



March 29, 2007

Memorandum for: The Federal Co-Chair
ARC Executive Director

Subject: OIG Report 07-03
Follow-up Review of
Internal Control Review of Administrative Functions

Attached are copies of the subject report. The objective of this review was to determine the current status of operations in those areas where ARC had agreed to take corrective action. We also addressed additional, related weaknesses identified in reviewing prior findings.

The objectives of the 2005 review were to determine if internal controls over administrative functions were adequate to ensure that: (1) resources are used in accordance with laws, regulations, and ARC policies, (2) resources are safeguarded against fraud, waste, and unauthorized use, and (3) reported data is reliable and fairly presented.

The report makes eight recommendations. Management's responses to the recommendations are included in the report and are considered responsive to the recommendations. The audit is considered closed.

Clifford H. Jennings
Inspector General

Attachment

cc: Director for Program Operations
Director for Finance and Administration

**Final Report
Follow-up Review
on
Internal Control Review of Administrative Functions**

APPALACHIAN REGIONAL COMMISSION

Washington, D.C.

Report No. 07-03

**Prepared for
Office of Inspector General
Appalachian Regional Commission**

**Prepared by
Tichenor & Associates
March 28, 2007**

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Tichenor & Associates, LLP has conducted a follow-up of a review performed for the Appalachian Regional Commission's (ARC) Office of Inspector General (OIG) in 2005. This follow-up review was conducted at the request of the ARC OIG.

The objectives of the 2005 review were to determine if internal controls over administrative functions were adequate to ensure that: (1) resources are used in accordance with laws, regulations, and ARC policies, (2) resources are safeguarded against fraud, waste, and unauthorized use, and (3) reported data is reliable and fairly presented.

The objective of this review was to determine the current status of operations in those areas where ARC had agreed to take corrective action. We also addressed additional, related weaknesses identified in reviewing prior findings.

The scope of the review focused on the current status of policies and procedures, reviewing transactions and activities for 2006.

A draft report was issued to ARC on February 28, 2007. The Director of Finance and Administration concurred with our findings and stated that corrective actions have been taken or planned to address the report recommendations.

Sincerely,



Tichenor & Associates, LLP
Louisville, Kentucky
January 24, 2007

EXECUTIVE SUMMARY

Introduction

Tichenor & Associates, LLP performed a follow-up of a review performed for the Appalachian Regional Commission's (ARC) Office of Inspector General (OIG) in 2005. The final report for that review, entitled Internal Control Review of Administrative Functions (Report No. 05-16), was issued in June 2005. The OIG contractor reported that they relied on an ARC internal control review that had been completed in July 2004. The objectives of the June 2005 review were to determine if internal controls over administrative functions were adequate to ensure that: (1) resources are used in accordance with laws, regulations, and ARC policies, (2) resources are safeguarded against fraud, waste, and unauthorized use, and (3) reported data is reliable and fairly presented.

The ARC is a non-profit (501(c)(3)) corporation funded in part by federal appropriations. ARC generally follows federal guidance in financial management in accordance with its operation of a federally funded grant program. The ARC is also a designated federal entity subject to the provisions of the Inspector General Act.

The June 2005 report included findings and recommendations addressing grant management, payment approvals, mail remittance procedures, the commuting assistance program, travel procedures and property management. ARC management responses included in the final report reflect agreed actions to address the recommendations made.

ARC's Finance and Administration Division (FAD) has responsibility for coordinating responses to audit findings and recommendations. With the exception of grant management, the FAD has responsibility for managing all of the above referenced operations. The current director of FAD began her employment with ARC in October 2006, and was not responsible for implementation of the prior year recommendations.

Our review was performed to assist the OIG in its oversight of agency administration by determining the current status of agreed actions in response to the recommendations made.

Objectives, Scope and Methodology

The objective of this review was to determine the current status of operations in those areas where ARC had agreed to take corrective action. We reviewed each of the above referenced areas evaluated in the prior report. We also addressed additional, related weaknesses identified in reviewing prior findings.

We reviewed the prior report, Internal Control Review of Administrative Functions dated June 2005. We reviewed ARC policies and procedures detailed in their Financial Management Guidelines (FMG). We interviewed the director of the Program Operations Division (POD), the director of FAD, the financial manager, the budget analyst, the

EXECUTIVE SUMMARY

network administrator, the financial program analyst and one of the financial services assistants. We evaluated applicable records and documentation for each of the above referenced areas. We focused on the current status of policies and procedures, reviewing transactions and activities for 2006.

