aid program can be phased out and eventually terminated. These criteria should be explicit in terms of (1) specific variables such as employment, education, health, housing, income and poverty levels, (2) specific geographic locations, and (3) specific points in time. Because Appalachia's economy, like that of any other large geographic region, is made up of smaller subregional and local economies with each area possessing a different mix of economic, social, and natural resources, rates and degrees of regional development will vary from place to place.

1/Over time, international, national, regional, and local economic conditions have become so interrelated that "economic self-sufficiency" is a misnomer. We use the term here in the same sense as that used by the Senate Public Works Committee in 1965 and ARC in 1968; that is, self-sufficiency to the extent that (1) regional unemployment, underemployment, or general underdevelopment does not require a disproportionate share of national (Federal) public assistance and other cash transfer payments to support large segments of the region's population and (2) enough economic diversity exists to prevent major upheavals in a region's work force, such as the massive outmigration from Central Appalachia between the 1930s and 1960s because of inadequate employment opportunities.

2/S. Rept. 278, (94th Cong., 1st. sess.), p. 15, (1975).

L INCOME
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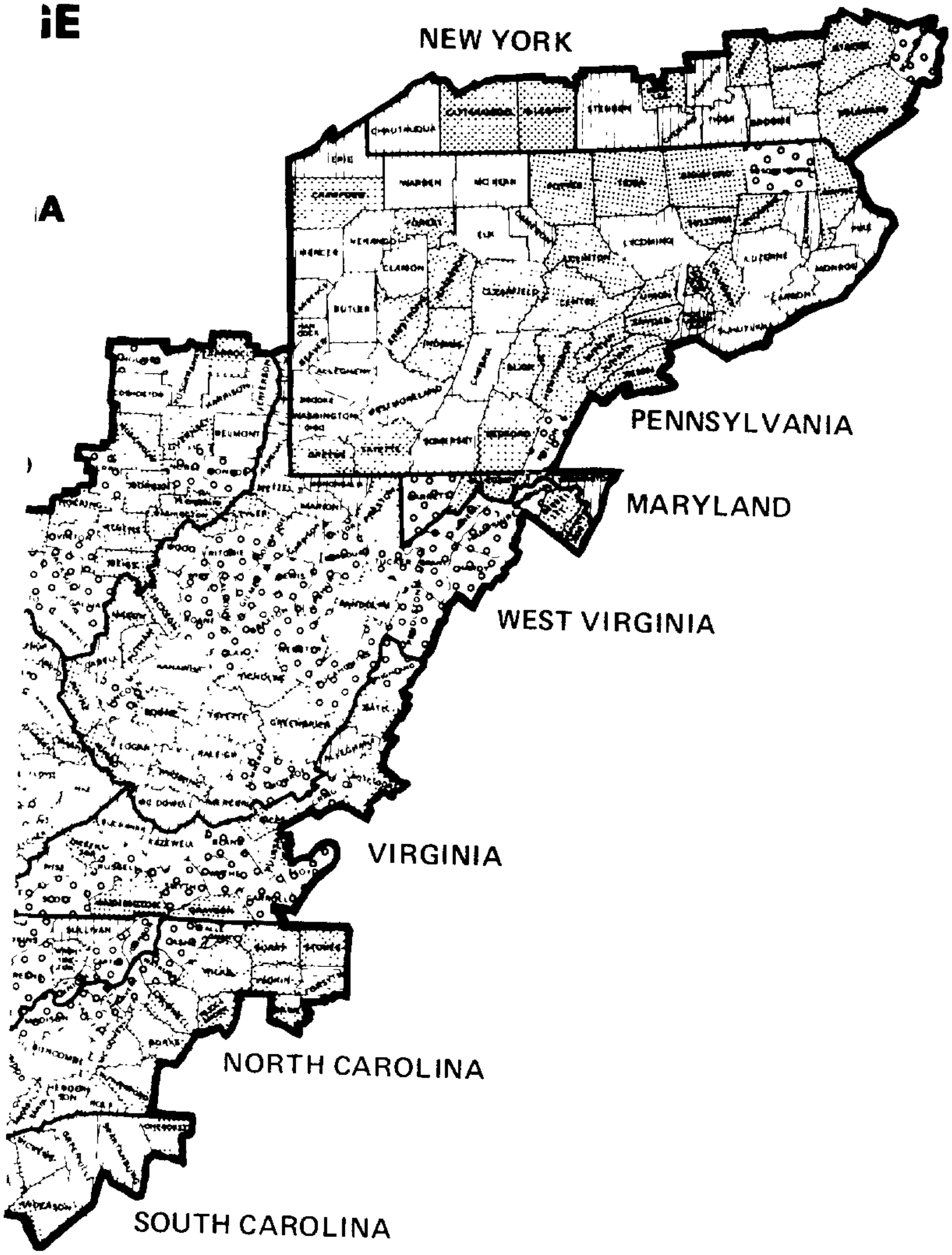

SOUTHERN APPALACHIA

- 100 or more
- 85 to 99.99
- 70 to 84.99
- 50 to69.99
- 36 to 49.99

1976 APPALACHIAN PER CAPITA TOTAL PERSON
AS A PERCENTAGE OF THE U.S. AVERA

The rest of this chapter discusses the problems caused by lack of agreed upon criteria--standards for comparison, quantified goals and objectives by location and by time frame, and explicit policy provisions--for phasing out and reallocating assistance from some geographic and program areas into others.

ARC HAS NOT ESTABLISHED CRITERIA ON A PROGRAM OR GEOGRAPHIC BASIS

ARC's Federal-State-local planning approach continues to be incomplete because ARC has yet to

--adopt an explicit regional policy defining acceptable levels of disparity and self-sufficiency in terms of specific employment, education, health, income, and poverty conditions;

--establish more specific goals and objectives for reducing disparity and achieving self-sufficiency, and require States and districts to do likewise;

--clarify which geographic unit (county, district, Appalachian State part, or subregion) should be used when measuring progress toward program goals;

--specify whether reducing disparity should be measured by comparing (1) Appalachian and non-Appalachian areas on a State-by-State basis, (2) Appalachian subregions and their non-Appalachian counterparts, or (3) the entire region and national averages; or

--develop procedures to systematically reallocate funds by phasing out assistance to urban, metropolitan, and rural portions of the region which are approaching or may have reached a stage of development no worse than that in comparable areas of the nation.

Material submitted as part of ARC's budget justification hearings since 1974, as well as comments from a senior ARC staff official, tend to confirm our findings. For example, ARC's "subregional development strategy" statement for the Southern Appalachian subregion, prepared in 1974, acknowledged that ARC planned to continue approving projects in metropolitan and urban areas which had already achieved a self-sustaining rate of growth and where the impact of ARC's limited resources would be marginal. ARC's Deputy Executive Director commented that as many as 140 of Appalachia's 397 counties may no longer require ARC assistance.

--Provide the basic infrastructure to enhance economic development and to safeguard health.

--Strengthen the ability of local elected and appointed officials in management techniques.

Such goals are so broad that they could easily apply to any, if not all, 69 development districts throughout the region. Consequently, their value for setting priorities or making resource allocation decisions becomes meaningless.

Equally ambiguous goals and statements of objectives were typical of Kentucky, Pennsylvania, and South Carolina Appalachian State plans which we reviewed. For example:

--Improve level of community planning and coordination as it relates to services for preschool children.

--Improve the design of the systems and tools through which the State Appalachian program is managed.

--Reduce to an acceptable level the percentage of Pennsylvania families living in substandard housing and blighted neighborhoods.

--Encourage and promote recreational opportunities, historic preservation, and tourism in the Appalachian region.

Comparable open-ended statements appeared in other State plans which we examined.

As previously noted in chapter 2 with respect to State plans in general, we found that ARC staff have repeatedly attempted to get States to be more specific in terms of quantifying their goals and objectives. The following comments made to South Carolina in 1977 are typical of ARC staff comments made to other States:

"* * * in almost all health categories the stated objectives are too broad and too all inclusive to place special emphasis on one objective over another one. Rarely were the objectives stated in measurable terms. Further, the severity of problems or needs were not differentiated, one from another, or from one place to another * * * in some instances the objectives do not reflect the problems which are revealed by the data. For example * * * the need for dental services appears to be severe. Yet, access to dental services does not show up even as an objective, much situation in 62 Central Appalachian counties may have actually worsened, compared to the Nation, between 1960-80.

If such ARC trend projections prove accurate, the implications are alarming because they raise a fundamental question: Is the goal of economic self-sufficiency feasible or realistic for Central Appalachia? And if so, how soon?

In our opinion, the prospect of a worsening poverty situation after 20 years in the Central Appalachia subregion should have caused ARC to at least analyze why the situation had not yet stabilized, particularly because Central Appalachia's poverty plight was a major justification for ARC's creation in 1965. Because we found no such ARC analysis, we conducted our own, using ARC's stated indicators of self-sufficiency--degrees of economic diversification and extent of transfer payments. (See 1/, p. 33.)

Our analysis of Federal transfer payments, which include most types of cash assistance to the poverty population, clearly shows the lack of self-sufficiency in the Central Appalachian Kentucky River Area Development District between 1966 and 1974. (See p. 42.) Despite substantial community, economic, and social development investments by ARC and other Federal programs over the decade, the level of transfer payments has remained relatively constant at around 25 percent of total personal income each year in this district. Likewise, the extent of economic diversification has been minimal: only five new plants, employing less than 700 people, located in the district between 1965-73.

Our 1972 report on Johnson County, Kentucky, raised a similar question. We noted then that despite $28 million in Federal grants and loans between fiscal years 1965-69, very little relative change in the county's income patterns had occurred. An ARC internal memorandum prepared in response to the report made the following observation:

> "I don't know if one can honestly expect any kind of major impact yet in Johnson County, even if the assumptions which underlie the Appalachian program are valid * * * $26 million is probably a drop in the bucket for what that county needs and its problems are not going to be eliminated overnight * * *. Many of the people in Johnson County who are most needy are not going to be reached by the kind of economic development strategy underlying EDA [Economic Development Administration] and the Commission. At least they are not going to be reached very soon."

Using inadequate housing as an example, if ARC were to use a more comprehensive regional approach to problem solving than it currently does, it would need to do the following:

--Define specifically what acceptable levels of reduced disparity in terms of substandard housing realistically means for geographic areas as diverse as the 100-percent rural KRADD and the mixed metropolitan-urban-rural districts such as in northeast Pennsylvania and northwest South Carolina, using existing Bureau of the Census, HUD, and Department of Agriculture criteria for inadequate housing in metro, urban, and rural counties.

--Require all 13 States and 69 districts to (1) identify as of the same point in time the extent of substandard housing in their respective planning jurisdictions and (2) list all resources (Federal, State, local, and private) historically, currently, and projected to be applied to the problem.

--Clarify as ARC policy whether district and State planners should be using for a basis of comparison (that is, geographic criteria) the extent of substandard housing in (1) the non-Appalachian part of the State, (2) the subregion, (3) the entire Appalachian region, or (4) the Nation (exclusive of Appalachia).

--Require States and districts to develop quantified targets and time frames for reducing the extent of inadequate Appalachian housing, using geographic criteria as established above.

--Allocate ARC's limited housing funds in accordance with some specific regional policy and criteria, such as relative need for funds or relative extent of substandard housing when compared to a predetermined State, subregional, regional, or National average.

--Establish procedures for periodically reallocating its housing funds as individual districts, States, and subregions begin approaching predetermined goals and objectives.

If ARC had addressed regional problems and clarified its regional policy in this way, particularly on the issue of what geographic criteria State and district planners should use as a basis for comparison, we might have found the United States. 1/ As the balance of this chapter discusses, ARC failure to (1) adequately define acceptable levels of reduced disparity and economic self-sufficiency on a geographic and program basis and (2) use a more systematic approach in allocating Federal funds to the States than it did between 1965-75, may have underfunded some States while overfunding others.

ALLOCATION PROCEDURES MAY HAVE UNDERFUNDED SEVERAL STATES WITH SEVERE UNMET NEEDS

ARC's method of allocating nonhighway program funds to the 13 States provides inadequate assurance that funds are being most effectively and equitably distributed. Our analysis (see pp. 48-51) indicates that between 1965-75, two States--Maryland and South Carolina--received an inordinate amount of ARC funds when measured by an index of relative socioeconomic condition, while two other States--Tennessee and West Virginia--received too little.

Because ARC may be allocating Federal funds to the States to be spent within geographic areas of the region no worse off economically or socially than the rest of the Nation, fewer funds are available to many needy Appalachian communities, counties, and districts which continue to lag far behind regional or national averages. Such allocation appears inequitable and inefficient because it could prolong rather than narrow the developmental gap for portions of the region.

Allocation formulas designed to consider concepts of "equity" and "fair share" while guaranteeing stable annual State funding

ARC attempted to balance the conflicting objectives of strict economic efficiency (greatest return on investment) and social equity (greatest need) by designing allocation formulas in 1965 to meet two practical requirements:

--Provide a fiscal incentive for Governors and States to support the program by guaranteeing a relatively fixed amount of ARC funding to each State each year.

1/U.S. average: 7.7%; Appalachia: 7.7%; Alabama: 7.1%; Kentucky: 6.4%; Mississippi: 6.5%; North Carolina: 6.0%; South Carolina: 6.2%; Tennessee: 6.2%; Virginia: 7.1%; West Virginia: 7.5%.

	Percent
Stability variables:	
Proportionate population	28
Proportionate land area	14
Equally to each State	14
Subtotal	56
Relative need variable:	
Per capita income weighted inversely	44
Total	100

ARC abandoned an individual section-by-section allocation in 1975 by combining its four major nonhighway programs into a single category called "area development programs." 1/ This change had two primary objectives: (1) to give greater flexibility to each State in selecting those functional areas in which to concentrate its Appalachian funds and (2) to give additional funds to those areas in the region, primarily Central Appalachia, that continue to experience the most severe problems.

In order that no State be confronted with sudden decreases in funding, ARC designed its 1975 single allocation formula with a provision that each State would receive at least 80 percent of the amount it had received in 1974. ARC allocated the remaining nonhighway funds based on a revised section 214 formula designed to give slightly more funds to Central Appalachia and slightly less to the northern and southern subregions. This 80-20 provision, which also applied to fiscal year 1976 and 1977 appropriations, was merged into a single formula in 1978.

Kentucky State planning officials told us that this single allocation process, the net effect of which was a modified type of ARC block grant, was an improvement. It allowed them to move away from the rigidities of function-by-function planning and devote more funds to those priority areas in which they felt ARC funds should be concentrated.

1/Section 202, health and child development; section 205, mine area restoration; section 211, vocational education; and section 214, supplemental grants.

State	1965-75 per capita ARC nonhighway allocation	Ranking by amount of ARC per capita allocation	Ranking by relative need index	1976-78 per capita ARC nonhighway allocation	Ranking by amount of ARC per capita allocation
Alabama	$ 50	10	7	$ 13	12
Georgia	88	6	6	23	6
Kentucky	101	5	1	31	4
Maryland	178	1	11	66	1
Mississippi	117	4	3	42	2
New York	49	11	13	20	8
North Carolina	68	7	8	22	7
Ohio	65	8	10	19	9
Pennsylvania	29	13	12	7	13
South Carolina	124	2	9	30	5
Tennessee	45	12	5	17	11
Virginia	120	3	2	37	3
West Virginia	62	9	4	17	10

Using ARC actual project approvals from 1965-75 for all nonhighway programs, except district planning and other section 302 (research) funds, our comparison shows a close relationship between ARC per capita allocation and ranking by relative need in seven States--Georgia, Mississippi, New York, North Carolina, Ohio, Pennsylvania, and Virginia. There is a moderate relationship for two other States--Alabama and Kentucky. However, two States with relatively less serious problems--South Carolina and Maryland--actually received the highest average ARC per capita investments during the 1965-75 period. At the other extreme, two States with relatively severe developmental lags when compared either to the region or the Nation--West Virginia and the Appalachian portion of Tennessee--received some of the least ARC assistance.

We also found that this disparity in ranking by relative ARC per capita allocation (Maryland, South Carolina, West Virgina, and Tennessee, in that order) not only continued between fiscal years 1976-78 but had also been pointed out in a 1971 study of ARC allocation results to have existed a decade earlier during 1965-68. (See app. VIII.) To illustrate the extent of this disparity, the following chart shows what would have happened if ARC's actual 1976-78 area development program allocations to Maryland, South Carolina, Tennessee, and West Virginia had been distributed equally within each State on either a district, county, or per capita basis.

However, our analysis shows that what may appear to be fair or equitable in principle has produced a highly unequal distribution of funds over time. ARC's use of an 80-percent "hold harmless" factor in 1975 without comprehensively analyzing each State's relative needs or the results of prior allocations insured that the discrepancies shown on pages 47-48 will continue indefinitely until ARC assures itself that what it claims is a fair and equitable allocation each year is also equitable on a cumulative basis over time.

CONCLUSIONS

We were unable to answer one of the three major questions which our review addressed--how much longer will Appalachia need a separate Federal assistance program--because ARC has not established the necessary criteria to define the Appalachian Act's goals of reducing disparity to acceptable levels and achieving regional economic self-sufficiency on either a program or geographic basis. Despite progress throughout the region between 1965-75, acceptable levels of disparity may not be achieved in some geographic areas for years or decades. Central Appalachia in particular lags behind both regional and national averages in terms of education, income and poverty levels, deficient housing, and other standards of living.

Appalachian goal statements reflected in district, State, and regional plans are too broad to measure progress toward stated objectives, to make informed decisions on resource allocations, or to know when stated objectives have been accomplished. Furthermore, ARC nonhighway program fund allocation procedures may have underfunded some States while overfunding others. ARC's ability to influence either national policy issues or the flow of other Federal funds within the region may be limited unless it demonstrates that it allocates Federal funds to all States efficiently and fairly.

We believe the use of a relative need index which gives more explicit recognition to the relative severity of each State's unmet needs, coupled with regional standards better defining self-sufficiency and acceptable levels of disparity, would neither restrict any State's selection of growth areas nor be inconsistent with ARC's strategy of concentrating investments in areas of future growth where the expected return on public dollars will be the greatest.

CHAPTER 4

ARC AND THE OFFICE OF MANAGEMENT AND BUDGET

NEED TO RESOLVE PROGRAM AND PROJECT

MONITORING RESPONSIBILITIES

> "There is no means of determining the accountability of many investments once approval of grant is awarded * * * no easily identifiable and consistent resource data available to maintain and update the status of projects * * * inconsistency is found to exist when comparing the allocation of funds, actual expenditure of funds by projects, disbursement of funds, and close out reports." 1/

ARC lacks effective administrative control needed to adequately document and report on the disposition of Federal funds appropriated to the President. In addition, ARC was not effectively using available reports on the status of Appalachian program funds transferred to and disbursed by Federal agencies so that excess project funds could be promptly identified, returned to ARC, and reprogramed for other projects. Furthermore, ARC interagency agreements governing transferred funds did not specify the responsibilities of each agency for promptly identifying such excess funds. Federal and ARC staff operate with inadequate internal control and operating procedures. Finally, because ARC has yet to clarify the roles and responsibilities of either its internal staff or Appalachian State and district staff for program and project monitoring, corrective actions have been uncoordinated, poorly planned, and incompletely implemented.

External constraints contribute to ARC's internal problems. Federal departments and agencies administering the majority of Appalachian program funds often do not comply with interagency agreements and memorandums of understanding or respond to ARC requests for project expenditure information. Federal agencies disbursing ARC funds transferred to them have either not promptly returned unneeded or unspent ARC funds or have disbursed ARC funds in excess of grantees' apparent need.

Executive Order 11386, intended to resolve such coordination problems between regional commissions and Federal agencies, has proven to be an inadequate mechanism for solving

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1/Excerpt from a 1975 Pennsylvania grant application requesting a $24,000 ARC State evaluation and monitoring grant.

had closed out 1/ less than 14 percent of the $1.1 billion in grants it had approved. Because ARC lacks internal controls, serious problems have occurred, such as unspent funds remaining idle for long periods of time. (See pp. 61-63.)

Three external problems contribute to ARC's unsatisfactory internal project closeout situation:

--The complexity of maintaining accountability on a project-by-project basis for ARC funds transferred to other agencies. (See app. XII.)

--Federal agency lack of cooperation and noncompliance with the terms of interagency agreements and memorandums of understanding between ARC's Federal Cochairman and those departments and agencies, particularly terms and conditions governing Federal agency reporting to ARC on the expenditure of ARC funds transferred to them.

--Absence of suitable mechanisms to resolve interagency grant administration problems, including a Presidential Executive Order 2/ which delegates to the Secretary of Commerce responsibility for carrying out the President's responsibilities contained in title I, section 104 of the Appalachian Act. This Executive order requires the Secretary to resolve policy questions arising between a Federal Cochairman and Federal departments and agencies.

Because ARC relies extensively on other Federal agencies to disburse funds, we reviewed ARC procedures for monitoring

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1/As used in attachment L (Grant Closeout Procedures) to OMB Circular A-102, "project closeout" is a general term used to describe those agency procedures and conditions needed to determine that (1) grant conditions have been complied with and (2) all Federal funds have been fully accounted for. Despite Circular A-102's stated objective of achieving consistency in Federal regulations pertaining to Federal grants to State and local governments, OMB officials told us A-102 had not taken into account situations such as ARC's, in which funds transferred from one agency are disbursed by the receiving agency.

2/Executive Order No. 11386, 33 Federal Register (1968).

--ARC (not required to return funds annually to the Treasury because funds are appropriated on a "no-year" basis) may not be promptly reallocating unneeded funds to the States for use on other projects.

The following table and chart show our analysis of ARC's project closeout situation as of March 1977. This analysis compares projects approved with project files considered closed by ARC's Office of Program Coordination and Project Control Officer. (See app. XI.)

Fiscal year	Project approvals	Approvals closed out as of March 1977 (note a)	Percent of approvals closed out
	(millions)		
1966	$ 49.8	$ 16.2	32.5
1967	78.5	18.2	23.2
1968	84.0	24.4	29.0
1969	69.7	15.6	22.4
1970	125.1	26.8	21.4
1971	108.9	16.6	15.2
1972	153.5	12.6	8.2
1973	137.4	8.2	5.9
1974	124.3	2.1	1.7
1975	141.9	0.0	0.0
Total	$1,073.1	$140.7	13.0 (Average)

a/Net of adjustments.

following up on these reports was undefined. New projects continuously flow in, are reviewed, and are approved; however, older projects are not closed out.

We found that although two separate ARC-funded management studies in 1965 and again in 1972 pointed out ARC's need for project closeout procedures, ARC had yet to establish such procedures. 1/ The 1972 study even pointed out that often ARC could only make assumptions about how much of its appropriated funds transferred to and obligated by other agencies had actually been disbursed, because not all pertinent information was forwarded to Project Control for insertion in the official project file.

By 1972, substantial backlogs in projects approved but not closed out had begun to accumulate. Meanwhile, at least one State had begun to suspect the possibility of substantial amounts of unspent funds from completed ARC projects. The Office of Finance and Administration developed a method to identify unspent ARC funds from certain types of projects and to notify Appalachian States that those funds had been reallocated to them (step 13). In 1974, the Office of Program Coordination and the Project Control Officer began to systematically identify previously approved projects which had probably been completed and should have had ARC funds completely disbursed (step 7), expenditure reports received (step 10), and documentation placed in project files so that projects could be considered closed out (step 14).

Although the Budget Officer, Director of Finance and Administration, and the Program Coordination Office perform separate but related fiscal and program management functions, each had different perceptions of what constituted a closed out project. The Budget Officer considered projects "financially complete" either when Federal agency monthly fiscal reports showed that ARC project funds obligated had been 100 percent disbursed, or when agencies sent accompanying information showing undisbursed funds had been deobligated and returned to ARC. The Director of Finance and Administration would reallocate to the States unspent funds from projects and so notify the States--in effect, treating projects as completed--regardless of whether or not Program

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1/"A Report on System Development in Support of Early Operations for the Appalachian Regional Commission," System Development Corporation, Sept. 1965, p. 123; and "Report on Paperwork Management Practices of the Appalachian Regional Commission," Office of Records Management, National Archives and Records Service, General Services Administration, Aug. 1972, pp. 35-36.

States after approval, or underruns between estimated costs approved and actual costs incurred. The remaining 65 percent of closed out projects consisted of either (1) projects in which no difference existed between amount approved and amount disbursed or (2) projects which had overruns. We did not examine project overruns because ARC's Alternate Federal Co-chairman was already studying those problems and because we were more interested in procedures used to detect unspent funds from project underruns.

We also analyzed Federal agency construction and equipment grant fiscal reports submitted to ARC to determine whether project disbursement data routinely received by the Budget Officer (step 11) could be used as an "early warning" monitoring procedure to identify projects for potential closeout, particularly projects with unspent funds. We identified the amount of funds by project reported as undisbursed as of those dates and examined previous months' agency reports to determine how long there had been no change in disbursements for particular projects. The following examples are typical of our findings:

--Five hospital or public health construction projects in West Virginia and Virginia, approved between July 1968 and June 1971, showed no change for $655,518 in ARC funds undisbursed for periods ranging from 2 to 5 years as of March 1977.

--Thirteen water, sewer, or sewage treatment or disposal projects in nine States, approved between 1966-72, showed a total of $965,292 undisbursed for over 3 years as of June 1976.

--Three recreation facility projects in Maryland and West Virginia reported $213,497 in undisbursed funds for 2 or 3 years as of September 1976. One project had been approved in June 1969, the others in 1973.

--One water system project in Tennessee showed $54,000 undisbursed for over 3 years as of January 1977.

--Four airport construction projects in New York, Pennsylvania, and Tennessee approved in 1972 and 1973 showed $174,227 undisbursed as of February 1977 with no change in disbursements in over 2 years. An Ohio project approved in 1968 showed $74,238 undisbursed for over 2 years. One West Virginia project had $66,441 undisbursed for nearly 8 years.

--Twenty-three housing site development loans in six States and two technical assistance grants showed

Consequently, we noted that in November 1977, HUD submitted a monthly report to ARC with 181 construction projects showing ARC funds fully disbursed. Some projects had been reported monthly as having been fully disbursed for over 5 consecutive years. Apparently neither the ARC Budget Officer nor Finance and Administration staff had (1) questioned the continued reporting of these HUD projects, (2) made arrangements to forward such information to Program Operations staff, (3) inquired whether Program Coordination and the Project Control Officer had received final expenditure reports for these projects, or (4) taken action to initiate project closeout. For 4 consecutive years, HUD had also reported 22 site development loans fully disbursed, 25 other loans and grants with $563,131 undisbursed, and 12 loans and grant projects with $225,813 undisbursed for 2 or 3 years before ARC's Budget Officer finally took action in February 1977 to recover $600,000 from HUD. Both HEW and Interior also continued to report fully disbursed projects to ARC for long periods of time.

Interagency agreements are not working

ARC relies on formal written agreements and negotiated verbal arrangements to obtain the Federal agency's project expenditure information. Although written agreements have been negotiated, the orderly closeout of projects has not occurred because the agreements

--were usually negotiated at the department level but often not complied with by those agencies which administer ARC projects and

--contained a general provision that expenditure reports be in sufficient detail to permit a reasonable review of (program and project) expenditures but did not describe the specific details needed for a proper review.

ARC needs detailed final expenditure reports for each approved project to determine if funds are spent according to the terms and conditions of project approval. Because interagency agreements were not specific and ARC did not periodically review Federal agencies' compliance with those agreements, agencies sent ARC either fiscal reports (step 11) which could not be reconciled with project expenditure reports (step 10) or expenditure reports with insufficient detail for ARC review. Instead of the final expenditure report required by the interagency agreement, some agencies sent final audit reports, computer listings of project costs, or even ad hoc listings of completed projects.

ARC has yet to define State and district project monitoring responsibilities

A fourth factor contributing to the backlog of ARC projects is the unspecified role of Appalachian State offices and local development districts in monitoring a project after ARC approval. As shown in appendix XII, fiscal and program reporting of Federal disbursements and grantee expenditures (steps 7-12) generally bypasses State and district offices. We found that the Appalachian Code does not address the topic of State and local administration after project approval. Also, ARC does not have procedure manuals or other written guidelines to describe the system to State or district staff.

Changes in State Governors and accompanying turnovers in administrative personnel leave each new administration with the accumulated inheritance of hundreds of ARC projects submitted in prior years, all in various stages of completion. Although ARC staff provides assistance to State staff on preparing plans, submitting projects, and meeting ARC program requirements, the Appalachian Code does not address State and local postapproval grant administration or project closeout responsibilities.

Local development district staff are continuously involved in helping grant applicants cope with Federal program requirements, soliciting local proposals and projects which would qualify for Appalachian program assistance, and submitting grantee applications to the Appalachian program State office. None of the districts we reviewed, however, became involved in monitoring Federal disbursements to local grant recipients, submission of grantee expenditure reports, or ARC project closeout activities.

When we discussed the need for more systematic monitoring with Appalachian program officials, Pennsylvania and South Carolina had a different opinion about what a district's project monitoring responsibility could or should be. For example, South Carolina district officials thought a formal ARC system was unnecessary because either Federal officials made site visits to ARC grantees or because State agencies monitored those projects and programs administered through the State. Pennsylvania officials thought the Appalachian program could be improved if funds were provided for project monitoring.

Pennsylvania's 1975 application for an ARC State evaluation and monitoring assistance grant (see p. 53) detailed numerous problems with the State's ability to reconcile ARC fund allocations with project expenditure and Federal fund even though it had approved over $520,000 in grants to 12 States.

--Prior to providing funds to the States, ARC did not adequately define what each State's monitoring capacity should consist of nor set a time limit for having that capacity in place.

--Planning and Evaluation Office staff, not previously involved in obtaining final expenditure reports from Federal agencies, apparently had not advised any of the States that the absence of such information was a critical factor preventing Program Coordination and Project Control from closing out projects.

Furthermore, ARC had not instituted any reporting system to provide each State with a comprehensive listing of prior year projects which had been closed out and all ARC funds either spent or recovered. ARC relied instead on a piecemeal, single project by single project notification system.

We were unable to determine the effect these grants may have had in reducing the backlog of ARC projects not closed out in Kentucky, Pennsylvania, or South Carolina, because at the completion of our fieldwork in March 1977, none of the States had implemented a monitoring system or hired staff.

We followed up our fieldwork by reviewing incoming correspondence and State monitoring grant progress reports submitted by various States. The reports did not indicate whether State staff were actively seeking final expenditure reports for projects not yet closed out, or had requested a listing of closed out projects from Program Coordination or Project Control. States were using project information obtained from ARC's Office of Finance and Administration.

The following example from Tennessee illustrates two deficiencies which will limit ARC's ability to implement an effective State project monitoring system: (1) incomplete ARC planning by not adequately involving Program Coordination in the system and (2) lack of internal ARC coordination by sending States only disbursement information.

