

# Office of Inspector General

## Semiannual Report



Office of Inspector General

APPALACHIAN REGIONAL COMMISSION

October 1, 2019 – March 31, 2020



APPALACHIAN  
REGIONAL  
COMMISSION

*A Proud Past,  
A New Vision*

May 20, 2020

The Honorable Richard Shelby  
Chairman  
The Honorable Patrick Leahy  
Ranking Member  
Committee on Appropriations  
United States Senate  
Washington, D.C. 20510-6025

Dear Chairman Shelby and Ranking Member Leahy:

The Appalachian Regional Commission ("ARC") is submitting the report from the Appalachian Regional Commission's new Inspector General, Philip M. Heneghan. The *Inspector General Semiannual Report* covers the activities of the Inspector General's office from October 1, 2019, through March 31, 2020. As required by section 5(b) of the Inspector General Act of 1978, as amended, we also submit statistical tables as an attachment to this letter. We do not have any information to report under IG Act section 5(b)(4) or (5).

ARC appreciates the Inspector General's efforts to ensure the effectiveness, efficiency, and integrity of the Commission's operations.

If you or your staffs have any questions about this report, please contact me at (202) 884-7760 or Inspector General Philip Heneghan at (202) 884-7678.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Thomas", with a long, sweeping underline.

Tim Thomas  
Federal Co-Chair



April 30, 2020

Commissioners:

Attached is the Semiannual Report summarizing the activities of the Office of Inspector General for the period October 1, 2019, to March 31, 2020. This is my first Semiannual Report as your new Inspector General.

I would like to thank my predecessor, Hubert Sparks, for his tireless work on behalf of the Commission, the Office of Inspector General, and the Council of the Inspectors General on Integrity and Efficiency. He has now retired (for the second time!) as the Inspector General of the Commission. For more than 50 years he has served the Federal government, providing oversight for programs and operations—and for 23 of those years he was the Inspector General here at the Commission.

During this reporting period our office issued seven reports that included one recommendation. The Commission completed final action on nine recommendations issued in prior reporting periods.

I want to assure you that my staff and I are committed to a Commission that operates with efficiency, effectiveness, and integrity. We look forward to working with you, the Commission staff, and Congress to provide independent and effective oversight of the Appalachian Regional Commission's program and operations. I would like to thank you for your commitment to strengthening the integrity of the Commission's operations and for your support of the Office of Inspector General.

A handwritten signature in blue ink that reads 'Philip M. Heneghan'.

Philip M. Heneghan  
Inspector General, Appalachian Regional Commission

# Appalachian Regional Commission

## Inspector General Semiannual Report

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Table 1: Reporting Requirements Index

<b>Reporting Requirements Index</b>		
<b>IG Act Section</b>	<b>Description</b>	<b>Page</b>
4(a)(2)	Review of Legislation	None
5(a)(1)	Description of Significant Problems, Abuses, and Deficiencies	2-5
5(a)(2)	Description of Recommendations for Corrective Action With Respect to Significant Problems, Abuses, and Deficiencies	2-5
5(a)(3)	Significant Recommendations From Prior Reports on Which Corrective Action Has Not Been Completed	5
5(a)(4)	Summary of Matters Referred to Prosecuting Authorities	6
5(a)(5)	Summary of Instances Where Information or Assistance Was Unreasonably Refused	None
5(a)(6)	Listing by Subject Matter of Each Report Issued During This Reporting Period	2
5(a)(7)	Summary of Significant Reports	3-5
5(a)(8)	Statistical Table: Questioned and Unsupported Costs	9
5(a)(9)	Statistical Table: Recommendations Where Funds Could Be Put to Better Use	10
5(a)(10)	Summary of Prior Reports	10
5(a)(11)	Description of Any Significant Revised Management Decisions	None
5(a)(12)	Information Concerning Any Significant Management Decision With Which the Inspector General Is in Disagreement	None
5(a)(13)	Information Described Under Section 5(b) of FFMIA	8
5(a)(14)	Results of Peer Review Completed During This Period or Date of Last Peer Review	8
5(a)(15)	List of Outstanding Recommendations From Peer Review	None
5(a)(16)	List of Peer Reviews Conducted of Another Office of Inspector General During This Period	None
5(a)(17)	Statistical Table: Investigative Reports	11
5(a)(18)	Description of the Metrics Used for Developing Investigative Statistics	11
5(a)(19)	Investigations With Substantiated Allegations Involving Senior Government Employees	7
5(a)(20)	Description of Any Whistleblower Retaliation	None
5(a)(21)	Description of Attempts To Interfere With Inspector General Independence	None
5(a)(22)	Summary of Reports Not Disclosed to the Public	7

# Appalachian Regional Commission

## Inspector General Semiannual Report

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### Office of Inspector General

The Appalachian Regional Commission (Commission) established the Office of Inspector General when the *Inspector General Act* (IG Act) was amended in 1988. Our office may provide audit, evaluation, inspection, and investigative services covering all Commission programs and operations. Our mission is to promote and preserve the effectiveness, efficiency, and integrity of the Commission. We plan and conduct our activities based on several factors: requirements of laws and regulations, requests from management officials, allegations received from Commission personnel and other sources, and the Inspector General's initiative.

