To Cliff Jennings, Inspector General
Appalachian Regional Commission

We have reviewed the system of quality control for the Appalachian Regional Commission Office of Inspector General (ARC OIG) audit organization in effect for the two years ended September 30, 2010. A system of quality control encompasses ARC OIG’s organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with Government Auditing Standards. The elements of quality control are described in Government Auditing Standards. ARC OIG is responsible for designing a system of quality control and complying with it to provide ARC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and ARC OIG’s compliance therewith based on our review.

Our review was conducted in accordance with Government Auditing Standards and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed ARC OIG personnel and obtained an understanding of the nature of the ARC OIG audit organization, and the design of the ARC OIG’s system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected administrative files to test for conformity with professional standards and compliance with the ARC OIG’s system of quality control. Except as discussed below, the engagements selected represent a reasonable cross-section of the ARC OIG’s audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with ARC OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the ARC OIG’s audit function. In addition, we tested compliance with the ARC OIG’s quality control policies and procedures to the extent we considered appropriate. Our review was based
on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance.

There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

ARC OIG notified us that they did not perform any audits during the period under review but rather only inspections. It is ARC OIG’s current policy not to perform audits or any other work under generally accepted government auditing standards (GAGAS) because of its staff size. ARC management and the ARC OIG contract with independent public accounting firms (IPAs) to conduct audits, attestation engagements, and certain other GAGAS engagements. As a result, we were unable to test compliance with certain GAGAS requirements in accordance with the peer review guidelines established by the CIGIE. Enclosure 1 to this report identifies the offices of the ARC OIG that we visited and the engagements that we reviewed.

In our opinion, except for the scope limitation cited above, the system of quality control for the audit organization of ARC OIG in effect for the two years ended September 30, 2010, has been suitably designed to provide ARC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Therefore, based on our work, ARC OIG has received a peer review rating of pass with a scope limitation.

Paul Brachfeld
Inspector General

Enclosures
SCOPE AND METHODOLOGY (Enclosure 1)

Scope and Methodology

We tested compliance with the ARC OIG audit organization’s system of quality control to the extent we considered appropriate. ARC OIG did not perform audit or attestation engagements but rather only inspections. It is ARC OIG’s current policy not to perform audit or any other work under GAGAS. ARC management and the OIG contract with independent public accounting firms (IPAs) to conduct audits, attestation engagements, and certain other GAGAS engagements. Therefore we did not test compliance with certain ARC OIG’s system of quality controls.

We reviewed the ARC OIG’s monitoring of engagements performed by IPAs where the IPA served as the principal auditor during the period October 1, 2008, through September 30, 2010. During the period, ARC management contracted for the audit of its agency’s Fiscal Year 2009 financial statements and ARC OIG monitored the IPA’s work. ARC OIG also contracted for certain other engagements that were to be performed in accordance with Government Auditing Standards.

We visited the Washington, DC office of ARC OIG.

Reviewed Engagements Performed by ARC OIG

ARC OIG does not perform audits or attestation engagements. This scope limitation prevented us from testing compliance with certain ARC OIG’s system of quality controls.

Reviewed Monitoring Files of ARC OIG for Contracted Engagements

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<td>Audit Report on ARC’s Financial Statements for Fiscal Year 2008 and 2009</td>
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