Tennessee's monitoring and evaluation coordinator sent inquiries to ARC's Director of Finance and Administration in November 1976 listing 46 construction projects which the State claimed were either "closed," "in the process of termination," or "should be closed since all were approved prior to FY 1974." Using disbursement data from HUD, Environmental Protection Agency, FAA, and ARC grantees for 13 projects and ARC disbursement data from Finance and Administration for the

Status as of March 1978, of Tennessee's 1976 Request to ARC

for Confirmation of Recoverable Funds for Reallocation

Number of Projects	Undisbursed Funds Claimed by State	Results of ARC Followup or Federal Agency Action	Funds Reallocated to State as of March 1978
2	$ 69,919	Previously closed out by ARC based on final expenditure reports showing funds fully disbursed.	$ 0
5	47,692	Already notified of recovery by Federal agencies.	40,743
1	79,750	Withdrawn by State. Funds subsequently reallocated.	79,750
1	12,000	Federal agency later confirms recoverable funds.	0
1	34,970	State previously notified of reallocated funds.	2,176
11	330,114	Subsequent Federal agency fiscal reports indicate funds fully disbursed.	0
7	211,298	No Federal agency response to ARC request for final expenditure reports.	0
1	330,607	Conflicting or incomplete information from Federal agency indicates over $251,000 may not have been obligated. Awaiting final expenditure report.	0
7	170,094	Federal agencies have ceased reporting status of funds to ARC. No final expenditure reports to confirm recoverable funds, if any.	0
3	112,842	Federal agencies later report changes in accrued expenditures and disbursements. One project indicates recovery of $762 rather than $17,880 cited by State.	0
1	12,346	State not entitled to recover funds under applicable ARC policy.	0
3	146,320	Projects still being reported with undisbursed funds identical to those identified by State. One project shows no disbursement for nearly 6 years.	0
2	15,947	Incomplete followup by Program Operations staff. $13,125 could have been reallocated if State had been notified to request reallocation.	0
1	1,906	Federal agency notified ARC of recovery in 1970. ARC did not notify State.	0
46	$1,575,805		$122,669

which the Federal Government by law or regulation was not permitted to pay.

--Various Federal agency final expenditure reports were either confusing or said nothing about the specific information ARC staff needed to apply its underrun policy.

--Some projects were closed out without recovering excess funds while others were held open for years after receipt of final expenditure reports because excess funds were so substantial that staff could not recommend closeout without some attempt to recover these funds.

We identifed at least 14 health construction projects in 7 States in which ARC closed out the project file without recovering any excess section 214 funds, although our computations showed that over $2 million should have been recovered if the underrun recovery policy had been strictly applied. Of these 14 projects, 5 in Pennsylvania totaled over $1.1 million.

We identified two other Pennsylvania health construction projects awaiting closeout (one completed in 1971, another in 1974) in which over $452,000 in excess section 214 funds should have been recovered. Both projects involved situations in which the Federal agency administering the projects had increased its funds in the project, permitted the grantee to pay less than agreed to at time of ARC approval, and disbursed 100 percent of ARC's funds.

In discussing this situation with ARC staff, we were advised that the Pennsylvania State agency administering ARC-funded health construction projects had often increased other Federal (HEW) funds in the project after ARC approval, while allowing grantees to pay less than originally agreed to. The agency submitted final expenditure reports showing ARC funds fully disbursed, even though some or all ARC funds should have been considered excess and returned under the terms of ARC project approval. Because of the proportionately fewer final expenditure reports received from other States and other HEW regional offices, ARC staff were unable to determine how extensive this situation may be in other States. For example, ARC received no response to a request for information from the HEW Atlanta office for final expenditure reports for 57 construction projects in Tennessee.

The following example from West Virginia illustrates a questionable application of ARC's underrun policy and failure to recover excess funds, particularly since the grantee's

Strict application of the recovery policy would have required the Federal agency to return the entire $500,000 because the grantee, originally committed to paying $13.5 million in eligible costs, actually paid $2.5 million less. Although the project file contained no explanation or documentation of "special circumstances," ARC apparently reasoned that since the grantee paid an additional $2.5 million in ineligible costs, some undue financial hardship would befall the grantee if the $500,000 in ARC funds already disbursed was recovered. No such explanation appeared in the project file. We noted that while the grantee's total costs, both ineligible and eligible, were $7,416 less than originally agreed upon, no attempt was made to recover even this amount.

The flow of final expenditure reports from completed section 214 projects into ARC (app. XII, step 10) appeared to be completely random, varying from State to State, agency to agency, program to program, and even from one regional office to another within the same program. Consequently, the universe of completed and closed out section 214 projects as of March 1977--less than 200 projects--was not necessarily representative of the over 1,600 section 214 projects funded by ARC as of June 1975. As a result, we were unable to obtain an adequate statistical sample to make valid projections about how often or how much excess ARC funds may have gone or will likely go unrecovered from projects approved between 1965-75.

We concluded that ARC could not begin to accurately estimate how much section 214 money over a decade may have been disbursed by Federal agencies in excess of project needs because (1) ARC had no internal auditor or other independent audit function to perform this type of monitoring and (2) Program Coordination and Project Control staff were already devoting substantial effort just to obtain final expenditure reports.

In October 1977, the Director of Program Coordination noted the following in a memorandum to ARC's Executive Director:

> "There is mounting evidence that in any underrun, or in any situation where other federal funds have been increased, the DHEW action has allowed reduction of the local share in violation of terms of ARC approvals."

The Director of Program Coordination also summarized this problem in a January 1978 staff paper which stated:

> "If the basic agencies * * * would be consistent in alerting ARC of impending closeout actions and could

STATE MAINTENANCE OF EFFORT AND LOCAL LEVERAGING OF OTHER FEDERAL FUNDS: UNRESOLVED ISSUES

Up to this point, we have discussed problems with ARC procedures for following up on the disposition of Federal funds appropriated to the President. In addition to those problems, ARC also has not adequately monitored State financial support for the Appalachian program. The balance of this chapter discusses our findings regarding (1) ARC monitoring of State expenditures, a function mandated by the Congress in 1965 and reemphasized in 1975, and (2) increased use by the States between 1971-76 of section 214, supplemental grant funds, not to supplement other Federal funds but more often as a full 100 percent of the authorized Federal share of project costs. In both situations, we have made specific recommendations to ARC. In addition, the Congress should amend section 221 of the Appalachian Act pertaining to State maintenance of effort requirements.

Decline in State share of ARC project costs

The Congress amended the Appalachian Act in 1975 to reemphasize its original intent that ARC should monitor State expenditures. 1/ Section 221 of the act contains a maintainance of effort provision to ensure that the States not view the act as an opportunity to divert from Appalachia those State funds which would have been spent had the Appalachian Act not been enacted. The introductory portion of this section reads as follows:

> "No State and no political subdivision of such State shall be eligible to receive benefits under this Act unless <u>the aggregate expenditures of State funds</u> * * * are maintained <u>at a level</u> which does not fall below the average level of such expenditures for its last two full fiscal years preceding the date of enactment of this Act * * *."
> (Underscoring supplied.)

Section 221 of the act thus requires States to maintain the same level of expenditures in the Appalachian portion of the State as the State averaged in 1963 and 1964. In 1966, the ARC Code required States to submit an annual list of their expenditures in the Appalachian region. We examined ARC's procedures for monitoring State compliance with the requirements of section 221 of the act and the ARC Code. Our

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1/40 U.S.C. 224(c) (1975).

ARC Project Approvals by Source of Funding
as a Percentage of Total Eligible Costs

Fiscal year	ARC	Other Federal	State	Local	Total
					(percent)
1966	35.8	23.9	19.7	20.6	100
1967	29.0	26.7	16.1	28.2	100
1968	25.5	25.5	17.1	31.9	100
1969	26.4	22.4	20.3	30.9	100
1970	38.5	16.4	12.4	32.7	100
1971	34.0	21.7	12.6	31.7	100
1972	36.4	31.0	5.9	26.7	100
1973	35.8	20.7	11.6	31.9	100
1974	36.3	26.4	8.2	29.1	100
1975	31.9	26.7	10.7	30.7	100
Average	33.1	24.4	12.5	30.0	100

When the Appalachian Act was extended in 1975, the Congress added a new section 225 calling for the States to link their Appalachian planning to the State budgetary process. We found that the ARC Code does not contain explicit instructions for States to follow in describing in their annual Appalachian plans just how Appalachian programs or projects are incorporated into State fund allocation decisions.

Except for an overall provision governing State spending at 1963-64 levels, ARC's Code neither (1) addresses what share of nonhighway program costs the States should be contributing annually nor (2) requires each State to contribute annually a specific minimum share toward projects it submits for Appalachian program funding. As indicated by the preceding table and the graph on page 78, the States' share of eligible project costs declined from an average of 16.6 percent between 1966-70 to an average of less than 10 percent between 1971-75, while local financial support remained constant at 30 percent during the decade. The States' share declined further to an average of less than 7 percent between 1976-78. We question whether this trend in declining State support is in keeping with congressional concern.

ARC reviews the hundreds of projects submitted by Appalachian States each year for compliance with the Appalachian Act and Code. These project-by-project reviews, however, do not examine whether individual States are making an adequate financial contribution to the overall program.

In our opinion, State financial participation in ARC projects and programs is inadequately monitored and not sufficiently addressed in the ARC Code.

Is State financial support adequate?

Lack of State financial support can contribute to the need for additional Federal funds to continue services initiated with ARC and other Federal funds and supported almost exclusively through local financial efforts. For example, special legislation was enacted in 1977 to prevent many ARC child development projects from terminating. These projects, which had operated for 5 years, had been funded almost exclusively by the Federal Government and local communities. The following table illustrates that the Appalachian States contributed less than 2 percent between 1971-75 to child development programs whose total cost was $208 million.

Source of Funds For ARC Section 202
Child Development Programs, Fiscal Years 1971-75

	ARC	Other Federal	State	Local	Total
1971	7,048,929	10,257,943	70,008	574,879	17,951,759
1972	18,946,001	33,484,859	148,850	2,053,564	54,633,274
1973	17,267,184	10,269,712	49,000	3,607,319	31,193,215
1974	25,675,804	20,907,106	613,016	6,269,158	53,465,084
1975	25,134,627	11,657,538	2,409,816	11,781,101	50,983,082
Total	$94,072,545	$86,577,158	$3,290,690	$24,286,021	$208,226,414
Percent	45.2	41.6	1.6	11.6	100.0

The 1977 legislation authorized ARC to continue its support of child development projects for an additional 2 years, bringing the total to 7 years instead of the previously authorized 5 years.

Our analysis of funding patterns by source of funds (ARC, other Federal, State, and local) for all ARC section 202 health and child development project approvals through fiscal year 1975 1/ also disclosed the following:

--Nearly 57 percent of ARC section 202 funds were not matched with any State or other Federal funds;

1/Total ARC section 202 funds were $314.3 million. See appendix V.

Section 214 funds provide a mechanism to realistically influence the decisionmaking process of other Federal programs by directly or indirectly influencing the direction and location of Federal expenditures on particular projects. Federal funds which may otherwise bypass communities unable to provide matching funds can be influenced by, and ultimately directed to, those communities through the use of section 214 funds.

An amendment to the act in 1971 allowed ARC to use section 214 funds as 100 percent of the Federal funds in a project where Federal agencies certified that no funds were available. The amendment placed no quantitative limitation on the extent to which section 214 funds could be so used. This amendment was needed because of the advent of revenue sharing, consolidation of categorical programs accompanied by reduced Federal appropriations to these programs, and difficulties in getting Federal agencies to reorder priorities even when ARC could provide matching funds to participate in a program. ARC's section 214 policy clearly indicates that this authority to use supplemental funds as "first dollar" money (that is, in lieu of unavailable other Federal funds) be used only in extenuating circumstances. Since the 1971 amendment, ARC has allowed a substantial increase in section 214 first dollar grants, as the table following indicates.

Amount of Section 214 Supplemental
"First Dollar" Grants as a Percent of Total Section 214
Approvals and as a Percent of Total ARC Approvals (note a)
Fiscal Years 1971-76

Fiscal year	Amount of total approvals	Amount of total 214 approvals	Amount of 214 first dollar approvals	214 first dollar as a percent of Total approvals	214 first dollar as a percent of Total 214 approvals
	(millions)			(percent)	
1971	$110.2	$ 37.6	$ 0	-	-
1972	153.8	50.8	1.4	.9	2.8
1973	137.3	38.9	6.7	4.9	17.2
1974	121.5	36.6	16.1	13.3	44.0
1975	144.0	52.7	19.4	13.5	36.8
Subtotal 1971-75	$666.8	$216.6	$43.6	6.5	20.1
1976	128.1	56.6	23.6	18.4	41.7
Total 1971-76	$794.9	$273.2	$67.2	8.5	24.6

a/Excluding section 302.

and an evolution toward a program which may be regarded by the States simply as an additional source of Federal funds.

CONCLUSIONS

ARC lacks adequate internal procedures and arrangements with Federal agencies to ensure that excess project funds are systematically identified and promptly recovered for current and future use. Many projects approved early in the program--1966, 1967, and 1968--continued to be carried over a decade later in 1977 in an open status.

The ARC and Federal staffs have no internal auditor. Prior to our review, neither the former Federal Cochairman nor the newly appointed Federal Cochairman appeared to have been adequately briefed on the extent or severity of the project closeout problems. ARC's former Executive Director and Deputy Executive Director appeared to be unaware of the extent of backlogged projects not closed out.

Prior to March 1979, responsibility for fiscal and individual project followup was fragmented at ARC headquarters among three administrative units. Moreover, ARC had no written operating procedures for closing out its projects. The former Executive Director had failed to adequately clarify responsibility among ARC staff for project monitoring and project closeout for over 4,000 open projects.

Had it not been for the individual efforts of the Project Control Officer and Program Coordination staff in cooperation with the Director of Finance and Administration and a few Program Operations division staff, ARC's project closeout situation would have been even more serious. Prior to 1978, these individuals were attempting to resolve the backlog of open projects without any overall plan or guidance from ARC senior management.

ARC had not instituted adequate internal control to ensure that its special circumstances provision pertaining to project underrun recoveries was being applied fairly, reasonably, and consistently. We could not estimate how much ARC money over a decade may have been disbursed by Federal agencies in excess of grantee needs for such funds.

Corrective actions being undertaken prior to 1978 were not coordinated to produce a comprehensive or complete system. ARC efforts to identify unspent funds were not diligently pursued for construction and equipment projects. State monitoring grants begun in 1975-76 as a partial solution to the problem were not adequately integrated with ongoing project aware of inadequacies in the extent of cooperation or capabilities of agencies to adequately administer and account for ARC program funds, the Federal Cochairman had no effective means to bring OMB or other executive branch leverage to bear on interagency problems.

In addition to its program and project monitoring problems involving Federal funds, ARC had not adequately monitored State financial participation in the Appalachian program. Furthermore, ARC had not adopted specific policies with quantified criteria which would (1) require States to provide some fixed level of minimum State financial contribution for nonhighway programs and (2) limit each State's nonsupplemental use of supplemental funds.

As evidenced by the decline in States' share of ARC nonhighway project costs between 1971-75, the ARC program, designed as a Federal-State-local partnership, may be evolving into a program in which an increasing share of the financial burden is borne by the Federal and local partners.

We believe the problems and unresolved issues which relate to accountability and responsibility for administering ARC grant funds are serious enough to warrant the attention of the Executive Office of the President, the Office of Management and Budget, and appropriate congressional oversight and appropriations committees.

We also believe that ARC's previously fragmented, piecemeal approach to resolving its internal and external grant administration problems should be replaced with a comprehensive approach implemented consistently and systematically at all levels in the ARC system. In some cases, additional resources may be required to implement these corrective actions. Yet, unless such a comprehensive approach is taken, future actions will continue to be ineffective for solving these interrelated problems.

RECOMMENDATIONS TO THE FEDERAL COCHAIRMAN

The Federal Cochairman should comprehensively examine all existing interagency agreements and memorandums of understanding between ARC and those departments and agencies administering and spending ARC grant and loan funds. Such examination should consider, at a minimum, the need to:

--Revise all existing provisions of agreements which call for Federal agencies to submit "a final report of the costs of the project in sufficient detail to permit a reasonable review and audit of expenditures."

and (3) a mechanism for bringing unresolved interagency problems to the attention of the Office of Management and Budget, the Executive Office of the President, or other appropriate officials or offices as the President may designate.

The Federal Cochairman should establish within his office the position of internal auditor, a Federal employee who shall remain independent of Federal, State, and ARC staff and be responsible for investigating and reporting to the Federal Cochairman on ARC activities and programs, including those matters involving adequate reporting of the disposition of Federal funds appropriated to the President. Duties and responsibilities of the internal auditor should include, but not be limited to:

--Monitoring ARC staff application of, and Federal agency adherence to, ARC underrun recovery policy.

--Periodic reviews of ARC project closeout procedures and completed project files to ensure that adequate, complete, and reliable information exists to (1) fully document ARC funds disbursed, (2) reflect whether undisbursed funds were retained by the administering agency or returned to ARC, (3) indicate timely notice to the State of reallocation of unspent funds where applicable, and (4) document whether sufficient justification was submitted when the "special circumstances" provision of ARC underrun recovery policy was invoked.

The Federal Cochairman should direct ARC's Executive Director to:

--Establish written project closeout procedures which define a closed out project and describe in detail the duties, functions, and responsibilities for which each ARC organizational component and staff member engaged in grant and loan administration is responsible.

--Clarify in writing, as part of grant closeout procedures, the specific authority to be exercised and actions to be followed by the Office of Finance and Administration, the Office of Program Coordination, the Project Control Officer, and each Program Operations Division from time of project review and approval through time of project closeout.

--Examine the need to provide the Project Control Officer with additional professional staff experienced

At the same time, ARC should adopt a policy which clarifies the specific responsibilities of Appalachian States and districts for program and project monitoring. (See ch. 5.)

ARC should require States to submit detailed plans explaining how State project monitoring activities will be coordinated with ARC efforts in order to reduce the backlog of projects not closed out. These plans should include at least 2-year estimates of the amount of State matching funds which will be committed each year to maintain State monitoring activities. ARC's Planning and Evaluation Division should prepare a consolidated long-term regional project monitoring plan based on these 13 State plans.

ARC should also study the need, feasibility, and costs to systematically incorporate local development districts into a comprehensive local-State-Commission project monitoring system.

ARC should establish a specific policy statement in the ARC Code addressing the issue of State financial support for ARC nonhighway projects and programs, including a quantified minimum percentage, or dollar "floor," which each State shall be required to maintain as a financial commitment to the Appalachian program. In addition, ARC should establish ARC Code provisions with specific quantitative criteria limiting the extent to which States may use section 214 funds as first dollar project money.

RECOMMENDATIONS TO THE DIRECTOR, OMB AND TO THE CHAIRMAN, INTERAGENCY COORDINATING COUNCIL

OMB should clarify for the Federal Cochairman the Appalachian Regional Commission's responsibility for establishing grant closeout procedures. In addition, OMB should provide written guidance and technical assistance to ARC and appropriate Federal agencies as needed to reduce the accumulated backlog of open ARC projects, giving particular emphasis to those projects approved during the program's early years.

To determine whether an effective mechanism exists to resolve interagency conflicts between ARC and Federal departments and agencies administering Appalachian program funds appropriated to the President, the Interagency Coordinating Council should examine the adequacy of Executive Order 11386 as it relates to the role of the Secretary of Commerce and ARC.

The Director, OMB, should ask the President that he delegate to OMB the responsibility for resolving interagency

CHAPTER 5

ARC SHOULD EXPAND ITS PROGRAM EVALUATION EFFORTS

"I also am concerned that we are not building into this and other Federal programs procedures for evaluation* * *. The Appalachian program is testing new concepts. We need to know its successes and its failures." 1/

"At present, the Commonwealth's evaluation efforts are largely remedial. There is no formal system for data collection nor any mechanism or feedback loop in the project funding process. That is to say, there is no system of objective information retrieval to use in assessing success or failure of a particular program component. In the past, the general approach has been to "fund'em and forget'em." 2/

ARC does not yet have for each of its program areas a complete project and program evaluation system which systematically identifies project benefits, measures program effectiveness, and links the results to ongoing planning and project selection. Since 1974, however, completed and ongoing efforts to evaluate selected program areas and improve project and program evaluation capability at the ARC and State levels have produced several important benefits. Such efforts represent a major improvement over the scant attention given to project and program evaluation during the early years of the program.

ARC's State Evaluation and Monitoring Assistance Program, initiated in 1976, came too late to fully apply the results of previous projects to current planning decisions. Limited in its effectiveness by incomplete planning during the 1976-78 startup period, this program nevertheless represents a positive step by recognizing the States' role in performing project and program evaluation. ARC may not realize all the potential benefits from this program, however, unless it more clearly defines what each State's evaluation capability should eventually consist of, sets target dates by which that capability should be in place, establishes a long-range fiscal plan addressing future

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1/ S. Rep. No. 159, 90th Cong., 1st Sess., p.55 (1967).

2/ Excerpt from Kentucky's 1978 revised scope of work proposed to implement a permanent project control and evaluation program.

--Assessing the impact and quality of investments.

--Conducting studies.

--Planning for evaluation of a State's health program.

--Developing the capability for evaluation.

--Supporting evaluation.

--Developing substate evaluation.

--Insuring cost-efficiency, quality, and compliance with grant requirements.

--Assessing success or failures.

--Developing instruments to document impact and effectiveness and eliminate unsuccessful ventures.

--Indicating accomplishments and/or failure with regard to stated objectives.

--assuring objective analysis of effectiveness.

We examined other references to evaluation in the code and had difficulty determining from ARC policy statements who was responsible for evaluating what projects or programs, and for what purposes. For example, section 200A-3A.6, dealing with ARC's Areawide Action Program (AAP), reads as follows:

> "The States and the Commission working together shall develop and implement a monitoring and evaluation system for assessing the Areawide Action Program and planning process pursuant to Section 200A-3A. Such system shall monitor and evaluate the efficiency of the AAP process:
> (1) for improving methods for establishing goals and priorities;
> (2) selecting projects to achieve those goals and priorities; and
> (3) for expediting the actual implementation of selected projects to further local development district (LDD) economic development."

Although it adopted this policy in August 1976, and approved over $1.8 million for areawide action program grants to 53 districts as of April 1978, ARC's "monitoring of ARC's State evaluation and monitoring grants made in 1976 and 1977.

In 1976, ARC systematically began making funds available to the Appalachian States to develop a State-level program evaluation capacity. After discussing this assistance with Appalachian program officials in Kentucky, Pennsylvania, and South Carolina and reviewing progress reports from various States, we found that ARC had made these grants without clearly defining "evaluation capacity" in terms of specific goals, specific time frames, end products to be produced by the States, or future resources--Federal and State--which would need to be committed. In short, ARC was attempting to improve State capacity to perform program evaluations without adequately defining what that capacity should consist of, how soon it was to be accomplished, what it should cost, and which partner should pay for it.

We believe this grant program, although a notable positive step, could have been better planned if ARC applied lessons which it should have learned from a prior evaluation of its health and child development programs in 1975. That evaluation concluded that despite over $19 million in ARC planning grants between 1968-74 that were intended to increase State or substate capacity, it was not possible to assess how successful these grants were because ARC had not clarified what each State's capacity should be.

An ARC Planning and Evaluation Division staff member told us in April 1978 that some States were experiencing substantial difficulties in implementing a program evaluation system and that ARC was considering calling a conference in order to clarify the entire effort. Based on later information provided by ARC, it appears that subsequent meetings between ARC and State staff produced needed clarification. However, despite ARC approval of over $738,000 in evaluation and monitoring grants to all 13 States in fiscal years 1976 through 1978, the potential benefits from this effort may not be fully realized unless ARC establishes explicit policy statements defining State evaluation and monitoring capacity; sets target dates by which such capacity should be in place in each State; develops a long-term fiscal plan addressing future Federal and State financial commitment; and formally evaluates the program's results within a reasonable period of time.

<u>Resource allocation</u>. With the exception of certain major health, child development, and education studies and assessments ARC did not have complete data on either (1) how much money has been spent since the beginning of the program

health and child development service programs, ARC also took extensive surveys of benefits from those programs.

These assessments indicated ARC's need to undertake formal evaluations to determine (1) whether it was effectively identifying and duplicating successful health and child development demonstration projects, rather than merely providing services and (2) whether its vocational education investments after a decade were adequate to meet the region's needs.

The assessment of ARC's health and child development program concluded, among other things, that (1) the type of information ARC needed from its demonstration program to make informed policy decisions and ultimately influence Federal and State policy was either not centrally available, not readily retrievable, or not comparable with national data (2) the major goal of State and local capacity-building was never adequately defined in advance, thereby preventing ARC from knowing "after the fact" to what extent it had been successful and (3) ARC was not systematically transferring lessons learned about benefits derived from its demonstration programs because it was unable to fully demonstrate those benefits.

In vocational education, although ARC had not quantified its objectives in specific enough terms early in the program to know how many facilities could or should be constructed, evaluators sampled three different States and found that consistent criteria could be applied to determine the adequacy of existing facilities to meet projected needs, regardless of geographic location in the region. The study provided a systematic method for ARC to shift its spending priorities from construction to better use of existing facilities.

Following these formal evaluations, ARC undertook several notable actions, such as:

--Amending section 202 of the code to more clearly state the specific objectives of the health and child development program and require that evaluation components be built into each type of ARC grant (planning, demonstration, multiyear operations) before approval.

--Establishing and implementing throughout the region a consistent method and procedures for identifying innovative demonstrations in advance and building in formal evaluation mechanisms from the beginning in order to increase its ability to influence Federal policy and programs.

RECOMMENDATIONS TO THE FEDERAL AND STATES' COCHAIRMEN

The Appalachian Regional Commission should amend chapter 302B of the Appalachian Code to establish an overall policy on program and project evaluation, which should at a minimum contain the following elements:

--A definition of the term "evaluation" as it relates to measuring the impact and effectiveness of ARC funded projects and programs.

--A statement of the specific evaluation roles, responsibilities, duties, and functions which the Federal Cochairman, ARC staff, Appalachian Governors and State program offices, local development districts, recipients of ARC grant funds, and administering Federal and State agencies shall perform.

--A requirement for preparation of an annual ARC evaluation plan to include evaluations to be performed during the current and succeeding years and anticipated expenditures for such evaluations.

--A requirement for an annual report by the ARC of specific actions taken during the preceding year or to be taken as a result of evaluations performed in accordance with the annual evaluation plan.

--Specific criteria to ensure that each functional program area and major components of each area (as defined by the ARC Code and actual ARC expenditures for such components) are periodically evaluated within such predetermined period of time.

ARC should comprehensively assess the results of its State Evaluation and Monitoring Assistance Program within a reasonable period of time to document the status and evaluate the progress in each State toward a permanent project and program evaluation capacity.

RECOMMENDATIONS TO THE CONGRESS

In 1975, the Congress recognized the importance of systematic program evaluation when it enacted Public Law 93-644, the Headstart, Economic Opportunity, and Community Partnership Act of 1974. This legislation required the Secretary of HEW and the Director of the Community Services

CHAPTER 6

UNRESOLVED ISSUES LIMIT ARC'S INFLUENCE ON NATIONAL AND REGIONAL BALANCED GROWTH AND ECONOMIC DEVELOPMENT POLICIES

> "Over the years, different views and approaches to the responsibilities and operation of Commissions have evolved. They represent ideas which must be carefully balanced against the objectives originally sought to be achieved through national legislation. For example, the goal of enhanced State involvement in regional development, and the need for improved coordination and administration in meeting areawide problems, should not be supplanted by an emphasis on the Commission as a conduit for additional Federal aid." 1/

In 1979, the Congress and the President will have to decide the future of the Appalachian program and the role of multistate regional commissions in the Federal system. ARC adopted resolutions in December 1977 calling for continuation of its nonhighway programs through fiscal year 1983 as well as a national system of regional commissions coordinated through the Executive Office of the President. An evaluation study of the title V regional commissions, conducted for the Department of Commerce in 1977-78, also recommended a national system of multistate commissions. Similar proposals for a national system have been made for at least the last decade.

We reviewed over 20 evaluations, program assessments, policy analyses, research studies, and reports of various Presidential task forces since the late 1960s which included in their scope a discussion of the actual performance or potential role of ARC and other federally sponsored regional planning organizations. We found that the original focus around which support for the concept of multistate commissions centered--special assistance for economically depressed areas--has gradually shifted during the last 15 years. The current focus now centers on the topics of balanced growth, urban and rural balance, and the role of regional commissions in defining or implementing a national growth and development policy.

1/ S. Rept. 278 (94th Cong., 1st. sess.), p.3 (1975).

those adopted by ARC after its Conference on Balanced Growth and Economic Development, (4) a statement of regional goals and objectives, (5) 13 State plans and accompanying project requests, and substate areawide action programs representing individual State and district policies, objectives, needs, and priorities, and (6) 2 volumes of economic and demographic data showing various changes and trends since the early 1960s.

We summarize below our observations on each of these components of the process:

--Chapters 2-5 of this report discuss inadequacies and gaps in the ARC Code pertaining to planning policy, quantified goals and targets, State financial support, and program monitoring and evaluation.

--ARC's fiscal year 1979 appropriation request and accompanying testimony made only limited reference to preparation of a regional development plan, yet ARC's resolution calling for a national set of regional commissions states that multiyear regional plans would be submitted to the President and the Congress to evaluate the performance of these commissions.

--Chapter 3 and appendix VII illustrate the absence of meaningful quantitative goals or objectives at each planning level.

--The comprehensiveness of ARC's approach--defining its array of policy statements, goals, 13 individual State plans, budget, and socioeconomic data as constituting a regional development plan to which section 225 of the act refers--is debatable.

As discussed in chapter 2, evidence of a comprehensive planning process, or lack thereof, can be found in the extent to which that process is reflected in clear and complete planning documents. ARC's definition of its regional development plan appears inadequate in terms of providing a comprehensive response to the issues discussed in the balance of this chapter.

For example, section 225 of the act requires linking Appalachian State plans with State budgetary processes. As previously discussed in chapter 2, we found little evidence of explicit references in State plans to any formal linkages between Appalachian program planning and State budgets. We question whether Appalachian State plans are adequately linked to State budgets, particularly in light of the trend additional costs of implementing such policies, as well as projections of likely unmet needs 5 years hence, should such policies be either adopted or rejected. Without such supporting analyses, ARC's arguments before Federal agencies or appropriate congressional legislative and oversight committees may not be convincing.

A 1978 evaluation of the title V regional commissions made the following observation about the multistate plans prepared by those organizations:

> "No plan for affecting the existing flow of public funds into the region is evident in any of the documents."

The extent to which ARC's regional development plan, as currently defined, will affect the flow of other Federal and State funds in the region remains to be seen.

Projections of unmet needs through 1983

One of the six components of ARC's regional development plan consists of documents titled "Appalachia - A Reference Book" and "Appalachia - An Economic Report." The publications contain an extensive amount of information on population, unemployment, income, poverty, infant mortality, and physician availability trends in the region for various points in time between 1960-76. The book also contains information on educational attainment, school enrollment, and extent of deficient housing in the region in 1970. These trends are shown in relation to either U.S. averages, averages for non-Appalachian States, or averages for the non-Appalachian portion of 12 States. (See app. IX.)

