

# Office of Inspector General

*Management and Performance Challenges Report*



**Appalachian  
Regional  
Commission**

Office of Inspector General

Audit Report: 22-01

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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) information systems and cybersecurity and (2) risks associated with the rapid growth of ARC funding. These challenges were identified based on work by the Office of Inspector General, input from Commission management, and knowledge of the Commission's programs and operations.

### Information Systems and Cybersecurity

The Commission adapted its network to meet today's remote work needs. Changes included moving its email service to the cloud and establishing a virtual private network (VPN) so that staff would have seamless access to their files and the ARC portal. In addition, the Commission made sure that staff had access to virtual meeting platforms and provided the technical capacity to support various online meeting formats. The Commission has been automating its business processes by implementing an automated payment tool and eliminating the need for paper for much of the grant approval process.

The challenge moving forward will be to continue to modernize the Commission's business systems to improve the efficiency and effectiveness of the grant management process. The Commission needs to minimize its reliance on paper processes and deploy automation when possible. This will require a clear information technology strategy to identify the systems and available technologies to automate the grantmaking process from the pre-award through post-award phases, without compromising the Commission's management and oversight responsibilities. In addition, because of the significant changes made to the network, more attention will need to be paid to the cybersecurity protocols protecting the network. Using cloud services and VPNs expands the attack surface of the ARC network and requires additional safeguards to protect ARC data and systems.

### Risks Associated with the Rapid Growth of ARC Funding

Over the past six years, the Commission experienced a 100% increase in appropriated funding. During the same period from 2015 to 2021, the Commission's staff increased from 48 to 56—less than a 20% increase. With both the increase in funding and the scope of its grant-funded endeavors, the Commission was challenged to continue to implement its program. This challenge was met. However, it was not met without the presence of risks, and the possibility of similar risks, moving forward.

In 2014 the Commission awarded grants with an average size of \$136,000. Seven years later, the Commission was awarding grants with an average size of \$370,000. Increasing the size of grants being awarded and managed creates risk, and may make it more difficult for the Commission to evaluate grant proposals, measure program performance, and conduct oversight.

Both the rapid growth in the size of grant awards and the increase in the complexity of the grants under new programs (such as POWER, SAAW and CAB) pose operational risks to ARC. In addition, with the increase in academies, institutes, workshops, and leadership conferences, there is more direct involvement with the thousands of people benefiting from these programs. Capacity involves both having appropriate resources and using the resources to effectively manage the program. Building sufficient capacity is a challenge that may involve significant costs or tradeoffs.

Human capital capacity measures the extent to which an organization has sufficient staff, knowledge, and technical skills to effectively meet its program goals. Human capital needs shift over time as programs change and face new challenges. A lack of capacity can adversely limit staff time in administering and monitoring grant programs. Given the role and importance of grants management at the Commission, it is critical that the ARC have adequate human resources with the technical expertise to properly administer its grant program.

Additionally, the ARC should be aware of any risks, emerging issues, or new challenges that rapid growth has created for our state partners and grantees that could negatively impact program performance. The Commission should have a framework to continually assess, identify, and monitor risk in the performance of its grant management activities to ensure grantees have—and maintain—the necessary capacity to effectively administer the larger awards to achieve program goals.

I will continue to work with you and management to reassess the goals of our office to ensure that my focus can continue to remain on the most important risks and priorities of the Commission.



Philip M. Heneghan  
Inspector General  
Appalachian Regional Commission