The review was performed at ARC offices in Washington, D.C. from October 2006 through January 2007. The review was performed in accordance with applicable Government Auditing Standards.

Audit Results

1. Grant Management

- 1.1. ARC is in compliance with the requirements that each approved grant must have a State approved strategy statement and include detailed outcomes measures.
- 1.2. Fourteen of 22 (63.6%) grants with outstanding unliquidated obligations reviewed did not have documentation of annual follow-ups or extensions, not withstanding prior year "end dates".
- 1.3. There was no log or listing of Program Operations Division (POD) communications with grantees.

2. Payment Approvals

- 2.1. In another review that we completed in January 2007 (See Internal Control Review of Disbursement Procedures, <<date>>), we found that three transactions did not have complete documentation supporting the amounts paid and three transactions did not have evidence of supervisory approval.

3. Mail Remittances

- 3.1. The logbook of remittances received was not maintained contemporaneously and was incomplete.

4. Commuting Assistance Program

- 4.1. The FMG has not been updated to reflect procedural changes in issuing METRO subsidies.

EXECUTIVE SUMMARY

5. Travel Management

- 5.1. The FMG currently mandates the use of government credit cards for all of ARC's federal employees, but provides for optional use by ARC's non-federal employees, for travel expenses.

6. Property Management

- 6.1. The FMG has not been amended to require that an independent party conduct a periodic physical inspection of ARC's inventory of high-risk non-capitalized equipment; the employee responsible for semi-annual physical inspections also has procurement responsibilities as well as responsibility for preparing and updating the inventory listing.
- 6.2. The current inventory listing was incomplete and controls were inadequate to ensure the security of high-risk non-capitalized equipment.

Recommendations

1. Grant Management

- 1.1. We make no recommendation as the ARC appears to be in compliance with the requirements that each approved grant must have a State approved strategy statement and detailed outcomes measures.
- 1.2. We recommend that ARC establish procedures to ensure that grants are extended or closed in a timely manner.
- 1.3. We recommend that ARC systematically document, in the grant files, all contacts with grantees.

2. Payment Approvals

- 2.1. We recommend that ARC's FAD establish procedures to ensure that no disbursements are made without complete supporting documentation, including a modification of the FMG to require evidence of authorization and supervisory approval.

3. Mail Remittances

- 3.1. We recommend that ARC's FAD ensure that all remittances received are recorded properly in the logbook, and that the logbook be reviewed at least monthly by the financial manager or a designee other than employees responsible for maintaining the logbook or making deposits.

EXECUTIVE SUMMARY

4. Commuting Assistance Program

- 4.1. We recommend that ARC update the FMG to reflect procedural changes in issuing METRO subsidies.

5. Travel Management

- 5.1. We recommend that ARC reconsider its policy concerning the government credit card, making its use mandatory for all ARC travelers who are provided government travel cards.

6. Property Management

- 6.1. We recommend that ARC amend the FMG to require that an employee independent of procurement maintain the inventory listing and perform the semi-annual physical inspections of high-risk non-capitalized equipment.
- 6.2. We recommend that ARC require that all high-risk non-capitalized equipment be included in the inventory listing and verified during the semi-annual physical inspections.

Management Response

1. Grant Management

ARC management concurs with these recommendations and states that an Electronic Grant Report Notification Protocol will be established by May 1, 2007, and that program staff will now use ARCNet electronic files to record grantee contacts.

2. Payment Approvals

ARC management concurs with this recommendation.

3. Mail Remittances

ARC management concurs with this recommendation.

4. Commuting Assistance Program

ARC management concurs with this recommendation.

5. Travel Management

ARC management concurs with this recommendation.

EXECUTIVE SUMMARY

6. Property Management

ARC management responded that property management responsibilities for high-risk non-capitalized equipment have been reassigned. Management also stated that the FMG is being clarified to reflect that all high-risk non-capitalized equipment is to be included in the inventory listing and verified during semi-annual inspections.