We found that despite the availability of such information, ARC's regional development plan does not project what such trends, if continued, are likely to show in 1980 or 1985.

Nevertheless, ARC has adopted a resolution calling for continuation of its nonhighway programs through 1983. We believe ARC should support its resolution with accompanying analyses and projections through 1983 of specific geographic (State and district) references to quantifiable gaps which are likely to exist between the Appalachian and non-Appalachian part of each State in income, employment, poverty, education, housing, and health care availability. Such projections should make use, where appropriate, of available data from Federal and State agencies.

A major premise of the 1965 Appalachian Regional Development Act was that concentrated investment in both physical facilities (roads, schools, industrial parks, etc.) and human resources (health, education, and social services) would eventually have two effects: increased economic diversification and reduced social dependency on direct cash transfers from the Government (welfare, unemployment) needed to support large segments of the population.

Our analysis of the extent of transfer payments and degree of economic diversification in the Kentucky River Area Development District between 1966-74 (see ch. 3, pp. 41-42) raises a fundamental question as to whether the goal of economic self-sufficiency is feasible or realistic in this and perhaps other parts of Central Appalachia. Central Appalachia experienced the fastest rate of income growth between 1965-74 when compared to the other subregions--partially because per capita incomes were so low to begin with. The following table shows subregional per capita total personal income as a percent of U.S. average income in 1965 and 1974.

Subregional Per Capita Income

Subregion	1965		1974	
	Income	Percent of U.S.	Income	Percent of U.S.
Northern	$2,412	87	$4,809	88
Central	1,447	52	3,544	65
Southern	2,032	73	4,317	79
U.S. Average	2,785	100	5,448	100

Although per capita income relative to the Nation increased the fastest in Central Appalachia, the incidence of poverty actually worsened for the subregion during the 1960-70 decade when compared to the U.S. average, as shown below. Percent figures are shown as an index relative to the U.S. average, which remains constant (a base of 100 percent). (See ch. 3, p. 48, for a discussion of the use of relative condition/relative need index.)

Index of Appalachian Poverty by Subregion
Relative to U.S. Average (U.S. = 100)

Subregion	1960	1970
Northern	99	97
Central	245	254
Southern	175	151

projects in metropolitan and urban growth areas in Southern Appalachia that have already achieved a self-sustaining growth rate and where the relative impact of any ARC investment is minor. Yet the Senate Committee on Public Works stipulated in 1975 that ARC develop policy addressing problems such as low income and high poverty which originally justified its special Federal assistance in 1965.

We question why ARC is (1) making or contemplating investments in self-sustaining metropolitan and urban growth areas where its relative impact is minor, (2) projecting that Central Appalachia's poverty situation will have worsened between 1960-80, yet (3) not commenting more specifically in its regional development plan on the adequacy of existing national welfare and income maintenance policies in terms of alleviating Central Appalachia's continued poverty problems.

This paradox illustrates one of the criticisms which the Advisory Commission on Intergovernmental Relations' 1972 report "Multistate Regionalism" noted has been leveled against federally sponsored multistate commissions--they do not or cannot consider a variety of solutions to problems which involve broad national policy issues such as welfare.

ARC made substantial investments in the human resources of Central Appalachia during the program's first decade. We found few indications, however, that ARC's regional development plan adequately addressed (1) whether the overwhelming competitive disadvantages against economic diversification, or self-sufficiency, of rural Central Appalachia are liable to continue indefinitely, (2) the adequacy of existing non-ARC Federal and State efforts in reducing severe and continuing imbalances, or (3) the need to consider phasing down the amount or extent of its assistance from other geographic areas in the region and redirecting additional funds into the Central Appalachia subregion.

In 1963, before ARC was created an extensive study and analysis of human, physical, and natural resources in eastern Kentucky inferred that traditional patterns of industrial development and economic growth were not likely to occur in the coal-dominated economy characteristic of rural Central Appalachia. A 1962 study suggested that 30 years may be required before the self-perpetuating nature of Appalachia's developmental problems could be corrected. The Department of the Army's Office of Appalachian Studies, Corps of Engineers, made the assumption in its 1969 report that regional economic development efforts would be able to raise the Appalachian economy nearly to a par with the Nation over the next 50 years (around the year 2020) with "exceptional effort."

projections also indicate that under assumptions of substantially increased congressional appropriations, the balance of the highway system as originally planned could not be completed until at least 1986. Actual completion may not occur until the 1990s if historical levels of Federal and State funding between 1965-80 are maintained. The Congress will likely examine the availability and degree of State financial commitment for completing Appalachian highway construction during its deliberation before 1981.

Our analysis of declining State financial support for ARC nonhighway programs (see ch. 4, pp. 75-80) indicates that a closer inspection of State matching funds and financial commitment in those areas is also warranted. Senate Report 94-278 in 1975 was quite specific in stating that ARC not become merely a conduit for Federal funds. Because we found little indication in Appalachian State plans of linkages to State budgetary processes, as required by section 225 of the act, there is inadequate assurance that the trend we noted between 1971-78 will not continue.

Before presenting its fiscal year 1981 request for further nonhighway program appropriations, ARC should prepare to inform the Congress how much State money will be committed to matching ARC Federal funds each year for each of the 13 States between 1980-83.

have the authority and responsibility to arbitrate and adjudicate interagency grant administration problems between administering and funding agencies. Whether the Interagency Coordinating Council will effectively perform this function remains to be seen.

Since OMB is responsible for establishing grant administration requirements for Federal agencies, we continue to believe that OMB should be the appropriate focal point for addressing and resolving the kind of grant administration problems discussed in this report.

ARC COMMENTS AND OUR EVALUATION

In commenting on the report (see app. II), ARC did not generally respond to all of our recommendations to the Federal and States' Cochairmen. Rather, ARC maintained that the report was based on assertions contradicted by facts and on misconstructions of law and published policies. Further, it believes the report was a simplistic and highly theoretical view of regional development planning and failed to fully comprehend the joint decisionmaking process of the Federal/State partnership.

We disagree. As discussed in the scope section of this report, we extensively covered all facets of ARC's approach to multistate regional development as well as policies and legislative history. Our review, which covered nine sections of the act, consisted of detailed work at the Federal, State, and local levels of government. At the local level, we interviewed the executive directors and staff of three local development districts and spoke with local government officials, ARC grantees, and private citizens familiar with the ARC program. We also attended board meetings and planning sessions conducted by the local development districts. Chapter 8 describes in greater detail the scope of our work.

ARC's comments dealt with the following issues.

Planning

ARC disagreed with the need and means for improving its regional planning process. ARC said that it has "a comprehensive regional plan that evolved out of a comprehensive regional planning process that is sophisticated, workable, and realistic." ARC's response however, does not clarify the meaning that it attaches to the word "comprehensive."

Our report defines comprehensive regional development planning as a systematic process which combines different

Goals and objectives

ARC said it has utilized quantified goals where it has determined they would be useful and rejected them where it determined they would not. It decided early on that its planning approach for the regional program should produce increasingly specific goals and objectives as one moves from the multistate regional level to the State level. As a result, goals and objectives at the regional level are generally less specific, providing the basis for objectives at the State and local levels. However, quantified goals at the regional level have been established when deemed useful and timely for program and decisionmaking purposes. At the State level, ARC said that program objectives take several different forms, including specific levels of services or effort, standards of performance, locational priorities, economies of scale, cost effectiveness, and so forth.

Our review, however, found that Appalachian nonhighway program goals and objectives at each planning level are so broadly worded and so indefinite in terms of specific timeframes that objectively measuring progress toward accomplishing them, or determining when or if they have been met, is difficult if not impossible. ARC's regional development plan, for example, contains 38 statements of program objectives in 7 program areas (see app. VII.) These statements cite no target dates; describe ongoing activities rather than prescribe eventual conditions hoped to be achieved; and contain no specific criteria against which to measure how much or how soon Appalachia's remaining deficits in income, education, health, housing, and poverty will be reduced as a result of ARC and other Federal, State, and local efforts.

ARC cited three examples to support its position and said that its vocational education goal was to have capacity for enrolling 50 percent of the 11th and 12th graders in the region. In the health area, a specific goal was set of 3.5 beds per 1,000 population or less. Another health goal calls for reducing infant mortality rates in the region to less than the average rate for the Nation within 4 years.

Regarding the vocational education goal, we found no evidence to indicate that ARC officially adopted a timebound, quantified goal of 50-percent enrollment for the Region's 11th and 12th graders before making most of its vocational education investments. An ARC 1970-71 internal evaluation of the program's first 6 years refers to a staff estimate of 50 percent as "an appropriate target," and ARC 1974 testimony stated only that "a reasonable goal would be the construction by the 1970s of enough facilities so that 50 percent of the 11th and 12th grade students can enroll in job-relevant invested, and (3) the act does not require ARC to seek parity or self-sufficiency of any single area of the region.

We continue to believe, as the report vividly demonstrates, that the relative severity of certain States' unmet needs when viewed from a regional perspective may not warrant the amount of assistance ARC was intended to provide under the act. Also, we take exception to ARC's position that its program direction should not be one of reducing disparity within its boundaries with the rest of the Nation and achieving regional economic self-sufficiency.

As noted on page 32, the Congress stipulated in both 1965 and 1975 that reducing Appalachia's economic and social development problems to levels closer to those in the rest of the Nation's urban, metropolitan, and rural areas would accomplish the Appalachian Act's ultimate national goal--eliminating the need for separate Federal assistance. The act adopted a national policy of short-term Federal aid to promote the continuous process of regional development. This policy, and the ultimate goal of eliminating the need for separate assistance, can thus be summarized in two more specific goals:

--Reduce the region's disparity to acceptable levels.

--Reduce excessive social dependency on the need for public assistance payments by increasing economic diversification; that is, achieve economic self-sufficiency.

If this is not the goal ARC is seeking to achieve, then serious questions arise about the real purpose of its program.

ARC also said that the House Committee on Public Works in 1965 rejected a proposal that would have restricted ARC expenditures to counties of greatest need. As indicated on page 51 of the report, we believe that the use of an index giving recognition to the relative severity of each State's unmet needs would neither restrict any State's selection of growth areas nor be inconsistent with ARC's strategy of concentrating investments in areas of future growth where the expected return on public dollars will be the greatest. It would, however, provide a potentially larger share of ARC funds to those selected growth areas in States which have the furthest to go to achieve program goals.

has been an ongoing aspect of ARC's day-to-day activities from the outset."

ARC did recognize the need to be aware of the grant administration activities of the Federal agencies and to follow up on approved projects. It indicated that new inter-agency agreements have been worked out with several Federal agencies and negotiations with others were underway.

ARC believes its project closeout problem will be eliminated by the end of fiscal year 1980.

"Changed circumstances" procedures

ARC said that the report's criticism of its procedures for determining "changed circumstances" in underrun cases reveals a fundamental misconception of the ARC process. This misconception, according to ARC, is the report's criticism that changed circumstances are being handled through negotiations between ARC and the State, which ARC points out is precisely how projects are originally processed. ARC said that its criteria for determining changed circumstances are detailed and are set forth in the ARC Code.

Our report, in fact, does not question the use of negotiation in determining changed circumstances in underrun cases. We do, however, take exception to ARC's position that criteria for determining such circumstances are adequately detailed in the ARC Code. The entire citation concerning underruns as stated in the code consists of a single paragraph describing in general terms those changes in final project costs which require section 214 funds to be recovered.

That paragraph, in our opinion, does not provide sufficient guidance to ARC staff to ensure that the underrun policy is applied fairly and consistently or ensure that closed out project files sufficiently document why changed circumstances permitted apparently recoverable funds to not be recovered. We continue to believe that ARC needs to develop written procedures to reduce or eliminate the types of problems we document on pages 68 to 74 of our report.

Use of section 214 authority

Our review identified a significant increase since 1971 in ARC's use of section 214 funds to substitute for unavailable Federal funds rather than to supplement available funds. We recommended that ARC establish a policy limiting the extent to which States use section 214 funds in this manner in order to (1) encourage State and local planners to continue trying to influence Federal program priorities at the local

CHAPTER 8

SCOPE OF REVIEW

Our review of ARC's nonhighway programs examined selected aspects of ARC's approach to multistate regional development. We attempted to anticipate those program areas which, based on prior congressional interest and ARC's own description of its operations, would be highlighted during forthcoming debate to continue the program and perhaps extend the approach nationwide.

We concentrated on 9 sections of the Appalachian Regional Development Act of 1965, as amended, summarized briefly as follows: (1) section 2, statement of purpose, (2) section 102(a)(1), comprehensive and coordinated planning, (3) section 103, regional policy development and influencing Federal, State, and local legislation and spending, (4) section 104, Federal interagency coordination, (5) section 106, role of the Executive Director and ARC staff, (6) section 214, supplemental grants, (7) section 221, State financial support, (8) section 225, an integrated planning process, and (9) section 302, program evaluation authority.

We interviewed and held extensive discussions with Federal, State, and ARC officials and staff at ARC headquarters and officials at various Federal agencies in Washington, at Federal offices in Atlanta and Philadelphia, and substate area or county offices in Kentucky and Pennsylvania. We also interviewed and spoke with ARC program officials or other State officials familiar with Appalachian program administration from 9 of the 13 Appalachian States.

At the local level, we interviewed the executive directors and staff of three local development districts and spoke with local government officials, ARC grantees, and private citizens familiar with the ARC program or ARC projects. We also attended board meetings and planning sessions conducted by the local development districts.

In Washington, we attended official ARC meetings of the Federal Cochairman and Appalachian Governors, meetings of the Federal Advisory Council on Regional Economic Development, at which title V regional plans were discussed, and an annual conference of Appalachian local development districts. We also attended a national symposium held in Austin, Texas, in 1977 to discuss national and regional issues in balanced growth and development.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FEB 21 1979

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C. 20548

Dear Mr. Staats:

This is in reply to the draft report, The Appalachian Regional Commission is Not Yet a Model for the Nation, sent to us January 12, 1979.

The Report makes several recommendations to the Office of Management and Budget and to the Executive Office of the President. These recommendations can be summarized under two general headings. The following presents our understanding of the recommendations that GAO asks the Office of Management and Budget to consider:

1. Improved Closeout Procedures

a. OMB Circular A-102, Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments, should be expanded to explicitly cover agencies such as the Appalachian Regional Commission (ARC) which delegate the administration and expenditure of their funds to other Federal agencies.

b. OMB should clarify for the Federal Cochairman the responsibility that ARC has for establishing closeout procedures.

c. OMB should provide written guidance and technical assistance to ARC and appropriate Federal agencies as needed to reduce the accumulated backlog of open ARC projects.

2. Interagency Agreements and Resolution of Disputes

a. The Office of Management and Budget should examine the adequacy of Executive Order 11386, which memorandum we asked the agencies to review their grant closeout procedures, and to report back to us by December 31, 1978 on the results of their reviews. We are now in the process of reviewing the agency submissions and deciding whether further corrective action is necessary. We will pay particular attention to the closeout procedures related to ARC and similar situations in which the administering and funding agencies are not the same.

2. Interagency Agreements and Resolution of Disputes

It is true that there has been ambiguity in the relationship of ARC with other Federal agencies. In recognition of the type of problem identified by GAO, the President issued a memorandum to all agencies on January 19, 1979, which spells out the responsibilities of the regional commissions, Secretary of Commerce, other Federal agencies, Federal Regional Councils, and the Interagency Coordinating Council. This memorandum is enclosed for your information. We believe that this memorandum will clarify responsibilities and will help ensure coordination among involved agencies and groups. In light of the issuance of this memorandum, we do not believe that it is necessary for OMB to become a signatory or certifier of all interagency agreements between ARC and Federal agencies. Nor do we believe it necessary to revise E.O. 11386 for this purpose, unless the new procedures prove to be insufficient to rectify the identified problems.

The issue of enhancing ARC coordination with other agencies will also be addressed in the ARC reauthorizing legislation which will be transmitted to the Congress in the near future.

We understand that the Appalachian Regional Commission is preparing an exhaustive reply to the GAO Report and its recommendations. We will, of course, be interested in that reply and will decide at that time, whether other actions on the part of OMB are necessary.

Sincerely,

Enclosure

We would appreciate your reviewing the grant closeout procedures of your department or agency to determine whether they are consistent with our Circular and with sound business practices. Where they are not, they should be made consistent promptly. We also request that a review be made of closeout practices in your department or agency. Where closeout is found not to be on a current basis, steps should be taken immediately to recover any excess funds held by grantees.

Please report to us by December 31, 1978, on the results of these reviews. Indicate in your report the amount of funds returned to the Treasury and the amount offset against current grants, when such offsets are appropriate, as a result of the reviews.

James T. McIntyre, Jr.

James T. McIntyre, Jr.
Director

Responsibilities of Federal Participants

To assure that Federal actions recognize regional differences and facilitate state, local and private initiatives in addressing the special problems of balanced growth which each region faces, I am directing that the following actions be taken by the Secretary of Commerce, the Federal departments and agencies, the Federal Cochairmen of the Appalachian and Title V Regional Commissions, the Interagency Coordinating Council and the Federal Regional Councils:

Secretary of Commerce

With respect to the Title V Regional Commissions, the Secretary of Commerce is directed to:

1. develop, in consultation with the appropriate parties, guidance for the preparation of regional plans, investment programs and growth policy recommendations. The multi-year regional development plans, annual investment programs, policy recommendations and obstacles to interagency coordination may be presented by the Secretary to the heads of the relevant Federal departments and agencies through the White House Interagency Coordinating Council;

2. assist each Federal Cochairman of a regional commission in presenting the multi-year regional development plan, annual investment program and growth policy recommendations developed from the plan; and

3. institute a mechanism for consultation with Federal Cochairmen regarding policy and administrative improvements in the program.

Federal Departments and Agencies

The head of each Federal department and agency is directed to:

1. assist and cooperate with the Secretary of Commerce, the Federal Cochairmen of the Appalachian and Title V Regional Commissions, and with the Interagency Coordinating Council in performance of their functions with respect to the regional growth policy process;

2. administer planning and development assistance programs so as to facilitate regional and unified state growth policy processes, and to the extent practicable, support multi-year regional development plans and annual investment programs of the regional commissions through financial assistance and direct Federal development activities which are consistent with such plans; and

3. recognize the mutual agreement of the governors in each regional commission that the commission may participate in the current process for evaluation, review and coordination of Federal and Federally assisted projects under Part II of OMB Circular No. A-95. Projects for review should be referred to the commission by State clearinghouses according to procedures jointly prescribed by governors. I am directing the Director of the Office of Management and Budget to propose amendments to OMB Circular No. A-95 to this effect.

more

THE APPALACHIAN REGIONAL COMMISSION
1666 CONNECTICUT AVENUE
WASHINGTON, D.C. 20235

OFFICE OF
FEDERAL COCHAIRMAN

April 6, 1979

The Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Staats:

The Appalachian Regional Commission has now reviewed two drafts of the GAO report on our nonhighway activities. The first, received in late January of 1979, consisted of 174 pages. We studied each issue in it on a line-by-line basis, prepared detailed analyses on each issue and discussed these with your staff on several occasions. We provided facts so that errors could be corrected. On March 22, 1979, a revised draft of similar length was received. While several significant errors were corrected, the improvements were, in our opinion, insufficient to overcome the fundamental flaws in the report. The revised draft is still based on assertions contradicted by facts, and on misconstructions of law and published ARC policies. The draft reflects a simplistic and highly theoretical view of regional development planning. The draft fails to fully comprehend the joint decision-making process of this Federal-State partnership.

If the Commission's decisions are to be evaluated in a report like this, the analysis must be made in the context of who the decision makers are. The Appalachian Regional Commission's planning and decision-making processes are different from those in most Federal programs. Policy decisions, plan and project approvals are made by 13 elected Governors and a representative of the President of the United States. And even those who serve as representatives of Governors to ARC are Cabinet Members or personal staff to Governors. This creates a decision-making environment different from most programs. The decisions by ARC should be evaluated in that context.

On behalf of the Commission, I submit the following comments on the principal issues in the revised draft. We hope that the information being provided will be used by GAO to provide a report that contains a balanced assessment of the significance of the Commission's Federal-State partnership and its contributions to the Region and the nation.

Planning

The draft states that ARC's plans and planning process are incomplete and not comprehensive because state and substate plans do not cover an identical list of program subjects. The draft also argues that ARC has not provided adequate guidelines for state and substate planning. We disagree. The assertions made in

Appalachian state plans, along with the implementing investment programs for funding projects are reviewed and approved annually by joint decision of the Governors and the Federal Cochairman.

ARC's regional development planning process has been an evolutionary one that has drawn enthusiastic support at all levels of government. Recently, it has been viewed as a model for the planning and programming of funds by the President's Reorganization Project and by the OMB Interagency Task Force on State and Areawide Planning Requirements. The reason is that it provides a "real world" perspective in which to make planning a policy tool, from which to decide what kinds of investments to make.

Goals and Objectives

The draft charges that Appalachian program goals and objectives are not quantified and therefore cannot be used to measure program progress and effectiveness. ARC has utilized quantified goals where it has determined they would be useful and rejected them where it was determined they would not.

The Commission decided early on that its planning approach for the regional program should produce increasingly specific goals and objectives as one moves from the multistate regional level to the state level. As a result, goals and objectives at the regional level are generally less specific, providing the basis for more specific objectives at the state and local level. However, quantified goals at the regional level have been established when deemed useful and timely for program and decision-making purposes. For example, the Commission's vocational education goal was to have capacity for enrolling 50 percent of the eleventh and twelfth graders in the Region. In the health area, a specific goal was set of 3.5 beds per thousand population or less. Another health goal calls for reducing infant mortality rates in the Region to less than the average rate for the nation within four years.

At the state level, program objectives take several different forms, including specific levels of services or effort, standards of performance, locational priorities, economies of scale, cost effectiveness, and so forth. Examples here include the number of housing units to be constructed (Mississippi); ratio of primary care physicians per one hundred thousand population (New York); travel time to primary care centers (all states); and a requirement that sewer facilities be part of an areawide system to ensure cost effectiveness and economies of scale (South Carolina).

Furthermore, there are a number of ways to quantify program goals. For example, in the Commission's demonstration, research and technical assistance program, goals generally focus more on "process" or how to best achieve results. For other types of programs, overall funding goals are established in the budget. Obviously, in all of these types of programs, specific project objectives are established.

amendments that would have restricted ARC expenditures to counties of greatest need (as defined by eligibility for assistance under the Area Redevelopment Authority or the Accelerated Public Works Act of 1962). In rejecting these amendments, the Committee stated that such restrictions would destroy an essential feature of the ARC program. Congress has recognized the value of ARC's allocation procedure as recently as 1975 by legislating the same procedure for the allocation of funds among Regional Action Planning Commissions created under Title V of the Public Works and Economic Development Act.

State Financial Contributions to ARC Program

The draft questions the level of state government financial participation in the program. It suggests that the program may be evolving into one in which most of the financial burden is borne by the Federal and local governments.

The Appalachian Act addresses only maximum Federal and minimum non-Federal shares of ARC project and program costs. Under the Act, the appropriate mix of state and local non-Federal shares of project and program costs within the Appalachian program is determined by the Governors in developing state goals, objectives, priorities, strategies, and investment programs, including funding sources.

Moreover, GAO's conclusion is based upon a simplistic and unsophisticated distinction between state and local shares of the non-Federal portion of ARC program and project costs. Specifically, the report fails to recognize that state government determines and is responsible for local government fiscal resources. Patterns of state-local fiscal responsibilities that affect the makeup of the non-Federal share of project and program costs vary from state to state, locality to locality. For example, the legal responsibility for financing primary and secondary education resides primarily with state government in North Carolina and with local government in New York. Yet, New York State provides almost 50 percent of these costs from its own treasury directly to local government. Local governments are responsible for construction costs for vocational facilities in South Carolina, while the state assumes operating costs. The draft also fails to recognize changing levels of the Federal share of grant programs. For example, EPA increased the Federal share in its Wastewater Treatment Program in recent years from 33-1/3 percent to 75 percent. This has reduced the non-Federal share in EPA projects, many of which were supplemented with ARC funds in the Region.

In addition, the data used in the draft to reach the conclusion that state government financial participation in ARC programs is declining are grossly misleading and cannot be used for this purpose. To illustrate --

GAO's primary concern focuses on the retirement of project files and the recovery of unspent funds. It apparently thinks of this as one topic when, in fact, they are two separate and distinct activities. With regard to funds recovery, ARC has over the years recovered and credited to appropriate allocations over $63 million in Federal funds not required for successful completion of individual projects. These funds were recovered where there were reduced program obligations, project revisions and project underruns. The recovery of funds has been an ongoing aspect of ARC's day-to-day activities from the outset. This effort does not depend upon the retirement of files.

Despite the fact that Congress assigned most grant administration responsibility to Federal agencies, ARC recognizes the need to be informed and to follow up on approved projects. Early on, ARC entered into Interagency Agreements and Memoranda of Understanding with the Federal grantor agencies. These documents identified areas of agency responsibility and included provisions requiring the grantor agencies to provide necessary fiscal information to the Commission. As part of these agreements, Federal agencies undertook to assure compliance by the grantees with the terms and conditions of our project approvals. It was assumed that these agreements, along with applicable Federal grants administration regulations, would be adequate. The Commission reasonably relied on the presumption that the Federal grantor agencies were carrying out these responsibilities. If the agencies had been living up to these responsibilities, the matter of retiring files at ARC would have been simply a ministerial function, since under that assumption the grantor agencies would have resolved or identified to the Commission any substantive issues. For this reason, the Commission did not place a high priority on retiring its project files.

Unfortunately, the Commission learned through experience that its reliance on these agencies was overly optimistic. While some agencies have responded well, others were less responsive. Several agencies did not provide all the information needed to retire files. Others did not enforce the funding conditions imposed by ARC on approved projects. In pursuing resolution of these problems, the Commission was unable to fully obtain full and consistent compliance within the grantor agencies.

Over the years, the low priority which ARC accorded to the retirement of project files resulted in a substantial backlog. The Commission has given increasing attention to the problem in recent years. We have completed new interagency agreements with several Federal agencies and are negotiating with others. Last year, ARC began internal steps to accelerate reduction of the backlog. As part of this effort, the Commission developed revised procedures which better describe the duties, functions and responsibilities of each ARC organizational unit involved in retiring projects and has now put into effect a systematic and continuing process which enables Commission staff upon project completion to retire those project files for which the Federal agency closeout is determined to be in accord with the terms of ARC approval.

Section 214 of the ARDA of 1965 initially provided that ARC funds could be used solely to supplement Federal grant-in-aid programs by increasing the Federal contribution to projects above the fixed maximum share otherwise permitted, to a maximum of 80 percent. This enabled communities, which otherwise would not have the required matching share, to qualify for Federal basic grants, thus influencing the flow of Federal funds into the Region. Obviously, to the extent to which Section 214 projects were approved under this initial authority, ARC did influence the flow of funds into the Region. The 1971 Amendments expanded Section 214 of the Act to enable ARC to provide all or any portion of the basic Federal contribution when there are insufficient funds available under the basic grant program. This action was intended to maintain the flexibility needed by the Commission to address the priority needs of the Region. As the 1971 report of the Senate Committee on Public Works states:

> "The supplemental grant program, by its nature, depends on sufficient funds being available in those basic Federal grant programs; in short, there must be some basic grant to supplement. When funds under the basic grant-in-aid programs are inadequate to meet the Region's identified needs, 'first dollar' monies would insure the flexibility now provided by the Appalachian program could be maintained and strengthened". (Senate Report No. 92-29)

The Commission has acted responsibly in its use of "first dollar" authority. It has assured that "first dollar" authority is used only when basic Federal dollars are not available to meet priority needs of the Region as determined through the regional planning process set forth in Section 225 of the Act. Moreover, when informed that funds are not available -- due to insufficient funds or differing Federal agency priorities -- the Commission has exercised its legislative responsibility to determine priority regional needs and responded with its Section 214 "first dollar" authority. Thus, it has been able to maintain the flexibility envisioned by the Congress as being needed to meet these needs in the absence of other Federal assistance. If the Congress had not intended we do this, they would have placed restrictions on the authority. The hearing record in our general reauthorizations demonstrates Congressional awareness and support of these policies.

Evaluation

The draft states that ARC has used a random approach to evaluation. The implication is that there is no systematic approach to the examination by ARC of its programs and their effectiveness. We disagree.

ARC's approach is based on an incremental, but systematic, analysis of the needs and feasibility for evaluation within each program area. This approach, sometimes referred to as an "evaluability assessment," was developed by the Urban Institute. It was first applied by ARC within its health and child development programs, then expanded to other ARC program areas, and is now the basis for evaluations within HEW as well as within EPA and LEAA.

APPALACHIAN REGIONAL COMMISSION

NONHIGHWAY PROJECT APPROVALS

BY STATE AND SOURCE OF FUNDS

FISCAL YEARS 1965-75 (note a)

	ARC	Other Federal	State (note b)		Local	Total
	(millions)					
Commission	$ 2.0	$ -	$ -		$ -	$ 2.0
Alabama	109.4	74.0	38.2	(13.1%)	69.9	291.5
Georgia	69.3	49.2	11.2	(6.1%)	55.8	185.5
Georgia/ Tennessee (note c)	11.8	4.6	1.7	(6.5%)	7.4	25.5
Kentucky	93.8	42.7	15.8	(7.7%)	53.3	205.6
Maryland	37.8	12.6	22.4	(24.6%)	18.3	91.1
Mississippi	50.3	23.1	8.5	(8.1%)	23.9	105.8
North Carolina	72.7	43.7	11.9	(6.4%)	56.8	185.1
New York	52.4	55.1	42.0	(20.7%)	53.6	203.1
Ohio	75.4	39.5	25.0	(12.2%)	64.3	204.2
Pennsylvania	171.3	222.8	138.4	(16.9%)	287.7	820.2
South Carolina	82.9	34.1	22.1	(11.3%)	56.1	195.2
Tennessee	73.5	81.8	25.8	(9.2%)	97.5	278.6
Virginia	59.3	16.7	8.4	(7.4%)	29.3	113.7
West Virginia	111.1	90.7	34.2	(10.3%)	97.0	333.0
Total	$1,073.0	$790.6	$405.6		$970.9	$3,240.1
	(33.1%)	(24.4%)	(12.5%)		(30.0%)	(100.0%)

a/Eligible project costs in which the Federal Government is allowed to participate. Figures exclude section 302 research, demonstration, and local development district assistance which totaled $59.4 million in ARC funds during this period.

b/Percentages refer to States' share of total eligible costs.

c/Special two-State health demonstration project.

