February 24, 2012

TO: Federal Co-Chairman
ARC Executive Director

FROM: Hubert Sparks
ARC Inspector General

SUBJECT: Audit Report No. 12-04, Report on the Grant Activities of
the Cumberland Human Resources Development Commission (HRDC)
Project, MD-15597 and Revision 1

GRANTEE: City of Cumberland, Maryland

The OIG engaged Watkins Meegan, LLC, Certified Public Accountants, to conduct an audit of grants
made to City of Cumberland, Maryland, for construction of a new community/senior center that would
improve services to impoverished residents and foster economic opportunities in the area.

The grants were made in fiscal years 2007 and 2008. The amount of ARC grant funds provided for the
projects was $550,000. The auditors had no findings or recommendations related to the grants and found
that overall the objectives of the grant were being achieved.

In connection with the Audit of the City of Cumberland’s activities related to the grants made for the
Cumberland HRDC projects, conducted by Watkins Meegan, LLC, the OIG does not express an opinion
on City of Cumberland’s grant activities, its internal controls, or conclusions on compliance with laws
and regulations. The OIG had no involvement in the review of City of Cumberland’s grants. The OIG’s
involvement was with Watkins Meegan, who was contracted to audit and report on grant compliance and
other matters as outlined in the report’s scope section. Watkins Meegan, LLC is responsible for the
attached auditor’s report and the opinions, conclusions, and recommendations expressed in that report.

[Signature]
Hubert Sparks
Inspector General

cc: M. Theobald
Attachment
PERFORMANCE AUDIT
OF THE

Cumberland Human Resource Development Commission (HRDC) Project

ARC Grant Number: MD-15597

OIG Report Number: 12-04

GRANT PERIOD: APRIL 2008 – DECEMBER 2009

WATKINS | MEEGAN
Appalachian Regional Commission
1666 Connecticut Avenue, N.W.
Suite 700
Washington, DC  20009-1068

Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Cumberland Human Resource Development Commission (HRDC) Project. The report is in response to Contract No. BPA 11-01-A.

Bethesda, Maryland
January 30, 2012
Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state, and local government. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair, who is appointed by the President. Local participation is provided through multi-county local development districts.

On August 29, 2007 and July 18, 2008, ARC announced approval of grant number MD-15597 in the amount of $300,000 and $250,000, respectively, to the City of Cumberland, Maryland, to construct a new community/senior center that will provide improved service to 7,000 county residents living below the poverty level and create new economic opportunities in a distressed neighborhood in Cumberland. The funding was forwarded to the U.S. Department of Housing and Urban Development (HUD) from ARC. HUD then forwarded the funding to the City of Cumberland Community Development Block Grant (CDBG) program. CDBG is the agent through which all ARC funds are awarded.

The Allegany County Human Resources Development Commission (HRDC) is a nonprofit community action agency that provides services to low-income individuals, seniors, and families. HRDC programs include affordable housing, meals, and support services for seniors, day care programs for disabled adults, energy conservation and home repair programs, and job placement assistance. HRDC received the ARC funds through CDBG.

The new approximately 20,000 square-foot facility will provide increased efficiency through the consolidation of programs and services that are currently scattered throughout the county, and provide space for program expansion. The project will also serve as a catalyst for neighborhood revitalization in downtown Cumberland. HRDC will bring 45 employees and its client base to the Virginia Avenue corridor – along with a need for expanded retail and businesses services. This activity will spark economic revitalization in a neglected neighborhood.

Audit Objectives

The purpose of our review was the determination that program funds distributed to City of Cumberland Community Development Block Grant program, grant number MD-15597, for the years 2007 and 2008 were managed in accordance with ARC and federal grant terms; that grant funds were expended as provided for in the ARC-approved budget; that internal grant guidelines and best practices, including internal controls, were appropriate and operating effectively; that accounting and reporting requirements were implemented in accordance with generally accepted accounting principles; and to make a determination as to whether the goals and objectives of the grant were met.