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### Semiannual Report Requirements

The IG Act requires each Inspector General to prepare a report twice a year that summarizes the activities of the office. This Semiannual Report covers the period from October 1, 2019, through March 31, 2020. The 23 requirements shown in table 1 are specified in the IG Act and must be included in the report.

This Semiannual Report starts by summarizing the results of the reports issued during this period. This is followed by a summary of prior period reports with unimplemented recommendations; a description of significant recommendations from prior period reports where final action is not complete; details of hotline and investigative activities; and information on reports that we did not publicly disclose.

The next section summarizes other reviews of the Commission conducted by external parties, along with the status of recommendations from those reports. The last sections provide information on other reportable items and include congressional activity, participation in the Council of the Inspectors General on Integrity and Efficiency, other compliance activities, and the outcome of our peer review.

Additional tables at the end of the report summarize information about our reports and provide the status of recommendations.

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# Appalachian Regional Commission

## Inspector General Semiannual Report

### Inspector General Reports Issued During This Period

The Inspector General issued seven reports during this reporting period. We made one recommendation in one report. Six of the reports were audits of grant awards. The primary objectives of grant award audits were to determine whether: (1) Program funds were managed in accordance with the Commission's and Federal grant requirements; (2) Grant funds were expended as provided for in the approved grant budget; (3) Internal grant guidelines, including program (internal) controls, were appropriate and operating effectively; (4) Accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); (5) The performance measures were met or likely to be met; and (6) Matching requirements of the grant were satisfied.

A listing of each report issued during this reporting period, by subject matter, is provided in table 3.

Table 2: Reports by Subject Matter

<b>Reports by Subject Matter</b>				
<b>Subject Matter</b>	<b>Report Number</b>	<b>Report Title</b>	<b>Date Issued</b>	<b>Number of Recommendations</b>
Grant Award	20-01	<i>Audit of Town of Big Stone Gap Award</i>	11/22/2019	0
Grant Award	20-02	<i>Audit of Health Path Foundation Award</i>	11/21/2019	0
Grant Award	20-03	<i>Audit of City of Inman Grant Award</i>	11/27/2019	0
Grant Award	20-04	<i>Audit of Center for Rural Entrepreneurship Grant Award</i>	12/20/2019	1
Grant Award	20-05	<i>Audit of Sevier County Grant Award</i>	12/31/2019	0
Grant Award	20-06	<i>Audit of Erwin Utilities Grant Award</i>	12/31/2019	0
Financial	20-07	<i>Fiscal year 2019 Financial Statement Audit</i>	01/21/2020	0
<b>Total recommendations issued during this reporting period</b>				<b>1</b>
<i>NOTE: None of these reports identified any questioned costs, unsupported costs, or funds that could be put to better use.</i>				

# Appalachian Regional Commission

## Inspector General Semiannual Report

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The summary information for the reports are provided below.

### **Grant Award – Audit of Town of Big Stone Gap Award, 20-01**

The objective of the grant was to provide funding to renovate the Mutual Pharmacy building and construct three floors of mixed-use business space including retail/commercial and dining space on the main floor. Funding consisted of \$500,000 in Commission grant funds and \$881,686 in matching funds. The audit indicated that the recipient's financial management and administrative procedures and related internal controls were adequate to manage Commission grant funds. The costs tested were supported and reasonable. Also, based on available data it appears that the project was on track to meet its performance goals.

### **Grant Award – Audit of Health Path Foundation of Ohio Award, 20-02**

The objective of the grant was to improve access to affordable high-quality dental care to workers and their families by providing dental services to the underserved in designated areas with shortages of dental health professionals. The grant provided total funding of \$444,412, including \$293,312 in Commission funds and a required match of \$151,100 in non-Commission funds. The grantee's financial management, administrative procedures and related internal controls were adequate to manage the grant funds received. There were no unsupported costs and none of the incurred costs were questioned. The grant performance measures were adequately met or were likely be met by the end of the grant.