Auditor's Conclusion

ARC comments were responsive to the findings and recommendations. Actions have been taken to ensure that: (1) grants are extended or closed in a timely manner, contacts with grantees are systematically documented in the grant files; (2) no disbursements are made without complete supporting documentation; (3) all remittances received are recorded properly in the logbook and that the logbook be reviewed at least monthly; (4) the FMG is updated to reflect procedural changes in issuing METRO subsidies; (5) use of the government travel card is mandatory for travel-related purchases; and (6) an employee independent of procurement have property management responsibilities for high-risk non-capitalized equipment and that all high-risk non-capitalized equipment is to be included in the inventory listing and verified during semi-annual inspections. As a result, the recommendations are considered closed.

FINDINGS AND RECOMMENDATIONS

1. Grant Management

Strategy Plans and Outcome Measures

The prior reviewers found that ARC was not complying with the requirement (Section 7.3-c.2 of the ARC Code) that each approved grant must have a State approved strategy statement. The prior reviewers also found that some of the ARC grantees did not comply with the ARC Guidelines requirement for each grantee to include detailed outcome measures in grant proposals. Specifically, the reviewers reported that of the 23 grants reviewed, nine (39.1%) did not include strategy statements and five (21.7%) did not include outcome measures. The recommendation was to establish procedures to ensure that all ARC Project Management Guidelines are met.

ARC responded by stating that the Program Operations Division (POD) had modified the grant application and checklist to address strategy statements and outcome measures. ARC also stated that they had awarded a consulting contract to help in developing performance measures for difficult to assess grants.

We found that ARC was in compliance with its Project Management Guidelines. The Director of the POD informed us that his staff was reviewing all grant applications to ensure that strategy statements and outcome measures were included. The POD Director stated that the only exceptions were for administrative grants that were awarded to state agencies in order to assist ARC by coordinating and overseeing grants awarded within their respective areas. We reviewed a sample of 22 grants and verified the existence of strategy statements and outcome measures for all those grants that were not clearly administrative grants. We found no discrepancies.

Recommendation

- 1.1. We make no recommendation as the ARC appears to be in compliance with the requirements that each approved grant must have a State approved strategy statement and detailed outcomes measures.

Unliquidated Obligations

The prior reviewers reported that ARC did not have sufficient controls to ensure that unliquidated obligations were reviewed at the end of each fiscal year. Specifically, there was no evidence that grant coordinators had followed up on three grants that had been inactive for 1 to 4 years. Unliquidated obligations for these grants totaled over \$600,000 at the time of the review.

Although the ARC Code does not require that grants be closed if there is no activity over a period of time, the prior review included a recommendation to ensure that unliquidated

obligations are reviewed annually and all grants are reviewed to ensure that there are control procedures to identify and closeout any expired or inactive grants.

ARC responded that the report of unliquidated obligations would continue to be used to identify inactive grants. No specific grant management procedures were identified to ensure timely follow-up and oversight.

We selected a sample of 23 grants with outstanding unliquidated obligations dating from 1997. We reviewed the documentation for 22 of these grants (the file for a grant made in 2000 could not be located). We found that 14 of the 22 (63.6%) files reviewed did not have documentation of annual follow-ups or extensions, notwithstanding prior year "end dates." At the time of our review, the total of unliquidated obligations of these 14 grants was \$1,116,549 (see Appendix A). Although a few of the 14 files did have some correspondence of current activities, there was no documentation of extensions. Further, there was no log or listing of POD communications with grantees. In some instances, "post-its" were used to document telephone contacts. The director of POD stated that his staff does contact the grantees on a regular basis by E-mail and telephone. However, there was very little documentation of such contacts. Consequently, we found that ARC needs to improve its monitoring and oversight of unliquidated obligations for grants.

Recommendations

- 1.2. We recommend that ARC establish procedures to ensure that grants are extended or closed timely.
- 1.3. We recommend that ARC systematically document, in the grant files, all contacts with grantees.

Management Response

- 1.2. The director of finance and administration stated that the ARC would establish an Electronic Grant Report Notification Protocol by May 1, 2007. The Program Operations Division (POD) staff, the state program manager and the grantee will be notified by email when a grant is about to end and final program and financial reports are due.
- 1.3. The director of finance and administration noted that there are in fact two grant files, one paper, the other, in ARCNet, electronic. When POD staff have conversations with grantees, they generally have the ARCNet file open on their computer. This file has a "Notes" tab that POD staff will now use to record grantee contacts. A review of both the paper and electronic file will provide a complete picture of grant activity.

Auditor's Comments

Actions have been taken to ensure that are extended or closed in a timely manner and all contacts with grantees are systematically documented in the grant files. As a result, the recommendations are considered closed.

