



FEDERAL MARITIME COMMISSION

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February 20, 2007

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Mr. Clifford H. Jennings
Inspector General
Appalachian Regional Commission
1666 Connecticut Ave., NW, Suite 215
Washington, DC 20009

We have reviewed the system of quality control for the audit function of the Appalachian Regional Commission (ARC) Office of Inspector General (OIG) in effect for the year ended September 30, 2006. A system of quality control encompasses the OIG's organizational structure, and the policies adopted and procedures established to provide it with reasonable assurance of conforming to generally accepted government auditing standards (GAGAS). The elements of quality control are described in GAGAS, promulgated by the Comptroller General of the United States. The design of the system, and compliance with it in all material respects, are the responsibility of the ARC-OIG. Our objective was to determine whether the internal quality control system was adequate as designed and complied with to provide reasonable assurance that applicable auditing standards, policies and procedures were met. Our responsibility is to express an opinion on the design of the system and the OIG's compliance with the system based on our review.

Our review was conducted in accordance with the guidelines established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency, dated April 2005. In performing our review, we obtained an understanding of the system of quality control for the OIG. In addition, we tested compliance with the OIG's quality control policies and procedures to the extent we considered appropriate. These tests included the application of the OIG's policies and procedures on selected audits. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Nevertheless, we believe that the procedures we performed provide a reasonable basis for our opinion.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to risk that the system of quality control may

become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

We discussed our observations and recommendations for operational improvements with you at our exit briefing on December 20, 2006. Our scope and methodology appears as Exhibit A.

In our opinion, the audit function of the Appalachian Regional Commission's Office of Inspector General in effect for the year ended September 30, 2006, has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was complied with during the year ended to provide the OIG with reasonable assurance of conforming with applicable auditing standards, policies and procedures. Therefore, we are issuing an unmodified opinion on your system of audit quality control.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam R. Trzeciak". The signature is written in a cursive style with some loops and flourishes.

Adam R. Trzeciak
Inspector General

Peer Review Scope and Methodology

Scope and Methodology

We tested compliance with the ARC OIG’s system of quality control to the extent we considered appropriate. These tests included a review of 3 of 23 audit reports issued during the September 30, 2005 and March 31, 2006, semiannual reporting periods. In addition, we reviewed supporting documents and the audit report for the Review of Kentucky Finance and Administration Cabinet Appalachian Kentucky Entrepreneurship Initiative Project issued August 2006. This audit was selected because it was the only audit performed by the ARC auditor in the semi-annual period ending September 30, 2006; the other audits were performed by contractors.

OIG Office Reviewed

We visited and performed our review at the Appalachian Regional Commission, Office of Inspector General, located in Washington, DC, during December 19 – 20, 2006. We did not review supporting documentation at the contractor’s site at the discretion of the FMC’s IG. However, we did review ARC’s OIG monitoring of those contracts.

Audit Reports Reviewed

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
06-21	8/24/06	Review of Kentucky Finance and Administration Cabinet Appalachian Kentucky Entrepreneurship Initiative Project
06-13	3/16/06	North Central Telecommunications Regional Initiative-Wireless WAN Project
06-01	11/14/05	FY 2005 Financial Statement Audit and Accompanying Documents
05-16	6/29/05	Internal Control Review of Administrative Functions