### **Grant Award – Audit of City of Inman Grant Award, 20-03**

The grant provided funding for streetscape improvements to Mill Street and Main Street, two primary corridors in downtown Inman. The project included landscaping, sidewalk and crosswalk improvements, traffic infrastructure improvements, signage, installation of curb cuts and handicap parking areas, decorative security fencing, benches, decorative pavers, and administrative expenses. The improvements were intended to increase foot traffic and attract businesses to the downtown area. The Commission awarded \$500,000 to the City and required a matching contribution of \$523,500. The final project costs were \$1,258,532. The City's administrative policies, procedures, and related internal controls were adequate to manage the funds provided under the grant. The costs tested for the grant were properly supported and allowable. The City's matching contribution exceeded the required matching requirement. Financial and project performance reports submitted to the Commission were accurate and timely. All performance measures had been met or exceeded.

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### **Grant Award – Audit of Center for Rural Entrepreneurship Grant Award, 20-04**

The Commission awarded a grant of \$1,747,806 and required \$513,977 as a matching contribution. LOCUS is the lead partner for the project, which includes community development organizations from the states of Kentucky, Ohio, and West Virginia. They will provide training and coaching support for each of the three community development organizations. The grant expenditures of \$379,631 and match expenditures of \$117,553 that were tested, were properly supported and allowable. Financial and project performance reports submitted to the Commission were timely and accurate. LOCUS had an adequate process in place for obtaining and recording performance data related to the overall goals of the grant. A recommendation was made to improve the written financial management policies and procedures, and the grantee took corrective action.

### **Grant Award – Audit of Sevier County Grant Award, 20-05**

The grant for Sevier County Imminent Threat was awarded to extend 21,300 linear feet of water line in two project areas. The water line extensions will provide greater interconnectivity and comprehensive coverage within the Sevier County water system for the areas of Gatlinburg and Pittman Center. The Commission awarded \$600,000 to the County and required a matching contribution of \$1,000,000. The County's administrative policies, procedures, and related internal controls were adequate to manage the funds provided under the grant. The grant expenditures tested were properly supported and allowable. Financial and project performance reports submitted to the Commission were timely and accurate.

### **Grant Award – Audit of Erwin Utilities Grant Award, 20-06**

The grant, Rocky Fork Water Line Extension, was awarded to extend a water line to serve Rocky Fork State Park and approximately 70 households near the park. The total project cost was \$1,865,758. Grant expenditures of \$896,773 and the matching expenditures of \$486,712 that we tested were properly supported and allowable. The administrative policies, procedures, and related internal controls were adequate to manage the funds provided under the grant. Financial and project performance reports submitted to the Commission were timely and accurate.

# Appalachian Regional Commission

## Inspector General Semiannual Report

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### **Financial – Fiscal year 2019 Financial Statement Audit, 20-07**

We engaged the services of an independent certified public accounting firm to audit the Appalachian Regional Commission's balance sheet and related statements of net cost, changes in net position, and budgetary resources for fiscal year 2018. The auditors concluded that the Commission's financial statements for the fiscal year ended September 30, 2019, present fairly in all material respects the financial position of the Commission. The audit did not identify any material weaknesses or significant deficiencies. The report did not identify any instances of noncompliance with certain laws and regulations. The auditors did not make any recommendations.

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## **Summary of Prior Period Reports**

### **Reports Without Management Decisions**

The Commission has provided management decisions for all recommendations in reports issued prior to the commencement of this reporting period.

### **Reports Without Management Comments**

The Commission provided management comments for all reports that contain recommendations. Internal policy does not require management to provide comments on reports that do not have recommendations.

### **Prior Year Unimplemented Recommendations and Cost Savings**

There are no prior year reports with unimplemented recommendations and cost savings.

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## **Significant Recommendations From Prior Periods**

The Commission has completed final action for all recommendations described in prior semiannual reports.

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# Appalachian Regional Commission

## Inspector General Semiannual Report

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### **Hotline and Investigations**

#### **Investigations and Inquiries: Overview**

One of our functions is to conduct investigations and inquiries of criminal, civil, and administrative wrongdoing involving Commission programs, operations, and personnel. We may investigate possible violations of criminal law, of regulations on employee responsibilities and conduct, and of other statutes and regulations covering Commission activities.

Our office reviews and analyzes each complaint received to decide the appropriate course of action and, if appropriate, conducts a preliminary inquiry. If the information we find during the preliminary inquiry indicates that a full investigation is appropriate, we will launch an investigation.

