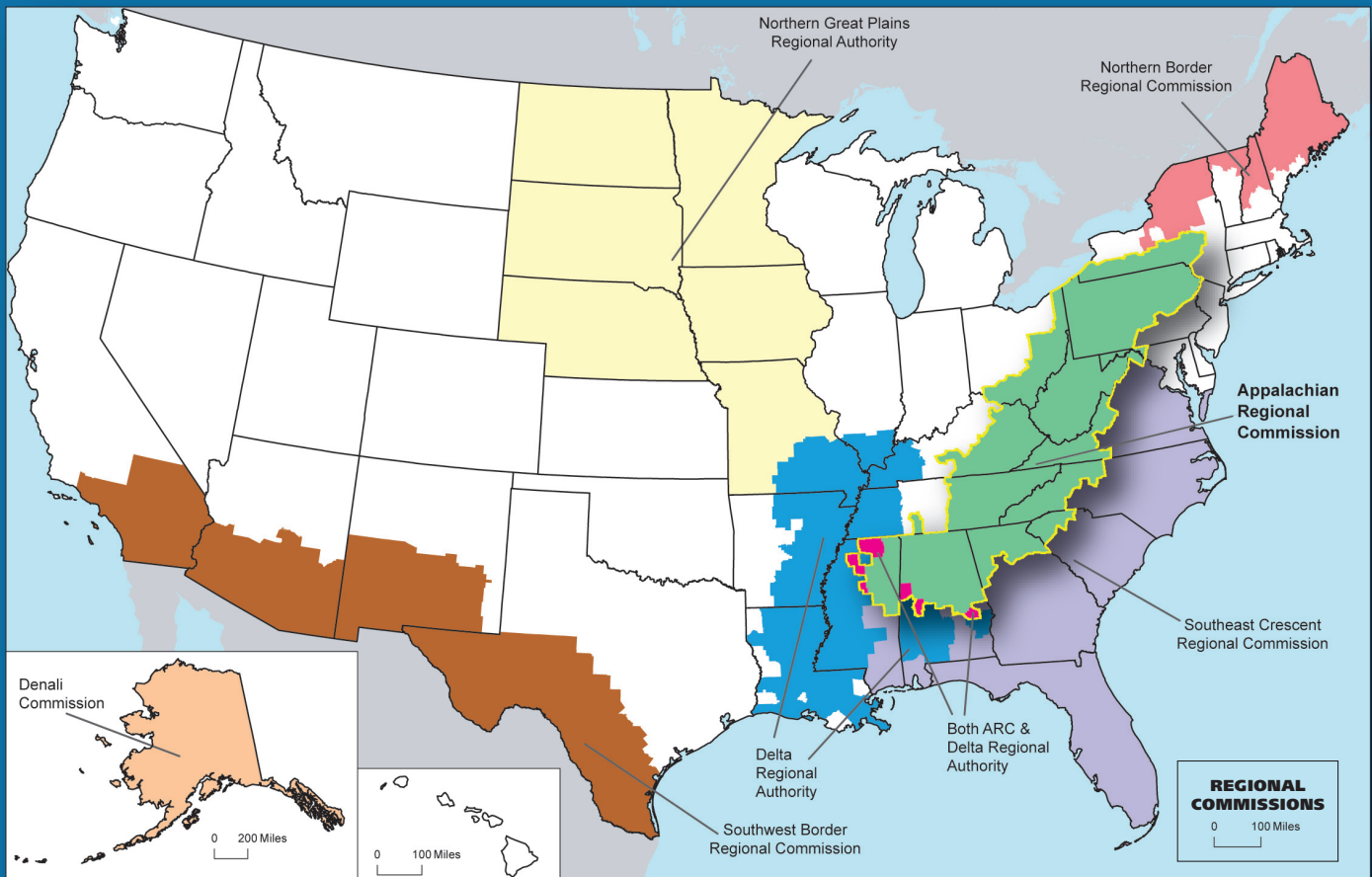




INSPECTOR GENERAL'S SEMIANNUAL REPORT TO CONGRESS

Appalachian Regional Commission

April 1, 2010–September 30, 2010





APPALACHIAN
REGIONAL
COMMISSION

*A Proud Past,
A New Vision*

Office of Inspector General

October 2010

MEMORANDUM FOR THE FEDERAL CO-CHAIR

SUBJECT: Semiannual Report to Congress

In accordance with the requirements of the Inspector General Act Amendments of 1988, Public Law 100-504, the Inspector General Reform Act of 2008, Public Law 110-409, and the Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203. I am pleased to submit the Office of Inspector General Semiannual Report to Congress.

This Semiannual Report to Congress summarizes the activities of our office for the 6-month period ending September 30, 2010. During this fiscal year, we issued six reports. Four other reports are soon to be issued in draft. During this period, the Inspector General and staff continued to serve as representative on the Council of the Inspectors General on Integrity & Efficiency (CIGIE), the Federal Audit Executive Committee (FAEC), and the various Intergovernmental Audit Forums covering our jurisdictional region.

The Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988, provides that this report be forward to appropriate Congressional committees within 30 days and that you provide whatever additional comments you consider appropriate.

I appreciate the Commission's and your cooperation with the Office of Inspector General in the conduct of our operations.

A handwritten signature in black ink, appearing to read 'C/H Jennings', written in a cursive style.