APPALACHIAN REGIONAL COMMISSION AREA DEVELOPMENT PROJECT APPROVALS, FISCAL YEARS 1965-75

Section	Program area	ARC (federally appropriated funds) (millions)	(percent of total)
201	Access roads	$ 91.8	8.1
202	Health & child development	314.3	27.8
203	Soil and water resources	18.9	1.7
204	Timber resources	.2	0.0
205	Mine restoration	52.5	4.6
207	Housing	8.4	0.7
211	Vocational education	263.8	23.3
212	Sewage treatment	13.6	1.2
214	Supplemental grants	a/309.6	27.3
302	Local development districts, research, and demonstration	59.4	5.3
		$1,132.5	100.0

a/Does not include those section 214 funds used in conjunction with other sections of the act.

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 APPENDIX VII

STATEMENT OF GOALS AND OBJECTIVES FOR APPALACHIA ADOPTED BY THE APPALACHIAN REGIONAL COMMISSION, DECEMBER 1977

HUMAN SERVICES OBJECTIVES

Health

1. To provide Appalachians with adequate access to basic health services emphasizing medically underserved areas.
2. To prevent the development of health problems in the Region.
3. To increase the supply of health manpower in the Region.

Education

1. To provide Appalachians with access to job-related vocational and technical education.
2. To help ensure that Appalachians have the basic education skills needed to participate in the Region's development.
3. To help ensure that Appalachians are not disadvantaged by changing technologies and that they have opportunities to advance throughout their working careers.

Child Development

1. To help ensure that Appalachia's preschool children receive adequate and appropriate health, education and social services.

ENERGY OBJECTIVES

1. To assist areas experiencing particularly strong impacts from energy-related development with their problems of providing essential human and public services.
2. To help assure a wide distribution of benefits from energy-related activities both through encouragement of large and small private enterprises and through an equitable system of royalties and taxation.
3. To encourage, help create and seek the vigorous enforcement of laws and regulations related to energy development at the state and federal levels that protect individual and community health and further the Region's economic and environmental welfare.
4. To encourage the conservation of energy in all its forms and the utilization of the most abundant types in an environmentally sound way.
5. To help design, operate and maintain an efficient energy transportation system and to provide the labor and material requisites of expanded energy output.
6. To encourage and demonstrate coal conversion activities that can contribute to national energy requirements.
7. To assess the Region's potential energy wealth and the most effective ways to make it available by examining the human, health, environmental and economic implications of alternatives.

ANALYSIS OF PERCENT AND PER CAPITA ARC NONHIGHWAY ALLOCATIONS, FISCAL YEARS 1965-68, TO MARYLAND, SOUTH CAROLINA, TENNESSEE, AND WEST VIRGINIA

Percent Allocations for Nonhighway Programs, Fiscal Years 1965-67, and 1968 Maryland and South Carolina Compared to Tennessee and West Virginia

No. of counties as a percent of regional total	Access roads	Land conservation	Mine restoration	Vocational education	Sewage treatment	Supplemental grants
			Fiscal years 1965-67			
			(percent)			
Maryland and South Carolina 2.4	16.6	4.4	8.0	9.5	9.0	11.2
Tennessee and West Virginia 27.8	11.8	22.2	21.7	20.9	18.1	18.6
			Fiscal year 1968			
Maryland and South Carolina 2.3	11.6	4.0	-	8.9	8.4	10.3
Tennessee and West Virginia 26.3	14.4	20.3	-	19.9	17.2	17.5

Source: Donald N. Rothblatt, "Regional Planning: The Appalachian Experience," 1971, Table 2-12, pp. 101-102.

Per Capita Allocation of Appropriated Funds for Nonhighway Programs, Fiscal years 1965-68, Maryland, South Carolina, Tennessee, and West Virginia

Per capita income as a percent of regional average (percent)	Access roads	Health facilities	Land conservation	Mine restoration	Vocational education	Sewage treatment	Supplemental grants	Total (note a)
Maryland: 109.9	$2.19	$ -	$ .83	$ -	$4.75	$1.29	$24.97	$34.03
South Carolina: 94.1	4.66	3.24	.59	-	2.55	.62	10.39	22.05
Tennessee: 87.8	1.05	-	.93	.16	1.64	.38	5.61	9.79
West Virginia: 95.6	.41	1.10	.64	-	1.63	.38	5.63	9.79

Source: As above, Table 2-13, pp. 104-105.

a/Does not take into account trading of allocated funds between States which ARC policy allowed. When such trading is considered, total per capita allocation becomes as follows: Maryland: $37.32, South Carolina: $23.16, Tennessee: $9.19, West Virginia: $10.33. Source as above, Table 2-20, pp 124-125.

	1960	1965	1970	1975
	-----------(percent)-----------			
Housing:				
Deteriorating or dilapidated:				
Appalachia	147			
Overcrowded or lacking plumbing:				
Appalachia			141	
Northern			101	
Central			295	
Southern			162	
Income:				
Per capita total personal income:				
Appalachia		78	81	83
Northern		87	88	88
Central		52	59	65
Southern		73	76	79
Transfer payments as percent of total personal income:				
United States	7.0	7.4	9.8	13.8
Appalachia	9.1	9.3	11.9	16.6
Northern	9.4	9.3	12.2	17.0
Central	12.5	14.4	17.5	20.8
Southern	7.9	8.2	10.3	15.1
Migration:				
Population aged 18 to 64, change from previous decade:				
United States	8.6		14.8	
Appalachia	-5.1		5.8	
Poverty:				
Persons below poverty:				
Appalachia	141		132	
Northern	99		97	
Central	245		254	
Southern	175		151	

SELECTED LISTING OF FEDERAL LEGISLATION WHICH ENCOURAGES OR REQUIRES COMPREHENSIVE PLANNING

Planning for the use of Federal funds became a concern of the Federal Government in the 1930s, when it provided large amounts of money to State and local governments for relief from depressed economic conditions. In 1933, through incentives provided by the Federal Government, States established planning boards to assist Federal officials in developing a broad, long-range national public works program to cope with the Depression. As public works expenditures decreased in the late 1930s, so did national and State planning efforts. At the same time, however, State agencies encouraged municipal and county planning.

Federal interests in planning, particularly for housing, reemerged in the late 1940s and early 1950s. The National Housing Act of 1949 provided Federal funds for public housing and redevelopment and reaffirmed that federally funded urban projects should conform to community development plans. The Housing Act of 1954, as amended, required grant applicants to complete a comprehensive community plan and workable program for implementing federally funded urban projects. Section 701 of the act provided funds to States, regional planning agencies, and certain communities to prepare comprehensive plans.

The Federal Government has concluded that promoting efficient use of Federal funds for domestic purposes, such as stimulation of employment and economic development, could be greatly enhanced if recipients had plans which logically outlined projects required for sound community development. Toward this end, the Federal Government has established specific programs for sharing the costs incurred by State and local governments and other organizations in carrying out such planning.

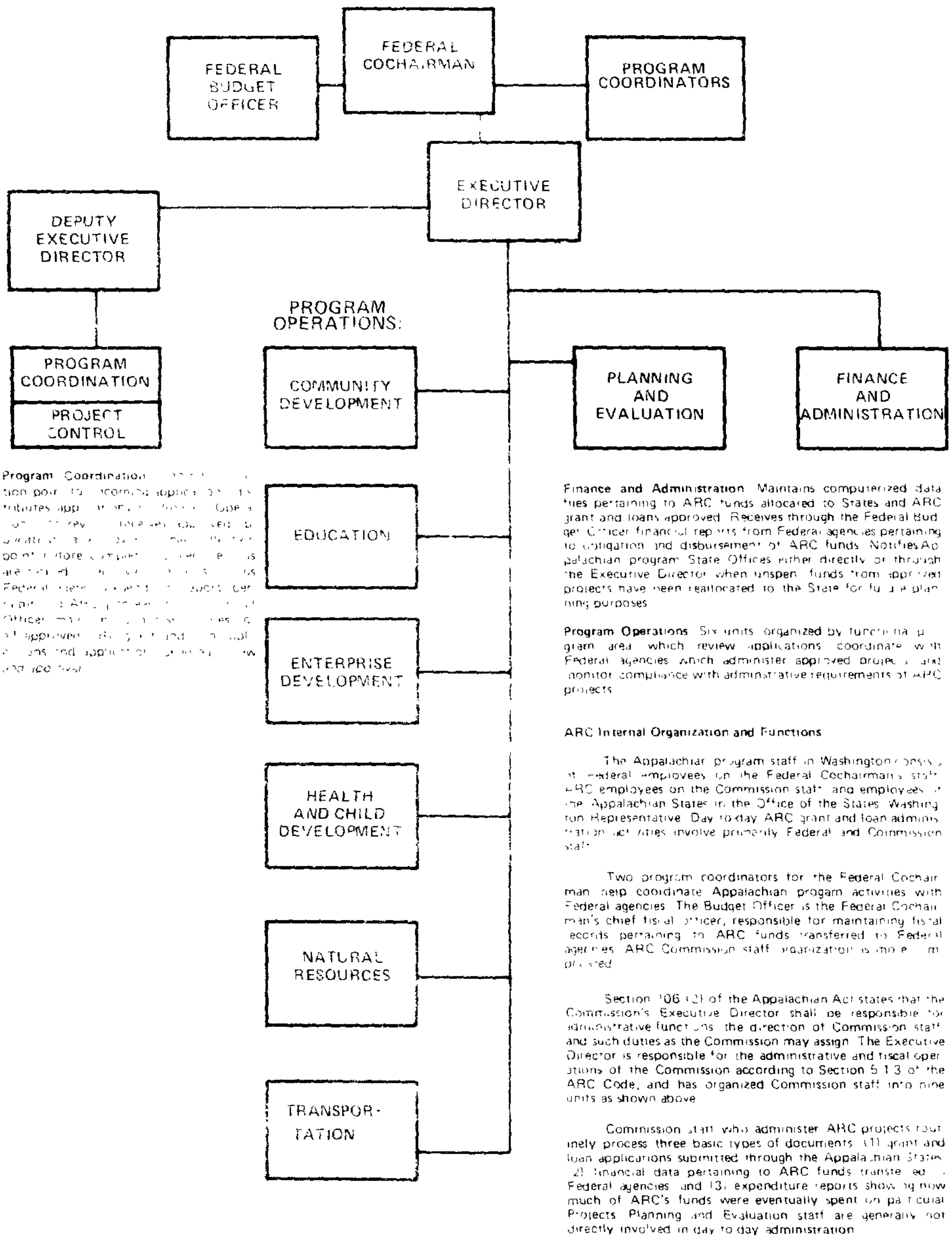
Since the 1950s, the number of Federal assistance programs for State and local governments has greatly increased. Often the programs required that federally assisted projects conform to a comprehensive plan. The programs set aside funds specifically for planning costs, usually addressing a single function, and often specifying planning for a multijurisdictional area with established boundaries. New federally sponsored regional organizations, such as ARC, were

SELECTED LISTING OF FEDERAL LEGISLATION WHICH ENCOURAGES OR REQUIRES COMPREHENSIVE PLANNING

Year	Public Law no.	Title of legislation	Functional planning emphasis	Catalog no.	U.S. Code citation	Common reference	Scope of regional plann[illegible] Multistate	State	Substat[illegible]
1954	83-560	Housing Act of 1954	Community development	14.203	40 U.S.C. 461	HUD section 701		X	X
1961	87-27	Area Redevelopment Act	Economic distress (areas)	(a)	(a)	-			X
1963	88-210	Vocational Education Act	Vocational education	13.493	20 U.S.C. 2301	-		X	
1965	89-4	Appalachian Regional Development Act	Regional development	23.001	40 App. U.S.C. 1-405	ARC section 302	X	X	X
1965	89-73	Older Americans Act	Social services (aged)	13.633	42 U.S.C. 3021	Title III		X	X
1965	89-80	Water Resources Planning Act	Water and related land uses	65.001	42 U.S.C. 1962c	Title III	X	X	
1965	89-136	Public Works and Economic Development Act	Economic distress (areas) Economic distress (regions)	11.302 (b)	42 U.S.C. 3151a 42 U.S.C. 3181	EDA section 302 Title V	 X		X
1965	89-272	Solid Waste Disposal Act	Solid waste management	66.027	(c)	EPA section 207		X	X
1966	89-749	Comprehensive Health Planning and Public Health Services Amendments	Health systems	(d)	42 U.S.C. 246	314(a) and 314(b)		X	X
1968	90-248	Social Security Amendments of 1967	Child welfare services	13.707	42 U.S.C 622	Title IV B		X	
1968	90-577	Intergovernmental Cooperation Act	Intergovernmental coordination	Appendix I	42 U.S.C. 4231	Title IV (A-95)	X	X	X
1970	91-609	Urban Growth and New Community Development Act	National urban growth policy	(e)	42 U.S.C. 4501	-		X	X
1972	92-419	Rural Development Act	Rural development	(f)	7 U.S.C. 1926	-			X
1972	92-500	Federal Water Pollution Control Amendments	Water treatment Waste treatment	66.419 66.426	33 U.S.C. 1256 33 U.S.C. 1288	EPA section 106 EPA section 208	X	X	 X
1973	93-203	Comprehensive Employment and Training Act	Manpower development	17.232	29 U.S.C. 815	Title I		X	
1974	93-[illegible]	Public Works and Economic Development Act Amendments	Economic development	11.305	42 U.S.C. 3151a	EDA section 302		X	X
1974	93-641	National Health Planning and Resources Development Act	Health and human resources	13.293 13.294	42 U.S.C. 300m 42 U.S.C. 3001	- HSA		X	 X
1974	93-647	Social Services Amendments	Social services	13.771	42 U.S.C. 1397	Title XX		X	
1975	94-188	Regional Development Act	Regional development	23.001 (c)	40 App. U.S.C. 1-405 42 U.S.C. 3181	ARC section 225 Title V	 X	X	X
1976	94-487	Public Works and Economic Development Act Amendments	Balanced national growth and economic development	(g)	42 U.S.C. 3121 note	-	-	-	-
1976	94-580	Resource Conservation and Recovery Act	Solid waste disposal	66.451	42 U.S.C. 6941	-		X	X

a/Replaced by P.L. 89-136.
b/See 28.001, 38.001, 43.001; 52.001, 63.001, 75.001, and 76.001.
c/Replaced by P.L. 94-580.
d/Amended by P.L. 93-641.
e/Governs State and substate planning relevant to national urban growth policy.
f/See 10.418, 10.901; 10.904 for examples.
g/1978 White House Conference.

ARC ORGANIZATION CHART BETWEEN 1975-78



Program Coordination [illegible]

Finance and Administration Maintains computerized data files pertaining to ARC funds allocated to States and ARC grant and loans approved. Receives through the Federal Budget Officer financial reports from Federal agencies pertaining to obligation and disbursement of ARC funds. Notifies Appalachian program State Offices either directly or through the Executive Director when unspent funds from approved projects have been reallocated to the State for future planning purposes.

Program Operations Six units organized by functional program area which review applications, coordinate with Federal agencies which administer approved projects, and monitor compliance with administrative requirements of ARC projects.

ARC Internal Organization and Functions

The Appalachian program staff in Washington consists of Federal employees on the Federal Cochairman's staff, ARC employees on the Commission staff, and employees of the Appalachian States in the Office of the States' Washington Representative. Day to day ARC grant and loan administration activities involve primarily Federal and Commission staff.

Two program coordinators for the Federal Cochairman help coordinate Appalachian progam activities with Federal agencies. The Budget Officer is the Federal Cochairman's chief fiscal officer, responsible for maintaining fiscal records pertaining to ARC funds transferred to Federal agencies. ARC Commission staff organization is more [illegible] plicated.

Section 106 (2) of the Appalachian Act states that the Commission's Executive Director shall be responsible for administrative functions, the direction of Commission staff and such duties as the Commission may assign. The Executive Director is responsible for the administrative and fiscal operations of the Commission according to Section 5.1.3 of the ARC Code, and has organized Commission staff into nine units as shown above.

Commission staff who administer ARC projects routinely process three basic types of documents: (1) grant and loan applications submitted through the Appalachian States, (2) financial data pertaining to ARC funds transferred to Federal agencies, and (3) expenditure reports showing how much of ARC's funds were eventually spent on particular projects. Planning and Evaluation staff are generally not directly involved in day to day administration.

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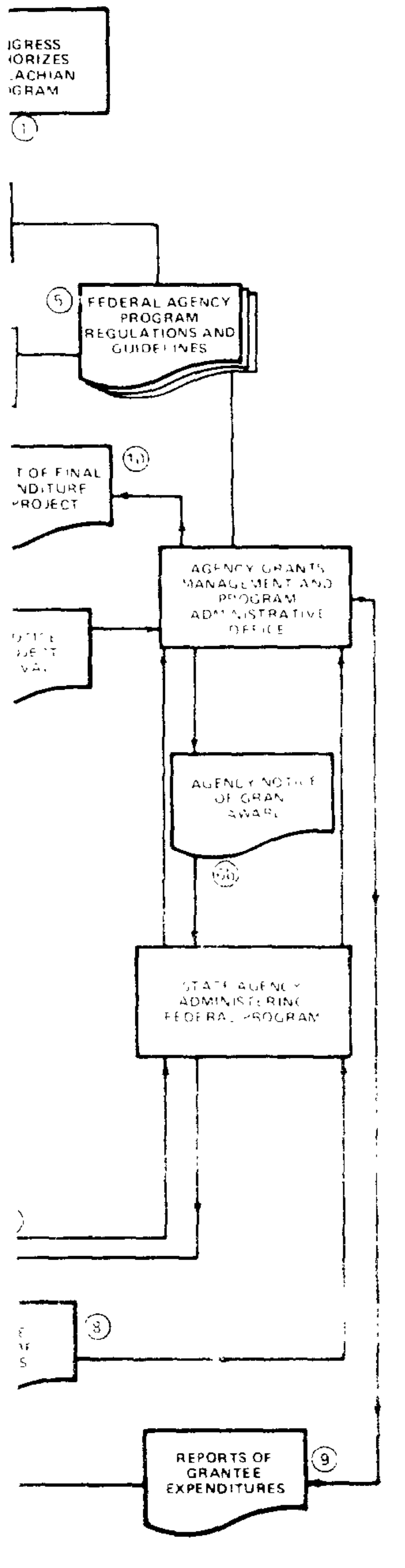
)R ARC PROJECTS



TRACING THE FLOW OF ARC FUNDS

Two basic types of data are involved in administering Federal programs--financial (fiscal) and administrative (program). This data generally flows through two separate communication channels: fiscal data through agency budget, finance, and accounting channels, and program data through agency grants management channels. The flowchart traces fiscal and program data from Congressional authorization and appropriation to the time ARC determines that all administrative actions necessary to account for those funds has been taken.

Regardless of physical location, Federal agency, or type of program, the flow of fiscal and program data to and from ARC pertaining to ARC funds follows the general pattern illustrated by the flowchart. Circled numbers on the flowchart correspond to the processing steps enumerated below.

(1) Congress authorizes the program and appropriates funds to the President.

(2) Funds are deposited in a U.S. Treasury Account set aside to identify ARC funds. Executive Order 11386, OMB Circulars, and Department of Treasury Manual govern ARC relations with Federal Government agencies.

(3) ARC's Federal Cochairman signs Interagency Agreement or Memorandums of Understanding with Federal agencies which will administer ARC funds. Agreements and Memorandums generally state that agencies administering ARC funds will provide ARC with periodic fiscal reports and final program reports pertaining to each project's expenditures.

ARC's Federal Cochaiman and Executive Director organize staff, assign duties and responsibilities within Federal and Commission staff, respectively. Director of Finance and Administration maintains records identifying how much of ARC's annual appropriation has been allocated to each State.

(5) Federal agencies issue fiscal and program guidelines, regulations, instructions, forms, and reporting requirements concerning grant applications, grants management and administration, and fiscal reporting.

(6) Grant applicants apply separately for ARC assistance through ARC application procedures and for other Federal assistance through those agencies' programs.

ARC notifies Appalachian program State Office, and administering Federal agency once ARC approves project.

(b) Federal agency notifies ARC, grantee, and appropriate State agency administering Federal funds (if applicable) of Federal agency grant approval. Federal agency also notifies grantee of ARC project approval.

(7) ARC's Budget Officer transfers ARC funds via SF 1081 or SF 1151 (Note a) to Federal agencies which eventually disburse funds to grantees.

(8) Grantees submit reports of their expenses to Federal agencies as required by Federal agency regulations, through State agencies (if applicable).

(9) Federal agency grants management program offices send individual or consolidated reports of final grantee expenditures to their fiscal offices.

(10) Grants management program offices send ARC copies of final expenditures on ARC projects.

(11) Federal agency fiscal offices submit SF 133's (Note b) to ARC's Budget Officer showing obligations and gross disbursements of ARC funds, usually accompanied by detailed backup information showing changes in undisbursed funds for each project.

(12) Unneeded and unspent ARC funds from completed projects are identified and either remain available for future ARC projects or are retuned to ARC.

(13) ARC notifies Appalachian program State offices that previously transferred funds were unspent and are being reallocated to the State, therby increasing the amount of funds available for future project applications.

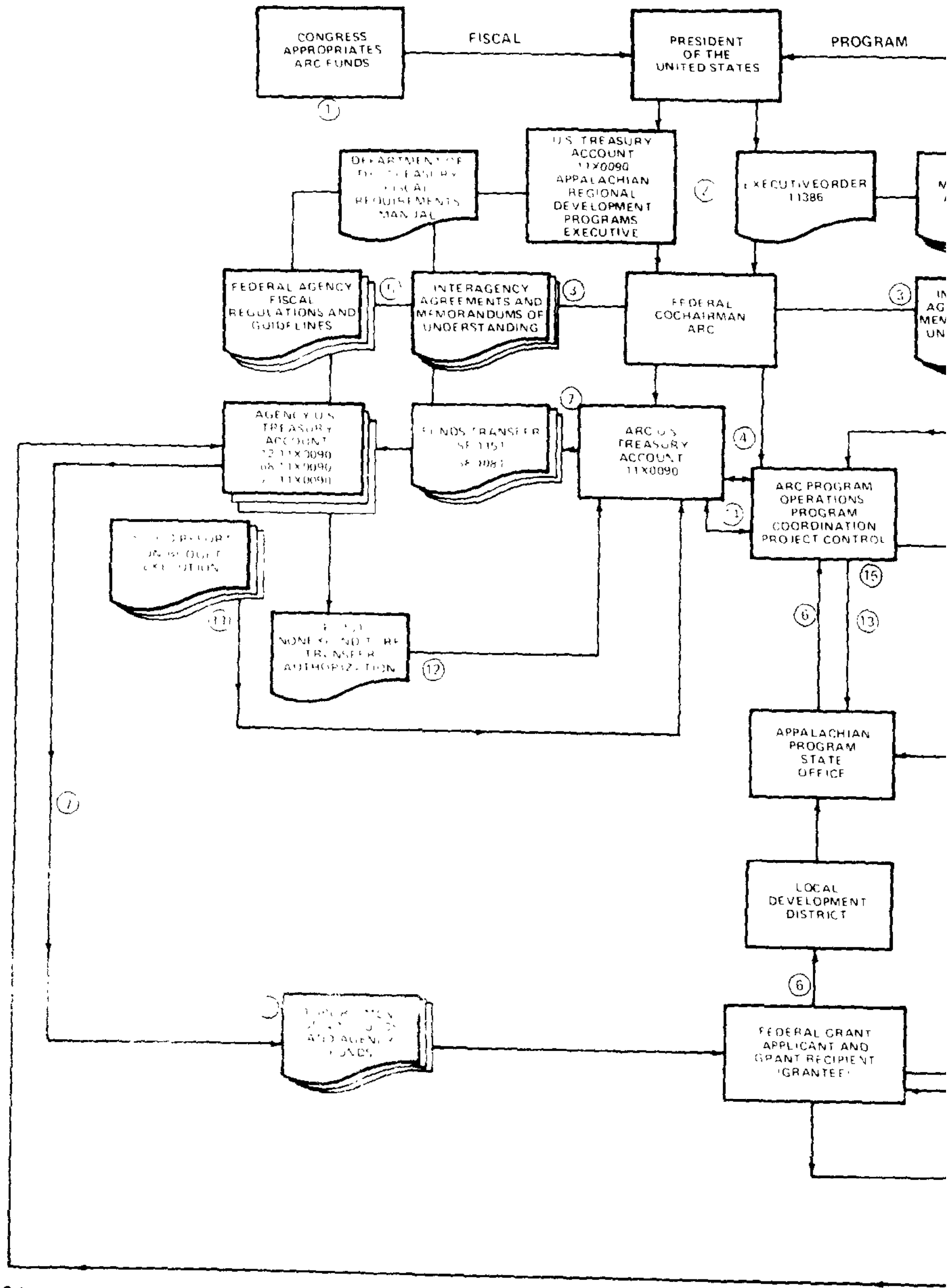
(14) ARC compares fiscal data (step 11) and program data (step 10) on a project by project basis to determine that disbursements of ARC funds were in accordance with terms and conditions of ARC grant approval (step 6). ARC Project Control Officer designates project as closed out.

ARC initiates contracts and grants with Appalachian States to institute a project evaluation and monitoring system in each State (1975).

a/ [illegible] funds transferred to other agencies

b/ [illegible] status of funds obligated and [illegible]

FISCAL AND PROGRAM ACCOUNTABILITY PROC



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created to plan within functional and geographical program areas.

We prepared the list of laws which appears on the following page to demonstrate that comprehensive planning is encouraged or required in many functional areas. Federal departments and agencies responsible for administering these laws include Agriculture; Commerce; Environmental Protection; Housing and Urban Development; Health, Education, and Welfare; and Labor. These agencies collectively spend billions of dollars in the Appalachian region each year.

This list helps demonstrate the difficulty, if not the impossibility, which a relatively small organization like the Appalachian Regional Commission confronts in its attempts to fulfill its primary responsibility of regional policy development or to comply with the requirements of Section 102(a)(1) for comprehensive and coordinated planning.

	1960	1965	1970	1975
	(percent)			
Families below poverty:				
Appalachia			138	
Northern			96	
Central			280	
Southern			162	
Persons 65 and over below poverty:				
Appalachia			134	
Northern			111	
Central			183	
Southern			159	

a/Except for unemployment rate, transfer payments, and migration, where actual percentages are shown, all other percentages are given compared to the United States average equal to 100 percent. For example, Appalachian total personal income in 1975 was 83 percent of, or 17 per-less than, the U.S. average. In 1970, the extent of overcrowed or plumbing deficient housing in Central Appalachia was nearly three times (295 percentage) the national average.

SELECTED INDICATORS OF ECONOMIC AND SOCIAL CHANGE IN APPALACHIA, 1960-75 (note a)

Education:	1960	1965	1970	1975
College graduates:	----------(percent)------------			
Appalachia	66		68	
Northern			71	
Central			47	
Southern			69	
High school graduates:				
Appalachia	77		84	
Northern			96	
Central			54	
Southern			74	
Less than fifth grade:				
Appalachia	145		133	
Northern			78	
Central			376	
Southern			182	
Children aged 3 or 4 enrolled in school:				
Appalachia			58	
Northern			55	
Central			32	
Southern			69	
High school dropout rate:				
Appalachia	120		132	
Northern	97		92	
Central	170		213	
Southern	135		168	
Employment:				
Unemployment rate:				
United States	5.0	4.5	4.9	8.5
Appalachia	7.1	5.1	5.4	8.7
Northern			5.5	8.9
Central			7.0	7.8
Southern			4.9	8.7

STATEMENT OF GOALS AND OBJECTIVES FOR APPALACHIA ADOPTED BY THE APPALACHIAN REGIONAL COMMISSION, DECEMBER 1977

NATURAL RESOURCE OBJECTIVES

1. To reclaim, protect and develop, as appropriate, the resources of these areas adversely affected by mineral extraction and timber harvesting.

2. To minimize loss of life and damage to property from floods and natural hazards through use of structural and nonstructural measures and land-use policies and to assist postdisaster recovery.

3. To establish critical areas for preservation, recreation and other uses and to devise suitable development programs for them.

4. To assess and set priorities for the use of the Region's water resources to ensure that such resources effectively meet conservation and development needs.

5. To provide for water and waste treatment needs on an areawide basis.

6. To focus the wide variety of federal, state and local efforts on comprehensive environmental programs that are an integral part of a concerted development effort.

7. To use nonenergy related mineral resources to promote development.

8. To enhance the long-term potentials of the Region by encouraging the adoption of state and local land development policies for urban and rural purposes and their acceptance by federal agencies.

GOVERNMENT AND ADMINISTRATION OBJECTIVES

1. To strengthen the Commission as a joint federal-multistate, state and substate decision-making structure for developing and gaining acceptance for regional policies and for making public investment decisions.

2. To strengthen state organization and capability for the administration of development programs.

3. To continue to support and encourage local development districts to ensure local governmental and public participation in regional development programs.

4. To develop a project monitoring and program evaluation system which will assist the Commission in carrying out its Appalachian development planning and programming process by:

   --Assuring that Commission investments are achieving their identified objectives in a timely, cost-effective manner; and

   --Assessing the Commission's investments to assist the Commission in its role as a demonstrator of new approaches and an advocate for change in the Region.

5. To carry on a research, technical assistance and demonstration program which will clearly support and reinforce the Commission's goal of building a foundation for a diversified, self-sustaining economy.

6. To encourage states and local governments to develop tax and revenue systems which draw fully on available revenue sources and which make the results of economic growth available to contribute to the continued development of the Region.

STATEMENT OF GOALS AND OBJECTIVES*

FOR APPALACHIA ADOPTED BY THE APPALACHIAN

REGIONAL COMMISSION, DECEMBER 1977

OVERALL ECONOMIC DEVELOPMENT GOAL

To build the foundation for a vigorous, diversified, self-sustaining Appalachian economy that affords a wide range of social and economic opportunities for the people of the region.

TRANSPORTATION OBJECTIVES

1. To complete the construction of the Appalachian Development Highway System at the earliest possible time.

2. To provide adequate road access to key developable sites, which will significantly contribute to the economic development of an area.

3. To ensure that the rail system will support existing and potential economic activity throughout the Region.

4. To improve the movement of waterborne freight by supporting appropriate improvements to existing waterways, particularly the completion of the Tennessee-Tombigbee Waterway, and development of ports on navigable rivers in the Region.

5. To encourage private enterprise to expand third-level air carrier (commuter airlines) services to a larger number of Appalachian communities.

6. To explore and demonstrate the consolidation of existing rural public transportation services for general public use in small communities and rural areas.

COMMUNITY DEVELOPMENT OBJECTIVES

1. To promote economic development and improved living conditions in the Region through Community Development strategies which recognize varying settlement patterns; particularly the emerging role of smaller cities, and to protect the value of public investments made in the Region by overcoming obstacles to desirable land development.

2. To make additional public investments in the Region's infrastructure which will capitalize on the ability of key functional services and programs to guide the pattern of future settlement and promote economic development in defined growth areas.

3. To assist states, districts and local governments to strengthen their capability to adminster and participate in community development by attracting and retaining able and dedicated public servants.

ENTERPRISE DEVELOPMENT OBJECTIVES

1. To encourage the continued successful operation of private enterprise of all types in the Region.

2. To encourage new and expanding manufacturing development and other basic industries in areas with significant potential for future growth or where they may create a special development opportunity.

