THE ARC OF THE THREE RIVERS, INC.

Financial and Compliance Report

December 31, 2009

DHHR - Finance

APR 20 2011

Date Received

ARNETT & FOSTER
Certified Public Accountants, P.L.L.C.

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ARNETT & FOSTER
Certified Public Accountants, P.L.L.C.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
The Arc of the Three Rivers, Inc
Charleston, West Virginia

We have audited the accompanying balance sheet of The Arc of the Three Rivers, Inc (the Arc) as of December 31, 2009, and the related statement of operations and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Arc's management Our responsibility is to express an opinion on these financial statements based on our audit The financial statements of the Arc for the year ended December 31, 2008, were audited by other auditors whose report, dated December 18, 2009, expressed an unqualified opinion on these statements

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of the Three Rivers, Inc. as of December 31, 2009, and the results of its operations, changes in net assets, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of State Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2011, on our consideration of The Arc of the Three Rivers, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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ARNETT & FOSTER, P. L. L. C.
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Charleston, West Virginia
March 22, 2011

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THE ARC OF THE THREE RIVERS, INC.

BALANCE SHEETS
December 31, 2009 and 2008

ASSETS	2009	2008
Current Assets		
Cash and cash equivalents	$ 449,296	$ 228,403
Cash held for others	596,067	356,765
Patient accounts receivable, net of allowance for doubtful accounts of approximately $142,000 (2009); $8,300 (2008)	1,063,580	1,236,227
Grant receivables	29,400	27,673
Prepaid expenses and other	53,809	10,458
Total current assets	2,192,152	1,859,526
Assets Limited As to Use, net of current portion	56,723	121,267
Property and Equipment, net	66,063	90,713
Total assets	$ 2,314,938	$ 2,071,506
LIABILITIES AND NET ASSETS		
Current Liabilities		
Notes payable, line of credit	$ 94,850	$ 149,850
Current maturities of long-term obligations	791	5,437
Accounts payable and accrued expenses	1,291,349	970,227
Fiduciary liability for assets held for others	596,067	356,765
Total current liabilities	1,983,057	1,482,279
Long-Term Obligations, net of current maturities	-	819
Total liabilities	1,983,057	1,483,098
Net Assets		
Unrestricted	331,881	588,408
Total net assets	331,881	588,408
Total liabilities and net assets	$ 2,314,938	$ 2,071,506

See Notes to Financial Statements

THE ARC OF THE THREE RIVERS, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended December 31, 2009 and 2008

	2009	2008
Unrestricted revenues, gains and other support:		
Net patient service revenue	$ 9,138,810	$ 8,920,544
Grant funding	274,195	199,149
Other revenue	192,379	178,577
Interest income	790	4,560
Donations	9,533	18,290
Total revenues, gains and other support	9,615,707	9,321,120
Expenses:		
Salaries and wages	3,909,551	3,463,384
Payroll taxes and benefits	838,504	729,768
Contracted services	3,653,438	3,860,405
Medicaid enhancement tax	442,788	419,595
Travel	229,741	264,626
Day program expense	39,806	49,465
Utilities and telephone	57,973	51,392
Rent	120,010	111,360
Groceries	24,216	21,138
Parking	6,399	24,207
Supplies and other	321,365	224,435
Professional fees	92,111	48,037
Insurance	35,290	35,245
Interest	7,851	5,087
Depreciation and amortization	37,841	46,105
Provision for bad debts	55,350	156,919
Total expenses	9,872,234	9,511,168
Deficiency of revenues over expenses and decrease in unrestricted net assets	(256,527)	(190,048)
Net assets, beginning of year	588,408	778,456
Net assets, end of year	$ 331,881	$ 588,408

See Notes to Financial Statements

THE ARC OF THE THREE RIVERS, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Decrease in net assets	$ (256,527)	$ (190,048)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	37,841	46,105
Provision for bad debts	55,350	156,919
(Increase) decrease in:		
Patient accounts receivables	117,297	(588,717)
Grant receivables	(1,727)	72,820
Prepaid expenses and other	(43,351)	12,341
Increase (decrease) in:		
Accounts payable and accrued expenses	321,122	370,326
Net cash provided by (used in) operating activities	230,005	(120,254)
Cash Flows from Investing Activities		
Purchase of property and equipment	(13,191)	(37,010)
Net change in assets limited as to use	64,544	(7,520)
Net cash provided by (used in) investing activities	51,353	(44,530)
Cash Flows from Financing Activities		
Net proceeds (repayment) on line of credit	(55,000)	149,850
Principal payments on long-term obligations	(5,465)	(11,593)
Net cash provided by (used in) financing activities	(60,465)	138,257
Net increase (decrease) in cash and cash equivalents	220,893	(26,527)
Cash and cash equivalents, beginning of year	228,403	254,930
Cash and cash equivalents, end of year	$ 449,296	$ 228,403
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 7,851	$ 5,087

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations: The Arc of the Three Rivers, Inc. (the "Arc") is a not-for-profit, nonstock corporation organized and existing under the laws of West Virginia and located in Charleston, West Virginia. The Arc provides services to individuals with mental retardation and developmental disabilities in Kanawha, Putnam, Clay and Boone counties in West Virginia.