Audit Scope

We performed a program review of the grant at the City of Cumberland office on October 25-27, 2011, and the HRDC office on October 25, 2011, as described in the background and audit objectives. Our review was based on the terms of the grant agreement and on the application of procedures in accordance with the modified ARC Sample Audit Program. Specifically, we determined if the objectives listed above had been managed in accordance with ARC and federal grant terms, that the ARC funds had been expended as provided for in the ARC-approved budgets, that internal controls as they related to the ARC grant were operating effectively, and that accounting and reporting requirements were implemented in accordance with generally accepted accounting principles.
Audit Scope (Continued)

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Methodology

Our procedures were based on the “Sample Audit Program” prepared by ARC and included suggested procedures over the grantee’s accounting and internal control systems affecting the grant. Through conversations with the Manager, Department of Community Development, City of Cumberland, at City of Cumberland office on October 25-27, 2011, and the Chief Financial Officer from HRDC, at HRDC headquarters on October 25, 2011, we announced the audit and conducted an entrance conference. Through our review of the background material related to the grant, we specifically reviewed the requirements detailed in the ARC Grant Agreement, the information from ARC.net, OMB Circulars A-87, 102, 110, and 133, the Application for Federal Assistance, the HUD grant requirements, the related Assurances-Non-Construction Programs, and the Maryland Community Development Block Program grant requirements. As additional background material, and in order to avoid duplication of efforts, we reviewed City of Cumberland audited financial statements and OMB A-133 reports for the years ended June 30, 2010 and 2009; HRDC audited financial statements and A-133 reports for the years ended September 30, 2010 and 2009; and the Data Collection Form for HRDC for the years ended September 30, 2010, 2009, and 2008.

We reviewed the reimbursements from HUD to the City of Cumberland dated August 8, 2009, for $300,000 and November 12, 2009, for $250,000 and the related reimbursements from the City of Cumberland to HRDC on August 13, 2009, for $420,000 and December 4, 2009, for $250,000 with the City Accountant for the City of Cumberland. On October 25, 2011, we obtained approved budgets and the approved invoices which supported the reimbursements from the City of Cumberland to HRDC from the Manager, Department of Community Development, and reviewed them for compliance with OMB Circulars A-87, 102, 110, and 133. We also tested the support received and the related construction contracts for compliance with OMB Circulars A-87, 102, 110, and 133, the ARC Grant Agreement, the HUD grant requirements, the related Assurances-Non-Construction Programs, and the Maryland Community Development Block Program grant. We reviewed the controls over the sub-recipient monitoring procedures with the Manager, Department of Community Development, on October 25, 2011. We toured the Senior Center with the Chief Financial Officer and Manager, Department of Community Development, on October 25, 2011, and discussed whether the goals and objectives of the project funded with ARC monies had been met.

We reviewed the internal controls in place for recording, accumulating, and reporting costs under the grant as well as the internal controls surrounding the implementation of the program. We determined that the controls were adequate for the reporting and disclosure of pertinent financial data.

Results:

All identified specific tasks in the grant, as summarized above, have been achieved.

We have no findings or recommendations.
Grant Funding

Matching requirements under Appalachian Area Development, Supplemental, and Direct Grants, CFDA Number 23.002, state that, generally, grants are limited to 50 percent of project costs. For projects in counties designated as At Risk, this limit can be raised to 70 percent and, in economically distressed counties, it can be raised to 80 percent. For projects in counties designated as competitive (those that are approaching national economic norms), funding is usually limited to 30 percent of project costs. Funding is usually not available for projects located in counties that have attained or exceeded national economic norms. The ARC funding to CDBG has met the below the 50 percent requirement.

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<tr>
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<th>Funding</th>
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<td>ARC</td>
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<td>TOTAL</td>
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Grant Objectives

Program objectives specified within the grant were to construct a 20,000 square-foot community building, remove 2 blighted properties from the downtown district, create 2 new jobs, and retain 45 jobs. In addition, the grant also specified objectives as follows: create new home ownership opportunities in the surrounding residential district, serve an additional 2,935 persons at the new facility, and spark economic revitalization in a neglected neighborhood.

HRDC met the program objectives with respect to constructing a 20,000 square-foot community building, removing 2 blighted properties from the downtown district, creating 2 new jobs, and retaining 45 jobs.

We discussed the other objectives with the Chief Financial Officer, HRDC, and Manager, Department of Community Development, and they indicated that the other objectives were difficult to measure. While the overall neighborhood was revitalized by the new center, new home ownership opportunities increased, and the number of clients served went from 21,686 during 2008 to 24,454 during 2011, an increase of 2,768. The Virginia Avenue (south end of Cumberland) corridor has had several commercial properties open since HRDC opened at 125 Virginia Avenue. Directly across the street, a small restaurant has opened. A convenience store has opened and a gas station’s convenience store has reopened with a larger store to accommodate traffic and customer flow. A new bar and grill has opened on Virginia Avenue. Next to the bar and grill, a new church has opened. A costume shop has also opened its doors during this period. This is all within the first two years on Virginia Avenue.