3. To encourage an institutional capability to stimulate interjurisdictional cooperation and produce coordinated focused enterprise development programs at the local district level.

4. To assist in the development of energy-related enterprises in areas that have significant potential for future growth or where they can provide a major contribution to the creation of a special development opportunity.

*"Because of the responsibility of the States to adopt Commission policies and program strategies to their varying needs, no regionwide priorities among each of the seven program areas are made in this regional policy statement."

SELECTED LISTING OF REFERENCES TO MULTISTATE REGIONAL PLANNING COMMISSIONS

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Council of State Planning Agencies, "State Strategies for Multistate Organizations," Aug. 18, 1977.

Cumberland, John H., "Regional Development Experiences and Prospects in the United States of America," 1971.

Department of Commerce, "Regional Economic Development in the United States," Oct. 1967.

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Derthick, Martha, "Between State and Nation," 1974.

SUMMARY OF PROJECTS SUBMITTED BY THREE

STATES TO ARC FOR APPROVAL IN FISCAL YEAR 1977 (note a)

Program Area (note b)	Kentucky		Pennsylvania		South Carolina		Totals for thr	
	No. of projects	ARC funds (Millions)	No. of projects	ARC funds (Millions)	No. of projects	ARC funds (Millions)	No. of projects	Percent of total
Economic development	8	$ 2.7	12	$ 4.9	7	$ 2.0	27	9.3
Transportation	11	2.9	21	6.5	3	1.7	35	11.7
Community development	20	3.7	13	4.2	3	.5	36	12.0
Housing	1	2.0	10	.7	1	.0	12	4.0
Health	12	2.6	29	4.6	42	3.4	83	27.7
Education	18	5.8	4	.9	24	3.4	46	15.3
Child development	2	.2	19	1.6	29	2.6	50	16.7
Environment and resources	-	-	10	3.1	-	-	10	3.3
Total	72	$19.9	118	$26.5	109	$13.6	299	100.0

a/ Excludes section 302, research, demonstration, technical assistance, and district planning funds.

b/ For consistency, we used those eight program areas which ARC staff suggested all Appalachian States be required to use when preparing their annual plans. Because each State's plan and project listing used terms and categories other than "economic development" and "community development" (for example, physical and community resources, community facilities, enterprise development, water systems, industrial park development, sewage, amenities, and so forth), we placed all such projects into either "economic" or "community" development on the basis of those major project benefits or project purposes as described in the project application submitted to ARC.

The Commission believes that an incremental approach is the most effective way to ensure an evaluation staff capability at the Commission, state, and district levels. Program managers at all levels must fully understand and be convinced that the purposes of evaluation will produce solid results. Moreover, policymakers must feel that the results of evaluation efforts respond to their needs for relevant information which they can use for making decisions. While this approach takes time, the Commission feels that acceptance of evaluation as a management tool by policymakers and staff will be more likely.

GAO itself has examined many approaches to evaluation and states that the evaluability assessment approach "avoids pitfalls common in making program evaluations." In its report entitled, Finding Out How Programs Are Working: Suggestions For Congressional Oversight, November 22, 1977, GAO states that evaluability assessment procedures used by policymakers in the executive branch would also be useful in assisting Congress perform its oversight function.

Conclusion

A balanced report would recognize the strengths of the Commission's joint decision-making process and Federal-State partnership. This process takes diverse opinions from public and private sources, subjects them to staff review, encourages discussion among levels of government and between states and staff, and ultimately reaches a decision that reflects the view of responsible "elected" public officials. We believe that few programs have the strength that the Appalachian program has developed because of its encouragement of this open process that leads to jointly arrived at decisions by Governors and the Federal Cochairman. We do not believe the report will be useful, present a balanced view or provide an agenda for constructive improvement unless its fundamental assumptions in this regard are rethought.

Sincerely yours,

Robert W. Scott

ROBERT W. SCOTT
Federal Cochairman

We will eliminate the backlog by the end of FY 1980.

Changed Circumstances Procedures

The draft claims that ARC's procedures for determining "changed circumstances" in underrun cases are inadequate. Again, this charge reveals a fundamental misconception of the ARC process.

"Changed circumstances" are typically changes in the facts relating to a project, for example, a reduction in the eligible cost that might warrant a reduction in ARC funding. In these situations, it must be determined whether the new facts warrant an alteration in ARC's contribution to the project.

The criteria for determining "changed circumstances" are precisely the same as those applied in the original consideration and approval of a project. The criteria are detailed and set forth in the ARC Code. They require the exercise of discretion by ARC in judging a grantee's relative financial resources and making an evaluation of its "ability-to-pay."

The report goes on to criticize the fact that "changed circumstance" cases are handled through "negotiation" between the ARC and the state. But this is precisely how the projects are originally processed. ARC believes such negotiations whether for the original consideration or on review of changed circumstances are a strength of the Federal-State partnership and far superior to often negative fiats from remote bureaucracies handed down without state and local participation.

Related to this issue is another misconception of the ARC process in the GAO report. The report criticizes the fact that ARC considers "ineligible" costs (i.e., those project costs not eligible for Federal assistance under the basic grant program) in connection with its review of a "changed circumstance" case. ARC considers "ineligible costs" in the original review of every project, i.e., in its review of the relative financial resources of the grantee. While some "costs" may be "ineligible" for funding under the various basic Federal agencies programs, such costs are no less real and are in fact an actual burden on the grantee's financial ability. Reviewing "ineligible" costs, on an initial consideration or in a changed circumstance context, is therefore not "arbitrary;" it is entirely reasonable and indeed required if ARC is to live up to the Congressional mandate in subsection 224(a) of the Act.

Use Of Section 214 Authority

The draft questions the extent of ARC's use of its "first dollar" supplemental grant authority. It suggests that the Commission's unrestricted use of "first dollar" authority limits its ability to influence Federal and State expenditures in the Region. These statements reflect a gross lack of understanding of the supplemental grant authority.

- Total state contributions to ARC-assisted activities are not necessarily reflected in individual components of these programs or projects. For example, Pennsylvania provides 50 percent of the non-Federal share of EPA's Step I Wastewater Treatment Planning Grant and further provides grants for operation and maintenance of completed facilities. ARC participates only in the Step III construction phase of these projects. Thus, while state participation is not always reflected in the construction component, the state is, in fact, participating in these projects.

- In many ARC programs, the local share is provided by state transfers of funds to local governments. These funds are shown as local contributions in ARC's financial records. Thus, GAO's data is inaccurate and inconclusive.

- Total state contributions to vocational education projects cannot be judged by the amount the states contribute to ARC assisted construction. In most cases, subsequent operating costs are funded largely with state revenues.

Despite the fact that the figures in the report reflect a decline in state government participation in ARC projects and programs, total dollar expenditures by the state governments in the Appalachian Region have, in fact, increased four-fold between 1964 and 1978, according to the state maintenance of effort reports certified by the Governors. The increase is comparable to increases in the non-Appalachian portion of the Region. This information is based on certified reports submitted to the Federal Cochairman by the states on an annual basis.

Grants Administration

The draft claims that ARC lacks effective administrative control needed to adequately document and report on the disposition of Federal funds appropriated to the President. It also charges that ARC does not recover unspent Federal funds. These statements are not true.

A distinction must be made between the terms "funds accountability" and "grant administration." ARC can and does account for all funds appropriated to the President in accord with all applicable Federal regulations. As for the issue of grants administration, a very small percent of ARC's funds are directly administered by the Commission. All remaining funds are administered by Federal agencies. It was the intent of Congress in placing this authority and responsibility with these agencies to avoid a duplication of their monitoring of disbursements by ARC, the states or local development districts. GAO confuses ARC's program and project responsibilities with grant administration and closeout responsibilities assigned to other agencies by Congress and Federal regulation.

Allocation of Funds

The draft states that the Commission's nonhighway allocation formula has produced a highly unequal distribution of funds over time and that, as a result, ARC may have underfunded some states while overfunding others. We disagree.

Section 2(a) of the Appalachian Act directed the Commission to concentrate its investments in areas where there is a significant potential for future growth throughout the Region, and where the expected return on public dollars will be the greatest. Congress left to the Commission the judgment of how and where to concentrate funds to get the greatest return on the dollars invested. Congress did not charge ARC by law to seek either parity or self-sufficiency for any single area of the Region. GAO did not criticize ARC's implementation of the growth area strategy.

The Commission's current allocation formula for nonhighway programs reflects agreement among the Governors and the Federal Cochairman. The formula considers a number of factors. They include: per capita income, population, land area, number of 14-17 year olds not in school, and the need to meet multiyear program funding commitments. In addition, it recognizes that the essential nature of the ARC partnership can only be served if all partners received a sufficient amount of funds to provide a meaningful annual program.

In developing a formula for the allocation of funds, the Commission has found the potential number of pertinent factors, and their weights to be infinite. However, it believes that the ultimate test of any formula for the allocation of Commission funds is whether the Governors and the Federal Cochairman together agree that the formula provides a fair and equitable distribution of funds to meet the priority needs of the Region. This has been accomplished.

GAO states in the report that Maryland and South Carolina received too much money and Tennessee and West Virginia received too little relative to other states. The continued acceptance by the Governors of the Commission's allocation formula belies this contention. Specifically, the eleven states, including Tennessee and West Virginia, which stand to benefit from a formula revision that would reduce the Maryland and South Carolina allocations, have not felt that these states receive more than their appropriate share under the existing allocation formula.

The nonhighway allocation formula is reviewed periodically by the Commission as part of its regional planning process. It is modified as deemed necessary by the Governors and Federal Cochairman. For example, a major change was made in the allocation formula in 1975 and further modification was made in 1976. This is a continuing process.

The draft recommends that ARC study the feasibility of adopting a "relative need" index for the allocation of its nonhighway program funds. The Commission feels that the adoption of such an approach would be unwise. In 1965, the House Committee on Public Works (Report No. 51, 89th Congress, 1st Session), rejected the draft with regard to intergovernmental planning are based upon theoretical constructs. Theory may be useful in the classroom or the textbook, but not always in practice. In fact, much of the theoretical construct on which the draft is based is no longer accepted.

The definitions of planning and the prescriptive recommendations contained in the draft do not reflect planning functions in Federal development agencies such as EDA or in state government. Rather it relies almost wholly on theories no longer generally accepted. We believe ARC's planning effort is useful because it is planning for what will be done and is desired to be done by local people and elected officials, rather than what those insulated from local perspectives would propose. No one program, ARC or any other, can realistically be a totality. You have only to read the 1977 report of the American Enterprise Institute entitled, "Shared Power; A Study of Four Federal Funding Systems in Appalachia," to know that state and local officials and planning professionals accept this view overwhelmingly.

ARC has a comprehensive regional plan that evolved out of a comprehensive regional planning process that is sophisticated, workable and realistic. Pursuant to Section 225 of the Appalachian Act, the regional plan reflects state goals and objectives set forth in the state Appalachian development plans. The state plans provide a general analysis of economic and social conditions and problems in the Region, and as required by Section 225, cover those programs which the Governor of each state determines to be the ones warranting priority action and ones that he will seek to fund within the ARC framework. They are developed in accordance with the guidelines for state and district planning found in our published policies (ARC Code) and reflect Commission strategies and policies as developed through this regional planning process. This process responds to the diversity of issues and approaches that characterize the Appalachian Region.

The Appalachian Program and its planning process have been successful because they recognize the diversity that exists even within the Region and views these diversities as realities that must be recognized rather than problems that must be addressed. Unlike most Federal programs, ARC has never been obsessed with a need to view its every action in the context of neatness and uniformity. Rather, we have focused on realities in the contexts in which local people see them. Federal programs generally, in devising regulations for planning and operating, have uniformity and homogeneity as a primary goal. We do not believe that every community from Southern New York to Northern Mississippi is or ought to be the same. The planning recommendations in the draft not only seek to make them the same, but suggest they are already. This vision does not conform to reality and we would not want it to. ARC plans from the bottom up, not the top down.

Interagency Coordinating Council

The Chairman of the Interagency Coordinating Council is directed to:

1. work with the Secretary of Commerce, the heads of the other federal departments and agencies, and the Federal Cochairpersons to overcome obstacles in carrying out the objectives of this policy; and

2. ensure that, at the request of the Secretary of Commerce and the Federal Cochairman of the Appalachian Regional Commission, the annual investment programs and policy recommendations receive a coordinated high-level analysis and review by relevant federal departments and agencies.

Federal Cochairmen

In addition to the responsibilities defined in existing statutes, regulations and Executive Orders, the Federal Cochairmen of the Appalachian and Title V Regional Commissions, with the concurrence of the affected commission(s), shall become members of each Federal Regional Council which serves all or any portion of his/her region. It is my intention to further amend Executive Order 11647 to this effect.

Each Title V Federal Cochairman, working with the regional commission, is directed to:

1. assist the regional commission to participate in the regional growth policy process;

2. present the commission's multi-year regional development plan, annual investment program and growth policy recommendations to the Secretary of Commerce;

3. involve Federal departments and agencies in the activities of the commissions, as appropriate; and

4. participate in the consultative mechanism described under Secretary of Commerce directives, #3 above on page 3.

Federal Regional Councils

The Federal Regional Councils are directed to work with the Secretary of Commerce and the Interagency Coordinating Council to provide continuing liaison with regional commissions.

JIMMY CARTER

# # #

FOR IMMEDIATE RELEASE January 19, 1979

Office of the White House Press Secretary

THE WHITE HOUSE

January 19, 1979

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES AND FEDERAL COCHAIRMEN OF MULTISTATE REGIONAL COMMISSIONS

SUBJECT: Regional Commission Support

Background and Purpose

The White House Conference on Balanced National Growth and Economic Development found that the varied and changing problems and economic circumstances in the Nation's regions require greater flexibility in the way Federal policies and programs are designed and administered across the country. This variety suggests a need for strong state and local action to develop regional balanced growth policies and to target local, state and Federal funds in accord with these strategies. Multistate regional commissions established under the Appalachian Regional Development Act of 1965 and Title V of the Public Works and Economic Development Act of 1965 and strengthened under the Regional Development Act of 1975 are intended to enhance development opportunities and conditions in multistate regions. Through planning and selective management of resources and activities, these commissions also afford a common framework within which the different levels of government can apply their energies to regional problems.

In light of the changing patterns of economic activity across the country, and in order to extend the ability of states and localities to shape Federal policies in behalf of regional concerns, new processes for planning, coordination and policy support are required. To develop and carry them out will require cooperation on the part of the Secretary of Commerce, Federal departments and agencies, the Interagency Coordinating Council, the Federal Cochairmen of the Appalachian and Title V Regional Commissions and the Federal Regional Councils.

By means of this memorandum, I am instituting a regional growth policy process to assist the regional commissions in developing and implementing their multi-year regional development plans and annual investment programs. These plans and, more importantly, the annual investment programs should be developed from the ground up, reflecting substate and state development plans. Through this policy process, the regional commissions will be given an opportunity to prepare recommendations to Federal departments and agencies for solutions to problems of regional growth and decline. In framing these recommendations, the commissions will consult with the Federal departments and agencies affected, taking advantage of the expertise available in the regional headquarters of each agency, as well as with substate, local and private interests.

more

(OVER)

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

August 8, 1978

MEMORANDUM FOR THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF DEFENSE
THE SECRETARY OF ENERGY
THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY OF INTERIOR
THE ATTORNEY GENERAL
THE SECRETARY OF LABOR
THE SECRETARY OF STATE
THE SECRETARY OF TRANSPORTATION
THE DIRECTOR OF ACTION
THE DIRECTOR OF COMMUNITY SERVICES ADMINISTRATION
THE ADMINISTRATOR OF ENVIRONMENTAL PROTECTION AGENCY
THE ADMINISTRATOR OF NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
THE CHAIRMAN OF THE NATIONAL SCIENCE FOUNDATION

It has come to our attention that grant closeouts in a number of agencies are running behind schedule. This sometimes means that funds advanced to grantees, but not spent for program purposes, are held by them awaiting closeout. Many millions of dollars may be involved.

There is no reason why Federal funds should be held outside the Treasury awaiting closeout of a grant. Our Circulars No. A-102 and A-110 require that these funds be recovered immediately from grantees. If closeout procedures cannot be put on a timely basis, then the recovery of Federal funds should precede closeout.

delegates to the Secretary of Commerce the authority to resolve questions of policy which may arise between the ARC Federal Cochairman and a Federal department or agency administering ARC program funds.

b. OMB should consider recommending to the President that he delegate to OMB the responsibility for resolving interagency problems which arise during the administration of programs authorized by the Appalachian Regional Development Act. In particular, OMB should consider taking on the responsibility for (1) reviewing, approving and certifying the adequacy of Interagency Agreements between ARC and Federal agencies and (2) becoming a signatory to ARC Interagency Agreements in the capacity of arbitrator and adjudicator between ARC and Federal agencies when administrative or policy disputes cannot be resolved.

We have the following comments on the matters raised in the draft report:

1. Improved Closeout Procedures

There has never been any question that the provisions of OMB Circular A-102 apply to the programs of ARC. For several years, Appendix I of the Catalog of Federal Domestic Assistance has shown that the ARC programs are subject to the provisions of the Circular. In addition, it has always been our intention that Federal agencies would use the same administrative requirements for ARC funds as they use for their own. Federal agencies are in fact the grantor agencies for the bulk of ARC programs and Circular A-102 assigns closeout responsibilities to the grantor agency. To the best of our knowledge, that practice is being followed by the agencies.

With respect to the need for clarifying ARC responsibility for establishing closeout procedures and for providing written guidance and technical assistance to ARC and appropriate Federal agencies to reduce the backlog of open ARC projects, OMB has already initiated action on this general problem. In a memorandum dated August 8, 1978, we asked the heads of departments and agencies to review their grant closeout procedures and to make them consistent with OMB Circulars A-102 and A-110 and with sound business practices. If closeout procedures cannot be put on a timely basis, the agencies are to recover Federal funds prior to closeout. A copy of this memorandum is enclosed for your information. In our

Some aspects of our review required us to rely on ARC's automatic data processing system to obtain needed information. These included detailed computer printouts of ARC-approved projects, from which we summarized selected information contained in this report. We also used computer listings of ARC projects considered closed out by the Project Control Officer and Program Coordination to develop our findings about the severity of ARC's project closeout problems. (See ch. 4.) In these cases, we tested the reliability and accuracy of such information by tracing a representative sample of projects and line entries back to source documents contained in ARC project files. Except for inadequate documentation in some project files needed to support line items showing reductions in ARC project funds for closed out projects, we found ARC's automatic data processing listings of project closeouts to be reliable and accurate.

We examined ARC policies contained in the Appalachian Code and those written procedures and program guidelines which were available and made observations of other operating procedures and decisionmaking processes not written down. We compiled and reviewed an extensive amount of publicly and privately funded literature and research about the Appalachian region, and we held discussions with officials from the Executive Office of the President, the President's Reorganization Project, the Office of Management and Budget, and consultants and experts engaged in reviewing ARC and other regional development programs at the time we conducted our review.

project level and (2) discourage what appears to be an undetected shift of the section 214 program away from a supplemental funding source into an independent, categorical grant approach.

ARC did not respond to the recommendation, commenting only that our conclusion reflected a "gross lack of understanding" of its authority, which it says has been used responsibly. We do not question ARC's authority to use section 214 first dollar funds, but only ARC's apparent unwillingness to recognize either (1) its reduced ability to realistically influence local project selection or (2) the possibility that States could become overdependent on first dollar funds unless first dollar use is restricted. We continue to believe that such limits are necessary if the Senate Public Works Committee's 1975 concerns that States not treat the Appalachian program as merely a conduit for Federal funds are to be adequately addressed.

Evaluation

Despite substantially increased ARC attention to project and program evaluation in recent years, our review recommended ARC take certain actions to formalize the program evaluation function by establishing a specific evaluation policy; defining evaluation roles and responsibilities at each planning level; preparing a long-term evaluation plan; and combining and reporting on the results of evaluations carried out to implement the plan. We also suggested that ARC more precisely define what each State's evaluation capacity should consist of and plan to evaluate the results of its State evaluation and monitoring assistance program within a reasonable period of time.

ARC's response does not address our recommendations and only commented on its ongoing incremental approach to improving program evaluation activities. Following an incremental approach does not by itself provide any assurance that ARC has or will address the central issues our report raises--namely, the need for program evaluation activities to be carried out in accordance with overall written policy guideance and linked to a long-term evaluation plan. Furthermore, unless ARC assesses the results of State monitoring and evaluation activities, it cannot be sure that those activities are achieving maximum benefits.

State financial contributions to ARC program

ARC challenged our findings and conclusions about declining State financial participation in ARC nonhighway projects and programs, claiming that (1) the data we used is "grossly misleading and cannot be used for this purpose" and (2) what ARC financial records show as local contributions are in "many" programs actually State transfers of funds to local governments. ARC, however, did not provide any information on what it considers to be an accurate record of State financial contributions; did not identify in which specific programs or to what extent its information system shows State transfers as local funds; and made no attempt to offer an alternative methodology for identifying proportionate levels of ARC, Federal, State, and local financial support in ARC projects and programs.

Furthermore, we are particularly disturbed about ARC's unsubstantiated allegation that we purportedly used "grossly misleading data" in light of the fact that (1) ARC appears to have used nearly the identical data in its 1975 annual report to the Congress to support its conclusion of strong State financial support and (2) a comparison between our independently derived figures (see app. III) and ARC's 1975 annual report shows that ARC's figures actually show less State dollars and thus a smaller percentage of State financial share of eligible project costs than our report reflects.

Administrative control over Federal funds

ARC disagreed with our findings that it lacks effective administrative control needed to adequately document and report on the disposition of Federal funds appropriated to the President. We made several recommendations to the Director, OMB, and the Federal and States' Cochairmen that address the need for adequate internal procedures and arrangements with Federal agencies to ensure that excess project funds are systematically identified and promptly recovered for current and future use. OMB commented on our recommendations, but ARC did not.

Although ARC commented on its efforts to recover Federal funds not required for project completion (it said about $63 million was recovered), it made no attempt to challenge our finding that its inadequate procedures and uncoordinated actions allowed undisbursed funds to be reported but not recovered or spent for periods ranging from 2 to 8 years. Its only comment on this problem was that "the recovery of funds vocational education courses." We question whether statements of broad program goals contained in annual budget presentations are by themselves adequate unless such goals are adopted and incorporated into ARC policy statements contained in the Code. We found no evidence that ARC revised its Code pertaining to vocational education in this manner.

Regarding the health goals, the only reference to a quantified, timebound goal our review found for reduced infant mortality rates appeared in ARC's 1975 Program Design Subcommittee on Health and Child Development final report. That report made reference to (1) making essential health services available by 1980 comparable to those available to the Nation and (2) establishing a more sharply focused attack on deficits such as relatively higher infant mortality rates. In 1976 there was less than 1 percent difference between Appalachian and non-Appalachian U.S. infant deaths per 1,000 population.

In addition, our review found no evidence that ARC had formally established an explicit, timebound, quantified goal of 3.5 beds per 1,000 population or less. We noted a 1971 ARC Code provision stating a policy of using its demonstration health program funds to

> "* * * develop throughout the region, the capacity to make maximum effective use of all public and private health resources in order that health services in Appalachia will be comparable to those available to the Nation as a whole in 1980."

ARC adopted a beds per 1,000 criterion in August 1976, not as an explicit program goal, but rather as one condition required for approval of hospital construction projects.

Allocation of funds

Our report evaluates ARC's fund allocation procedures and concludes that some States received an inordinate amount of ARC funds when measured by an index of relative need, while other States received too little.

ARC disagreed and offered arguments defending its State-by-State fair share approach in allocating funds. ARC defended its position in three ways: (1) the 13 States accept ARC's allocation formula for nonhighway programs, and the 2 States (Tennessee and West Virginia) which would benefit from a formula revision, have not felt that other States receive more than their appropriate share under the existing formula, (2) the Congress left it up to ARC's judgment how and where to concentrate funds to get the greatest return on dollars categories of more specialized planning, such as health, housing, and transportation, into an overall approach. ARC simply dismisses our definition as "theoretical," failing to recognize that it was derived through extensive research of the legislative history not only of the Appalachian Development Act but also 21 other public laws cited in appendix X, which either encourage or require comprehensive planning.

Using the definition of comprehensive regional development planning stated on page 9, we identify four specific problem categories which led us to conclude that Appalachian State and district planning falls short of being comprehensive. ARC's comments, however, do not respond specifically to these problems nor do they recognize that similar shortcomings have been cited by ARC staff and internal and external evaluations.

ARC said that our recommendations seek to achieve uniformity and homogeneity through "top down" planning. In disagreeing with our recommendations for comprehensive planning, ARC stated

> "We do not believe that every community from Southern New York to Northern Mississippi is or ought to be the same. The planning recommendations in the draft not only seek to make them the same, but suggest they are already."

ARC's comments inaccurately reflect our position concerning comprehensive regional development planning. Our report neither states nor suggests that every community in Appalachia should be the same. Rather, the report recommends more consistent and comprehensive State and district planning so that (1) problems cited in the report can begin to be resolved and (2) ARC will be in a better position to influence future national policy and planning decisions and the expenditure of Federal resources in the region.

Also, we take exception with the ARC's statement that we are advocating "top down" planning. Our recommendation that ARC develop written guidelines to supplement general provisions contained in the ARC Code specifically states that these guidelines be prepared using a consortium of ARC staff and State and district representatives. Thus, we are recommending joint decisionmaking, not "top down" planning by individuals "insulated from local perspectives" which ARC claims we are advocating.

CHAPTER 7

AGENCY COMMENTS AND OUR EVALUATION

We asked the Appalachian Regional Commission and the Office of Management and Budget to comment on our report, and their comments, some of which were made orally were considered in preparing this final report.

OMB COMMENTS AND OUR EVALUATION

In commenting on our suggestions for improving closeout procedures (see app. I), OMB did not agree that its Circular A-102 should be revised specifically to make ARC subject to the circular's provisions. It maintains that Federal agencies use the same administrative requirements for ARC funds as they use for their own, and Circular A-102 assigns closeout responsibilities to the grantor agency. In view of OMB's recently initiated action to evaluate grant closeout procedures (see below), we are not recommending at this time that A-102 be revised explicitly to cover ARC and similar agencies.

OMB's comments did not address the need for it to clarify for the Federal Cochairman ARC's responsibility for establishing grant closeout procedures or to provide written guidance and technical assistance to ARC and appropriate Federal agencies to reduce the backlog of open ARC projects. OMB said that heads of departments and agencies were told in August 1978 to make their grant closeout procedures consistent with Circulars A-102 and A-110 and with sound business practices. They were also required to review and submit their grant closeout procedures by December 31, 1978. OMB said it was in the process of reviewing agency submissions and would decide whether further corrective action is necessary. OMB stated that it would focus on closeout procedures related to ARC and similar situations in which administering and funding agencies were not the same.

Although OMB acknowledged that there has been ambiguity in the relationship between ARC and other Federal agencies, it also disagreed with our suggestions that OMB become a signatory or certifier of all interagency agreements between ARC and Federal agencies. OMB said that a Presidential memorandum was issued on January 19, 1979, which spells out the responsibilities of regional commissions, the Secretary of Commerce, other Federal agencies, Federal regional councils, and the Interagency Coordinating Council. It said that this memorandum will clarify responsibilities and will help ensure coordination among involved agencies and groups. However, this memorandum does not specifically address the central issue our report raises; i.e., what organization should

Major international and national economic changes occurred since these original studies were written which may alter some of their projections or conclusions. We found in eastern Kentucky, for example, that 1972-74 State legislation, coupled with increased national demand for coal, produced a substantial increase in local fiscal capacity from coal severance taxes returned to local governments.

At the completion of our review, it was uncertain what eventual effect such increased local revenues will have on areas such as the Kentucky River Area Development District, in which 25 percent of total personal income has been derived from transfer payments from Federal and State governments between 1966-74; only 5 new plants employing less than 700 people were established between 1965-1973; per capita personal income averaged less than 68 percent of the national average in 1975; and serious deficiencies exist for over 50 percent of the dwelling units in the district.

A 1977 report titled "Issues in the Development of Nonmetropolitan United States" pointed out that some geographic areas in the United States may not be able to develop a self-sustaining economy, regardless of the amount of Federal assistance provided. While discussing the continuing economic and social problems confronting KRADD in 1976, the district's executive director told us that parity with the non-Appalachian part of his State, Kentucky, was probably a more realistic objective than the concept of parity with the Nation.

Is the goal of the Appalachian program to equalize conditions between the Appalachian and non-Appalachian portions of the States which constitute the region, between three subregions, or between the entire region and the Nation? We believe these issues and unanswered questions need to be addressed if coherent national policies affecting the growth and development of all regions are to be developed.

Assuring State financial commitment for nonhighway programs

The Congress will confront two major funding decisions during fiscal years 1979-80 regarding the Appalachian program: continuation of ARC's nonhighway programs from fiscal years 1980-83 and completion of the Appalachian Development Highway System by 1986, both recommended by ARC resolutions in December 1977. ARC has cited the completion of the highway system as critical to the success of its entire program. Although begun in 1965, the system was projected in December 1977 to be only 65 percent complete by the time probable appropriations through fiscal year 1981 have been spent. ARC

A detailed breakdown by State shows that Central Appalachia's poverty situation relative to the U.S. average improved slightly for the 27 counties in Tennessee and Virginia but worsened for the 58 counties in Kentucky and West Virginia, as shown below.

Index of Central Appalachian Poverty by State Relative to U.S. Average (U.S. = 100)

State	1960	1970
Kentucky	264	284
Tennessee	242	227
Virginia	240	229
West Virginia	205	217

In 1970, 30 percent of all families in Central Appalachia's 85 counties were below the poverty level. In eastern Kentucky, the statistic was one family of every three--33.6 percent. ARC's 1977 document "Goals, Objectives, and Strategies for Appalachia" observed that cash transfer payments accounted for 9.7 percent of Appalachian income in 1965 and 14.9 percent in 1974.

We cite these statistics and trend data for the following reasons:

--ARC's projections (1973) indicated that 62 counties in Central Appalachia will represent the single largest concentration of persistent high poverty in the region by 1980, with a relative index (when compared to the U.S. average) worse than 1960 or 1970.

--Increased cash transfer payments were a major component of the rapid increase in Central Appalachian income between 1965-75, the other component being increased economic activity attributable to rising national demand for coal.

--ARC's six resolutions adopted in 1977, one of which calls for program continuation through 1983, do not comment on the adequacy of national income maintenance and welfare policies, other than to note that "portions of the Region still contain some of the poorest people of the nation * * *. The means for correcting these problems must continue to be provided."

