
**Final Independent Accountants' Report on
Grant Agreement Expenditures**

**Grants MD-10952-97 and MD-10952-C7
Maryland Office of Planning
Baltimore, Maryland**

**Submitted to the
OFFICE OF INSPECTOR GENERAL
OF THE
APPALACHIAN REGIONAL COMMISSION**

Report No. 02-7 (H)

Prepared by

**Leon Snead & Company, P.C.
October 18, 2001**

TABLE OF CONTENTS

| | |
|--|---|
| Background and Objectives | 1 |
| Scope and Methodology | 2 |
| Results..... | 4 |
| 1. Grant Files and Documentation | 4 |
| 2. Reallocations of Grant Funds | 5 |
| 3. Questioned Costs | 7 |
| Conclusions..... | 9 |
| Distribution | 9 |
| Grantee's Comments..... | 9 |

**FINAL INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES TO
GRANT AGREEMENT EXPENDITURES**

To the Inspector General of the Appalachian Regional Commission:

BACKGROUND AND OBJECTIVES

The Appalachian Regional Commission (ARC) is a regional economic development agency representing a unique partnership of Federal, state, and local government. The ARC is composed of the Governors of the 13 Appalachian states and a Federal Co-Chair appointed by the President. The geographical boundaries of the Appalachian Region extend from the southern tier counties in central and western New York to the northern counties in Alabama and Mississippi.

Each year Congress appropriates funds that ARC allocates among its member states in line with an allocation formula which is intended to provide a fair and reasonable distribution of available resources among the 13 Appalachian member states.

The Appalachian Regional Commission (ARC) awarded Consolidated Technical Assistant Grants MD-10952-97 (Grant C6, or Phase I) and MD-10952-C7 (Grant C7, or Phase II) to the Maryland Office of Planning (MOP) to provide funds for specific research and technical assistance activities, with deliverables, generally in conjunction with local governments in Appalachian Maryland. Grant C6, for the ARC program year beginning October 1, 1997 and ending December 31, 1998, provided up to \$213,250 in ARC funding for 13 research and technical assistance mini-grants. Grant C7, for the ARC program year beginning October 1, 1998, and scheduled to end on December 31, 1999, provided up to \$209,000 in ARC funding for 14 specific research and technical assistance mini-grants. The MOP was to administer these 27 mini-grants in accordance with the terms of ARC Contract Numbers MD-10952-97 and MD-10952-C7 as supplemented by the 27 individual Grant Agreement and/or Memorandums of Understanding between the MOP and its subgrantees.

Grant Agreement MD-10952-97 (Grant C6) was amended 3 times after it was signed in September 1997. Amendment 1, approved February 19, 1998, increased the total number of specific research and technical assistance mini-grants from 13 to 15. The amendment did not change the grant ending date of December 31, 1998. It also stated that no additional ARC funds were involved and that all other terms and conditions remained in full force and effect. Amendment 2, approved March 16, 1998, increased the total number of specific research and technical assistance mini-grants from 15 to 16. The amendment did not change the grant ending date of December 31, 1998. It also stated that no additional ARC funds were involved and that all other terms and conditions remained in full force and effect. Amendment 3, approved December 17, 1998, added

the grantee's letter dated September 2, 1998 to the Statement of Purpose: Incorporation of Proposal paragraph listed in Part I, Special Provisions, of the original Grant Agreement.

Grant Agreement MD-10952-C7 (Grant C7) was amended only once. Amendment 1, approved December 22, 1999, extended the grant period of performance from December 31, 1999 to March 31, 2000. The amendment also stated that no additional ARC funds were involved and that all other terms and conditions remained in full force and effect.

Leon Snead & Company, P.C. is under contract to the Office of Inspector General (OIG) of the ARC to provide audit services. We performed agreed upon procedures on the grant expenditures reported to the ARC for the period October 1, 1997 through March 31, 2000. The objectives of our agreed upon procedures were to determine whether the reported grant expenditures were allowable, allocable, and reasonable and whether the grantee was in compliance with applicable laws and regulations.