Clifford H. Jennings
Inspector General

Enclosure

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EXECUTIVE SUMMARY

ARC grant operations represent the most significant part of ARC's programs. In prior reporting periods, we issued two reports on grant operations. Most of the recommendations are still open and being implemented. For this reporting period, in addition to the normal review activities, the Office of Inspector General (OIG) was involved in ARC's financial statement auditor selection process, providing information for the development of the audit proposal request and impaneled to serve on the auditor selection committee. Our normal activities this period include: the issuance of an inspection report, providing oversight for four performance audits, and monitoring the activity of two financial statement audits. One performance audit was issued in draft but suspended pending further work.

The last financial statement audit report was issued without disclaimer or qualification; it was the first time ARC received a clean audit opinion since adopting federal financial reporting rules in 2007. However, the report was still over 6 months late and additional efforts are still needed to meet OMB's reporting deadline. The major issues in completing the audit timely stem from difficulties getting timely and accurate financial information from child agencies, preparing the Statement of Financing footnote disclosure, and ensuring the accuracy of accounting records, especially the accuracy of the budgetary accounts.

The inspection report we issued focused mainly on construction grants and their compliance with ARC's own requirements. The concerns were that ARC remain in compliance with its own Code, and that it properly discloses the appropriate oversight agency when more than one agency is involved. Subsequently, the Code was revised to address the compliance issue and we plan to review the new procedures for naming of an oversight agency.

Our contract audits of a West Virginia grantee were discussed in the previous semiannual. Management has since taken final action, which included notification of ARC's grantee population concerning the use of budgetary versus actual information when preparing reports. This notification addressed one of the major record-keeping issues identified in the audit reports that contributed to the 15 recommendations, including many for return of funds. However, management elected to forego enforcement (our recommendation) of the grant requirements, i.e., the return of funds, and stated, in general, that the overall goals of the grant had been met. However, we believe had funds been expended as approved, the impact of the project could have been greater, and we plan to continue monitoring management decisions concerning enforcement of grant requirements. Because management has taken final action, we have closed these recommendations.

Also, during the last semiannual reporting period, the OIG instituted a recommendation tracking system for our use and for the use of management. The system provides:

- View access for all previously issued recommendations, both open and closed.
- An implementation status field for management updates (used by OIG to facilitate review activities and the closing of recommendations).
- An OIG response field/final management action field, which is used to communicate OIG views of management's implementation activities or to record management's final action.

During the reporting period, the IG served on the Council of the Inspectors General on Integrity & Efficiency (CIGIE). The OIG reviewed legislation that affects the OIG as well as the entire IG community.

PURPOSE AND REQUIREMENTS OF THE OFFICE OF INSPECTOR GENERAL SEMIANNUAL REPORT

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

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

Reporting Requirements

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

Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	Pages 7-8
Section 5(a)(14)	Results of recent peer review	Page 8
Section 5(a)(15)	Outstanding recommendations from any peer review	*
Section 5(a)(16)	List of peer reviews conducted and any outstanding recommendations	Page 8
Section 5(b)(3)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use and summary of management actions	App D
*	None.	
**	See references to Sections 5(a)(1) and 5(a)(2) for discussion of significant reports (including recommendations).	

I. INTRODUCTION

The Inspector General Act Amendments of 1988 (Pub. L. No. 100-504) provides for the establishment of an Office of Inspector General (OIG) at 30 designated Federal entities, including the ARC. The ARC OIG became operational on October 1, 1989, with the appointment of an IG and provision of budgetary authority for contracted audit and/or investigation activities.

