



Office of Inspector General

Appalachian Regional Commission

Management and Performance Challenges Report

Appalachian Regional Commission

Office of Inspector General

Report Number 26-01

October 10, 2025

Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, Suite 718
Washington, D.C. 20009



Office of Inspector General

Appalachian Regional Commission

October 10, 2025

Report Number 26-01

Commissioners:

This memorandum transmits the Inspector General's summary of the top management and performance challenges facing the Commission and briefly assesses management's progress in addressing these challenges.

I have identified two management and performance challenges: (1) updating management information systems and cybersecurity, and (2) addressing risks associated with insufficient grantee internal controls. These challenges were identified based on work by the Office of Inspector General, discussions with Commission management, and knowledge of the Commission's programs and operations.

Updating Management Information Systems and Cybersecurity

In fiscal year 2026, the Commission will fully implement a new grant management system, replacing its current system known as ARCNet. The Commission has begun the initial phases of implementing the new system and now faces challenges relating to data management, training, and cybersecurity.

Management has communicated the launch phases of the new system to staff, grantees, and state partners to help prepare for a seamless transition to the new method of operation for administration and oversight of the grant process. Target dates have been established to initiate training, both internally and externally, to familiarize all parties with the new system.

The Commission is now tasked with implementing a data migration plan while also maintaining old records and ensuring ease of access during the transition. The vendor, selected by management, will help facilitate the changeover to assist in preventing a lapse in the Commission's grant management abilities related to the launch of the new platform.

The primary risks associated with the implementation of the new system include:

- Transferring operations to run through the new platform without interrupting the grant process
- Maintaining old records and continuing full accessibility
- Establishing appropriate responses to initial technical issues and complications; and
- Adequately training staff, partners, and grantees to navigate the new system.

Additionally, cybersecurity threat actors continue to be a constant presence and pose a specific danger to new applications within an organization. Cybersecurity threats are an existential risk to government organizations by specifically targeting highly sensitive financial and personal data

contained within internal databases. With the launch of a new grant management system, new policies and procedures will need to be created to address potential issues involving initial application flaws, user authentication, and data migration to ensure sensitive material is secure.

These challenges will require the Commission to carefully plan and sensibly introduce the new system while adapting its processes to ensure that the transition does not affect grant procedures or Commission operations.

Risks Associated with Insufficient Grantee Internal Controls

The absence of adequate internal policies and procedures at the grantee level presents a profound risk to effective grant management. The Uniform Guidance (2 CFR 200) mandates that recipients establish and maintain effective internal controls to ensure compliance with ARC grant awards. When these controls are either absent or insufficient, grantees lack the basic framework for conducting necessary oversight to adhere to required federal guidance. This operational gap means funds are often spent without proper segregation of duties, consistent documentation, or required pre-approvals, making it difficult to guarantee that federal funds are used solely for the authorized purpose of the award.

This breakdown in internal controls directly leads to financial non-compliance and cost disallowances. Issues arise in such areas as match funding documentation, procurement, and general accounting practices when a deficiency in proper policies and procedures is present. Without clear, documented procedures for procurement, cost allocation, and reporting, grantees frequently misclassify or inadequately support their expenses, leading to audit findings, recommendations, and corrections.

The management challenge also extends to organizational capacity and turnover. Without standardized policies, grant management knowledge resides only in the heads of a few experienced staff members. When these key individuals leave, the institutional knowledge of compliance requirements often becomes lost. The remaining staff, lacking formalized procedures and training, struggle to navigate the complexities of the Uniform Guidance, leading to chronic errors, late reporting, and a continuous cycle of compliance issues that drain management resources and divert focus from the primary goals of the grant-funded program.

The Commission has begun to take proactive steps to inform and train new grantees on the importance of establishing adequate policies and procedures to ensure quality control of ARC grant funds. The continuance of these informative sessions will help provide the necessary tools for grantees - particularly new grantees - to maintain the necessary internal controls to certify funds are accounted for properly.

I will continue to monitor the Commission's efforts to address these management challenges and will also ensure that our office works with you and management to identify and mitigate risks in furtherance of accomplishing the Commission's goals.



Clayton Fox
Inspector General
Appalachian Regional Commission