SCOPE AND METHODOLOGY

We performed the procedures enumerated below, which were agreed to by the Inspector General of the Appalachian Regional Commission solely to assist you in evaluating grant expenditures by the grantee. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report.

Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The provisions of Office of Management and Budget (OMB) Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations"; OMB Circular A-110 "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Learning, Hospitals, and Other Non-Profit Organizations"; OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments"; the Federal Drug-Free Workplace Act of 1998 (Public Law 100-690); the Federal Anti-Lobbying Act (Public Law 101-121); the Federal Acquisition Regulations (FAR); other Federal, state, or local procedures designed to insure fair and non-discriminatory procedures were used for the selection of participants; agreed to procedures that emphasize the expenditure of grant funds in line with the provisions of the grant agreement; and the ARC Code were used as the basis for determining allowable costs and compliance requirements. These agreed upon procedures were performed in accordance with generally accepted auditing standards and *Government Auditing Standards*, 1994 version, as amended, issued by the Comptroller General of the United States.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the financial statements of the grantee.

Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The grantee reported expending all \$213,250 and \$209,000 in ARC grants MD-10952-97 and MD-10952-C7 funds, respectively. The grantee also reported matching these ARC grant funds with \$349,173 and \$312,930 in state and/or local grant matching expenditures.

We visited the Maryland Office of Planning (MOP) offices in Baltimore, Maryland during the period October 23 thru October 27, 2000 and again on March 26, 2001. We also visited the MOP office in Cumberland, Maryland on December 14, 2000. The MOP provided additional documentation with its response dated September 4, 2001 to our draft report. The MOP provided a revised response dated October 28, 2001 indexing the documentation to the draft report. We reviewed this documentation and considered it in this final report.

Specifically we performed the following procedures:

- We discussed the grant expenditure process and internal controls with MOP Headquarters officials in Baltimore, Maryland.
- We reviewed the available detail support for all \$213,500 (100%) of the reported expenditures charged to ARC Grant MD-10952-97 between October 1, 1997 (the Phase I grant period starting date) and December 31, 1998 (the grant Phase I period of performance ending date) and tied the grant expenditures to the supporting vendor invoices, payment checks, and other supporting documents.
- We reviewed the available detail support for all \$349,174 (100%) in reported grant MD-10952-97 State, applicant, and local grant matching expenditures.
- We reviewed the available detail support for all \$209,000 (100%) of the reported expenditures charged to ARC Grant MD-10952-C7 between October 1, 1998 (the Phase II grant period starting date) and March 31, 2000 (the grant Phase II period of performance ending date) and tied the grant expenditures to the supporting vendor invoices, payment checks, and other supporting documents.
- We reviewed the available detail support for all \$312,931 (100%) in reported grant MD-10952-C7 state and local grant matching expenditures.
- We compared the grant expenditures made with the project budgets for both grant Phases I and II to determine if grant funds were spent only on items which were included in the original project budgets, and if ARC approval had been requested and obtained for any items not included in the original project budgets.

RESULTS

We noted the following exceptions:

1) Grant files and documentation

Condition

The grantee's grant files and documentation were incomplete and unorganized. Also, partial files were maintained at two separate locations. Files and documentation for grant expenditures were not always separated by mini-grant, subgrantee or grant period.

Criteria

- (1) A separate master file which contains a complete record of all of the administrative, accounting, expenditure or payment, and grant matching (cash or in-kind) transactions should be maintained for each individual ARC grant. The grantee should file separately documentary support for each grant phase, location, and grant period.
- (2) Mini-grant expenditures should be accumulated under the same grant project title and/or subgrantee as was approved by the ARC.

Discussion

The official grant accounting, administration, and payment records for ARC grants MD-10952-97 and MD-10952-C7 were not maintained in one centralized location. Records for the grants were maintained in 3 different sets of files at 2 locations. The project manager responsible for administering the grant was located in Cumberland, Maryland. All of the cash disbursements of ARC grant funds were made by grantee personnel in Baltimore, Maryland. In some instances, vendors sent invoices directly to Baltimore while others sent invoices to the project manager. We found that neither the Baltimore nor the Cumberland files contained complete documentation for the ARC grants.