II. BACKGROUND

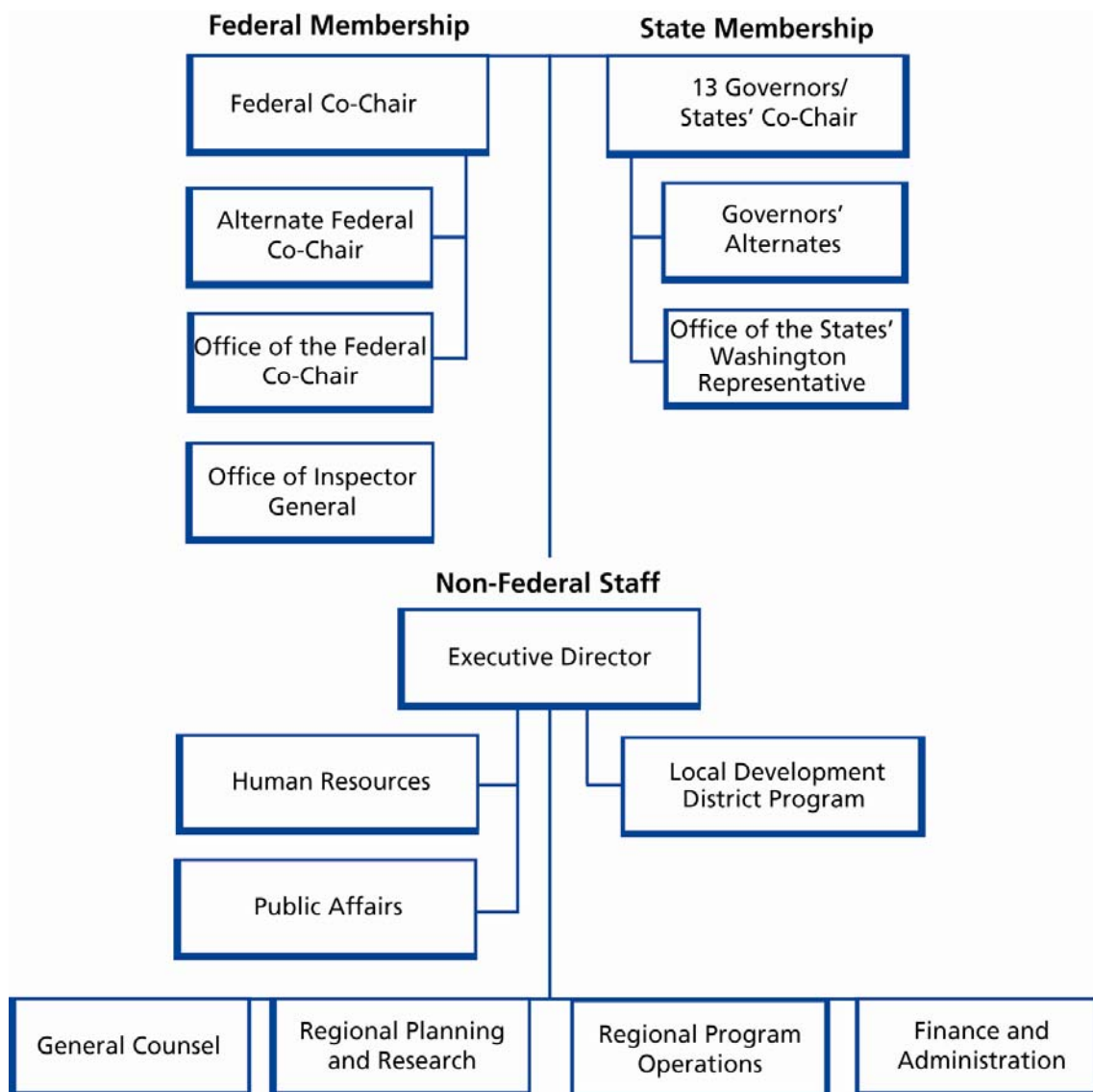
A. APPALACHIAN REGIONAL COMMISSION

The Appalachian Regional Development Act of 1965 (Pub.L. No. 89-4) established the Appalachian Regional Commission. The Act authorizes a Federal/State partnership designed to promote long-term economic development on a coordinated regional basis in the 13 Appalachian States. The Commission represents a unique experiment in partnership among the Federal, State, and local levels of Government and between the public and private sectors. It is composed of the Governors of the 13 Appalachian States and a Federal representative who is appointed by the President. The Federal representative serves as the Federal Co-Chair with the Governors electing one of their numbers to serve as the States' Co-Chair.

- Through joint planning and development of regional priorities, ARC funds are used to assist and encourage other public and private resources to address Appalachia's unique needs. Program direction and policy are established by the Commission (ARC Code) with the vote of a majority of the State members and the affirmative vote of the Federal Co-Chair. Emphasis has been placed on highways, infrastructure development, business enterprise, energy, and human resources programs.
- Administratively, the Office of the Federal Co-Chair, with a staff of 7, and the Commission, with a staff of 46, is responsible for ARC operations. The Office of Inspector General has a staff of 3. All personnel are located in Washington, DC. The Commission staff's administrative expenses, including salaries, are funded jointly by Federal and State funds. The Federal Office staff is funded entirely from Federal funds.
- The Commission's appropriation for FY 2010 is \$76 million. ARC was reauthorized in October 2008. In addition, in March 2010 the Highway Trust Fund, under Section 1101 of the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) received short-term funding through the end of Fiscal Year 2010. The funding provides for construction of the Appalachian Development Highway System which is under ARC's programmatic jurisdiction; provided for under Section 201 of the 1965 Appalachian Regional Development Act.
- ARC's non-ADHS funds are distributed to state and local entities in accordance with an allocation formula intended to provide fair and reasonable distribution of available resources. ARC staff has responsibilities for program development, policy analysis and review, grant development, technical assistance to States, and management and oversight.