2. Payment Approvals

The prior reviewers found that in three of 14 (21.4%) invoices sampled, there was either no signature of an approving official or no designation in procurement documents of an approving official. The recommendation was to establish controls to ensure that all purchase documents include a designated approving official and that these approving officials approve related invoices before payments are made.

ARC responded that they had reemphasized to staff the importance of designating persons to approve the receipt of goods and services and approving vendor invoices on the basis of these designations.

In another review that we completed in January 2007 (see Internal Control Review of Disbursement Procedures, <<date>>), we found that ARC did not have documentation of approval for payments made for cell phones and small purchase credit cards. Specifically, we found that three transactions for credit card payments did not have complete documentation to support the amounts paid. Two transactions for cell phone charges, and one credit card payment, did not have evidence of supervisory approval. The financial manager informed us that over 25 ARC employees had cell phones. However, there was no record of authorization or documentation of review for the monthly charges. The FMG requires division directors to approve any vendor payments of \$25,000 or more and all travel payments. (Sec. 7-1, Payments) There is no requirement, however, for supervisory review of the appropriateness of charges such as those incurred for cell phones. Incomplete documentation that does not include evidence of authorization and review for reasonableness could result in improper payments.

Recommendation

- 2.1. We recommend that ARC's FAD establish procedures to ensure that no disbursements are made without complete supporting documentation, including a modification to the FMG to require evidence of authorization and supervisory approval.

Management Response

- 2.1. ARC management concurred with this recommendation. The director of finance and administration stated that staff have been reminded of their responsibility to ensure complete supporting documentation exists prior to processing a payment and the FMG will be modified to reflect that evidence of authorization and supervisory approval is required. For some types of recurring payments, this authorization/approval will only be required on initiation, and reauthorization on an annual basis will be valid until revoked.

Auditor's Comments

Actions have been taken to ensure that no disbursements are made without supporting documentation, including evidence of authorization and supervisory approval. As a result, this recommendation is considered closed.

3. Mail Remittances

The prior reviewers found that there were material weaknesses in cash collection and safekeeping. Specifically, they reported that there was no fixed responsibility in the mailroom for opening the mail or for making a record of checks received. In addition, the reviewers reported that there was no record to ensure that all remittances received were deposited timely. The recommendation was to establish responsibilities for opening the mail, maintaining a logbook and ensuring that remittances are deposited timely.

ARC responded that ARC staff was reminded to bring any mail remittances to a designated person in the FAD who would be responsible for logging all checks. Also ARC stated that the checks would then be provided to a financial services assistant who would deposit the funds and keep a record of bank confirmation.

We found that the logbook was not maintained contemporaneously and was incomplete. FAD provided us with a photocopy of all the pages in the logbook of remittances for fiscal year 2006. The photocopied logbook included entries for the date of deposit that were clearly entered after the photocopy was made for our review. Consequently, these entries were not made during the year to provide a control record for use in ensuring that all remittances received were deposited timely. In addition, the logbook did not show deposit dates for six remittances. Although there was a separation of duties between maintenance of the logbook and making deposits, there could be no meaningful review to verify that all remittances were being deposited timely without an up to date and complete logbook reflecting the dates of deposit for all remittances received.

Recommendation

- 3.1. We recommend that ARC's FAD ensure that all remittances received are recorded properly in the logbook, and that the logbook be reviewed at least monthly by the financial manager or a designee other than employees responsible for maintaining the logbook or making deposits.

Management Response

- 3.1. ARC management concurred with this recommendation. The director of finance and administration stated that staff have been reminded of their responsibility to record remittances in the logbook contemporaneously. The financial manager will also be reviewing the logbook at least monthly. In addition, the finance and administration director will spot check for compliance on a routine basis.

Auditor's Response

Actions have been taken to ensure that all remittances received are recorded in the logbook and that the logbook be reviewed at least monthly. As a result, this recommendation is considered closed.

4. Commuting Assistance Program

The prior reviewers reported that 13 of 60 (21.7%) ARC employees had not complied with the ARC requirement for a semi-annual certification of need to receive a monthly subsidy for commuting costs (either payment for parking costs or for fares on the METRO public transportation system). The recommendation was to emphasize to all employees receiving these subsidies to submit semi-annual certifications timely and discontinue assistance to those employees who do not submit certifications of need.