The incomplete files impaired the ability of grantee personnel in both locations to effectively administer these grants. We noted that some of the mini-grant files in the grantee's Baltimore offices were empty, incomplete, or contained documentation which did not appear to match the information contained in the mini-grant agreements approved by the ARC. As a result, no one grantee office or entity had a complete picture of grant activity and status. Also, we noted 1 instance on ARC Grant MD -10952-97, and 2 instances on ARC Grant MD-10952-C7, where the supporting grant project description spanned 3 grant phases (Phase I, Phase II, and

Phase III). Each phase involved a different ARC grant year. As a result, the project locations shown on the grant project descriptions differed from the project description under which the grant expenditures were incurred and reported.

Recommendations

- (1) The grantee should maintain a complete and comprehensive file on each individual ARC grant, or subgrant, which contains a copy of all of the grant contract administration, accounting, and payment documentation.
- (2) The grantee should accumulate project expenditures under the same mini-grant title and subgrantee as was approved by ARC at the time the consolidated technical assistance grant was granted unless approval to do otherwise is provided, in writing, by the ARC.

Grantee's Comments

The Grantee's headquarters office has reviewed the procedure for maintaining all related records, processing of vendors request for payment and disbursement of funds. New procedures have been put in place to ensure that all actions are coordinated with the regional office and managed through headquarters. The Baltimore headquarters will maintain a complete consolidated set of records for all grants. The grantee agrees to change the way grant expenditures are documented to ensure they are clear and accurate. The grantee further agrees to accumulate project expenditures under the same mini-grant title and subgrantee as approved by ARC. Any changes in these arrangements will be put in writing to ARC.

Accountants' Response

The grantee's corrective action plan is acceptable.

2) *Reallocations of Grant Funds*

Condition

We noted a number of instances on both ARC Grants MD-10952-97 and MD-10952-C7 where the grantee had reallocated ARC funds which were not needed on some mini-grant projects to other mini-grant projects. No documentation was available to show that these reallocations of ARC funds between mini-grants had been approved by the ARC. Also, the grantee was unable to provide documentation showing that it had amended the mini-grant agreements between the grantee and its subgrantees to reflect these reallocations.

Criteria

- (1) All mini-grant agreements must be supported by grant agreements between the grantee and its subgrantees, and the mini-grant agreements must be approved by the ARC. Each mini-grant generally involves a different subgrantee, so the grantee may not transfer ARC funds between mini-grants without first obtaining ARC approval.
- (2) The grantee may not transfer ARC funds between mini-grants without first amending the affected mini-grant agreements between the grantee and its subgrantees by using either notification of change letters or grant amendments.

Discussion

A consolidated technical assistance grant involves multiple subgrantees, each having a grant agreement between the grantee and the subgrantee which must stand on its own, and be approved by ARC. The grantee does not have the latitude to shift ARC funds from one subgrantee to another without first obtaining ARC's approval. This approval must be obtained for two reasons. First, it is necessary to maintain proper accountability over the ARC grant funds. Second, the terms of the individual grant agreements cannot be changed by the grantee without the use of either grant amendments or written approval letters. As the original mini-grant agreements were incorporated into the grant agreement between ARC and the grantee by reference, the grantee must obtain approval from the ARC to reallocate ARC grant funds between mini-grant projects.

We found that the grantee reallocated approved surplus mini-grant funds from 5 of the 17 ARC Grant MD-10952-97 mini-grant projects to 4 other ARC-approved mini grant projects. Similarly we found that the grantee reallocated surplus mini-grant funds from 4 of the 14 ARC Grant MD-10952 mini-grant project to 3 approved, and 1 unapproved, ARC mini-grant projects. The grantee could not provide documentary evidence showing that any of these ARC fund transfers between mini-grants had been approved by the ARC, or that ARC approval for these fund transfers had been requested. Also, the grantee could not provide documentary evidence showing that the mini-grants affected by these reallocations had been amended. The grantee did not amend its mini-grant agreements with its subgrantees to reflect these reallocations using either notification of change letters or grant amendments.