--ARC's fiscal year 1979 budget justification indicated that it planned to make investments and approve

Defining self-sufficiency for Central Appalachia

Central Appalachia as currently defined by ARC consists of 85 predominantly rural counties: 49 in Kentucky; 20 in Tennessee; 7 in Virginia; and 9 in West Virginia. Estimated population in these counties was approximately 1.9 million persons in 1975, or slightly less than 10 percent of Appalachia's total population. Over 70 percent of Central Appalachia's 1970 population lived in communities of less than 1,000 persons, and 72 percent lived in rural counties in 1975.

This subregion contained approximately 8.7 percent of the entire Appalachian region's civilian resident labor force in 1975. Labor force participation--the ratio of labor force to total population--remained lower in 1975 (36 percent) than that of Northern or Southern Appalachia or the Nation as a whole (41 percent, 43 percent, and 43 percent, respectively). Unemployment rates in Central Appalachian counties, however, were generally lower in 1976, averaging 6.6 percent, than either Northern (8.4 percent) or Southern (6.7 percent) Appalachia's rates.

The rural counties of Central Appalachia, particularly those in eastern Kentucky and southwestern West Virginia, are those most often associated with the image of Appalachia as "a region apart" in the early 1960s. Isolation, low education levels, high physical and mental health disease rates, limited access to health care of any kind, high unemployment, low incomes, substandard housing, successive generations living in poverty, and massive outmigration characterized much of this subregion's population between 1935-70.

Between 1965-75, ARC approved about $232 million in ARC nonhighway project funds for Central Appalachia which was matched by an additional $334 million in other Federal, State, and local funds.

With the exception of the Development Highway System, which is generally regarded as an "infrastructure," or public works (physical resource) investment, much of ARC's investments in Central Appalachia have been directed toward its human resources. In eastern Kentucky, for example, ARC invested nearly $23 million to help construct, equip, and provide training programs in a network of vocational education facilities; launched an extensive health demonstration program in 16 counties between 1968-74 at a cost of nearly $30 million; and provided $1.5 million between 1975-77 to partially cover operating deficits of the nonprofit Appalachian Regional Hospitals, Inc. (Kentucky, Virginia, and West Virginia).

we noted in chapter 4 of declining State share of ARC project costs.

We believe ARC's resolution calling for a national system of regional commissions could be strengthened if ARC's regional development plan explicitly listed:

--A summary of existing Federal and State development policies which ARC has found best suited to accomplish the long-term objectives of the region.

--Statements of quantified objectives, time frames, and benchmarks for accomplishing the region's objectives during the next 5 years.

--An analysis of Federal and State patterns and levels of expenditure in Appalachia during the previous 5 years, including conclusions as to the adequacy of such expenditures in reducing the region's unmet needs during that period.

--An evaluation of the extent and relative severity of unmet needs in Appalachia at the end of the next 5 years, assuming present and historical expenditure trends continue.

--A list of specific Federal and State policies which currently counteract or impede development in Appalachia, and recommendations for changing such policies, supported by (1) ARC analysis of the impact on previous expenditure patterns should such new policies be adopted and (2) comparison of probable conditions in the region after 5 years under existing policies as contrasted with ARC recommended policies.

As in the past, ARC continues to rely mainly on heavily project-oriented district and State plans. Since ARC may use its funds for any purpose deemed important by the 69 individual districts and 13 States, subject to limitations contained in the act and ARC Code, there is little assurance that the resulting array of plans and projects constitutes a coherent multistate regional plan.

We noted that three of ARC's 1977 resolutions recommend changes to various existing Federal policies involving such departments and agencies as Agriculture, Energy, Environmental Protection Agency, HEW, HUD, Labor, and programs of the Farmers Home Administration and Office of Education. Such recommendations indicate an important role for ARC if such proposals were accompanied by supporting analyses, as suggested above, of the quantified benefits and associated

Congressional intent regarding the primary responsibility of multistate commissions was clearly expressed in Senate Report 94-278, which preceded the 1975 Regional Development Act: "* * * develop regional policy addressing the common problems identified when the region was established." Our review identified a number of unresolved issues which limit ARC's ability to comply with congressional intent. This chapter discusses four issues which the Congress and ARC need to address before extending ARC's nonhighway programs beyond 1979. Without a discussion of these issues, proposals calling for a national system of regional commissions patterned after ARC are premature.

UNRESOLVED ISSUES AND AN UNFINISHED AGENDA

At the completion of our review, we consider the following questions to be unresolved:

--Is ARC's definition and concept of the regional development plan, referred to in section 225 of the act, adequate, and what impact will such plan have on influencing the flow of Federal and State expenditures in the region?

--What benchmarks and quantified goals has ARC established to measure progress during the next 5 years in terms of (1) increased income and reduced poverty levels, (2) reduced education gaps, (3) reduced number and proportion of housing units classified as substandard or beyond repair, and (4) decreased unemployment and underemployment?

--Based on ARC's 1968 definition of a self-sustaining economy and changes in the region since 1960, (1) how many of the region's 397 counties are currently considered part of such economies and (2) how many of Central Appalachia's 85 counties are liable to be self-sustaining by 1983?

--How much matching money, by State and by year, will each Appalachian State provide for ARC's nonhighway programs between fiscal years 1980-1983?

Adequacy of ARC's regional development plan

Nearly 4 years after the Senate Committee on Public Works encouraged ARC to prepare an overall regional development plan, ARC defines such a plan (referred to in section 225 of the act as "the regional development plan") to consist of the following: (1) the ARC Code, (2) the current year's budget and appropriations request, (3) resolutions such as

Administration to provide for continuing evaluations of program and project impact and effectiveness. During its deliberations to extend the Appalachian program in 1979, the Congress should amend the Appalachian Regional Development Act to include similar evaluation requirements.

--Introducing a consistent project monitoring (data collection) form and evaluation capacity in selected States, adding additional States each year so that all States could eventually be part of a unified system.

--Amending section 211 of the ARC Code to tighten the criteria for vocational education construction and emphasize the need for States to justify future project requests on the basis of adequacy of existing facilities.

CONCLUSIONS

ARC's incremental method of generating proposals for project and program evaluation and the small amount of resources devoted to formal evaluations since the beginning of the program are inadequate to assure that its funds are having the greatest effect on solving the region's problems. However, completed and ongoing evaluation efforts since 1974 represent a major improvement over the scant attention given to project and program evaluation during the early years of the program.

Systematic evaluation in one program area can identify problems, such as unclear program goals, existing in other areas as well. Without formal evaluations, however, such problems may go undetected and be duplicated in future funding decisions. Failure to include evaluation mechanisms before undertaking major program expenditures produces an incomplete decisionmaking and planning process which cannot systematically demonstrate the benefits from those decisions.

At the conclusion of our review, ARC's effort to institute a State project and program monitoring and evaluation capacity at a cost of over $738,000 appeared to have the potential for establishing a permanent evaluation capacity in all 13 States. ARC may not realize full benefits from the effort unless it clearly defines what each State's evaluation capacity should consist of, set target dates by which that capacity should be in place, establishes a long-range fiscal plan addressing future Federal and State financial commitment to the program, and plans to formally evaluate the program's effectiveness within a reasonable period of time. ARC's research committee placed little importance on any program evaluation for fiscal year 1979.

to evaluate the impact of individual ARC projects and programs or (2) how many ARC-funded projects had ever been formally evaluated and documented in order to compare actual project benefits against stated objectives.

Our review of project descriptions for the 15 projects which ARC's research committee had recommended for funding in fiscal year 1979 under section 302B disclosed that none of these projects were intended to evaluate project or program impact. Rather, the projects selected went for items such as feasibility studies, payment of staff and consultants, editing and publication of the ARC Code, technical assistance, an education conference, a management study, and basic and applied research.

We could identify only 19 single-year or multiyear evaluation studies before fiscal year 1979 funded for the explicit purpose of evaluating project and program impact. The total cost of those 10 studies for which cost information was available was approximately $2.5 million--less than .3 percent of the total ARC nonhighway project approvals during the first decade of the program. Despite this small investment, such evaluations when performed have proven useful.

Monitoring. Although much information about project benefits and services provided is available from ARC grantees, ARC was not yet routinely extracting this information in all program areas at the district, State, or Commission levels. Developing such an ongoing project monitoring or project inventory system was intended to be a major component of the 1975-76 State monitoring and evaluation grants. Ongoing project monitoring was intended eventually to provide more systematic ARC evaluation. Progress reports available at ARC indicated that at least one State--Georgia--appeared to be close to instituting a permanent, ongoing monitoring system, with other States also progressing toward that end. Initially, some States, however, appeared to be spending much of their efforts conducting an inventory of previously approved ARC projects to determine if excess funds could be recovered for future use. (See ch. 4.)

EVALUATIONS HAVE PROVEN BENEFICIAL WHEN PERFORMED

ARC's first efforts at measuring the impact of its projects and programs in 1970 and 1971 were constrained by a lack of both available data and evaluation mechanisms. Between 1973-76, ARC undertook a major effort called program design, an attempt to systematically evaluate past ARC achievements in all major program areas. Because of heavy prior investments in vocational education construction and

and evaluation system" for assessing its AAP program consisted essentially of ARC staff internal reviews, technical assistance, conferences and meetings with State and district personnel. No specific time frames or targets for a formal evaluation study of the AAP system had been established, however.

We also note that a 1978 ARC staff proposal to evaluate its local development district program during fiscal year 1979--for the first time since 1965--had been deferred. It appears unlikely that ARC can meaningfully evaluate the effectiveness of its Areawide Action Program without having first evaluated its local development district program in order to measure improvements that program has accomplished and to establish a basis of comparison for measuring AAP improvements.

Planning. ARC's Planning and Evaluation Division, responsible for developing and coordinating ARC evaluation efforts, does not prepare comprehensive short-term or long-term evaluation plans for ARC to consider or adopt. ARC instead uses an incremental approach based on project and program evaluation proposals submitted annually which propose to have certain aspects of ARC projects or programs evaluated.

ARC has not developed a systematic means to insure that evaluation mechanisms are built into its decisionmaking process before approving major program expenditures, as illustrated by the above discussion on the areawide action program. District and State Appalachian program offices in Kentucky, Pennsylvania, and South Carolina had no systematic means to relate the benefits derived from previously funded ARC projects to current planning and project selection. In some cases, State and district officials had little involvement with ARC projects once they were submitted for ARC's approval.

Three exceptions to ARC's somewhat random approach to evaluation have taken place since 1972: formal evaluations of ARC's health, child development, and education programs--functional areas which accounted for $578 million and 51 percent of ARC approvals between 1965-1975--and initiation of a State Evaluation and Monitoring Assistance Program.

The importance of evaluation and feedback into the planning process, and the adverse consequences of not applying available results from previous evaluations, are perhaps most clearly demonstrated by the following example

Federal and State commitment to the program, and makes provisions to evaluate the program's effectiveness within a reasonable period of time.

Unlike other Federal legislation which often requires agencies to evaluate their projects and programs, the Appalachian Act contains no such provision. When it does conduct program evaluations, ARC uses either funds appropriated under title III, section 302(a) research and demonstration authority, or funds set aside from those appropriated to carry out the functional programs authorized by title II of the act. The Congress should amend the Appalachian Act to require ARC to conduct program evaluation, such as that mandated by Public Law 93-644, the Headstart, Economic Opportunity, and Community Partnership Act of 1974, and other recent Federal legislation.

SYSTEMATIC EVALUATION IS NOT YET FULLY INTEGRATED INTO ARC, STATE, OR DISTRICT PLANNING ACTIVITIES

Chapter 2 (see p. 11) pointed out that a systematic planning process involves six steps which can be applied to individual projects, program components, or overall programs. We applied this process to examine a particular component of ARC's overall program-the use of project and program evaluation in the planning process at the district, State, and Commission level. We identified the following problems.

Policy. The ARC Code neither defines the term "evaluation" nor contains a statement of overall ARC policy specifying the roles and responsibilities of ARC grantees, districts, Appalachian program State offices, ARC staff, and Federal or State agencies administering ARC funds for evaluating ARC projects. Except for annual resolutions which may allocate section 302 funds for evaluation purposes, the subject of program evaluation does not appear in either chapter 200A of the code, which describes the ARC planning process, or in chapter 302B pertaining to research and demonstration funds.

Before 1975, the ARC Code contained few references to evaluating ARC projects or programs other than its health demonstration and vocational education programs. After 1975, ARC made extensive revisions to the code, incorporating further references to evaluation primarily in chapter 202 (health and child development) and chapter 211 (education).

ARC uses the term "evaluation" to describe the following range of activities:

problems which arise in programs authorized by the Appalachian Regional Development Act. Consideration should be given to having OMB (1) review, approve, and certify the adequacy of interagency agreements between ARC and Federal agencies and (2) become a signatory to ARC interagency agreements in the capacity of arbitrator and adjudicator between ARC and Federal agencies when administrative or policy disputes cannot be resolved.

RECOMMENDATIONS TO THE CONGRESS

To establish more current and appropriate criteria governing Appalachian State maintenance of effort requirements, the Congress should amend section 221 of the Appalachian Regional Development Act of 1965, as amended, as follows:

--Delete the existing requirement for Appalachian States to maintain their current expenditures at the average aggregate 1963-64 levels.

--Require instead that each Appalachian State maintain proportionate levels of expenditure between the Appalachian and non-Appalachian portion of each State, using such recent base period as the Congress deems appropriate.

--Require ARC to monitor and report annually to the Congress on Appalachian State expenditures in both the Appalachian and non-Appalachian portion of each State.

in ARC grant administration in order to help expedite ongoing future project closeout activities.

--Establish an information reporting system based on Program Coordination and Project Control records of closed out projects for annually notifying each State of those projects which have been closed out.

--Develop a written plan of action with specified targets and time frames for reducing the accumulated backlog of HEW health and child development operating grant project files, including the role and resources which ARC Health and Child Development Program Operations staff and Appalachian State staffs will devote to such efforts.

The Federal Cochairman should require the Executive Director to provide him reports twice a year on the status of projects approved in prior years which according to Project Control's records have not been closed out. Copies of such reports should be routinely made available to the States' Washington Representative, individual Appalachian States, and appropriate Federal agency liaison officials responsible for monitoring compliance with ARC interagency agreements.

The Executive Director's March 9, 1979, memorandum to all ARC staff division directors concerning project closeout procedures substantially addresses many of the internal problems noted in this chapter. Aggressive followup to ensure that the objective expressed in that memorandum--reducing the backlog of completed projects on or before the completion of fiscal year 1980--will be necessary.

RECOMMENDATIONS TO THE FEDERAL AND STATES' COCHAIRMEN

The Appalachian Regional Commission should establish and incorporate into section 214-2.5 of the ARC Code specific written criteria needed to ensure that the special circumstances provision of ARC's underrun recovery policy will be applied fairly and consistently. Such objective criteria should include the format, procedures, and extent of documentation which all States shall follow as a condition needed to qualify for special circumstances consideration.

ARC should establish, through adoption of specific policy, a definition of State project and program monitoring capacity, including minimum standards and levels of performance, which each State shall be expected to demonstrate.

--Develop a standard provision specifying that Federal agencies submit (for each ARC-funded project) final expenditure reports which contain the following components of total costs: (1) Federal funds contributed by the administering agency, (2) ARC funds disbursed for the project, (3) eligible project costs paid by the grantee, and (4) ineligible project costs paid by the grantee.

--Determine whether those agreements which contain provisions calling for proportionate disbursements of administering agency and ARC funds are consistent with the intent and requirements of ARC underrun recovery policy contained in section 214-2.5 of the ARC Code.

--Revise all existing provisions which describe in abbreviated fashion ARC's application of its underrun recovery policy and develop a written description with clear language and specific examples illustrating how ARC applies its underrun recovery policy.

--Renegotiate all agreements and memorandums to incorporate (1) new language governing final expenditure reports, (2) ARC's written description with examples of how it applies its underrun recovery policy, and (3) a sample copy of those existing agency final expenditure reports which Program Coordination and Project Control have found adequate to close out ARC project files.

--Coordinate with those agencies which do not currently submit adequate final expenditure reports and jointly develop a standardized final expenditure report format adequate for ARC purposes.

--Either negotiate new agreements with those agencies which actually administer ARC funds or renegotiate existing agreements to specifically identify each individual agency and its applicable final expenditure report.

--Incorporate into each existing, new, amended, or renegotiated agreement (1) a provision for ARC to formally notify administering agencies of noncompliance with the terms and conditions of such agreements, (2) agency procedures and officials responsible for responding to and satisfactorily resolving such noncompliance, closeout efforts by Program Coordination staff and the Project Control Officer, and district monitoring roles and responsibilities remained undefined.

Furthermore, ARC had not instituted a reporting system to periodically provide each State with a comprehensive listing of prior year projects which had been closed out and all ARC funds either spent or recovered. ARC relied instead on a piecemeal, single-project by single-project notification system.

The absence of adequate internal controls, lack of clear lines of responsibilty, lack of written procedures, and failure to follow up on unspent funds from projects reported by administering agencies was further complicated by certain Federal agencies' lack of cooperation or inability to provide ARC with adequate or timely final expenditure reports. Some agencies sent to ARC final audit reports, computer listings of project costs, or even ad hoc listings of completed projects instead of the final expenditure report called for in the interagency agreement.

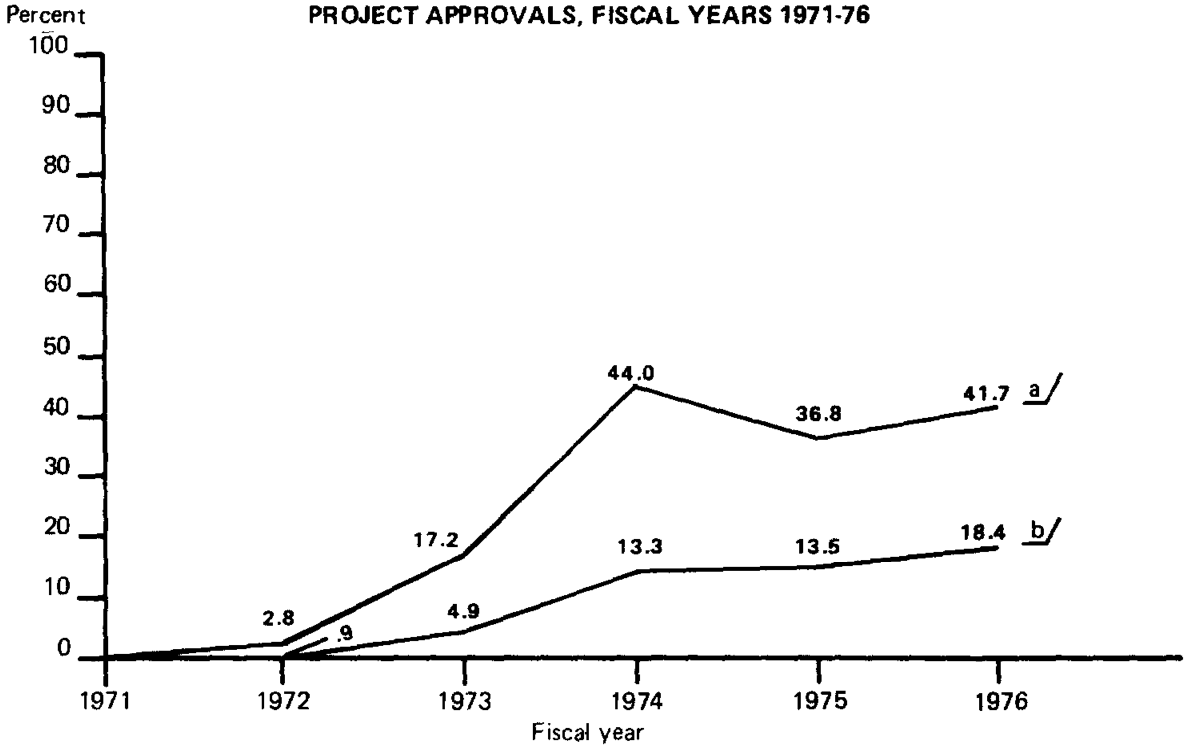
Interagency agreements and memorandums of understanding between ARC and Federal agencies are not specific enough about expenditure reports to be provided to ARC. Some agreements contained provisions which complicated ARC negotiations with grantees and Federal agencies over how to apply ARC's underrun recovery policy. Most agreements were negotiated at the department level but often not complied with by the agencies administering ARC projects. Compliance with interagency agreements is not monitored by OMB, nor is OMB either a party to such agreements or required to approve such agreements.

OMB officials disagreed with our suggestion that they could or should help resolve interagency disputes but did acknowledge that OMB Circular A-102, which had overlooked ARC in terms of requiring such agencies to establish project closeout procedures, could be amended specifically to include ARC within its jurisdiction. However, OMB said that since ARC is subject to A-102 requirements there was no need to revise those requirements explicitly to cover ARC.

Executive Order 11386 has not proven adequate to resolve interagency differences and longstanding grant administration problems arising between ARC and those Federal agencies administering ARC's program funds. As a result, the Federal Cochairman lacked any effective recourse, other than day-to-day negotiation, to enable ARC to adequately document and report on Federal agencies' disposition of Federal funds appropriated to the President. Although ARC has long been

This information is presented in the graph below in order to illustrate the significant increase in first dollar grants.

CHANGES IN THE EXTENT OF SECTION 214, SUPPLEMENTAL FUNDS USED AS "FIRST DOLLAR" GRANTS AS A PERCENT OF TOTAL SECTION 214 PROJECT APPROVALS AND AS A PERCENT OF TOTAL ARC NON-HIGHWAY PROJECT APPROVALS, FISCAL YEARS 1971-76



a/ First dollar 214 as a percent of total 214.
b/ First dollar 214 as a percent of total ARC non-highway project approvals.

By 1976, nearly 42 percent of the section 214 funds were being used as first dollar projects. Without dollar or percentage limits on each State's use of first dollar grants, the use of section 214 funds has moved away from supplementing other Federal funds toward what in essence is an ARC categorical grant. Unrestricted use of section 214 first dollar grants limits ARC's ability to influence other Federal program expenditures.

The two trends which we have identified--declining State support for ARC projects and increased use of ARC funds as first dollar money--indicate both a decline in ARC's ability to influence Federal and State expenditures in the region projects were funded entirely by ARC and local sources.

--Over 68 percent of ARC section 202 funds were not matched with any other Federal funds.

--Nearly 90 percent of ARC section 202 funds were not matched with any State funds.

In contrast, our analysis of funding patterns for the entire $1.1 billion in ARC nonhighway project funds during the decade also showed that:

--Over 65 percent of ARC funds were <u>not</u> matched with any State funds.

--Over 60 percent of ARC funds were not matched with any other Federal funds. Within the region, the percent of ARC project funds with no other Federal funds involved in projects ranged from a low of 47 percent in Ohio to a high of 70 percent in Maryland.

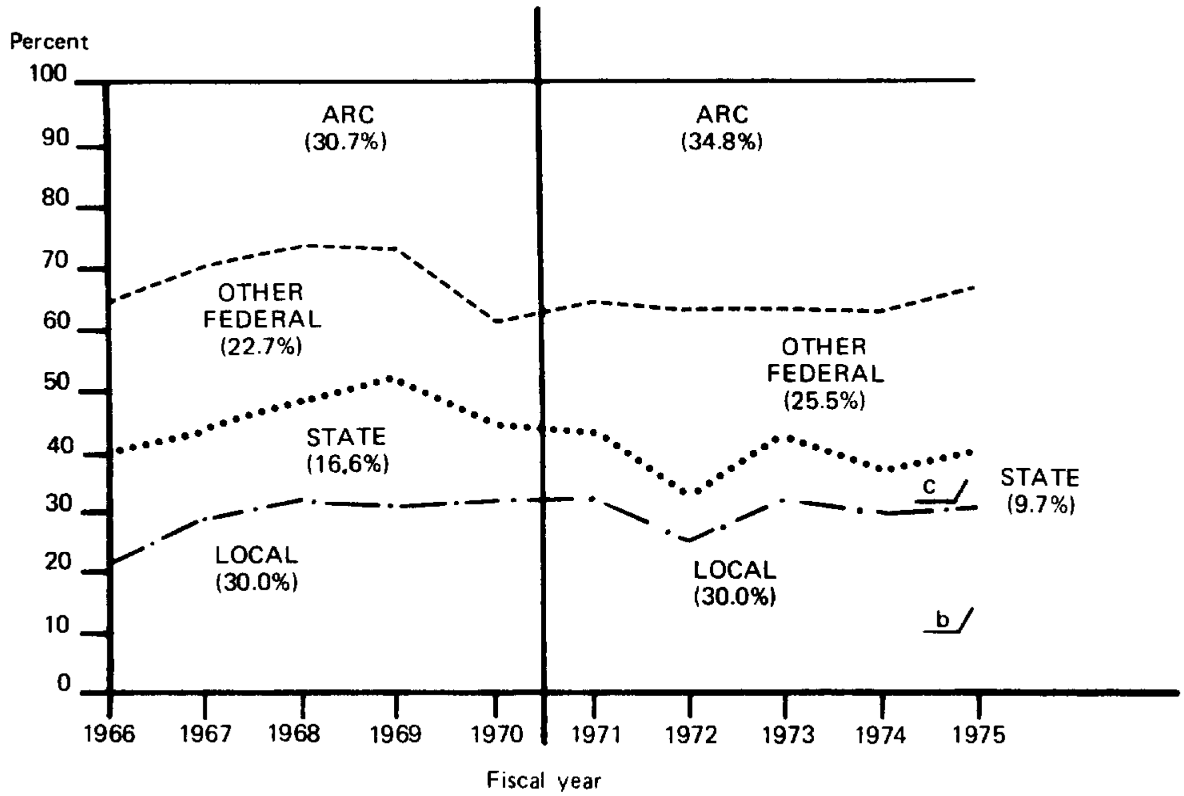
--Nearly 28 percent of ARC section 214 supplemental funds were approved for projects in which no other Federal funds were involved; that is, ARC supplied 100 percent of the Federal funds in the project, often "supplementing" itself by using section 214 funds combined with ARC funds approved under other sections of the act, such as section 211, vocational education, and section 212, sewage treatment projects.

As discussed below, the tendency for ARC to provide 100 percent of the Federal funds in projects has increased dramatically since 1971, reaching over 18 percent of all project approvals in 1976 and nearly 42 percent of all approved projects using section 214 funds that same year.

Supplementing local funds: problems and issues

Factors contributing to the need for a special assistance program in 1965 were the inability of local communities to participate in Federal categorical programs because of limited financial resources and because of the requirement that some percentage of project costs be provided by non-Federal sources. The Congress authorized section 214 funds to help poorer communities meet the non-Federal matching requirements of these other Federal categorical programs.

CHANGES IN THE PROPORTION OF TOTAL ELIGIBLE PROJECT COSTS CONTRIBUTED BY FUNDING SOURCE FOR ARC NONHIGHWAY PROJECT APPROVALS, FISCAL YEARS 1966-70 COMPARED WITH FISCAL YEARS 1971-75 (note a)



a:/ Excluding Section 302 local development district and Commission research and demonstration funds.

b:/ Total ARC, other Federal, and local dollars increased $622 million during this period over 1966-70 amounts while State dollars decreased nearly $36 million. Other factors contributing to these changed proportions during the 1971-75 period include (1) Section 202 health and child development projects nearly doubling as a percent of total nonhighway approvals compared to 1966-70, coupled with (2) low levels of State contributions in Section 202 projects when compared to State contributions in other nonhighway programs.

c:/ State share declined further during the 1976-78 period to an average of 6.7 percent.

review of ARC summaries of data submitted by the States as required by ARC procedures showed that State expenditures had increased from $2.4 billion in 1966 to $6.5 billion in 1975.

However, given such obvious considerations as rising rates of inflation and the significant increase in both Federal and State budgets during the last decade, we believe that the statutory requirement for using aggregate expenditures based on 1963-64 averages is clearly outdated and less appropriate than using proportionate levels of expenditure based on more recent State spending patterns. For example, although State aggregate expenditures in Appalachia increased between 1965-75, the proportion of State funds spent in Appalachia may have decreased.

To test whether the relative proportion of State expenditures in the Appalachian region increased, decreased, or remained constant between 1965-75 (while aggregate expenditures were increasing, as noted above), we attempted to obtain historical expenditure data since 1965 in both Appalachia and non-Appalachian portions of Pennsylvania, Kentucky, and South Carolina.

Unable to obtain complete or consistent data, we instead examined the funds Appalachian States contributed to ARC nonhighway projects between 1965-75 in order to determine whether any noticeable changes had occurred in the proportion of ARC, other Federal, State, and local sharing in ARC project costs. We analyzed the source of funding for the $3.2 billion of the eligible project costs in ARC projects approved during the decade. Our analysis disclosed two major fiscal trends between fiscal years 1971-75 which indicate that congressional concern in 1975 over State support for the Appalachian program appears to have been warranted. Our analysis disclosed

--a decrease in the percentage of State funds contributed toward eligible ARC project costs and

--a corresponding increase in the proportion of eligible project costs contributed by ARC and other Federal funds.

The following table below shows ARC, other Federal, State, and local share of eligible project costs for all nonhighway projects approved through fiscal year 1975, exclusive of section 302 local development district and Commission research and demonstration funds. The graph on page 78 presents the same information in 5-year increments to allow comparison between the first and second half of program operations at the time of our review.

at the same time afford ARC and State staff an opportunity to give consideration to the "changed financial circumstances" provision of the ARC Code, many closeout actions already taken by the basic federal agencies would not currently be in clear violation of the ARC terms of approval." (Underscoring supplied.)

Commission and ARC Federal staff officials acknowledged to us that Executive Order 11386, which calls for the Secretary of Commerce to resolve interagency disputes between ARC and Federal agencies, had not been and would not be useful in resolving these and similar grant administration problems. Because of direct appropriations to the President since 1968, ARC has assumed the status of an independent agency whose day-to-day interagency problems are not likely to be resolved by the Secretary of Commerce who maintains a peer relationship with other Secretaries whose agencies administer ARC funds. Consequently, in matters of policy or program administration disputes, the Secretary may not be able to exert any more leverage on uncooperative agencies than could ARC's Federal Cochairman.

We discussed ARC's project closeout problems with officials in OMB's Budget Review Division and suggested that since the former role of the Secretary of Commerce as stated in Executive Order 11386 appeared to be long since outdated, a more useful approach to help ARC resolve interagency disputes (such as not receiving excess ARC funds or obtaining timely final expenditure reports) would be to have OMB become a party to ARC interagency agreements. OMB officials disagreed, stating that their role was one of general guidance to Federal agencies, not a referee for specific interagency problems. OMB officials also stated that ARC should resolve such problems on an agency-by-agency basis.

OMB officials acknowledged that since OMB Circular A-102 was not drawn up with ARC's situation in mind--that is, a conduit for transferring funds to other agencies--the requirement to establish project closeout procedures called for by A-102 did not specifically apply. They agreed, however, that A-102 could be amended to include ARC and other transferers of Federal funds under its jurisdiction. However, in commenting on a draft of this report, OMB disagreed that the circular should be amended but acknowledged that A-102 requirements do apply to ARC and similar agencies. (See ch. 7.)

final costs were over $1.1 million less than originally agreed to.