ARC reported that they reemphasized that all employees must submit semi-annual certifications of need by March 31 and September 30 of each year. ARC also stated that commuting assistance would be terminated on April 1 and October 1 for those employees who did not comply.

We found that each of the employees listed as receiving a subsidy had provided a semi-annual certification of need by September 30, 2006. There were a few instances when employees had not updated the period of claim (October 1, 2006 through March 31, 2007), apparently using a prior period form. However, it appears that employees are generally complying with this requirement.

We also found that ARC's FMG needs to be updated to reflect procedural changes in issuing the METRO subsidies. The FMG addresses procedures for issuing the METRO subsidies (Sec 9-1, Administrative Services); however, the procedures detailed have been changed. Rather than issuing fare cards for the monthly subsidy, ARC now uses the METRO smartcard program. ARC provides a monthly listing to METRO for the amount of the subsidy for each employee's smartcard by number. In turn, employees are able to download these subsidies through the card readers available at all METRO stations. In addition, METRO provides ARC with monthly activity listings that show the amount of the monthly \$100 subsidy that has been downloaded to each employee's smartcard. Adjustments are made by METRO, crediting any portion of employees' subsidies that were not downloaded and used during the prior month.

Recommendation

- 4.1. We recommend that ARC update the FMG to reflect procedural changes in issuing METRO subsidies.

Management Response

- 4.1. ARC management concurred with this recommendation and noted that the FMG has been updated to reflect current authorized subsidy amounts and a description of the issuance process for Metro subsidies using the WMATA SmartBenefits program.

Auditor's Comments

The FMG has been updated to reflect procedural changes in issuing METRO subsidies. As a result, this recommendation is considered closed.

5. Travel Management

The prior reviewers reported that ARC travelers were not complying with the ARC requirement to use government credit cards for travel expenses. Specifically, they found that five of 13 (38.5%) travelers did not use the government credit card issued by ARC for travel expenses. The reviewers also reported that travel vouchers were not submitted within five business days as required by ARC guidelines. They reported that seven of 23 (30.4%) travel vouchers sampled were not submitted within five business days. Recommendations were made both to ensure that the government credit card is used and that vouchers are submitted within five business days unless there are extenuating circumstances.

ARC responded that ARC staff has been reminded of the requirement to use the government travel card for all travel costs incurred on official business. ARC also stated that there are sufficient incentives for travelers to submit vouchers in a timely manner to drop the five day requirement.

ARC's FMG indicates that ARC is a non-mandatory participant in the U.S. Government travel charge card program (Sec 6-6, Travel Management). The FMG also indicates the purposes of this program include enabling ARC to benefit from rebates provided by government credit card contractors. The FMG currently mandates use of the government card for all of its federal employees, but provides for optional use by ARC's non-federal employees. We found that in four of 12 (33.3%) vouchers reviewed, ARC travelers (non-federal employees) who had been issued government credit cards used personal credit cards to pay travel expenses. Consequently, ARC would not have the benefit of any rebates resulting from the use of the issued government credit cards.

ARC's FMG has been modified to eliminate the requirement that travel vouchers must be submitted within five business days (Sec 6-5, Travel Management). Indeed, our sample of twelve travel vouchers shows that all but one travel voucher was submitted within 30 days and that most of the vouchers were submitted within one week of completing the travel.

Recommendation

- 5.1. We recommend that ARC reconsider its policy concerning the government credit card, making its use mandatory for all ARC travelers who are provided government travel cards.

Management Response

- 5.1. ARC management concurred with this recommendation and noted that the FMG is being updated to mirror the policy for Federal staff; if issued to a Commission employee, the use of a government travel card is mandatory for travel-related purchases.

Auditor's Comments

The FMG is being updated to make use of the government travel card mandatory for Commission employees. As a result, this recommendation is considered closed.

6. Property Management

The prior reviewers reported that ARC did not have sufficient controls in place to maintain an up-to-date inventory. Specifically, they found that not all equipment purchased by ARC was included on the inventory listing because the perpetual inventory was not updated on a regular basis. They reported that some of the high risk non-capitalized equipment (primarily laptop computers) that ARC had purchased was not included on the inventory. The recommendation was that an independent party conduct a periodic physical inventory to ensure that the automated inventory is up to date and accurate.

ARC's FAD responded that the FMG would be amended to assign responsibility for high risk non-capitalized personal property. Further, FAD stated that the "Management Officer" would be responsible for maintaining a perpetual inventory of all non-capitalized high risk equipment, coordinating with the network systems administrator to assure that any new equipment is entered into the inventory database, and performing a physical check of the location of all equipment semi-annually.