Recommendations

- (1) The grantee should obtain written approval from ARC prior to transferring ARC grant funds from one mini-grant to another.
- (2) The grantee should assure that all changes in ARC grant funding provided on each mini-grant are supported either by notification letters from the grantee to the

subgrantee or by formally amending the grant amendments between the grantee and its subgrantee.

Grantee's Comments

The grantee agreed to implement new grant management procedures to assure it obtains written ARC approval prior to reallocating funds between mini-grants, and to assure changes are supported either by notification letters to the subgrantees or formal amendment of its mini-grant agreements with its subgrantees.

Accountants' Response

The grantee's corrective action plan is acceptable.

3) *Questioned Costs*

Condition

The grantee claimed costs which were unallowable because: (1) the grantee did not provide supporting documentation for grant expenditures, (2) the grantee exceeded the ARC-approved budget without ARC approval, (3) the grantee did not provide documentary evidence that the grantee or its subgrantees provided the required grant matching support, and (4) the grantee claimed reimbursement for the same costs twice.

Criteria

- (1) ARC reimbursement is limited to claimed grant expenditures which are found to be allowable, allocable, and reasonable.
- (2) The grantee cannot exceed the ARC-approved budget without prior ARC approval.
- (3) The grantee must meet the grant requirements for grant matching support.

Discussion

For Grant MD-10952-97, we question \$31,985 costs as follows:

(1) Garret County Industrial Park Signage and Marketing

| | |
|--|-------|
| No supporting documentation (6 hours @ \$24.50=\$147x50%) | \$ 73 |
| Budget exceeded without ARC approval | 3,538 |

Duplicate claim 860
 (\$1,770 for invoice 3104 and \$1,720 for the
 purchase order for the same item charged to grant:
 \$1,720 x 50%)

Subtotal \$ 4,471

(2) *Labor Market Quality Evaluation Study – Allegany and Washington Counties*

No supporting documentation 5,033

(3) *Regional Promotion and Marketing Posters*

Budget exceeded without ARC approval 584

(4) *Enhanced Digital Street Address Map*

No supporting documentation \$ 10,000
 Budget exceeded without ARC approval 4,780
 Required grant match not made/supported 2,500

Subtotal 17,280

(5) *Westernport Comprehensive Plan and Zoning Ordinance*

Budget exceeded without ARC approval \$ 3,638
 Duplicate claim 979
 (\$979.26 included twice in a grant expenditures
 summary tape totaling \$2,680.93)

Subtotal 4,617

Total questioned costs for Grant MD-10952-97 \$31,985

For Grant MD-10952-C7, we question \$32,438 costs as follows

(1) *Allegany- Washington County Trails Guide*

Budget exceeded without ARC approval \$ 12,000
 Required grant match not made/supported 9,746

Subtotal \$21,746

(2) *Program Manager Office Computerization*

Budget exceeded without ARC approval 5,488

(3) *State Assistance to Local Governments for the Census 2000 Program*

| | |
|---|-----------------|
| Budget exceeded without ARC approval | 5,204 |
| Total questioned costs for Grant MD-10952-C7 | \$32,438 |

Recommendations

- (1) ARC should disallow \$31,985 of cost reimbursements claimed by the grantee for Grant MD-10952-97.
- (2) ARC should disallow \$32,438 of cost reimbursements claimed by the grantee for Grant MD-10952-C7.

Grantee's Comments

The grantee provided additional documentation in response to costs questioned in the draft report.

Accountants' Response

We have revised our initially questioned costs based on the additional documentation provided by the grantee. The above Discussion and Recommendations contain our revised questioned costs.

CONCLUSIONS

Based on the results of our agreed upon procedures, in our opinion \$181,265 of the \$213,250 in grant fund expenditures incurred between October 1, 1997 and December 31, 1998 which were charged to the ARC for Grant MD-10952-97 were allowable, allocable and reasonable and should be accepted by the ARC. We questioned costs of \$31,985.