A summary of significant accounting policies is as follows:

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements Estimates also affect the reported amounts of revenues and expenses during the reporting period Actual results could differ from those estimates Significant estimates used in preparing these financial statements include those assumed in determining the allowance for doubtful accounts It is at least reasonably possible that the significant estimates used will change within the next year.

Cash and cash equivalents: Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Patient accounts receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. The allowance is based upon a review of the outstanding balances aged by financial class Management uses collection percentages based upon historical collection experience to determine collectibility. Management also reviews troubled, aged accounts to determine collection potential. Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

Supplies inventory: Supplies inventory is stated at latest invoice cost, which approximates lower of cost (first-in, first-out method) or market.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

Assets limited as to use: Assets limited as to use include designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Arc have been reclassified in the balance sheets at December 31, 2009 and 2008.

Property and equipment: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of the depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Net assets: Unrestricted net assets are those assets presently available for use by the Arc at the discretion of the Board of Directors

THE ARC OF THE THREE RIVERS, INC.

NOTES TO FINANCIAL STATEMENTS

Temporarily restricted net assets are those assets, which have been contributed with donor imposed time or purpose restrictions When a stipulated time restriction expires or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions (None at December 31, 2009 and 2008.)

Permanently restricted net assets are resources subject to donor imposed restrictions that they be maintained permanently by the Arc. (None at December 31, 2009 and 2008.)

Excess (deficiency) of revenues over expenses: The statement of operations includes *excess (deficiency) of revenues over expenses* Changes in unrestricted net assets which are excluded from *excess (deficiency) of revenues over expenses,* consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and pension-related changes for other than net periodic pension cost.

Net patient service revenue: The Arc has agreements with third-party payors that provide for payments to the Arc at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity care: The Arc provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates Because the Arc does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue Charity care for the years ended December 31, 2009 and 2008 amounted to $78,785 and $67,213, respectively.

Donor-restricted gifts: Unconditional promises to give cash and other assets to the Arc are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Gifts of land, buildings and equipment are reported at fair value and are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Arc reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service

Income taxes: The Arc, which is not classified as a private foundation, is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes relating to not-for-profit organizations

Advertising: Advertising costs are expensed as incurred.

Subsequent Events: The Arc has evaluated subsequent events through March 22, 2011, the date on which the financial statements were available to be issued

THE ARC OF THE THREE RIVERS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Credit Risk Related to Cash and Cash Equivalents

Included with cash and cash equivalents are demand deposits and short-term investments with high credit quality financial institutions, the balances of which exceeded Federally insured amounts by approximately $303,000 at December 31, 2009

Note 3. Property and Equipment

A summary of the components of property and equipment as of December 31, 2009 and 2008 follows:

	2009	2008
Land	$ 5,000	$ 5,000
Leasehold improvements	49,712	50,712
Building	54,900	54,900
Furniture and fixtures	5,615	3,233
Equipment and vehicles	238,444	226,635
	353,671	340,480
Less accumulated depreciation and amortization	(287,608)	(249,767)
Property and equipment, net	$ 66,063	$ 90,713

Note 4. Assets Limited As to Use

Assets limited as to use: The composition of assets limited as to use at December 31, 2009 and 2008, is set forth in the following table. Investments are stated at fair value

	2009	2008
By Board for capital improvements:		
Cash and cash equivalents	$ 34,413	$ 99,117
Certificates of deposit	22,310	22,150
Total assets limited as to use	56,723	121,267
Less assets limited as to use that are required for current liabilities	-	-
Noncurrent assets limited as to use	$ 56,723	$ 121,267

Investment income and gains for assets limited as to use, cash and cash equivalents for the years ended December 31, 2009 and 2008, follows:

	2009	2008
Other Income:		
Interest income	$ 790	$ 4,560

Fair Value of Financial Instruments

Effective January 1, 2008, the Arc adopted the *Fair Value Measurements and Disclosures* Topic 820 of the FASB Accounting Standards Codification This Topic defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

This Topic defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. This Topic also establishes a fair value hierArchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Topic describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability

Fair Value Measurements

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierArchy

Investments and Assets Limited as to Use: Investment securities and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating. Level 1 securities include those traded by dealers or brokers in active over-the-counter markets and money market funds.