The FMG has not been amended to require that an independent party conduct a periodic physical inspection. The FMG states that the network administrator is to maintain an inventory of high-risk non-capitalized property. Further, the FMG states that the inventory is to be verified semi-annually (Sec 9-1, Administrative Services). However, the FMG does not require someone independent to perform this semi-annual physical inspection. The network administrator is responsible for procurement of high-risk equipment as well as preparing and updating the inventory. In addition, the network administrator performs the semi-annual physical inspection. Assigning someone other than the employee responsible for procurement of equipment to maintain the inventory and perform the semi-annual physical inspection would reduce the risk of misappropriation or errors in property management.

Our review of the current inventory listing of high-risk non-capitalized equipment revealed that the listing was incomplete. The network administrator stated that six of the nine (66.7%) ARC laptop computers were not included. The network administrator stated that the unlisted laptop computers could not be verified readily during his periodic physical inspections because they were locked up in the program divisions' offices. Consequently, controls were inadequate to ensure that this equipment was secured and utilized for ARC business.

Recommendations

- 6.1. We recommend that ARC amend the FMG to require that an employee independent of procurement maintain the inventory and perform the semi-annual physical inspections of high-risk non-capitalized equipment.

- 6.2. We recommend that ARC require that all high-risk non-capitalized equipment be included in the inventory listing and verified during the semi-annual physical inspections.

Management Response

- 6.1. The director of finance and administration stated that property management responsibilities for high-risk non-capitalized equipment have been reassigned from the systems administrator to the administrative officer to provide improved oversight and segregation of duties. The FMG is also being updated to reflect expanded property management procedures, describing the life cycle management of activities and responsibilities associated with gaining, managing, and disposing of a given asset/controlled item. The FMG is also being updated to provide additional guidance about controls for equipment that contains sensitive or privacy-related data.
- 6.2. The director of finance and administration responded that the ARC's policy has been, and will continue to be, that all high-risk, non-capitalized equipment be included in the inventory listing and verified during semi-annual inspections. The FMG is being clarified to reflect that this is a standing policy. Additionally, the property management officer (the administrative officer), has recently completed a room-by-room physical inventory inspection, to ensure a complete and accurate inventory listing moving forward.

Auditor's Comments

An employee independent of procurement has been assigned property management responsibilities for high-risk non-capitalized equipment and actions are being taken to ensure that all high-risk non-capitalized equipment is included in the inventory listing and verified during semi-annual physical inspections. As a result, the recommendations are considered closed.

APPENDIX A
DETAILED LISTING OF UNLIQUIDATED OBLIGATIONS LACKING
DOCUMENTATION OF ANNUAL FOLLOW-UP OR EXTENSION

Detailed listing of unliquidated obligations lacking documentation of annual follow-up or extension:

<u>Project Number</u>	<u>End Date</u>	<u>Balance</u>
1. AL-14519-0-I	06/30/2006	\$ 320,000
2. GA-14773-0-I	09/30/2005	3,650
3. KY-14236-0-I	06/30/2004	84,169
4. MS-14264-0-C1	06/30/2005	82,000
5. MS-14264-A-I	09/30/2004	8,780
6. MS-7763-0-C25	06/30/2006	160,555
7. OH-13994-0-C1	04/30/2004	14,000
8. TN-14265-0-I	03/30/2005	63,561
9. VA-14926-0-I	03/31/2006	50,000
10. XX-12884-0-I	10/07/1997*	112,213
11. XX-12884-W-I	09/29/2005	17,950
12. XX-13993-0-I	12/31/2002	85,187
13. XX-14084-0-I	09/30/2002	38,563
14. XX-14952-0-I	03/31/2006	75,921
	Total	<u>\$1,116,549</u>

* Approval date; end date was not listed.

**APPENDIX B
MANAGEMENT RESPONSE**



**APPALACHIAN
REGIONAL
COMMISSION**

*A Proud Past,
A New Vision*

March 9, 2007

Mr. Jack Somerville, Audit Manager
Tichenor & Associates, LLP
304 Middletown Park Place, Suite C
Louisville, KY 40243

Re: Management Response to Draft Reports – Internal Control Review of Disbursement Procedures and Internal Control Review of Administrative Functions

Dear Mr. Somerville:

The draft report on the Internal Control Review of Disbursement Procedures and the draft report on the Internal Control Review of Administrative Functions have been received and reviewed. Attached are the management responses to each recommendation.