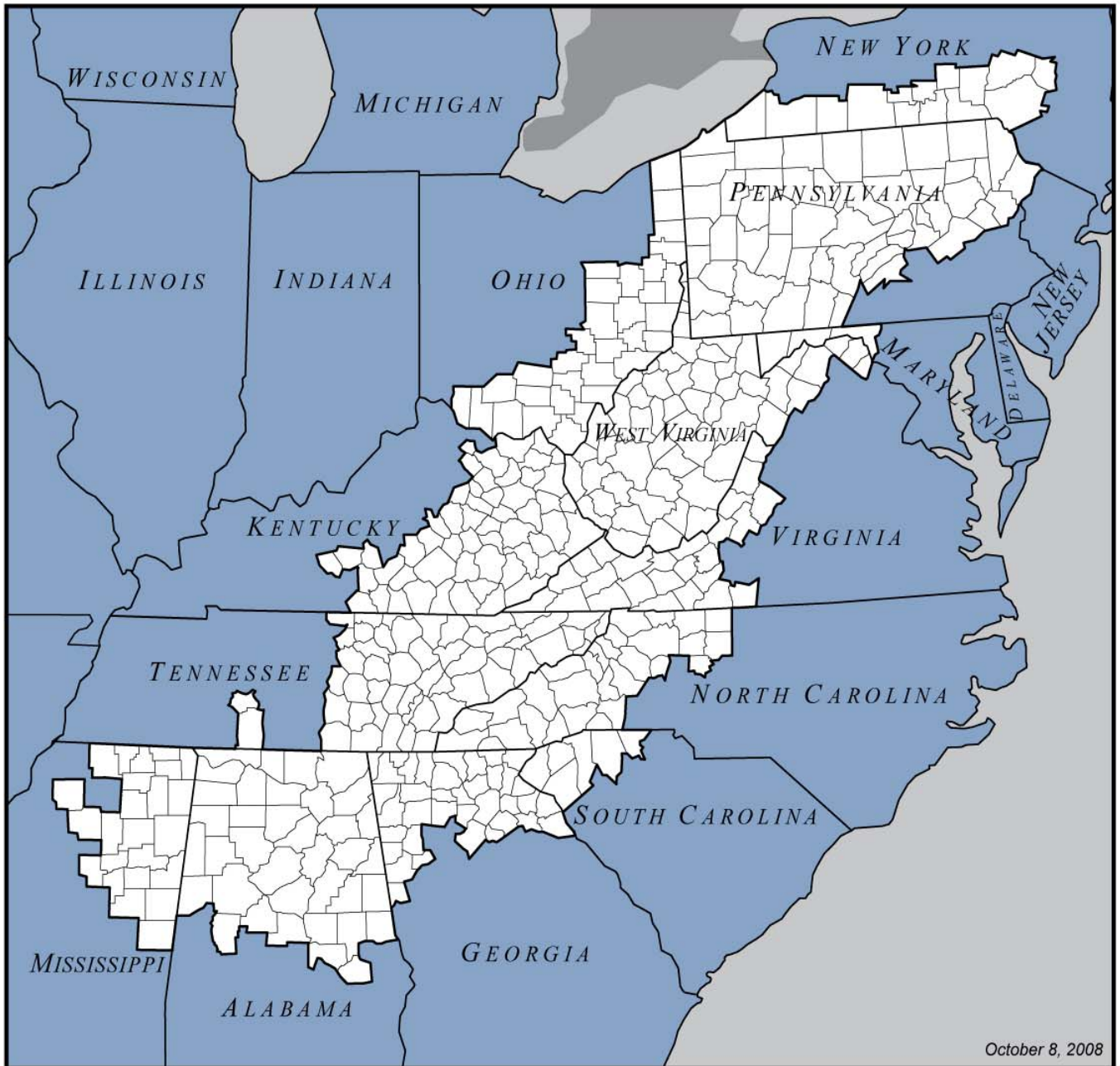
- In order to avail itself of federal agency expertise and administrative capability in certain areas, ARC often relies on other departments and agencies for program administration, especially with respect to highways and infrastructure projects. For example, the Appalachian Regional Development Act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