#### **OIG Hotline Contacts**

Our office maintains a hotline for reporting information about suspected waste, fraud, abuse, or mismanagement involving Commission programs or operations. The information may come to us in person; by telephone, fax, email, or mail; or through a web-based form. When requested, we will endeavor to keep a provider's identity confidential. Complaints may also be made anonymously.

We receive complaints from employees, contractors, grantees, and the public that involve the Commission's areas of responsibility. We examine these complaints to determine whether there is any indication of wrongdoing or misconduct by grantees or the Commission. If the complaint does not relate to the Commission or its grantees, we refer the complaint to the appropriate entity for response. If the complaint does not have merit, we close the matter.

#### **Summary of Matters Referred to Prosecuting Authorities**

The Office of Inspector General did not refer any matters to prosecuting authorities during this reporting period.

# Appalachian Regional Commission

## Inspector General Semiannual Report

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### **Investigations with Substantiated Allegations Involving Senior Government Employees**

The Office of Inspector General did not issue any investigative reports that substantiated allegations involving senior government employees.

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### **Summary of Reports Not Disclosed to the Public**

#### **Audits and Other Reports to Management**

The Office of Inspector General did not issue any inspections, evaluations, or audits that were not disclosed to the public during this reporting period.

#### **Investigations**

The Office of Inspector General did not issue any investigative reports that were not disclosed to the public during this reporting period.

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### **Assistance To or From Other Offices of Inspector General**

Section 6(a)(3) of the Inspector General Act of 1978, as amended, gives the Inspector General the authority to obtain assistance from any other Federal agency to carry out the duties and responsibilities assigned by the Act.

In addition, our office has a memorandum of understanding in place with the Office of Inspector General of the International Trade Commission for them to provide us with independent legal counsel and investigative services on an as-needed basis.

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### **Congressional Activities**

The Inspector General responded to one Congressional request during this reporting period.

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# Appalachian Regional Commission

## Inspector General Semiannual Report

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### **Council of the Inspectors General on Integrity and Efficiency**

The Inspector General has actively participated in meetings and supported the efforts of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and its committees.

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### **Federal Financial Management Improvement Act Reporting**

The IG Act and the Federal Financial Management Improvement Act of 1996 (FFMIA) require the inspectors general of certain agencies to report “instances and reasons” when the agency has not met intermediate target dates established in a remediation plan to bring the agency’s financial management system into substantial compliance with the FFMIA. The Commission is not subject to the FFMIA; however, it voluntarily seeks to comply with most of its requirements. During this reporting period, there were no events that gave rise to a duty to report under FFMIA.

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### **Peer Reviews**

The last peer review of our audit function was issued on March 6, 2017 and we received a “pass” rating. The one recommendation made in the peer review has now been implemented. We expect a peer review of our audit program to begin this quarter. We are scheduled to conduct an audit peer review of the EEOC’s OIG audit program beginning this quarter.

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# Appalachian Regional Commission

## Inspector General Semiannual Report

Table 3: Reports With Questions and Unsupported Costs

Reports With Questioned and Unsupported Costs			
Description	Number of Reports	Questioned Costs	Unsupported Costs
Reports for which no management decision had been made by the commencement of the reporting period.	3	\$0	\$0
Reports issued during the reporting period.	7	\$0	\$0
<b>Totals</b>	<b>10</b>	<b>\$0</b>	<b>\$0</b>
Reports for which a management decision was made during the reporting period.	10	\$0	\$0
<ul style="list-style-type: none"> <li>Dollar value of disallowed costs.</li> <li>Dollar value of allowed costs.</li> </ul>		\$0	\$0
Reports for which no management decision had been made by the end of the reporting period.	0	\$0	\$0
<b>Totals</b>	<b>10</b>	<b>\$0</b>	<b>\$0</b>

Table 4: Reports With Recommendations That Funds Be Put to Better Use

Reports With Recommendations That Funds Be Put to Better Use		
Description	Number of Reports	Funds Put to Better Use
Reports for which no management decision had been made by the commencement of the reporting period.	3	\$0
Reports issued during the reporting period.	7	\$0
<b>Totals</b>	<b>10</b>	<b>\$0</b>
Reports for which a management decision was made during the reporting period.	10	
<ul style="list-style-type: none"> <li>Dollar value of recommendations agreed to by management.</li> <li>Dollar value of recommendations not agreed to by management.</li> </ul>		\$0
Reports for which no management decision had been made by the end of the reporting period.	0	\$0
<b>Totals</b>	<b>10</b>	<b>\$0</b>