Please do not hesitate to contact me at 202-884-7718 should you have any questions.

Regards,

A handwritten signature in black ink, appearing to read "Angela Smith", with a stylized flourish at the end.

Angela Smith
Director, Finance and Administration Division
Appalachian Regional Commission
1666 Connecticut Avenue NW Suite 700
Washington, DC 20009

Attachment

cc: Clifford Jennings, ARC Inspector General
Thomas Hunter, ARC Executive Director
Henry King, ARC Program Operations Division Director

Administrative Functions:

1. Grant Management

1.1. We make no recommendation as the ARC appears to be in compliance with the requirements that each approved grant must have a State approved strategy statement and detailed outcome measures.

1.2. We recommend that ARC establish procedures to ensure that grants are extended or closed in a timely manner.

Management Response: ARC will be establishing an Electronic Grant Report Notification Protocol by May 1, 2007. The Program Operations Division (POD) staff, the state Program Manager and the grantee will be notified by email when a grant is about to end and final program and financial reports are due.

1.3. We recommend that ARC systematically document, in the grant files, contacts with grantees.

Management Response: There are in fact two grant files, one paper, the other, in ARCNet, electronic. When POD staff has conversations with grantees, they generally have the ARCNet file open on their computers. This file has a "Notes" tab that POD staff will now use to record grantee contacts. A review of both the paper and electronic file will provide for a complete picture of grant activity.

2. Payment Approvals

2.1. We recommend that ARC's FAD establish procedures to ensure that no disbursements are made without complete supporting documentation, including a modification of the FMG to require evidence of authorization and supervisory approval.

Management Response: We concur. Staff have been reminded of their responsibility to ensure complete supporting documentation exists prior to processing a payment. The FMG will be modified to reflect that evidence of authorization and supervisory approval is required. For some types of recurring payments (such as monthly Internet provider service fees), this authorization/approval will only be required on initiation, and reauthorization on an annual basis (or upon change) and be valid until revoked.

3. Mail Remittances

3.1. We recommend that ARC's FAD ensure that all remittances received are recorded properly in the logbook, and that the logbook be reviewed at least monthly by the financial manager or a designee other than the employees responsible for maintaining the logbook or making deposits.

Management Response: We concur. Staff have been reminded of their responsibility to record remittances in the logbook contemporaneously. The Financial Manager will also be reviewing the logbook at least monthly. In addition, the Finance and Administration Director will spot check for compliance on a routine basis.

4. Commuting Assistance Program

- 4.1. We recommend that ARC update the FMG to reflect procedural changes in issuing METRO subsidies.

Management Response: We concur. The FMG has been updated to reflect current authorized subsidy amounts and a description of the issuance process for Metro subsidies using the WMATA SmartBenefits program.

5. Travel Management

- 5.1. We recommend that ARC reconsider its policy concerning the government credit card, making its use mandatory for all ARC travelers who are provided government travel cards.

Management Response: We concur. The FMG is being updated to mirror the policy for Federal staff; if issued to a Commission employee, the use of the government travel card is mandatory for travel-related purchases.

6. Property Management

- 6.1. We recommend that ARC amend the FMG to require that an employee independent of procurement maintain the inventory listing and perform the semi-annual physical inspections of high-risk non-capitalized equipment.

Management Response: Property management responsibilities for high-risk non-capitalized equipment (i.e., primarily Information Technology assets) have been reassigned from the Systems Administrator to the Administrative Officer to provide improved oversight and segregation of duties. The FMG is also being updated to reflect expanded property management procedures, describing the life cycle management of activities and responsibilities associated with gaining, managing, and disposing of a given asset/controlled item. The FMG is also being updated to provide additional guidance about controls for equipment that contains sensitive or privacy-related data.

- 6.2. We recommend that ARC require that all high-risk non-capitalized equipment be included in the inventory listing and verified during the semi-annual physical inspections.

Management Response: ARC's policy has been, and will continue to be, that all high-risk, non-capitalized equipment be included in the inventory listing and verified during semi-annual inspections. The FMG is being clarified to reflect that this is a standing

policy. Additionally, the Property Management Officer (the Administrative Officer), has recently completed a room-by-room physical inventory inspection, to ensure a complete and accurate inventory listing moving forward.