Based on the results of our agreed upon procedures, in our opinion \$176,562 of the \$209,000 in grant fund expenditures incurred between October 1, 1998 and March 31, 2001 which were charged to the ARC for Grant MD-10952-C7 were allowable, allocable and reasonable and should be accepted by the ARC. We questioned costs of \$32,438.

DISTRIBUTION

This report is intended for the information and use of the OIG and management of the ARC and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Leon Snead & Company, P.C.
LEON SNEAD & COMPANY, P. C.
October 18, 2001

GRANTEE'S COMMENTS



Maryland Department of Planning

Parris N. Glendening
Governor

Roy W. Kienitz
Secretary

Kathleen Kennedy Townsend
Lt. Governor

Ronald N. Young
Deputy Secretary

September 4, 2001

Ms. Alexis M. Stowe
Vice President
Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, Maryland 20850

Subject: Grantee's Comments to
Draft Report No. 01-20 (H)
Grants MD-10952-97 and MD-10952-C7
Maryland Office of Planning
Baltimore, Maryland

Dear Ms. Stowe:

Enclosed are the comments of the Maryland Department of Planning to the recommendations contained in the draft report referenced above. Should you have any questions concerning these comments, please give me a call at (410) 767-4562.

Sincerely,

Mary Jones Abrams
Director of Administration

Enclosure

cc: Mr. Hubert N. Sparks, Inspector General
Appalachian Regional Commission

Remarks: Letter and enclosure hand delivered 09/04/01.

Grantee's Comments to
Draft Report No. 01-20 (H)
Grants MD-10952-97 and MD-10952-C7
Maryland Office of Planning
Baltimore, Maryland

Introduction

The Maryland Department of Planning has experienced some significant changes in its accounting division since this audit was initiated. The Director of Administration for the Department who was responsible for the management of the agency's finances and the accounting manager for MDP have resigned. It has been extremely difficult to re-create the records or documentation to substantiate some of the decisions which may have guided Planning's actions in the administration of these grant funds particularly since the staff directly involved are no longer in the agency. Thus, the Department requested an extension to prepare its response to the auditor's findings. We agree with many of the recommendations made by the auditor. New procedures have been put in place and others will be put in place to ensure that the Department is in compliance with all Grant Management requirements in accord with ARC guidelines and procedures.

Finally, we would like to point out that staff found the organization of the audit report difficult and somewhat confusing to follow. Every attempt has been made to respond to the issues raised in a clear and concise manner. After reviewing the Grantee's response, we urge the auditor to contact us if some part is unclear or a response requires further explanation. The Maryland Department of Planning is only interested in correcting any errors we may have made in the administration of these grants in the interest of continuing a mutually beneficial relationship with the Appalachian Regional Commission.

Grantee's Comments

The Grantee's comments have been organized in accord with the Auditors report, starting with page 4, section titled Results.

1. Grant records not in proper condition p.4:

As of this writing, the Baltimore headquarter office has consolidated in one location a complete set of all grant related records including contracts invoices, correspondence and other documents supporting all ARC grant funds and matching expenditures as recommended by the auditor. The files contain information to demonstrate and support that the grant expenditures and matching fund requirements were met in accord with the terms of the grant agreements. Where the auditor noted additional documentation was needed, it is attached to this report. All attachments are clearly identified with the title of the mini-grant. Any confusion stemming from differences in mini-grant titles under which grant costs were

accumulated and the title of approved grants, has been corrected. The following comments respond to specific issues raised concerning various mini-grant projects.

Labor Market Study – Allegany and Washington Counties

The auditor states there is no documentation for this grant.

This was a \$12,500 grant; \$6,250 in ARC funds and \$6,250 in matching in-kind funds included as a part of the original ARC/CTA Contract 10952-97. The sub-grantee for this project was Frostburg State University. Timesheets from Frostburg State University (FSU) staff for the in-kind match were in the files. The Western Maryland staff contacted Peggy Dalton at FSU, the consultant who performed the work for this grant, to request more defining documentation, which is attached. The grant was used to develop a directory and conduct a survey of 1100 firms in the tri-state region collecting information on wage rates, absentee rates, productivity, turnover rates and training expenses. The results of the survey were reported in the Final Report for ARC Contract 10952-97 dated January 26, 1999. Since this project was completed by a single sub-grantee, accordingly, there are no other vendor invoices, or purchase orders. MDP believes all costs have been properly documented and said costs should therefore be allowed.