	Estimated costs at approval	Actual costs as computed by ARC	Change since ARC approval
Federal agency	$2,851,952	$4,141,654	+$1,289,702
ARC section 214	250,000	250,000	-
Grantee	5,126,044	3,968,792	- 1,157,252
Total eligible costs	$8,227,996	$8,360,446	+$ 132,450
Ineligible costs	30,000	-	- 30,000
Total costs	$8,257,996	$8,360,446	+$ 102,450

Despite two requests from ARC to the State in 1972 for an explanation of whether ARC funds should be recovered, no response was received. The project was closed out in 1976 without recovering any funds, although application of the underrun policy would have required the recovery of the entire $250,000.

We also noted that while ARC funds can only be used to pay those costs which the Federal Government is allowed to pay (eligible costs), ARC considered a grantee's total costs, both ineligible and eligible, at project completion when determining whether ARC funds were excess to the project. Discussion with ARC staff disclosed that such consideration was generally given to ensure that undue financial hardship did not fall on grantees whose ineligible project costs may have increased substantially between time of ARC approval and time of project completion. The following example illustrates how ARC liberally applied its underrun policy to allow a grantee to substitute previously committed funds from eligible costs to ineligible costs.

	Estimated costs at approval	Actual costs as computed by ARC	Changes since ARC approval
Federal agency	$ 2,128,520	$ 2,128,520	-
ARC section 214	500,000	500,000	-
Grantee	13,492,656	10,965,944	-$2,526,712
Total eligible costs	$16,121,176	$13,594,464	-$2,526,712
Ineligible costs	817,963	3,337,259	+ 2,519,296
Total costs	$16,939,139	$16,931,723	-$ 7,416

of ARC approval. For example, if additional Federal agency funds became available or if actual project costs end up being less than estimated, some or all section 214 funds may be determined to be excess. Such determination cannot be made unless the Federal agency's final expenditure report shows how much money the Federal agency and the grantee contributed to the total project cost.

The ARC Code places the responsibility for ensuring compliance with this underrun recovery policy on ARC's Executive Director. Although not officially delegated the responsibility to monitor compliance with this policy, Program Coordination and Program Operations staff were performing this function in the course of closing out projects.

ARC's Code does not define what constitutes a "changed circumstance" nor describes what conditions would permit excess funds to not be recovered. Each project is handled by subjective negotiation between ARC staff and Appalachian State offices, Federal agencies, and individual grantees.

We examined whether ARC's underrun recovery policy for section 214 funds was being applied reasonably and consistently. Of the 454 projects closed out as of March 1977, 157 indicated some type of decrease between estimated costs (ARC funds approved) and actual costs (ARC funds after closeout). Of those 157, 52 projects, or 33 percent, involved section 214 funds. A sample from those 52 projects and comparison with other section 214 projects either closed out or awaiting closeout disclosed the following situations:

--Federal agencies had disbursed 100 percent of ARC funds and did not return funds ARC considered to have been excess after reviewing final project costs.

--The "special circumstances" provision was apparently invoked but not documented in the project file.

--ARC staff reached different conclusions as to how much of ARC funds should be recovered.

--Certain interagency agreements contained a provision calling for proportionate sharing of Federal disbursements between ARC and the administering agency throughout the life of the project, eventually complicating negotiations over how much ARC was entitled to recover when projects' actual costs were less than estimated.

--ARC funds appeared to have been used to either directly pay or indirectly be substituted for costs other 33 projects, the State asked whether undisbursed funds, supposedly totaling $1.6 million, could eventually be recovered for reallocation.

We selected Tennessee's inquiries for detailed followup because (1) Tennessee appeared aggressive in implementing a State project monitoring system, (2) the State recognized the importance of also sending ARC's Program Coordination unit a listing of projects thought to be closed out or nearing completion, and (3) the State's request included projects funded by eight different Federal departments or agencies, demonstrating a recognized need for a comprehensive, centralized approach to project closeout at the State level.

Our analysis of ARC followup actions and subsequent Federal agency reporting is summarized on page 69. Our analysis demonstrates the futility of a State relying on Federal agency disbursement data without also seeking whether Project Control and Program Coordination have obtained or sought final expenditure reports. Of a possible $1.6 million thought recoverable by Tennessee, ARC had reallocated less than $123,000 as of March 1978. In short, disbursement information without final expenditure reports is of limited use in confirming recoverable funds. In addition, at least 14 of 46 projects did not yet have necessary final expenditure reports available to confirm the existence of any undisbursed funds.

We concluded that if Tennessee's experience is representative, ARC will have implemented a State project monitoring system of limited effectiveness in reducing the backlog of projects not closed out. In our opinion, ARC should have (1) directed State project closeout efforts toward Program Coordination and Project Control, (2) informed States of the importance of final expenditure reports, and (3) considered using State staff to locate reports from administering Federal and State agencies which have been unresponsive or negligent in providing information.

The ultimate effect: ARC does not recover excess project funds

The final step in closing out a project is to compare actual expenditures with the original estimated cost. For projects involving section 214, supplemental funds, ARC policy requires that funds be recovered when actual project costs at completion are less than estimated costs at the time of ARC approval. This policy applies unless ARC directs otherwise because of changed circumstances. The amount of funds recovered is influenced by the amount of funds which the Federal agency and the grantee agreed to pay at the time reallocation information from ARC headquarters. Pennsylvania officials told us that lack of State staff to adequately monitor the volume of past and ongoing ARC projects contributed to the problem. Kentucky State officials were optimistic that ARC-funded State monitoring staff could identify millions of dollars in unneeded, unspent ARC funds in Federal agency accounts. As an example, they identified over $551,000 in surplus funds from four child development projects funded between 1972-74. Funds were eventually restored to the State's allocation in 1976. South Carolina expressed interest in expanding the State's capability to monitor ongoing ARC projects, but was reluctant at the time of our review to do so because the Governor was concerned about the State's ability to pay for additional staff beyond the first year of the grant, during which ARC could pay up to 100 percent of the project cost.

ARC's corrective actions: uncoordinated, poorly planned, and incompletely carried out

In December 1975, ARC approved funds to establish a State Evaluation and Monitoring Assistance Program. One of the intended benefits from the system was to expedite project closeouts and recover unneeded project funds more promptly.

We examined ARC progress in implementing this system and found the following weaknesses:

--The ARC Code was not revised to incorporate a statement of ARC policy regarding the responsibility of Appalachian States for project monitoring.

--Application procedures for States to apply for monitoring and evaluation grants were developed by ARC's Planning and Evaluation Division, which had no prior involvement in project closeout activities.

--ARC's Program Coordination unit was not involved in either the design or execution of the State evaluation and monitoring grants.

--Application procedures stated that "data provided to the Commission must be in accord with standard forms, procedures, and definitions to be provided by the Commission * * * to ensure that the project data provided by participating States will be consistent." As of March 1978, ARC had issued no such forms, procedures, or definitions to the States, The following examples illustrate how the lack of cooperation and information from Federal agencies, coupled with the lack of internal controls within ARC, either prevent projects from being closed out or cause projects to be closed out without adequate fiscal information in the file from ARC's Budget Officer or Office of Finance and Administration.

--Twenty-nine access roads in 9 States were closed out by use of computer listings from the contractor who helps administer ARC's highway program through the Federal Highway Adminstration. There was no information from Finance and Administration in project files to document what became of $1.1 million in cost underruns.

--ARC asked for final expenditure reports in 1976 for 57 health construction projects in Tennessee, approved between 1966-74. As of March 1978, no reports were received from HEW, although 32 projects had been approved 10 years earlier. The Director of Program Coordination estimated in January 1978, that ARC has on hand over 1,000 project files pertaining to HEW-administered ARC projects being held in suspended action status awaiting either adequate final expenditure information or help from ARC health and child development staff to close out the files.

--The interagency agreement with HUD's Federal Housing Commissioner contains no provision for sending final expenditure reports to ARC. Of 100 site development loans and 5 technical assistance grants made between 1968-73 in 12 States, ARC had no projects closed out as of March 1977. ARC's Budget Officer eventually sought recovery of $600,000 in undisbursed funds for these projects in February 1977, even though other ARC staff had program information 3 years earlier indicating that such excess funds were available because the projects had been completed.

--HEW's Office of Education's accounting system does not provide useful fiscal reports (step 11) needed by ARC to identify project-by-project disbursements. Of over 750 Office of Education-administered projects approved by ARC between 1965-75, ARC had closed out less than 50 projects as of March 1977.

$533,255 and $29,876, respectively, undisbursed in December 1972 still undisbursed as of December 1976.

--Nine other housing site development loans in five States and three other technical assistance grants showed $225,813 undisbursed for between 2 and 3 years as of December 1976.

--Seven community development projects in four States had $127,675 undisbursed from 2 to almost 5 years as of February 1977.

Neither Finance and Administration nor Program Operations staff were routinely reviewing Federal fiscal reports to identify projects with undisbursed funds as a first step in project closeout. As evidenced by the 72 projects discussed above, totaling $3,119,832 undisbursed for periods ranging from 2 to 8 consecutive years, we concluded that:

--Available disbursement information on a project-by-project basis was not adequately reviewed by Finance and Administration to identify projects for potential closeout.

--Disbursement information was not systematically forwarded to Program Operations so that staff who reviewed the project for approval could inquire from Federal agencies about the status of projects in which no disbursements had been made for long periods of time.

We also noted situations in which project files maintained by Project Control could not be used to respond to inquiries about the status of unspent project funds without having to seek out such information from Finance and Administration or Program Operations. Project files sometimes contained no fiscal information other than the amount of ARC funds originally approved years earlier.

In addition to this lack of internal coordination, we found that the Commission's Budget Officer was inconsistent in handling available fiscal information. For example, he had worked out informal arrangements with the Department of Transportation's Federal Aviation Administration (FAA) in May 1976 whereby FAA would stop reporting ARC airport projects once monthly FAA reports showed funds 100 percent disbursed, but apparently made no such arrangement with HUD, HEW, or the Department of the Interior.

Coordination and the Project Control Officer had received detailed expenditure reports to close out the project file.

On the other hand, the Project Control Officer and Program Coordination unit generally relied--correctly, in our opinion--on final expenditure reports submitted through Federal agency grants management channels to close out ARC projects (steps 10 and 14), because disbursement information contained in fiscal reports submitted to the Budget Officer and the Director of Finance and Administration (step 11) was not sufficient to determine whether ARC project approval terms and conditions had been adhered to by the Federal agency.

Without internal written procedures that define responsibilities for closing out projects, numerous coordination problems developed within ARC and between ARC and Federal agencies. (See p. 63.) Since the Directors of Finance and Administration and Program Coordination have no authority over Program Operations staff, informal procedures developed for closing out projects. Cooperation and involvement from Program Operations units in helping Program Coordination and the Project Control Officer closeout projects have ranged from substantial in some cases to little or no involvement in others.

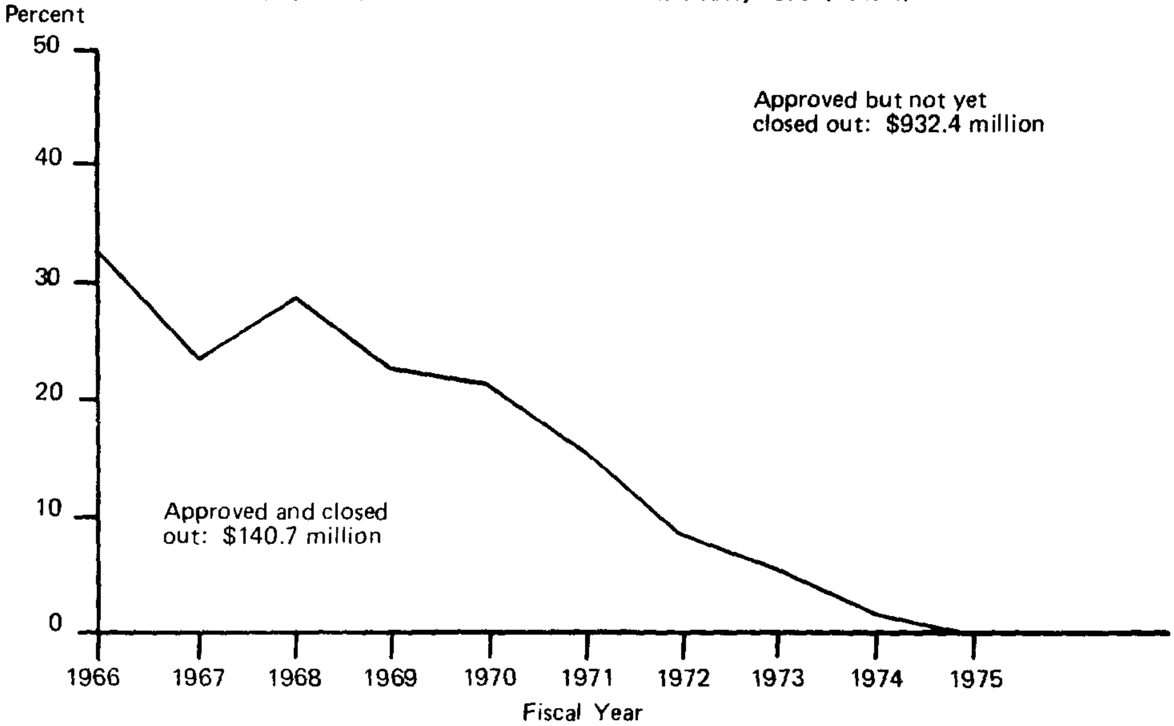
Prior to our detailed briefings to ARC management in August 1977 concerning the seriousness of these problems, the former Federal Cochairman with whom we discussed the situation and the newly appointed Federal Cochairman appeared to have been inadequately briefed concerning the extent or severity of ARC's project closeout problems. ARC's former Executive Director and Deputy Executive Director appeared to be unaware of the extent of backlogged projects not closed out. ARC's new Executive Director issued written project closeout procedures in March 1979.

Available data not used effectively

ARC officials generally wait for Federal agencies to notify them when a project is complete, either through fiscal reports showing 100-percent disbursement, through notification that unspent funds were being deobligated and returned, or through reports of final project expenditures.

We analyzed 454 projects closed out as of March 1977 to determine how often funds eventually disbursed on ARC projects were less than what was originally approved. About 35 percent, or 157, of the projects had a decrease in ARC funds. These decreases were attributable to either reductions in the project's scope, withdrawal of the project by the Appalachian

PERCENT OF ARC NON-HIGHWAY PROJECT
APPROVALS BETWEEN FISCAL YEARS 1966
AND 1975 CLOSED OUT AS OF MARCH, 1977 (note a)



Note a/ Does not include section 302, planning and research funds.

ARC internal controls and written procedures missing

ARC lacks an internal auditor or independent internal review and audit function on either the Federal or its own staff to report grants management problems. Although authorized by the ARC Code to do so, ARC's Executive Director had not (prior to March 1979) issued written procedures defining the responsibilities of ARC's Office of Finance and Administration, Program Operations, and Program Coordination units for project closeout. Rather, closeout procedures have evolved in response to situations such as State requests for information about unspent funds from individual projects, as well as a simple lack of storage space for accumulated project files.

Prior to ARC approval and disbursement of ARC funds by other agencies, ARC Program Operations staff review annual State applications for project assistance, which by 1978 totaled over 1,000 projects. Eventually, Federal agency fiscal reports flow into Finance and Administration (step 11) and expenditure reports into Program Coordination (step 10). The role and responsibilities of Program Operations staff for

Federal agency compliance with the terms of interagency agreements and memorandums of understanding to determine whether those procedures are adequate to:

--Identify unspent ARC funds held by Federal agencies (see app. XII, step 11).

--Insure timely recovery of unneeded funds to ARC (step 12).

--Provide timely notification to the States that unspent funds have been reallocated (step 13).

--Determine that adequate information exists in ARC project files to show that approved ARC funds were spent (steps 10 and 14).

--Document on a project-by-project basis what happened to unneeded, unspent funds (step 14).

FEDERAL ACCOUNTABILITY: MORE CONTROL NEEDED

Difficulties in maintaining accountability for ARC Federal funds arise because funds pass from one agency to another and from one governmental level to another without adequate internal control procedures; guidance from OMB; compliance by Federal agencies; or clarification of Federal, State, and local responsibilities. ARC's major emphasis on approving projects has not been matched by comparable efforts to monitor the status of projects to assure both prompt project closeout and timely return of unused funds.

Of $407 million approved for nonhighway projects between 1965-70, ARC had closed out less than 25 percent, or $101 million as of March 1977. Of about 5,000 projects and $1.1 billion approved between 1965-75, only 454 projects, totaling $140.7 million, were considered closed.

The consequences of this situation are:

--ARC can not adequately document whether all ARC funds originally approved for each project and transferred to other agencies were actually spent.

--Unspent funds can remain idle indefinitely in receiving agencies' transfer accounts unless adequate controls exist to insure that unneeded funds are quickly identified and recovered.

ARC's interagency differences and longstanding grant administration problems. In addition, Office of Management and Budget (OMB) Circular A-102 does not adequately specify whether transferring agencies, such as ARC, are responsible for establishing project closeout procedures, a major deficiency in existing ARC program operations.

In addition to problems involving Federal funds, ARC has not adequately monitored State financial support for the Appalachian program. Declining State contributions toward ARC eligible project costs and unrestricted use of ARC supplemental funds as 100 percent of authorized Federal participation in project costs are not in keeping with congressional concern that Appalachian States not treat the program as merely another source of Federal aid. The ARC program, intended to be a Federal-State-local partnership, may be evolving into a program in which most of the financial burden is borne by the Federal and local partners.

ARC GRANT AND LOAN ADMINISTRATION PROBLEMS: AN OVERVIEW

ARC continues to experience serious internal and external grant administration problems in its capacity as a passthrough mechanism for Appalachian program Federal funds, which the Congress has appropriated to the President since 1968. Between 1965-75, ARC approved over 5,000 nonhighway projects and transferred 95 percent of the $1.1 billion in ARC Federal funds in those projects to seven Federal departments and agencies. 1/ The seriousness of ARC's internal problems is reflected in the fact that as of March 1977, ARC

1/ARC transfers most of its appropriated funds to other Federal agencies for eventual administration and disbursement. This is because the Congress did not want ARC to duplicate existing grant administration systems maintained by those agencies in carrying out the many Federal programs which ARC funds are used to supplement. Unlike most Federal programs or agencies, which maintain their own extensive internal grants management systems, ARC's small staff of approximately 110 persons must rely heavily on feedback from other agencies.

RECOMMENDATIONS TO THE FEDERAL AND STATES' COCHAIRMEN

We recommend that the Appalachian Regional Commission establish regional standards which define acceptable levels of disparity and self-sufficiency. We further recommend that ARC issue written guidelines requiring each State and local development district to (1) submit planning documents containing quantified goal statements, specific targets, and time frames for reducing the extent of its development problems and (2) relate each request for ARC funds to these goal statements.

We recommend that ARC comprehensively reexamine its existing method of allocating nonhighway program funds within the region. ARC should study whether the factors of land, population, and guaranteed fair share participation and the relative weight currently given to those factors are the most effective, efficient, and equitable factors to consider when allocating Federal ARC funds to the States.

ARC's study of resource allocation procedures should address specifically the feasibility of developing a combined index which would compare the relative severity of environmental and socioeconomic problems remaining in each of its 69 development districts. ARC should consider using this index to allocate program resources from a regional perspective as an alternative to the current State-by-State fair share approach.

We also recommend that ARC, to more fully comply with its legislated mandate to make recommendations pertaining to Federal expenditures in the region and as part of its reexamination, determine whether the allocation criteria and procedures which it has adopted, or adopts as a result of its reexamination, would be suitable for other Federal departments and agencies to use in administering national or regional programs affecting development of the Appalachian region.

State	1976-78 actual area development program allocations to State	Hypothetical distribution of actual area development program allocations if distributed equally within States on the following bases				
	(millions)	Per district (millions)	(Number)	Per county (millions)	(Number)	Per capita (note a) (dollars)
Maryland	$14.27	$14.27	(1)	$4.75	(3)	$66.35
South Carolina	21.97	21.97	(1)	3.66	(6)	$30.34
Tennessee	31.09	6.22	b/(5)	.62	(50)	$16.64
West Virginia	30.36	2.76	b/(11)	.55	(55)	$16.87

a/Using July 1, 1975 Appalachian Population, U.S. Bureau of Census.

b/One district contains only two of the Appalachian counties within the State. Such districts are counted equally with other districts for the purpose of this analysis.

This hypothetical situation, showing equal distribution among either population, counties, or districts, does not consider such obvious differences as relative per capita incomes or poverty levels; extent of substandard housing or low education levels; metropolitan, urban or rural characteristics of the area; relative State and local fiscal capacity; or extent of overall regional development in those areas. This illustration is used only to point out an obvious discrepancy which still exists 13 years after the Appalachian program began.

Regardless of which indicators of economic or social need are used--poverty levels, per capita income, deficient housing units, education levels, or unemployment rates--not one of Maryland's three Appalachian counties or South Carolina's six Appalachian counties was as badly off as the majority of West Virginia's and Tennessee's Appalachian counties.

Although ARC's incorporation of equality and fair share principles into its allocation formulas in 1965 may have been commendable, the cumulative effects of such formulas over time may have resulted in underfunding Tennessee and West Virginia, while overfunding Maryland and South Carolina.

ARC allocation formulas for 1965-74 (1) guaranteed that 10 percent or more of ARC funds appropriated for most sections of the act would be distributed equally among the States each year, (2) made no distinction in its equality factor between single-district States (Maryland and South Carolina) and States such as Tennessee with 5 districts or West Virginia with 11 districts, and (3) produced what a majority of States felt was a fair distribution of funds.

Allocations may have been inequitable for some States despite ARC's claim of equity and fair-share

When we analyzed the results of ARC's allocation procedures in terms of per capita allocation on a State-by-State basis, we found that two Appalachian States--Tennessee and West Virginia--appear to have received an inordinately low amount of ARC funding if measured by relative socioeconomic conditions. In addition, despite ARC claims since 1974 that its revised allocation procedures give more funds to Central Appalachian States that still face severe economic and social hardship, our analysis showed that West Virginia's relative ARC per capita allocation actually decreased between 1976-78 when compared to its allocation between 1965-75.

Instead of relying on ARC allocation factors, such as proportionate land areas, proportionate population, and a supposed equity provision (see 1/, p. 46), our analysis used a relative condition index prepared by a staff member of ARC's Planning and Evaluation Division. This index of socioeconomic deficiencies, useful for comparing each State's relative ranking according to some consistent measure of unmet need, uses four factors which serve as the basis for annually allocating billions of dollars of Federal assistance through many Federal programs as well as four of the six criteria used to justify the Appalachian program in 1965: poverty, low adult education levels, unemployment and hidden unemployment, and deficient housing. 1/ This index was also used in 1975 during testimony before the Subcommittee on Economic Development, House Committee on Public Works and Transportation, 2/ to suggest an alteration of ARC priorities toward medically underserved areas. The results of our analysis follow.

1/This relative condition index assigns an equal 25 percent weight to each of the four factors (poverty, education, unemployment, and housing) and produces a single index number which can be derived for individual counties, districts, Appalachian and non-Appalachian portions of each State, subregions, and the entire region.

2/Hearings on H.R. 4073 and H.R. 2824, (94th Cong., 1st. sess.), pp. 178-185 (1975).

--Stabilize the flow of Federal funds to the States in a more consistent manner than was possible through other Federal programs which relied on centralized decisionmaking in Washington, first come-first served grant award practices, and other procedures which discouraged sound State and local planning processes.

Between 1965-74, ARC used a separate allocation formula to divide among the States those Federal funds appropriated for each program area authorized by the Appalachian Act, such as section 201 (local access roads), section 202 (health and child development), section 214 (supplemental grants), and so forth. Generally, each allocation formula consisted of several variables, some of which were designed to insure that the relative amount each State received annually would remain constant and others which were designed to consider relative need.

For example, to help achieve stability, ARC used three variables which would not change, or would change very slowly, and which accounted for anywhere from 10 percent (section 203, land conservation) to 100 percent (section 201, access roads) of each year's nonhighway program funds appropriated for each section of the act. 1/ One or two other variables were used to take into account relative need, such as per capita income weighted inversely and the relative severity of the problem being addressed (vocational education, sewage treatment, mine area restoration), and accounted for anywhere from 44 to 90 percent of each section's allocation among the States, with a few exceptions. 2/ To illustrate, ARC allocated its section 214, supplemental grant funds among the States each year according to the following formula:

1/The factors were (1) land area of the Appalachian part of the State as a percent of the total land area in Appalachia, (2) population of the Appalachian part of the State as a percent of total Appalachian population, and (3) an equity or fair share percentage whereby anywhere from 10 to 33 percent of the funds appropriated under each section of the act would be divided equally among the 13 States.

2/ARC did not use any relative need variables to allocate access road and district administrative expense funds. Section 203 did not use per capita income, whereas section 214 used per capita income exclusively.

more consistency than we did. For example, KRADD planners were hoping at best to reduce the district's disparity with non-Appalachian Kentucky, while South Carolina district planners, whose district is generally better off by many economic and social indicators than non-Appalachian South Carolina, were using national averages to justify continued ARC support.

Lack of clear regionwide criteria defining what specific indicators to use to measure progress applies to even the most basic aspects of Appalachian planning, such as measuring per capita income. For example, if the U.S. Census Bureau's definition of money income is used, then five Appalachian counties in 1974 had income averages higher than the U.S. average, according to an article in ARC's February-March 1978 regional magazine "Appalachia." 1/ On the other hand, the Bureau of Economic Analysis (BEA) definition of per capita (total personal) income would show at least one of those counties--Gwinnett County, Georgia--below the U.S. average in 1975. Since ARC has no explicit policy or guidelines to tell State and district planners which definition of income to use, ARC's May 1978 summary of 1978 State plans claimed that (using BEA's definition) no Appalachian county in Georgia exceeded the U.S. average per capita income in 1975.

Consequently, in the absence of regionwide criteria defining acceptable income levels, ARC's response to the question "Have any Appalachian counties reached per capita income parity with the Nation?" could be an unequivocable "Maybe--depending on whose definition you use." ARC has yet to define acceptable income levels despite clear congressional intent that its primary responsibility is to develop regional policy addressing the common problems, such as income gap, which justified the program in 1965.

For fiscal year 1978, ARC allocated its area development (nonhighway) program funds to all States in almost the exact proportions as it had since 1974, even though the Appalachian part of eight States had achieved employment parity to the extent that their 1976 unemployment rates were less than the rates both for the entire Appalachian region and

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1/Alleghany County (Pittsburgh), Pennsylvania; Forsyth County (Winston-Salem), North Carolina; Gwinnett County (Atlanta), Georgia; Hancock County (Wheeling), West Virginia; and Jefferson County (Birmingham), Alabama. Cities indicated in parentheses are in or adjacent to these counties, which helps explain relatively high per capita incomes.

ARC's 1973 projections of a worsening poverty situation for 62 Central Appalachian counties by 1980, coupled with our analysis showing KRADD's continuing dependency on Federal transfer payments, indicate that the goal of economic self-sufficiency should be reexamined to determine whether it is feasible or realistic in light of Appalachia's regional development progress, or lack of progress, to date. Chapter 6, pages 107-111, contains a more detailed discussion of the unresolved issue of Central Appalachia's prospects of self-sufficiency.

KRADD Transfer Payments as a Percent of Total Personal Income Between 1966-74 as Compared to the U.S. Average

Year	KRADD	U.S. average	District as a percent of U.S. average
1966	23.45	7.56	310
1967	24.31	8.28	290
1968	25.32	8.70	290
1969	25.00	8.75	290
1970	25.96	8.67	300
1971	28.09	10.78	260
1972	27.82	10.92	250
1973	29.60	11.18	260
1974	27.85	12.16	230
Average 1966-74	26.95	9.99	270

Despite differences in the type of economic problems and conditions confronting the three States and subregions we visited, we believe it is both feasible and essential for ARC to develop regional criteria to define acceptable levels of reduced disparity and economic self-sufficiency on both a program and geographic basis. ARC could contribute substantially to national growth and development policy if it could develop specific income, education, employment, housing, and poverty targets with quantified goals and time frames in each of its 69 districts and 13 State areas.

ARC has had sufficient experience and time to analyze the problems which justified the program and to set realistic regional goals with specific targets and time frames for reducing those problems to acceptable levels. To do this consistently, ARC must establish written guidelines providing examples of acceptable goal statements.

less a priority * * *. To varying degrees, the criticism of not stating objectives in measurable terms is applicable to all program areas."

Because each successive planning level--district, State, and multistate--relies on information provided by other levels, it was not surprising that none of ARC's goals and objectives adopted in 1977 for the regional plan were any more specific than those found in State and district plans. As appendix VII clearly indicates, the following deficiencies are apparent:

--Goals and objectives are stated in terms of functional programs rather than in terms of specific income, education, employment, health, or poverty level targets.

--No quantitative indicators exist to enable the Congress, ARC, or other Federal, State, and local planners to know how progress can be measured in 1980, 1985, or 1990. The goals and objectives are virtually timeless, reducing the usefulness of the "plan" as a management tool for determining to what extent objectives have been accomplished.

--Without time frames, quantified targets, and other descriptive data, there is no indication of how serious the problems are, no objective way to compare the relative severity of problems, and little basis to determine what priority should be assigned to reducing the extent of each problem.

Vague goals do not answer whether "self-sufficiency" as currently defined is feasible for some areas

ARC has become so project oriented that critical policy questions involving the broad issues of reducing disparity and achieving economic self-sufficiency receive inadequate attention. For example, during its series of 1973-75 regional needs studies, 1/ ARC did little to analyze the implications of its 1973 projections which showed that the poverty

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1/ARC's program design effort was intended to evaluate past achievements and prepare for program extension beyond 1975. Seven task forces composed of ARC staff, State representatives, and appointees prepared reports addressing the following: transportation, health and child development, enterprise development, education, energy, environment and natural resources, and institutional development.

Because the Appalachian program lacks the criteria to translate the national goals established in 1965 into well-defined regional goals, it is difficult to evaluate objectively the program's relative success and impact. (See ch. 5.) ARC still needs to plan for phasing out the program. A reluctance to address these questions of national and regional policy compromises ARC's purpose as a national experiment and its primary responsibility of regional policy development. Lack of specificity in policy, plans, and procedures carries over into both functional program planning (health, education, community and economic development) and purportedly comprehensive planning at the district, State, and multistate levels.

<u>District, State, and regional goals are too vague to measure when they have been met</u>

Appalachian district, State, and regional goals and objectives are so broadly worded and so indefinite in terms of specific time frames that measuring progress toward their accomplishment or determining when or if they have been met is virtually impossible. ARC's tolerance for vaguely worded goals and objectives after 12 years--an outgrowth of its "flexible" approach to program planning--is reflected in district areawide action and State Appalachian plans which we examined as well as in ARC's statement of goals and objectives adopted in 1977 as part of its first multistate plan. (See app. VII.) The following examples illustrate the extent of this problem.