ARC ORGANIZATION CHART





APPALACHIAN REGION

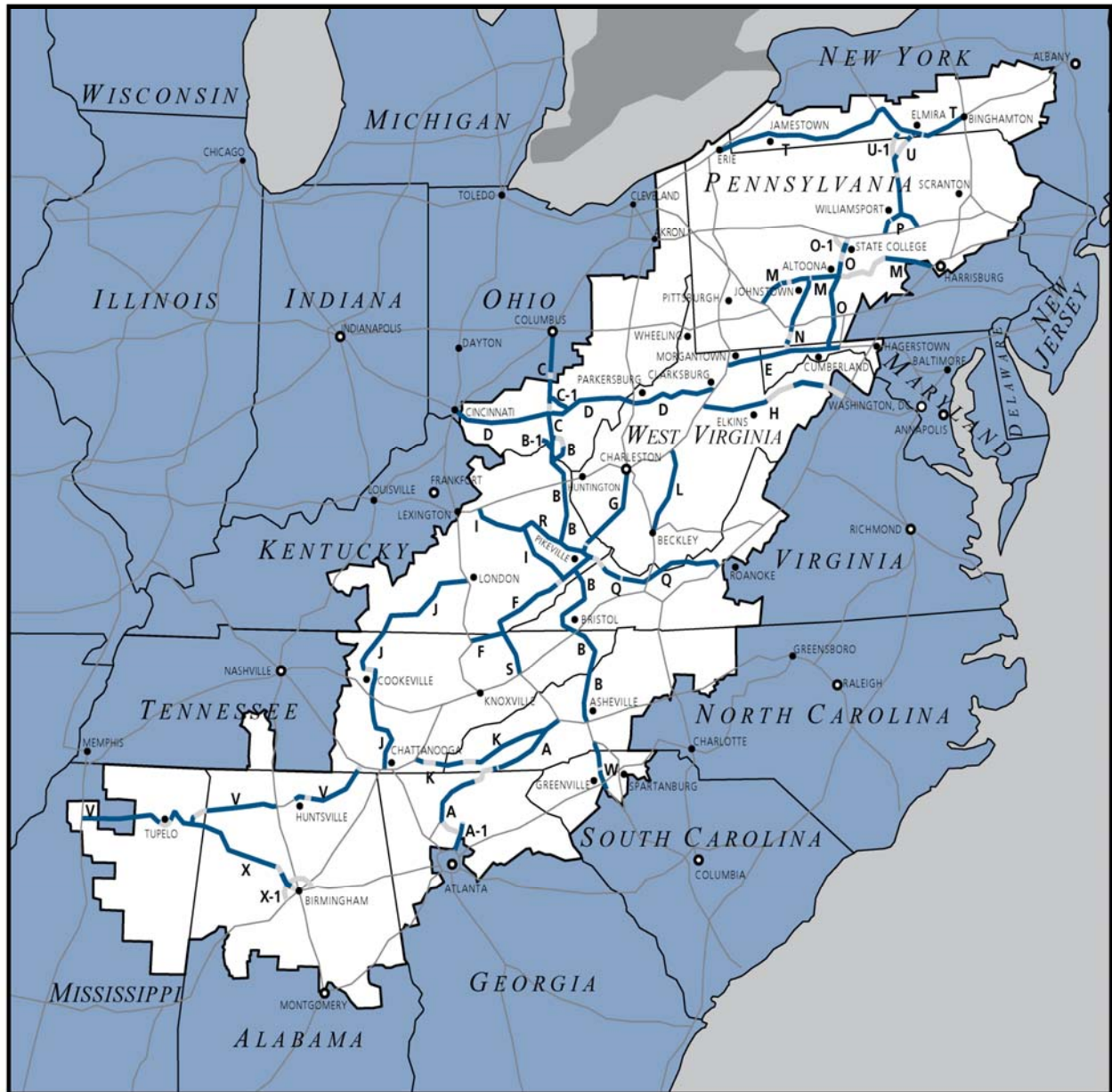





Appalachia, as defined in the legislation from which the Appalachian Regional Commission derives its authority, is a 205,000-square-mile region that follows the spine of the Appalachian Mountains from southern New York to northern Mississippi. It includes all of West Virginia and parts of 12 other states: Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia.



APPALACHIAN DEVELOPMENT HIGHWAY SYSTEM

September 30, 2009



-  ADHS Miles Open to Traffic—
September 30, 2009
-  ADHS Miles Not Open to Traffic
-  Interstate Highway System

B. OFFICE OF INSPECTOR GENERAL

The ARC OIG is an independent audit and investigative unit. An independent Inspector General who reports directly to the Federal Co-Chair heads the OIG.

Role and Authority

The Inspector General Act of 1978 (Pub.L. No. 95-452), as amended in 1988, states that the IG is responsible for (1) audits and investigations; (2) review of legislation; and (3) recommendation of policies for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, the program and operations of the establishment. In this regard, the IG is responsible for keeping the Federal Co-Chair and Congress fully informed about the problems and deficiencies in ARC programs and operations and the need for corrective action. The IG has authority to inquire into all ARC programs and activities that are federally funded. The inquiries may be in the form of audits, surveys, investigations, personnel security checks, or other appropriate methods. The two primary purposes of these inquiries are (1) to assist all levels of ARC management by identifying and reporting problem areas, weaknesses, or deficiencies in procedures, policies, program implementation, and employee conduct and (2) to recommend appropriate corrective actions.

Relationship to Other Principal ARC Offices

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

Funding and Staffing

The OIG funding level for FY 2010 is \$612,000. Staffing consists of the Inspector General, an Assistant Inspector General for Audit, and a confidential assistant. Grant review activities continue to emphasize use of contracted services (e.g., independent public accounting firms or other OIG offices) supplemented by programmatic and performance reviews directed by OIG staff. Investigative assistance is provided by other OIG offices on an as-needed basis through memoranda of understanding. This approach is deemed the most appropriate to date in view of the nature of ARC operations and limited resources.

In order to comply with Pub.L. No. 110-409, the Inspector General Reform Act of 2008, the OIG included funding for FY 2010 that includes reimbursement of other IGs for counsel and investigative services via Memorandums of Understanding. Future year funding requests will be predicated on actual experience using this method.

Because of the small size of our OIG office, we have had to rely on the resources of other OIGs to complete some program activities, and with the recent legislation enacted to form more regional commissions, we believe it incumbent upon legislators to consider consolidating regional commission OIG offices into one organization or moving regional commission OIG offices to larger agencies that already have similar agency programs. A full discussion immediately follows.

Support for Consolidation of OIG functions across Regional Commissions

In the 2008 Farm Bill, Congress created three new regional commissions, *the Southeast Crescent, the Southwest Border, and the Northern Border Regional Commissions*.¹ **Part of the bill states:**

*Appointment of Inspector General.—There shall be an Inspector General for the Commissions appointed in accordance with section 3(a) of the Inspector General Act of 1978 (5 U.S.C. App.). All of the Commissions shall be subject to a single Inspector General.*²

As can be seen on the map on the cover to this report, there are 7 regional commissions.³ As an office with only 3 FTE, there are times when more is needed. While the rest of the IG community has been more than forthcoming with assistance, there should not be a need for this. For example, in the past, we have received investigative assistance from the Department of Education OIG and from the Department of Homeland Security OIG, IT audit, technical, and investigative help. We currently have a Memorandum of Understanding with the Department of Commerce OIG to provide support. To date, the majority of this support has been in the form of legal advice and research.

Not having staff on board to cover the entire spectrum of skills needed to provide complete oversight tends to skew the work that is scheduled. While it is true that most skills can be contracted out (IT, audit, inspection), investigative work is an inherently governmental function. Additionally, there are occasions where technical assistance is needed, but the amount needed does not warrant contracting.