Enhanced Digital Street Map

This is a \$25,000 grant; \$12,500 in ARC funds; \$12,500 in OP matching in-kind funds. The ARC auditor states the budget was exceeded and no documentation was provided for the \$12,500 in matching in-kind funds. Due to the nature of the project(s) and the relationship of the tasks to be performed, work for this grant Enhanced Digital Street Map and the State Assistance to Local Governments for the Census 2000 Program grant were performed simultaneously and therefore logged together on MDP staff timesheets (attached). All parties were aware this was how the product for these two grants was to be generated. It should be noted that the work required to generate the products (maps and tables), for these grants consisted of layering several sets of data into a digital map and therefore it was logical for the task to be performed simultaneously. The documentation for both projects was only included in the State Assistance to Local Governments for the Census 2000 Program. Timesheets have been copied and placed in the Enhanced Digital Street Address Map file with a notation and explanation. Documentation on the timesheets shows \$36,743.80 in staff time. When the \$12,500 match required for the Enhanced Digital Street Map is added to the \$7,500 match for the State Assistance to Local Governments for the Census 2000 Program the total is \$20,000. Thus, the match documentation is well above what is required by the ARC agreement for the match of both grants. The final products for both grants were packaged on a CD and provided to local government and delivered to the ARC office in Washington DC. The products were also reported in the Final Report for ARC Contract 10952-97 dated January 26, 1999. We believe all cost should be allowed

Westernport Comprehensive Plan and Zoning Ordinance

The auditor states that the budget was exceeded and the grant match not met.

This was a \$10,000 grant; \$5,000 in ARC funds and \$5,000 in OP matching in-kind funds. The files reviewed by the auditor contained time sheets for the grant match totaling \$8,638. We located additional timesheets documenting staff work on this project totaling \$1,506.26 (attached). These documents demonstrate the required amount needed in matching in-kind funds (totaling \$10,244) was met. We therefore believe these costs should be allowed.

The auditor states there was a duplicated claim for \$979 or 28 hours of labor billed at \$34.97 an hour. This billing rate is consistent with the billing rate for the senior planner in the Western Maryland Office. However, we could find no timesheets duplicating time spent on this grant by this person. There is no duplication of dates or times on file. We therefore believe these costs should be allowed.

Westernport Comprehensive Plan/Westernport Greenway Park Project

The auditor stated that the ARC budget was exceeded and these costs should not be allowed. There was an amendment to the Consolidated Technical Assistance Grant (MD-10952-C6-302) adding the Westernport Greenway Park Project (attached), which is very similar in name to the Westernport Comprehensive Plan and Zoning Ordinance. The Westernport Greenway Park Project grant was for \$7,000 - \$3,500 in ARC funds and \$3,500 cash match from the Department of Natural Resources. The expenditures for both projects were indicated on the invoice dated 5/19/99 and submitted to ARC on the Final Cost Summary for the period October 1, 1997 through December 31, 1998. Under this heading are listed expenditures for OP and Allegany county-Westernport greenway. OP was the contractor for the Westernport Comprehensive Plan and Zoning project and worked with the Department of Natural Resources to complete the greenway project. MDP received payment for the total amount requested which we believe was confirmation these expenditures were accepted by ARC (see further discussion under section 3 to support this point).

2. Grant records diffused – p.6

The Grantee's headquarters office has reviewed the procedure for maintaining all related records, processing of vendors request for payment and disbursement of funds. New procedures have been put in place to ensure that all actions are coordinated with the regional office and managed thru headquarters. The Baltimore headquarters office will maintain a complete consolidated set of records for all grants.

