



Office of Inspector General

Appalachian Regional Commission

Management Letter Report Financial Statement Audit - Fiscal Year 2022

Report Prepared by Allmond & Company, LLC.

Report Number 23-05

December 12, 2022

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



Office of Inspector General

Appalachian Regional Commission

December 12, 2022

Brandon McBride
Executive Director, ARC

The Office of Inspector General contracted with the independent public accounting firm Allmond & Company, LLC to audit the financial statements of the Appalachian Regional Commission for the fiscal year ended September 30, 2022. The auditors issued an unmodified opinion on the financial statements.

When performing an audit of an agency's financial statements, auditors may identify certain matters that do not rise to the level of a material weakness or significant deficiency that are communicated through a management letter report.

This memorandum transmits the management letter prepared by Allmond & Company, LLC to address an internal control weakness over financial reporting identified during the audit that did not have a material effect on the financial statements. The internal control weakness was directly related to prior year recommendations without final action completed. Because completing management action on the existing recommendations will address the conditions identified, no new recommendations were issued to the Commission in this report.

Allmond & Company, LLC is solely responsible for the attached management letter report and the conclusions expressed in the report. A draft of the management letter was provided to the Commission for review and comment; those comments have been included, in their entirety, in the final report.

Thank you for the cooperation and courtesies extended to both Allmond & Company, LLC and my staff during this audit.

Sincerely,

Philip M. Heneghan
Inspector General

**APPALACHIAN REGIONAL COMMISSION
MANAGEMENT LETTER REPORT
SEPTEMBER 30, 2022**



**Appalachian
Regional
Commission**

**ALLMOND & COMPANY, LLC
Certified Public Accountants
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Lanham, Maryland 20706
(301) 918-8200**



MANAGEMENT LETTER REPORT

Executive Director
Appalachian Regional Commission:

We audited the Appalachian Regional Commission 's (ARC) financial statements as of September 30, 2022 and for the years then ended and issued our report dated November 15, 2022 to ARC under separate cover.

In planning and performing our audit, we considered ARC's internal controls to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls. Though not considered to be a material weakness or significant deficiency, we noted an additional matter involving internal control that is presented in this letter for ARC's management's attention and consideration. Please note, the information relates to the prior year audit finding that was included in the ARC Audit Report (dated January 19, 2022). During the current year audit, the severity of the matter was reduced and therefore included in this Management Letter Report.

The purpose of this report is solely for the information and use of ARC management. We appreciate your assistance and cooperation during the audit and look forward to serving you in the near future.

Sincerely,

Allmond & Company, LLC

Lanham, MD
November 15, 2022

Allmond & Company audited the accompanying balance sheet of the Appalachian Regional Commission (ARC) as of September 30, 2022, and the related statements of net cost, statement of changes in net position, and statement of budgetary resources for the years then ended (consolidated financial statements). We noted a certain matter involving the internal control and ARC operation that we think warrant management's attention; however, it was not considered a significant deficiency or material weakness.

Under standards issued by the American Institute of Certified Public Accountants, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the ARC's financial statements will not be prevented or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit the attention by those charged with governance. There were no significant deficiencies or material weakness noted during our audit of ARC's FY 2022 financial statements. However, we noted the following control deficiency during our audit:

1. Lack of Proper Documentation over the Review of the Financial Statements and Footnote Disclosures.

This condition is discussed in detail in the finding outlined below:

FINDING 1: Lack of Proper Documentation over the Review of the Financial Statements and Footnote Disclosures

CONDITION

The Appalachian Regional Commission (ARC) has not designed and implemented proper policies and procedures over their review of the financial statements into their standard operating procedures (SOP).

CRITERIA

The Government Accountability Office (GAO), Standards for Internal Controls in the Federal Government, Principle 10 – Design of Appropriate Types of Control Activities, 10.03, Appropriate Documentation of Transactions and Internal Control, states, “Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.”

CAUSE

ARC does not have adequate documented policies and procedures in place to review the financial statements and note disclosures prepared by their service provider, United States Department of Agriculture (USDA) Office of Chief Financial Officer (OCFO), for completeness, accuracy, and with financial reporting requirements.

EFFECT

The lack of a proper documented policies and procedures over the review of the financial statements can lead to potential misstatements to the financial statements or line items not being properly classified in accordance with generally accepted accounting principles.

RECOMMENDATION

Last year we made 6 recommendations, 3 of which ARC completed final action. The 3 remaining recommendations will address the condition described above and we reaffirm that these 3 recommendations be completed:

- Design and implement policies and procedures to have the reviewer of the financial statements and note disclosures review for completeness, accuracy, and compliance with financial reporting requirements.
- Design and implement policies and procedures to ensure the account balances, line items, and all corresponding balances agree to the agency's financial system.
- Subsequent to the review process, ARC management should ensure that all reviews are thoroughly documented.

MANAGEMENT'S RESPONSE

We agree with your conclusions. We are in the process of completing the management decisions to address the three remaining open recommendations from the prior year report.

AUDITORS' RESPONSE

We will conduct follow-up procedures in FY 2023 to determine whether corrective actions have been developed and implemented.

Status of Prior Year Findings and Recommendations

During the fiscal year (FY) 2022 audit, we noted that several of the recommendations included in the Audit Report on the Appalachian Regional Commission FY 2021 Financial Statements (dated January 19, 2022) were closed. However, several recommendations remained open for FY 2022. The severity of the finding related to the recommendations was reduced and included in this Management Letter Report. The following table provides the FY 2022 status of recommendations included in the Audit Report on the Appalachian Regional Commission FY 2021 Financial Statements that remained open for FY 2022.

FY 2021 Finding	Prior Year Recommendation	FY 2022 Status
<p>Lack of Sufficient Internal Controls over the Preparation of Financial Statements and Footnote Disclosures. (2021-01)</p>	<p>Recommendation:</p> <p>We recommend that ARC management:</p> <ol style="list-style-type: none"> 3. Design and implement policies and procedures to have the reviewer of the financial statements and note disclosures review for completeness, accuracy, and compliance with financial reporting requirements. 5. Design and implement policies and procedures to ensure the account balances, line items, and all corresponding balances agree to the agency’s financial system. 6. Subsequent to the review process, ARC management should ensure that all reviews are thoroughly documented. 	<p>Open</p>