As can be seen on the map on the cover, there is certainly enough national coverage to warrant a full oversight capability. Our suggested approach is to put this responsibility under an agency that already has staff on board that deals with the major functions of these commissions. This would also further our independence as the reliance on the agency for support services could be transferred to the new organization.

In the Denali Commission's Semiannual report to the Congress for the first half of Fiscal Year 2010, the Inspector General recommended that the Denali Commission Office of Inspector General be included in the consolidation called for in the 2008 Farm Act. We would also support this consolidation of all regional commission OIGs into a separately functioning office or placement under another larger OIG with the appropriate and separate funding to properly oversight these regional commissions.

¹ Pub. L. No. 110-246, 122 Stat. 2231 (2008), 40 U.S.C. § 15301. The specific coverage of each commission is described at 40 U.S.C. §§ 15731-15733.

² Pub. L. No. 110-246, 122 Stat. 2242 (2008), 40 U.S.C. § 15704.

³ In addition to ARC and the three regional commissions created by the 2008 legislation, there are three other regional commissions: the Delta Regional Authority, 7 U.S.C. §§ 2009aa-2009aa-13; the Northern Great Plains Regional Authority, 7 U.S.C. §§ 2009bb-2009bb-13; and the Denali Commission, Pub. L. No. 105-277, 42 U.S.C. § 3121 note.

III. OIG ACTIVITY

A. AUDITS, INSPECTIONS, EVALUATIONS & REVIEWS

ARC grant operations represent the most significant part of ARC's programs. We previously issued two reports related to grant operations with most of the recommendations still being implemented. Below we provide a brief synopsis of the reports' findings and recommendations. During the current reporting cycle, we issued two other reports, one an inspection report of construction grants, mostly concerning management's compliance with the ARC Code, and the other, the financial statement audit report. Five other audits reports during the period were in process and four should be finalized during the next reporting cycle; one is for ARC's financial statement, three are of grantees. The audit of ARC performance metrics was suspended and will be re-started at a later time.

All issued reports can be found on the OIG website <http://www.arc.gov/oig>

Audits of ARC's Grant Operations

We completed a comprehensive review of ARC's grant management system in April 2008. The audit revealed the system had data conversion, entry and internal processing errors. Additionally, inadequate resources had been allocated to ensure timely completion of the project/system and to provide for system documentation. System access and security features were not controlled appropriately and there was only a single person knowledgeable of the system internals. Ten recommendations to address these findings resulted from the audit. The implementation and completion of the recommendations has not been as prompt as envisioned and the project continues to languish. In addition, many of the recommendations are not being implemented in the sequence suggested by the report, which in all likelihood will result in increased costs and time to complete.

A complement to the grant management system audit was an inspection which focused on ARC's grant administration and monitoring. The inspection report discussed ARC's control policies and grant monitoring processes. ARC grants made to foster economic growth and to address other concerns in the Appalachian region are primary to ARC and we placed great emphasis on providing recommendations that would improve the process. The inspection report was issued in August 2009 and made 17 recommendations. The recommendations were wide ranging but addressed: development and enforcement of policies, development of grant monitoring plans, improving supervisory oversight, training, metric reporting, documentation, file organization, tracking grantee characteristics, and controls to safeguard grant files. Many of these recommendations are to be addressed in a grant manual, which we were told has been completed in draft and would be made a priority in fiscal 2011.

For the inspection report issued this period, the focus was on construction grants and their compliance with the ARC Code and also the naming of administrative (oversight) agencies. Specifically, the Code forbid ARC from directly administering grants involving significant construction and provided only for oversight by other federal agencies. As a result of the inspection, the Code was revised by the Commission to address our compliance concern. The other issue in the report dealt with the naming of the administrative oversight agency when more than one other agency was involved with the grant. We plan on reviewing the new procedures adopted for the naming of the administrative agency.

Audits of ARC's Grantees

Our contract audits of a West Virginia grantee were discussed in the previous semiannual but management has since taken final action. In summary, four audit reports were issued to a West Virginia grantee concerning four different grants. These reports made 15 recommendations related to the findings

which concern inadequate payroll documentation, the use of estimated salary and related costs instead of actual costs, improper locations of facilities, and missing and/or late reports of activity. As a result of these findings, the auditor made recommendations to recover \$194,243 in grant funds. Management rejected the recommendations, citing, in general, the objectives of the grant had been met. We believe had the funds been expended as approved, the impact of the project could have been greater. In addition, as we observed from previous audits, more underlies these issues than simple grantee compliance, but they concern management's attitudes towards enforcement of grant requirements. In the end, management wrote ARC grantees to advise them that budget estimates were not permitted for final salary and wage reporting and that only actual cost reporting was acceptable. We approve of management's communication, but this is not the same as ensuring individual grantees live up to their grant obligations and we will continue to monitor management's decisions concerning grant requirements. Because management has taken final action, we have closed these recommendations.

In-process Audits and Inspections

We are overseeing three grantee audits and one financial statement audit. The grantee audits should be completed in the next few months. As of this writing, we are unaware of any serious issues that would impact the timely completion of the financial statement audit.

ARC Auditor Selection

The OIG assisted ARC selection of its financial statement auditor. We provided information to help prepare the solicitation for auditors' proposals and we were also empanelled to serve on the auditor selection committee.