The three districts we visited prepared plans for 1977 containing a total of 213 development goals, not listed in any particular order of priority or relative importance. Most goal statements were vaguely worded and touched many subjects. District goal statements included the following:

--Make the district a safer place to live.

--Make communities better places to live.

--Use the location of northeastern Pennsylvania and its physical land assets to encourage environmental sensitivity and at the same time relate to sound economic policies.

--Continue and expand the council's grantsmanship role to encourage the appropriate funding of projects, programs, and services required to support the economic and environmental needs of the region.

(3) reexamine its method of allocating funds, and (4) consider developing and using an index of relative need to target funds to States rather than the current "fair share" approach, which underfunded some States while overfunding others.

PROGRESS AND PROBLEMS IN REDUCING DISPARITY AND ACHIEVING ECONOMIC SELF-SUFFICIENCY

Although two of the six broad problems which originally justified the Appalachian program--extensive outmigration of its work force and higher than average unemployment rates--no longer characterized most of the region in 1975, serious problems and gaps in income and education levels, housing conditions, and extent of poverty, particularly in Central Appalachia, still exist. ARC's latest projections, summarized below, indicate that such major gaps are likely to continue for years. For example:

--Appalachia's income gap narrowed only 5 percent between 1965-74 and was projected in a 1969 study not to equal the U.S. average for another 50 years. The map on page 34 shows the region's per capita income situation as of 1976.

--Regional education levels in 1970 as measured by the percentage of children aged 3 and 4 enrolled in school, high school graduates, and college graduates, respectively, were 42 percent, 19 percent, and 26 percent lower than the national average, while adult illiteracy was 33 percent higher.

--The proportion of housing units beyond repair in 1970--an estimated 231,600 units, or 3.8 percent of the region's housing stock--was over 80 percent higher than the national average estimated at 2.1 percent.

--Poverty levels twice as high as the national average were projected in 1973 to still exist in 124, or over 30 percent, of Appalachia's 397 counties by 1980.

The Congress stipulated in both 1965 and 1975 that reducing Appalachia's economic and social development problems to levels closer to those in the rest of the Nation's urban, metropolitan, and rural areas would accomplish the Appalachian Act's ultimate national goal--eliminating the need for separate Federal assistance. The act adopted a national policy of short-term Federal aid to promote the continuous process of regional development. This policy, and

RECOMMENDATIONS TO THE FEDERAL AND STATES' COCHAIRMEN

We recommend that the Appalachian Regional Commission amend section 200 A-3.1(A) of the Appalachian Regional Commission Code to require that each annual Appalachian State plan and plan update address the same mandatory list of functional program areas and problem categories. These program areas should be identical to and consistent with those contained in any multistate regional plan ARC develops.

We recommend that ARC develop written guidelines to supplement general provisions contained in the Commission Code for Appalachian State and local development district planning. ARC should prepare guidelines for each functional program area, using a consortium of ARC staff, State, and district representatives from each of the 13 Appalachian States and adopt those guidelines as ARC policy by reference in chapter 200 A of the ARC Code. Chapter 3, page 52, of this report contains further recommendations regarding those specific elements to be included in ARC supplemental guidelines.

some ARC staff agreed that written guidelines would improve existing procedures.

Kentucky officials, for example, said they do not consider ARC's annual plan update and plan requirements particularly useful. They prefer to engage in what they call "action-oriented" or "people-oriented" planning, characterized as an ongoing exchange of ideas with local people in resolving the region's problems. Kentucky State staff did not believe that objective or quantifiable indexes of problems and progress or the need for yearly documentation are particularly necessary. They prefer to rely on their own experience and knowledge of the problems of eastern Kentucky along with input from local planners and government officials.

Pennsylvania State planners acknowledged that written guidelines might help eliminate the need for, or reduce the extent of, critical ARC staff comments about their perceptions of Appalachian State plan inadequacies.

On the other hand, ARC staff gave us a somewhat more positive response. One division director said that the ARC Code, despite changes made in 1977 was still seriously deficient in providing adequate criteria, standards, or guidance for State planning. Other ARC staff commented that despite their best efforts at technical assistance to the States, the ARC Code was still so broad that more detailed planning requirements, in the form of specific written guidelines, would be an improvement. Many ARC staff acknowledged a sense of frustration with the unresponsiveness of State planners to their suggestions.

Other ARC staff, however, felt differently. According to one official in ARC's Planning and Evaluation Division, increased technical assistance to the States earlier in each year's planning cycle might preclude so many critical comments. The Director of ARC's Office of Development District Programs told us that ARC staff suggestions were often ignored by State planners, who considered such assistance to be little more than meddling in the State's prerogatives. He doubted whether the Appalachian States, after 12 years without detailed guidelines, would perceive them as beneficial "this late in the game."

Despite this mixed reaction, we believe modification to ARC planning guidelines are a necessary supplement to ARC's current reliance on broadly worded policy statements (the Appalachian Code) and the annual process of arbitration and negotiation between ARC staff and State planners over State compliance with Appalachian Act and ARC Code requirements.

State inability or refusal to correct such basic planning deficiencies as lack of specific program objectives, unclear priorities, and inadequate needs and resource assessment raises serious questions about ARC's flexible approach to regional planning. What is particularly disturbing is ARC's failure to adequately deal with a problem whose extent and duration have been documented since 1971 by both internal assessments and outside evaluations.

Previous studies show the problem is not new

Despite numerous references to the many positive contributions Appalachian program planning has accomplished, several evaluations and assessments we examined commented on State planning deficiencies as an area needing improvement. The following five examples are representative of such evaluations.

A 1971 ARC staff analysis concluded that most of the Appalachian States--after 6 years of program operation--needed more specific guidance than the 1966 Appalachian Regional Commission Code. The analysis stated that a few States had developed an effective planning process; about half had what might best be called a weak planning effort; and a few States had a negative or uncomprehending attitude toward development planning--they tended to view the plan as "a nuisance type requirement which unfortunately comes along with most programs involving Federal funds." The analysis recommended adopting (1) guidelines which "if used by the States, would also enable ARC to better carry out its mandate of developing regionally comprehensive and coordinated plans and programs" and (2) the following specific wording as ARC planning policy:

> "Comprehensiveness and coordination for the entire Appalachian Region can only be achieved if each state meets its responsibilities fully and follows a common set of guidelines."

We found no indication that ARC ever adopted such wording or issued the suggested guidelines for State planners except a revised 1971 manual dealing with project applications.

Between 1971-74, three separate evaluations commented on the gap between ARC's stated commitment to comprehensive planning and its slowness in achieving a comparable commitment from individual States:

downplay ARC and Kentucky efforts to promote regional projects or those service and demonstration benefits those projects provided. Rather, our observations are meant to reinforce ARC's official position that Appalachian State plans should systematically reflect unmet local needs. The inconsistency with which Kentucky, Pennsylvania, and South Carolina documented inadequate housing and medically underserved areas and Pennsylvania district staff comments about lack of influence on Federal and State program priorities show continuing difficulties ARC must confront if it is to develop a meaningful regional development plan.

Inadequate guidelines permit deficiencies to continue

The Appalachian program continues to operate without adequate detailed guidelines for State planners. ARC's reluctance to achieve more consistency in State planning through its guidelines have produced the following negative effects:

--Inefficient use of ARC and State staff resources--time, money, and technical expertise--because State planners inadequately respond to or ignore ARC staff suggestions for improvements needed in State plans.

--Basic deficiencies (for example, lack of specific objectives, clear priorities, and incomplete analysis of needs and resources) continue unresolved year after year.

--Questionable State commitment to the Appalachian Act and ARC policy requirements for continuing improvement in State plans.

--Inadequate assurance that ARC Federal planning funds are being most effectively used.

--Ultimate weakening of ARC's ability to prepare an overall regional development plan from 13 separate State plans.

Previous ARC corrective action, such as staff technical assistance and State management assistance grants, has been only partially successful. Appalachian State plans are occasionally still so inadequate that ARC sends a task force of its staff to help rewrite major portions of State plans in order to develop a plan acceptable to ARC. Although ARC internal evaluations and other external studies have pointed

--Pennsylvania addressed the relationship between ARC health program planning for underserved areas and other Federal efforts, such as the Department of Health, Education, and Welfare's (HEW's) Rural Health Initiative and Health Underserved Rural Areas programs, while Kentucky and South Carolina did not.

--South Carolina provided current detailed information on health manpower availability (number of primary care physicians, dentists, historical and projected rates of graduates from medical training programs, etc.), while Kentucky used 1972 data. Pennsylvania submitted some data from all seven of its districts, but the data was inconsistent from district to district.

--South Carolina's plan, while clearly the most comprehensive of the three, did not indicate any more priority for medically underserved areas than for any of the other health problems. Kentucky's plan also failed to indicate relative priority of need. Pennsylvania limited its health plan to medically underserved areas, and excluded other health problems.

Finally, two examples from Kentucky and Pennsylvania show the importance of linking district planning and needs assessment with State planning. Although both States were trying to achieve more systematic input from districts when preparing their Appalachian State plans, these examples show the negative effects when unmet local needs are not reflected in State plans.

In Pennsylvania, EDCNP's first areawide action plan indicated the district has had difficulty in coordinating its planning with State and Federal program planning. Prior to current efforts by the Office of State Planning and Development, Pennsylvania's planning process did not provide for the district's needs to be considered by State Planning and Development in developing its policy recommendations to the Governor or by State agencies in developing their categorical plans and programs. In addition, various State plans were never consolidated into an overall development plan. Comprehensive planning at the local level had little influence on program funding levels, project selection criteria, or the creation of new programs.

At the completion of our review, Pennsylvania was designing a statewide economic development planning process which would rely in part on local development districts to

--Overreliance on ARC funds and failure to adequately plan for other sources of funding--a situation which occurred with ARC's child development program in 1976--can lead to pressure for continued Federal support, thus promoting dependency rather than self-sufficiency.

ARC internal assessments, ARC staff, and the Federal Cochairman have stressed the need for States to better document how ARC planning is linked with other planning. An ARC task force observed the following in 1974: "If the plan does not reformulate a comprehensive attack on the Region's problems but only what ARC investments can contribute to a solution, it is not complete." We noted, however, that ARC staff criticized a majority of 1977 Appalachian State plans (see p. 16) for deficiencies in documenting how ARC program planning was being integrated with other State agency planning. ARC's former Federal Cochairman also cautioned the Appalachian States during a March 1977 meeting to decide language for ARC planning policy. He stated:

> "The whole idea, it seems to me, of the Appalachian effort, most particularly its planning effort, is to put a governor in a position where he takes an overall view of the federal and state and local capacity to deal with the problems that he identifies as being deterrents to Appalachian development.
>
> "It is true that our funds are very limited in comparison to the magnitude of need, but presumably those who drafted our Act felt that there was considerable public interest in identifying those needs, hoping that not only in the judicious use of ARC money as seed funds, but in addition, that the planning exercise would suggest to the chief elective officials of the state other sources of state and local funding that might be applied to tackle problems which couldn't be reached with ARC funds.
>
> "So, for all those reasons, I think that we have got to be careful to come up with a planning code that remains comprehensive * * *."

Despite this expressed concern, Kentucky, Pennsylvania, and South Carolina Appalachian State plans provided little quantitative data to indicate projected levels of total Federal, State, and local government spending, either by program area or by specific location. At the district level, because ARC's areawide action program was so new, we could not determine if other Federal and State funds would be forthcoming to carry out those plans.

Regardless of what procedures districts use to set priorities, all three district planning staffs stated that two constraints outside of ARC's control--the availability of other Federal funds and district need to remain responsive to local government's desire to maximize Federal dollars--will always limit the setting of priorities and the comprehensiveness of district planning. District planners have learned that it is the ability to justify individual programs and projects--not the comprehensiveness of the planning process or document--which controls the flow of ARC funds. The importance of a comprehensive plan becomes secondary to the most commonly perceived need--to keep available ARC and other Federal funds flowing into the district.

According to some district officials, a district's credibility as a useful organization to local government depends in part on its ability to help deliver the Federal dollar. Consequently, practical considerations, such as technical assistance to local government and simple grantsmanship (finding Federal funds to carry out desired projects), often take precedence over more theoretical comprehensive planning exercises encouraged by Federal programs including ARC.

Kentucky River District staff told us, for example, that they view their role more as one of helping local officials get what they want rather than influencing decisions on what they need. One of the EDCNP's specific areawide action program goals was "continuation and expansion of the Council's grantsmanship role to encourage the appropriate funding of projects, programs, and services."

In commenting on the influence other Federal programs have on district priority setting, an EDCNP official said that ARC project selection is heavily influenced by the availability of other Federal program funds. Since both ARC and State policy require some financial commitment from a Federal agency before a project will be considered for ARC funding, it often becomes the availability of the Federal dollar, rather than the community's need for the project, which dictates project selection.

An EDCNP official stated, for example, that it is in the interests of local communities to use their limited funds as matching money to meet Federal or State program requirements in order to maximize funding from all sources. Consequently, regardless of the types of projects which communities may desire, they will generally select those for which they can get other State and Federal funds over those for which no program exists and which they must finance out of local funds.

Schedule of Major Deficiencies
Noted by ARC Staff Regarding
Fiscal Year 1977 Appalachian State Plans

State	Inadequate goal statements	Goals not quantified/ prioritized	Inadequate needs analysis or needs assessment	Inadequate response to prior year's ARC staff suggestions	Lack of code complianc
Alabama	X	X	X		
Georgia		X	X		
Kentucky	X		X	X	
Maryland		X	X	X	X
Mississippi	X	X	X		
New York	X	X	X		
North Carolina	X	X	X	X	X
Ohio	X	X	X	X	X
Pennsylvania	X	X	X	X	X
South Carolina	X	X	X		
Tennessee	X		X		X
Virginia	X		X	X	
West Virginia		X	X		
Total	10	10	13	6	5

a plan, State and district plans are often "force fitted" to available Federal funds and previously selected projects or program areas which the Governor, State planners, or local government officials want funded. If the "fit" is weak, then the State revises its plan accordingly, often at the suggestion of ARC staff who review the plan and point out inconsistencies between projects submitted for funding and the annual State plan.

Two program areas--housing and education--illustrate the situation of States not addressing common problems or addressing them only to a minor degree. North Carolina did not even mention housing problems in its 1977 Appalachian plan, and Tennessee relegated this problem to a "minor investment" status, even though both States had a greater percentage of deficient housing than either national or Appalachian averages, according to ARC's "Appalachia - A Reference Book" (June 1977).

While all 13 States did mention various aspects of education as a development problem, 4 States, including Kentucky and Pennsylvania, essentially addressed only vocational education in their 1977 plans, even though 1975 amendments to the Appalachian Act as well as ARC education planning policy authorize a wide range of education demonstration programs.

We noted that in five out of six cases ARC staff also brought this incompleteness in housing and education planning to the appropriate States' attention when staff reviewed the plans. Kentucky, although complimented on its expanded efforts in housing, was criticized for its one-dimensional emphasis on vocational education. Staff stated:

> "In short, Eastern Kentucky is faced with a serious vacuum in the area of educational planning and programming, not to mention the absence of suitable vehicles for the delivery of multi-county educational services that could be supported under Section 211(b) of the 1975 Amendments."

Our comments about incomplete State planning for housing and education are not meant to downplay either ARC's substantial investments in vocational education during its first decade or its innovative approach in helping States address the problem of inadequate low and moderate income housing throughout the region. Rather, they are intended to illustrate that after 12 years of ARC support, State plans are still often incomplete rather than comprehensive.

In addition, considerable inconsistency exists in State planning because ARC has not issued adequate detailed written guidelines. Even when States do prepare plans addressing a common regional problem, such as inadequate health care or education, these plans often do not contain adequate goal statements, set priorities, analyze or assess unmet needs, or show how Appalachian program planning is linked to other State planning, as the Congress and ARC require. Pages 24 and 25 discuss how the absence of adequate detailed written guidelines for State planners permits recurring deficiencies to go unresolved.

Flexible policy leads to incomplete State and district planning

Our review of ARC, State, and district planning activities found that ARC's flexible planning approach leads to incomplete rather than comprehensive planning which the Appalachian Act requires. Appalachian State and district planning falls short of being comprehensive because:

--Some problem categories impeding development are either not addressed at all or are addressed to only a minor degree.

--Planning documents do not (1) clearly state goals and objectives, (2) adequately assess and describe the unmet needs upon which such objectives are based, and (3) clearly establish priorities within each problem category and among the various categories.

--Other Federal, State, and local resources which could be applied to the problem are ignored or not mentioned.

--Unmet needs at the local level are not systematically brought to the State's attention or reflected in the State's plan; that is, planning is not integrated.

ARC rejected its 1976 staff proposal for a planning policy which would have required each Appalachian State to prepare an annual development plan addressing the following program areas: (1) economic development, (2) transportation, (3) community development, (4) housing, (5) health, (6) education, (7) child development, and (8) environment and resources. Instead, it adopted a generalized planning policy in 1977, requiring State plans to identify " * * * which problems and program areas * * * will receive the greatest demonstrate that joint Federal-State-local planning is more effective than planning which does not include all three levels of government.

Constraints. Four major external constraints limit the comprehensiveness of ARC's planning. First, some communities; units of government; and planning officials at local, State, and Federal levels resist regionalism, viewing it as a threat to individual prerogatives. Second, a continuous turnover of Governors and planning staffs limits continuity in State planning and weakens the link between local areawide planning and multistate planning. Third, substate areawide planners are confronted with a variety of inconsistent Federal policies, laws, and regulations governing areawide planning requirements, a problem discussed in our previous report to the Congress. 1/ Fourth, ARC controls a very small amount of all Federal, State, and local resources spent each year in Appalachia. For example, recent ARC annual appropriations of approximately $300 million contrast sharply with $22 billion in total Federal outlays in the region (fiscal year 1975) and Appalachian State budgets of several billion dollars annually.

To determine ARC's effectiveness in light of these factors, we examined its planning policy and guidelines. The rest of this chapter discusses our finding that ARC's planning policy--the first step in a systematic process--is a barrier against comprehensiveness. Chapters 3 through 6 discuss resulting problems at each successive step of the process.

ARC'S BASIC PLANNING POLICY AND INADEQUATE GUIDELINES IMPEDE COMPREHENSIVE PLANNING

ARC's planning policy impedes comprehensive regional development planning. Rather than require all States to prepare comprehensive plans addressing similar problems, ARC allows individual States to select which problems to address and which to omit. Because Appalachian State development plans are the critical link between district areawide planning and multistate planning, this discretion in State planning leaves a gap in the Federal-State-local approach which ARC is demonstrating. Further, it limits the comprehensiveness of the overall regional development plan to which the 1975 Regional Development Act refers.

1/"Federally Assisted Areawide Planning: Need to Simplify Policies and Practices," (GGD-77-24, Mar. 28, 1977).

CHAPTER 2

ARC SHOULD REVISE ITS PLANNING POLICY AND IMPROVE ITS GUIDELINES FOR STATE AND DISTRICT PLANNING

> "In carrying out the purposes of this Act, the Commission shall develop, on a continuing basis, comprehensive and coordinated plans and programs and establish priorities thereunder * * * 1/

> "Pursuant to policies established by the Commission, each State member shall submit * * * a development plan for the area of the State within the region. The State development plan shall reflect the goals, objectives, and priorities identified in the regional development plan * * *." 2/

ARC has helped Appalachian States and substate districts improve their planning capabilities, thus contributing to ARC's objective of developing a coordinated regional planning process. For example, in pursuing the objectives of regional, social, and economic development, ARC uses a Federal-State-local decisionmaking process and generally follows a concentrated investment "growth center" approach to maximize benefits to the region. ARC has successfully established a network of 69 local development districts (LDDs) as a mechanism for planning and executing ARC programs at the local level. These LDDs assist the States in establishing strategies and priorities intended to accomplish ARC objectives.

However, the comprehensiveness of ARC's planning process is incomplete at the multistate level because ARC's policy does not require States to address economic and social problems consistently when preparing their plans. Also, existing guidelines contained in the ARC Code for State and substate planners are inadequate. Revising its planning policy and improving its guidelines will bring ARC closer to the comprehensiveness which the Appalachian Act requires and make its regional development planning more effective without significantly reducing the flexibility which ARC, States, and districts consider to be a major strength of its approach.

1/40 U.S.C. app. 102(a) (1) (1975).

2/40 U.S.C. app. 225(a) (1975).

fiscal year 1983, completion of the Appalachian Development Highway by 1986, and creation of sufficiently funded regional commissions throughout the Nation. One estimate of the cost of such a nationwide system indicated the need for additional Federal appropriations ranging between $1.5 and $2 billion annually. The fiscal implications of such a proposal are significant.

EXECUTIVE AND LEGISLATIVE INTEREST PROMPTS GAO TO REVIEW ARC'S NONHIGHWAY PROGRAMS

The President and the Congress have shown great interest in the effectiveness of existing national economic and regional development programs. The Congress held hearings in 1974 to discuss the feasibility of a national balanced growth and development policy, unifying themes from prior legislation calling for national urban and rural development policies. 1/ The Congress authorized continuation of all regional commissions through fiscal year 1979 by passing the Regional Development Act of 1975 and the Public Works and Economic Development Act amendments of 1976. The President undertook a review of current program effectiveness in coping with regional growth and decline and convened in January 1978 a White House Conference on Balanced National Growth and Economic Development, as the Congress requested.

Such concerns prompted us to review ARC's nonhighway programs in light of three fundamental questions:

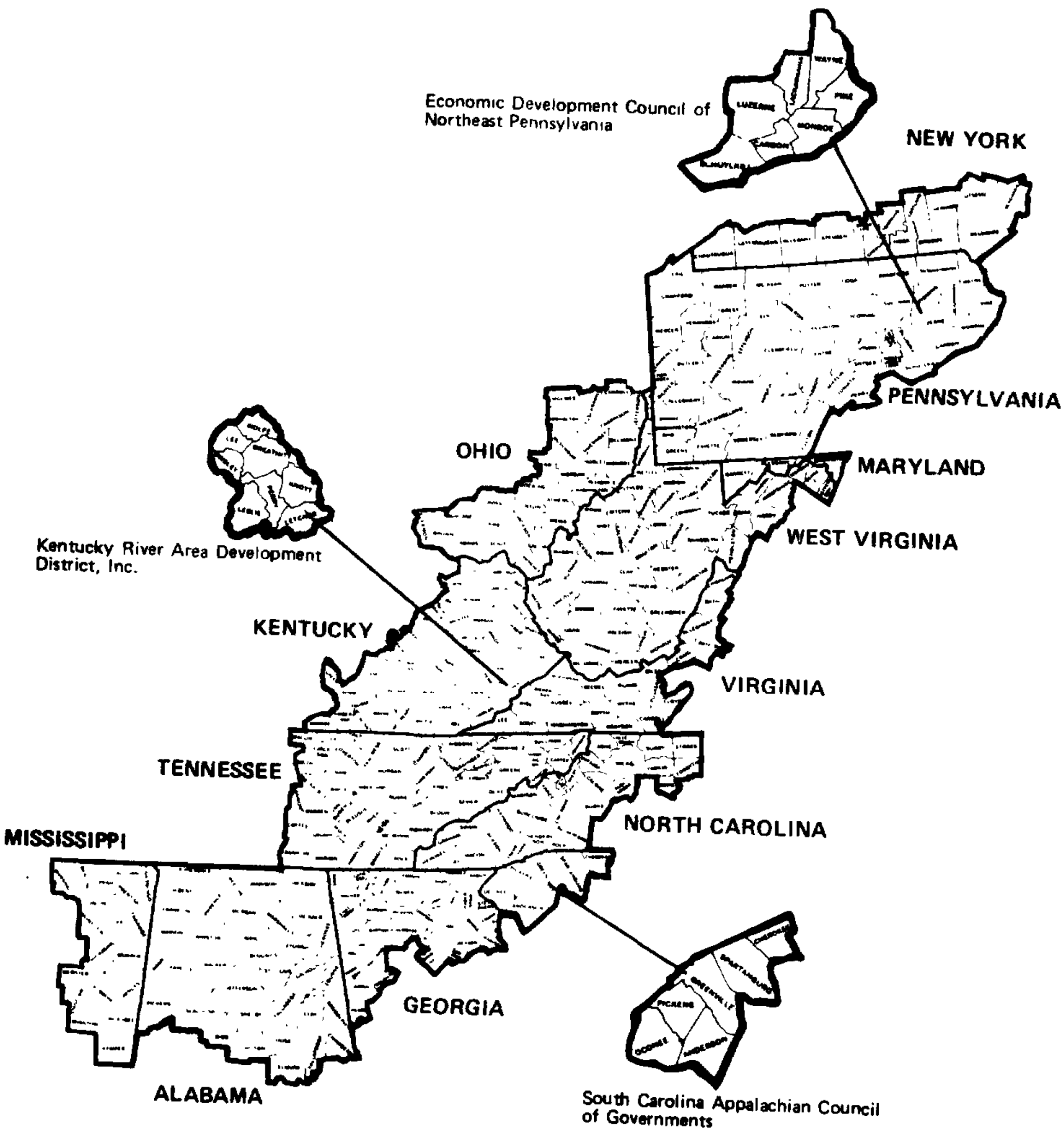
--Is this Federal-State-local mechanism effective in accomplishing national objectives?

--How much longer is a program of development assistance needed in the Appalachian region?

--How might the Commission's potential impact on national growth and development policies be improved?

1/Public Law 91-609, "Urban Growth and New Community Development Act of 1970;" Public Law 92-419, "Rural Development Act of 1972."

APPALACHIA



Economic Development Council of Northeast Pennsylvania
NEW YORK
PENNSYLVANIA
OHIO
MARYLAND
WEST VIRGINIA
Kentucky River Area Development District, Inc.
KENTUCKY
VIRGINIA
TENNESSEE
NORTH CAROLINA
MISSISSIPPI
GEORGIA
ALABAMA
South Carolina Appalachian Council of Governments

Between 1935-65, a combination of regional and national factors had produced a situation which the Federal Government decided the Appalachian State and local governments could not solve. Cultural isolation, dispersed rural population patterns, limited access to and through many parts of the region, decline in national and international demand for coal, new mechanized mining techniques, environmental devastation from certain types of forestry and mining practices, and inadequate alternative employment opportunities contributed to the problem.

Before 1965, many parts of Appalachia experienced economic imbalances and cycles of "booms and busts." National demand for the region's natural resources, for a variety of reasons, was not accompanied by a comparable return investment in the region's human resources. Overemphasis on a natural resource based economy for 40 years--timber between 1890 and 1930, and coal between 1900-30--created economic and social hardship during the following decades.

Appalachians, confronted with massive unemployment, had few alternatives: they could remain in the region and attempt to compete for the few available jobs, subsisting if necessary at lower levels of economic well-being and relying on Federal, State, and local relief efforts; or they could seek jobs outside the region. Many chose the latter. Over 4 million people left Appalachia between 1940-70. Many were between the ages of 18 and 64--the region's actual or potential work force.

With Appalachia's work force went much of its potential tax base. Those too young or too old to leave the region as well as those who chose to remain were confronted with growing distress. A weakened tax base meant less State and local funds to maintain or provide amenities such as adequate school systems and health care facilities.

Individual and collective efforts at local self-help, most notably in Appalachian Kentucky in 1957 and Appalachian Georgia in 1959, even when coupled with private sector efforts, such as the United Mine Workers' construction of 10 hospitals in the coalfields of Central Appalachia in the mid-1950s, could not cope with the magnitude of the region's problems.

In 1960, 10 Appalachian State Governors or State representatives convened to formulate long-term solutions to the region's problems. After studying those problems, pledging continued State and local support, and preparing a general plan of action to address the problems, they persuaded

ABBREVIATIONS

AAP	Areawide Action Program
ARC	Appalachian Regional Commission
EDCNP	Economic Development Council of Northeastern Pennsylvania
FAA	Federal Aviation Administration
HEW	Health, Education, and Welfare
HUD	Housing and Urban Development
KRADD	Kentucky River Area Development District, Inc.
OMB	Office of Management and Budget
SCACOG	South Carolina Appalachian Council of Governments

GAO's evaluation of both agencies' comments appears in chapter 7. Agency comments are included as appendixes I and II.

need. GAO also found 14 projects in 7 States for which the Commission had not recovered over $2 million.

--Federal agencies did not comply with terms of interagency agreements which require that adequate and timely project expenditure information be provided to the Commission.

The Director, Office of Management and Budget, the Federal Cochairman, and the Commission should take corrective action. (See pp. 85-90.)

STATES' RELATIVE FINANCIAL CONTRIBUTION TO NONHIGHWAY PROGRAMS HAS DECLINED

In addition to problems in planning for and distributing Federal funds, the Commission has not adequately monitored Appalachian State expenditures. In 1975 the Congress expressed concern that the Appalachian Governors not regard this program as merely another source of Federal aid. GAO noted two trends: declining State financial share of the Commission's nonhighway programs and increasing use of Commission funds to replace other unavailable Federal funds. The States' share of eligible project costs declined from an average of approximately 17 percent between 1966 and 1970 to an average of less than 10 percent between 1971 and 1975. Between 1966 and 1975, over 60 percent of the Commission's funds were not matched with any other Federal funds. In addition, by 1976 nearly 42 percent of the Commission's supplemental funds were being used to substitute for unavailable Federal funds rather than supplement available funds.

The Commission should require States to provide some fixed minimum level of State financial contribution for nonhighway programs and limit each State's nonsupplemental use of supplemental funds. The Congress should amend the Appalachian Regional Development Act to require the Commission to monitor State expenditures in both the Appalachian and non-Appalachian parts of each State and establish a more current base level of State expenditures for the act's maintenance of effort requirement. (See pp. 88-90.)

--Improved project and program evaluation efforts are not geared toward existing Commission evaluation policy and planning.

APPALACHIAN PROGRAM PLANNING IS NEITHER COMPREHENSIVE NOR CONSISTENT

The Commission's planning policy limits the comprehensiveness of its regional development planning efforts by allowing individual States to select which problems to address and which to omit. This produces gaps in the Federal-State-local approach which the Commission is demonstrating.

The Commission should amend its basic policy to require that each State plan address the same development problems. To achieve more consistency and better integration of substate, State, and multistate planning, the Commission should also develop and adopt additional written guidelines for State and district planners. (See p. 30.)

SOME GEOGRAPHIC AREAS MAY NO LONGER NEED SPECIAL ASSISTANCE

In 1965 and again in 1975, the Congress stated that it expects to terminate the Appalachian program when the Appalachian Regional Development Act's ultimate objective--eliminating the need for separate Federal aid--has been accomplished. Two of the six problems which justified the need for this special program in 1965--extensive out-migration of the region's work force and very high unemployment rates compared to the Nation--no longer characterize most of Appalachia.

While some metropolitan and urban areas within the region may have achieved self-sustaining rates of growth, other areas, particularly the rural counties of Central Appalachia, continue to experience serious problems of substandard housing, low income and education levels, high degrees of poverty, and other disadvantages against becoming self-sufficient without sustained Federal aid for years or even decades. (See p. 45.)