# Appalachian Regional Commission

## Inspector General Semiannual Report

Table 5: Reports With Recommendations With Final Action Completed This Reporting Period

<b>Reports With Recommendations Completed During this Reporting Period</b>					
<b>Reports Issued this Reporting Period</b>					
	<b>Report Title</b>	<b># of Recs.</b>	<b>Mgt. Decisions</b>	<b>Final Action Completed in Prior Periods</b>	<b>Final Action Completed This Period</b>
1	Audit Center for Rural Entrepreneurship, 20-04	1	1	0	1
<b>Totals</b>		<b>1</b>	<b>1</b>	<b>0</b>	<b>1</b>
<b>Reports Issued in Prior Reporting Periods</b>					
	<b>Report Title</b>	<b># of Recs.</b>	<b>Mgt. Decisions</b>	<b>Final Action Completed in Prior Periods</b>	<b>Final Action Completed This Period</b>
1	Audit of Open ARC Administered Grants, 19-42	3	3	0	3
2	Audit of Open State Administered Grants, 19-43	3	3	0	3
3	Audit of Open Basic (Child) Agency Grants, 19-44	3	3	0	3
<b>Totals</b>		<b>9</b>	<b>9</b>	<b>0</b>	<b>9</b>

Table 6: Status of Reports Issued Without Final Action

<b>Status of Reports Issued Without Final Action</b>						
<b>This Reporting Period</b>						
	<b>Report Title</b>	<b># of Recs.</b>	<b>Mgt. Decisions</b>	<b>Decisions IG Disagrees With</b>	<b>Final Action Complete</b>	<b>Action Not Complete</b>
1	N/A					
<b>Totals</b>						
<b>Prior Reporting Periods</b>						
	<b>Report Title</b>	<b># of Recs.</b>	<b>Mgt. Decisions</b>	<b>Final Action Complete Prior Periods</b>	<b>Final Action Complete This Period</b>	<b>Action Not Complete</b>
1	N/A					
<b>Totals</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

# Appalachian Regional Commission

## Inspector General Semiannual Report

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Table 7: Statistical Table of Investigative Reports

<b>Statistical Table of Investigative Reports</b>	
<b>Description</b>	<b>Count</b>
Number of investigative reports issued	0
Number of persons referred to DOJ for criminal prosecution	0
Number of persons referred to State and Local authorities for criminal prosecution	0
Number of indictments and criminal information resulting from any prior referrals to prosecuting authorities.	0
The information in this table is derived from the Office of Inspector General's investigation reports.	

# Appalachian Regional Commission

## Appendix A: Appalachian Regional Commission Statistical Tables

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Table A: Reports with Disallowed Costs

<b>Total Number of Reports and the Dollar Value of Disallowed Costs</b>		
Description	Number of Reports	Dollar Value of Disallowed Costs
Reports issued during the period.	7	\$0
Reports for which final action had not been taken by the commencement of the reporting period.	3	\$0
Reports on which management decisions were made during the reporting period.	10	\$0
Reports for which final action was taken during the reporting period.	10	\$0
<ul style="list-style-type: none"> <li>• Dollar value of disallowed costs, recovered by management.</li> </ul>		\$0
<ul style="list-style-type: none"> <li>• Dollar value of disallowed costs written off by management.</li> </ul>		\$0
Reports for which no final action has been taken by the end of the reporting period.	0	\$0

# Appalachian Regional Commission

## Appendix A: Appalachian Regional Commission Statistical Tables

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Table B: Reports with Recommendations that Funds be Put to Better Use

<b>Reports with Recommendations that Funds be Put to Better Use</b>		
Description	Number of Reports	Funds Put to Better Use
Reports for which final action had not been taken by the commencement of the reporting period.	3	\$0
Reports on which management decisions were made during the reporting period.	3	\$0
Reports for which final action was taken during the reporting period including:	10	\$0
<ul style="list-style-type: none"> <li>• Dollar value of recommendations that were actually completed.</li> </ul>		\$0
<ul style="list-style-type: none"> <li>• Dollar value of recommendations that management has subsequently concluded should not or could not be completed.</li> </ul>		\$0
Reports for which no final action has been taken by the end of the reporting period.	0	\$0

Table C: Prior Year Management Decisions Without Final Action

<b>Prior Year Audit Reports On Which Management Decisions Have Been Made but Final Action has Not Been Taken</b>				
Audit Report	Date Issued	Disallowed Costs	Funds Put to Better Use	Reason Final Action has Not Been Taken
N/A				

The Commission does not have any prior year audits on which management decisions have been made but final action has not been taken.