Peer Review

Offices of Inspectors General (OIGs) performing audits are required to perform (and undergo) reviews of other OIG offices every three years to ensure policies and/or procedural systems are in place that provide reasonable assurance of compliance with government auditing standards (GAS). ARC completed a peer review of the Federal Election Commission OIG and issued a report on its system of quality controls on March 28, 2008; there were no recommendations made to the Federal Elections Commission OIG. Recently, CIGIE issued new guidance for peer reviews and we have been implementing changes to help ensure conformity with them. However, we note that the Peer Review concerns itself almost exclusively with OIG internally generated audits conducted under GAS. The ARC OIG relies on contract auditors for its GAS audits; and for its internal review work relies on CIGIE's Inspection guidelines. As a result, ARC received a deferment of its Peer Review but has been informed that a peer review will still be required. Just recently, our office was informed that a different peer review agency may need to be assigned because of the newness of the previously assigned OIG office. Our most recent peer review was completed in February 2007 by the Federal Maritime Commission OIG. Our office received an unmodified opinion on its system of audit quality control. We are currently scheduled to perform a peer review of the Election Assistance Commission in 2012.

B. INVESTIGATIONS

The Inspector General Act of 1978, as amended, provides that the IG may receive and investigate complaints or information concerning the possible existence of an activity constituting a violation of law, rules, or regulations; mismanagement; gross waste of funds; or abuse of authority. The OIG does not employ criminal investigators. When the need has arisen, the matter has been referred to the Federal Bureau of Investigation or assistance was contracted with another Federal OIG. Also, the results of investigations may be referred to the appropriate Federal, State, or local prospective authorities for action.

We previously reported on our referral of a grant fraud investigation to the Tennessee Valley Authority OIG. The matter has been referred for prosecution. We will support any prosecution or further investigative activity and report the results when the matter is resolved.

In previous reports, we reported that an investigation was opened and certain personnel actions were taken as a result of a computer security review conducted by the DHS OIG. The Federal Bureau of Investigation, after a referral from our office, recently closed its investigation into the matter. Although the investigation confirmed the initial findings, the U.S. Attorney's Office declined to pursue prosecution. ARC itself previously had taken all necessary actions resulting from the audit and subsequent investigation.

C. OTHER

Requests for Information

Each year we receive and comply with requests for information from various governmental entities compiling statistics on OIG offices or their auditee agencies. CIGIE requests information for its annual OIG profile update and compilation of OIG statistics. The yearly compilation summarizes the results of audit and inspection activities for of all federal OIG offices. Information provided concerns the dollar value of management decisions related to *questioned costs* and *funds put to better use* and OIG recommendations related to *questioned costs*. The House Committee on Oversight and Government Reform, also with some regularity, requests information concerning the number and type or status of our recommendations. Lastly, we comply with information requests from other government regulatory bodies. For example, previously GAO requested us to provide survey information on governance and the role of the inspector general. Their requests involved our office's allocation of resources and the number of open recommendations.

Appalachian Development Highway System (ADHS) Audits

Since Fiscal Year 1999, ADHS has been funded by the Highway Trust Fund, which is administered in part by the U.S. Department of Transportation (DOT). ARC retains certain programmatic responsibilities, but the funding source is the Highway Trust Fund. Our office is seeking to reach an understanding with the DOT OIG regarding audit cognizance.

Electronic Audit Workpapers

The OIG is aware of the benefits of electronic work papers for improving audit efficiency. In particular, we believe that an improved indexing, and numbering system, together with an improved supervisory review structure could be beneficial. We have recently reviewed the most common electronic workpapers in use by federal agencies. We will most likely adopt electronic work papers during FY2011.

OIG Policy Manual

The OIG policy manual has been rewritten and re-issued to reflect the many changes within the OIG and audit standards community. Further, other changes were made to reflect the new peer review guidance. Many of the manual's guidelines have already been implemented and are applicable to many types of engagements, but the guidelines were specifically written to help ensure compliance with generally accepted government auditing standards.

Implementation of OIG Reform Act

The OIG has implemented all of the requirements of Pub.L. No. 110-409, The Inspector General Reform Act of 2008. We also completed an upgrade of our website and now have the ability to receive anonymous reports of fraud, waste, and abuse.

Recommendation Tracking Database

ARC-OIG has implemented a recommendation tracking database. The design of the database and some of the customization for ARC-OIG's use was provided by another OIG for which we are appreciative. The database is also available to selected ARC personnel, who can access the database at any time. The system provides:

- View access for all previously issued recommendations, both open and closed.
- An implementation status field for management updates (used by OIG to facilitate review activities and the closing of recommendations).
- An OIG response field/final management action field, which is used to communicate OIG views of management's implementation activities or to record management's final action.

Going Green

ARC management has implemented green measures within the organization's internal operations. For example, a document scanning system has been linked to ARC's e-mail system. Management, in a written response to our draft report on ARC's grant management system stated, "We have had preliminary discussion with our state partners about the need to move to a paperless application process, and will pursue this more vigorously within this fiscal year." Reduction in paper utilization can reduce cost, improve the timeliness of management decisions through better document storage and retrieval, and helps to reduce demands on our earth's ecological systems.

Our office, in alignment with management's initiative, is committed to "going green" and we continue to work toward that end. To date, our office has made substantial strides in working with contracted auditors and issuing reports electronically.