Assets at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis.

	Total at December 31, 2009	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Cash equivalent assets limited as to use	$ 56,723	$ 56,723	$ -	$ -

	Total at December 31, 2008	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Cash equivalent assets limited as to use	$ 121,267	$ 121,267	$ -	$ -

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Arc has no assets or liabilities that are recorded at fair value on a nonrecurring basis.

THE ARC OF THE THREE RIVERS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Line of Credit

The Arc has an open line of credit with a bank of $150,000. The line of credit has an interest rate of 1.00% plus the Bank's prime rate The Arc had outstanding borrowing on the line of credit of $94,850 and $149,850 at December 31, 2009 and 2008, respectively

Note 6. Long-Term Obligations

A summary of long-term obligations is as follows:

	2009	2008
Note payable, payable in monthly installments of $396, interest fixed at 6.71%, secured by a vehicle	$ 791	$ 5,349
Capital lease obligation, liquidated	-	907
	791	6,256
Less current maturities of long-term obligations	791	5,437
Long-term obligations	$ -	$ 819

Scheduled principal and interest payments on long-term obligations are as follows:

Year Ending December 31	Long-Term Obligations Principal	Interest
2010	$ 791	$ 14
	$ 791	$ 14

Note 7. Net Patient Service Revenue

The Arc has agreements with third-party payors that provide for payments to the Arc at amounts different from its established rates.

Virtually all of the Arc's net patient service revenue is derived under the West Virginia Medicaid Aged and Disabled Waiver Program. Consequently, the Arc is significantly dependent on reimbursement by the Medicaid program for services rendered Any future modifications to laws and regulations relating to participation in this program or reimbursement by this program for services rendered could have a significant impact on the financial condition and operating results of the Arc

Note 8. Retirement Plan

The Arc has a 403(b) contributory defined contribution retirement plan covering all full time employees. The Arc's contribution expense is computed as a match of the amount contributed by employees, limited to 5% of each employees' compensation. The Plan was amended effective March 1, 2009, to remove the employer match. The Arc's expense was approximately $12,000 and $24,000, respectively, for the years ended December 31, 2009 and 2008

Note 9. Rental Expense

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred

Future minimum lease payments under operating leases as of December 31, 2009, that have initial or remaining lease terms in excess of one year are as follows:

2010	$ 126,141
2011	94,146
2012	47,756
2013	2,456
2014	1,228
	$ 271,727

Total rental expense in 2009 and 2008 for all operating leases was approximately $120,000 and $111,000, respectively

Note 10. Professional Liability Insurance

The Arc maintains claims made coverage for professional liability of up to $1,000,000 for individual claims with a total annual aggregate up to $3,000,000. Incidents occurring through December 31, 2009, may result in the assertion of a claim and other claims may be asserted arising from past services provided.

The Arc is a defendant in various lawsuits wherein various amounts for damages are claimed. In the opinion of management, the likelihood of an unfavorable outcome in excess of insurance coverage is remote and the judgments, if unfavorable, would not have a material adverse effect on the Arc's financial statements. Some of these claims would be subject to deductibles should the ultimate outcome be adverse. The aggregate of all potential deductibles would not have a material adverse effect on the Arc's financial statements.

Note 11. Concentrations of Credit Risk

The Arc is located in Charleston, West Virginia. The Arc grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from the Arc's patients and third-party payors is as follows:

	2009	2008
Medicaid	**100%**	100%
	100%	100%

Note 12. Classification of Expenses

Operating expense by functional category is as follows:

	2009	2008
Patient care	**$ 9,071,118**	$ 8,739,352
General and administrative	**801,116**	771,816
	$ 9,,872,234	$ 9,511,168

Note 13. Commitments, Contingencies and Subsequent Events

In August 2010, a complaint investigation performed by the Office of Health Facility Licensure and Certification (OHFLAC) uncovered improper use of consumer funds from accounts for which the Arc is the representative payee. These funds are included in cash held for others in the accompanying balance sheets. Management of the Arc performed an internal review of the above mentioned accounts and identified employee embezzlement from the funds The information was turned over to local authorities and the Medicaid Fraud Investigation Unit The employee was terminated, arrested and the case will be going to trial. The accounts of the consumers affected by the embezzlement have been repaid by the Arc and the funds will be reimbursed by the Arc's insurer At December 31, 2009, the Arc has recorded a liability of $39,500 in accounts payable and accrued expenses and a corresponding receivable from the insurance carrier in prepaid expenses and other in the accompanying balance sheets

In 2011, a provider review of the MR/DD Waiver program was performed by APS Healthcare for the period January 7, 2010 to December 21, 2010 A potential disallowance of approximately $290,000 was identified by APS Healthcare related to missing documentation for the services provided. The Arc is currently in the process of responding to the review. Management believes that the actual liability will be approximately $112,000 based upon information they have subsequently provided to APS Healthcare. No liability is recorded in the financial statements because it occurred in 2010

THE ARC OF THE THREE RIVERS, INC.

SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended December 31, 2009

State Grantor/Program Title	Grant Number	Grant Period	Grant Award	1/1/09-12/31/09 Receipts	1/1/09-12/31/09 Expenditures	2009 Receivable
West Virginia Department of Health and Human Resources-Office of Behavioral Health						
Developmental Disabilities (DD) Core Support & Alternative Grant	G090265	7/1/08-6/30/09	$262,586	$ 209,135	$ 181,461	$ -
Developmental Disabilities (DD) Core Support & Alternative Grant	G100016	7/1/09-6/30/10	269,988	63,333	92,734	29,400
Total			$532,574	$ 272,468	$ 274,195	$ 29,400

ARNETT & FOSTER
Certified Public Accountants, P.L.L.C

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
The Arc of the Three Rivers, Inc
Charleston, West Virginia

We have audited the financial statements of The Arc of the Three Rivers, Inc. as of and for the year ended December 31, 2009 and have issued our report thereon dated March 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Arc of the Three Rivers, Inc's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of The Arc of the Three Rivers, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Arc of the Three Rivers, Inc's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency disclosed in finding 2009-01 described in the accompanying schedule of findings and responses to be a material weakness

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc of the Three Rivers, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and responses as finding 2009-1.

This report is intended solely for the information and use of the Board of Directors, management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

ARNETT & FOSTER, P.L.L.C.

Arnett & Foster, P.L.L.C.

Charleston, West Virginia
March 22, 2011

THE ARC OF THE THREE RIVERS, INC.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2009

2009-01 Lack of Controls, Segregation of Duties and Employee Embezzlement

Condition

The Arc has the fiduciary responsibility for approximately $600,000 of funds held for others, and acts as the representative payee for certain consumers An alleged employee embezzlement involving these funds amounting to approximately $50,000 occurred over several years but was not discovered until 2010

Cause

A small number of persons have had the primary responsibility for performing most of the accounting and financial reporting duties of the Arc limiting the separation of incompatible duties, and there were no dual controls as well as a lack of appropriate supervision and review control over the administration of the funds held for others.

Criteria

Chapter 31E, Article 15, Section 1501, paragraph (b) of the West Virginia Code requires that nonprofit corporations incorporated in West Virginia are to maintain appropriate accounting records. Further, the Legislative Rules under the Title 64, Series 11, for the Division of Health, Behavioral Health Centers Licensure, requires the Arc to act as a fiduciary on behalf of its beneficiary consumers, and to maintain appropriate, separate records of account for them when handling their funds Crucial to the propriety of such accounting records is the maintenance of internal accounting controls that ensures that no one person can have access to the assets as well as the accounting records of the organization, and that no one person can control transactions of the organization from inception to completion and recording such transactions in the accounting records, as such conditions provide the opportunity for fraud to occur within the organization and go undetected. Ideally, internal controls should be designed to safeguard assets and minimize the risk of loss from employee dishonesty or error, and fundamental to adequate internal controls is the segregation of incompatible duties. Consequently, the Arc should have internal controls in place that contemplate an appropriate segregation of duties in all areas to the fullest extent possible, particularly in the area of payments to providers and representative payees.

Effect

Because of the lack of segregation of duties in the area of payments to providers and representative payees, the risk of potential for fraud is high.

Because of the failure to properly keep track of outstanding checks prior to releasing the checks in the fiduciary accounts, transactions may be improperly recorded and undetected or fraud may occur and be undetected.

Response

The Organization agrees to establish proper segregation of duties in all areas The segregation of duties noted has been remedied by the implementation of the following procedures and protocol:

The staff that produces a check is not authorized to sign it. Additionally, no signature stamps are being used by the Organization.

All accounts payable checks issued by the Organization now require two signatures in order to be authorized

THE ARC OF THE THREE RIVERS, INC.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2009

The Organization has purchased a Resident Fund Management System (RFMS) for our Representative Payee program. This system provides several internal controls which includes daily reconciliation of funds, transaction tracking and a thorough audit trail. This system will allow for the direct deposit of all Social Security checks, thus severely limiting the opportunity for human error and/or fraud

The Arc agrees to maintain a detail of outstanding checks and deposits for the fiduciary accounts and to reconcile the accounts to the general ledger on a monthly basis in a timely manner. The Arc has submitted the West Virginia Office of Health Facility Licensure and Certification with a plan of correction related the findings