IV. REPORTING FRAUD, WASTE, AND ABUSE

A region wide toll-free hotline was previously established to enable direct and confidential contact with the ARC OIG, in line with governmental and longstanding OIG initiatives as identified in the IG Act of 1978; to afford opportunities for identification of areas subject to fraud, waste, or abuse. Also, in accordance with the Inspector General Reform Act of 2008, the ARC OIG implemented another communication channel allowing anonymous reporting of fraud, waste or abuse via a link on our website's home page. The web link is, <http://ig.arc.gov/>. However, with respect to the telephone hotline calls, contacts with the ARC OIG relative to public complaints or concerns continue to be primarily received through ARC staff, on regular OIG phone lines, or from other OIG offices.

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

V. LEGISLATIVE AND REGULATORY REVIEW

The OIG continues to review and provide comment on legislation germane to the OIG and the OIG community. Our comments are provided to the CIGIE for incorporation with comments from all other OIGs.

Reporting to Commission

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. No.111-203) amended the Inspector General Act changing the entity head of ARC from the Federal Co-Chair to the Commission. Although the Office of Management & Budget (OMB) has not implemented these changes by publishing the 2010 Designated Federal Entities & Federal Entities List, this amendment raises serious concerns. This amendment places the Inspector General under the direct supervision of the 13 Appalachian state Governors, impinges upon OIG independence, and poses significant administrative difficulties in implementing the new reporting structure. Based on our review of the legislation, we do not believe that legislators intended to have this amendment apply to agencies, such as ARC, where the Commission is composed primarily of non-federal, non-Presidentially appointed members. As such, we intend to seek clarification from legislators and if necessary, additional amendments to the Inspector General Act.

SCHEDULE OF AUDIT, INSPECTION, EVALUATION & REVIEW REPORTS
ISSUED APRIL 1, 2010 TO SEPTEMBER 30, 2010

Report No.	Report Title/Description	Program Dollars or Contract/Grant Amount*	Questioned/Unsupported Costs**	Funds to Better Use***
10-05	Appalachian Regional Commission Financial Statements September 30, 2009 and 2008, With Independent Auditors' Report			
10-06	Inspection Report on Grant Management Compliance			
TOTALS		0	0	0

SCHEDULE OF AUDIT, INSPECTION, EVALUATION & REVIEW REPORTS
QUESTIONED OR UNSUPPORTED COSTS (\$ in thousands)

	<u>No. of Reports</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision was made by the commencement of the reporting period	0	\$ 0	\$ 0
B. Which were issued during the reporting period	0	\$ 0	\$ 0
Subtotals (A + B)	0	\$ 0	\$ 0
C. For which a management decision was made during the reporting period			
(i) dollar value of disallowed costs	0	\$ 0	\$ 0
(ii) dollar value of costs not disallowed	0	\$ 0	\$ 0
D. For which no management decision has been made by the end of the reporting period	0	\$ 0	\$ 0
E. Reports for which no management decision was made within 6 months of issuance	0	\$ 0	\$ 0

APPENDIX C

**SCHEDULE OF AUDIT, INSPECTION, EVALUATION & REVIEW REPORTS WITH
RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE AND SUMMARY OF
MANAGEMENT DECISIONS**

	<u>No. of Reports</u>	<u>Dollar Value (\$ in thousands)</u>
A. For which no management decision was made by the commencement of the reporting period	0	\$ 0
B. Which were issued during the reporting period	0	\$ 0
Subtotals (A + B)	0	\$ 0
C. For which a management decision was made during the reporting period		
(i) dollar value of recommendations that were agreed to by management		
--based on proposed management action	0	\$ 0
--based on proposed legislative action	0	\$ 0
(ii) dollar value of recommendations that were not agreed to by management	0	\$ 0
D. For which no management decision has been made by the end of the reporting period	0	\$ 0
E. Reports for which no final management decision was made within 6 months of issuance	0	\$ 0

**SCHEDULE OF AUDIT, INSPECTION, EVALUATION & REVIEW REPORTS WITH
RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE AND SUMMARY OF
MANAGEMENT ACTIONS** (\$ in thousands)

	<u>OIG Audit Reports</u>	<u>Number of Reports</u>	<u>Amounts Recommended by OIG</u>	<u>Amounts Agreed to by Management (Disallowed)</u>
A.	For which final action by management had not been taken by the commencement of the reporting period	0	\$ 0	\$ 0
B.	On which management decisions were made during the reporting period	0	\$ 0	\$ 0
C.	For which final action was taken by management during the reporting period			
(I)	Dollar value of recommendations that were actually completed	0	\$ 0	\$ 0
(ii)	the dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed	0	\$ 0	\$ 0
D.	For which no final action had been taken by the end of the reporting period	0	\$ 0	\$ 0

DEFINITIONS OF TERMS USED

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

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

**THE OFFICE OF INSPECTOR GENERAL
APPALACHIAN REGIONAL COMMISSION**

**serves American taxpayers
by investigating reports of waste, fraud, or abuse
involving Federal funds.**

**If you believe an activity is
wasteful, fraudulent, or abusive of Federal funds,
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**Office of Inspector General
Appalachian Regional Commission
1666 Connecticut Avenue, NW, Rm. 700
Washington, DC 20009-1068**

**Information can be provided anonymously.
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and anyone may have his or her identity held in confidence.**

On the Cover:

The map on the cover was produced by the Appalachian Regional Commission with assistance from the National Association of Development Organizations.

Appalachian Regional Commission

Office of Inspector General
1666 Connecticut Avenue, NW, Suite 700
Washington, DC 20009-1068