3. Approved budgeted amounts exceeded

The auditor recommendation states "the grantee should obtain ARC's written approval for all ARC fund transfers between mini-grants, and should also amend the agreements for the grantee has with its grant recipients.... Four of the 17 ARC Grant MD-10952-97 mini-grant projects were exceeded."

It was our accountants' understanding, with ARC, that funds could be transferred between the mini-grants without prior approval as long as the total grant amount was not exceeded. This procedure was followed and ARC accordingly reimbursed MDP for costs exceeding the original mini-grant amounts in several instances. It is our position that ARC's acceptance and payment of the invoices submitted by MDP over the period of these grants was confirmation that the costs submitted in excess of the original mini-grant amounts were approved. ARC was aware of the amounts allocated for each mini-grant and what MDP submitted for reimbursement by mini-grant on the invoices. The invoices were never questioned and payment was received. We therefore disagree with your conclusion that \$38,732 in costs was unapproved by ARC.

We will implement your recommended procedure of obtaining written approval for fund transfers in the future.

Garrett County Industrial Park Signage and Marketing

The auditor's report states the budget was exceeded and there was duplication of invoices.

This was a \$15,000 grant; \$7,500 in ARC funds, \$7,500 in matching, in-kind funds. This file included misfiled invoices for other related grant projects --the Regional Promotion and Marketing Poster and "Economic Growth In Western Maryland" brochures) grant. After separating the documentation for these projects, we concluded that this grant was paid according to the grant agreement (see statement at the beginning of section 3) and all documentation was provided. The reimbursement request found in the Garrett County Industrial Park Signage and Marketing file is for \$5,980. The Western Maryland Office provided documentation for \$9,403 for a sign and erection of said sign for the Northern Garrett Industrial Park. Documentation from Garrett County in the form of timesheets for \$2,557.60 in in-kind matching funds is also included in this file. The combined total of the cost of the sign (\$9,403) and the in-kind match (\$2,557.60) is \$11,960.60. 50% of that amount is \$5,980, which Garrett County was reimbursed.

The auditor states there was duplication of invoice 3104 for \$1,770. The file contained an invoice from Patricia Litho, Ltd requesting payment from the Maryland Office of Planning for \$1,770 (\$1,720 for brochures and \$50 for "Author's Corrections") (attached). There are several copies of Purchase Order, D40P9000254, for \$1,720 and a copy of a (State of Maryland) Change Order for Purchase Order, D40P9000254, for \$50 (a total of \$1,770), from the Maryland Office of Planning requesting payment to Patricia Litho, Ltd. for the \$1,770 (attached). There is one invoice from Patricia Litho, Ltd. stamped with a Maryland Office of Planning stamp noting that it was paid in the amount of \$1,770. There is no evidence that this was paid twice. We acknowledge that there are several copies of the same invoice and purchase order in the file, but many of these copies say reprint in the upper left-hand corner. In the future we will ensure that unnecessary documents are removed from files to avoid any confusion. Since we can find no evidence the invoice was paid twice, we believe the expenditure should be allowed.

Regional Promotion and Marketing Poster

The auditor's report states the budget was exceeded with no ARC approval. Please see response at beginning of section 3.

As noted above, the invoices for this grant were misfiled in the Garrett County Industrial Park Signage and Marketing grant file. This was a \$15,000 grant; \$7,500 in ARC funds, \$7,500 in OP matching in-kind funds. The invoices for this grant total \$5,057. To complete the documentation for this grant, MDP is submitting timesheets exceeding the required \$5,057 to document matching in-kind funds were spent (attached) There is documentation to demonstrate the match of \$7,500 was provided and all costs should be allowed.

Enhanced Digital Street Map - please see response under this heading in section 2 and introduction to section 3.

Westernport Comprehensive Plan and Zoning Ordinance – please see response under section 2 and the introduction to section 3.

Allegany-Washington Counties Trails Guide

The auditor states grant match was not met.

This was a \$24,000 grant; \$12,000 in ARC funds and \$12,000 in matching DNR and OP in-kind funds. The Western Maryland office has provided documentation for \$10,399.67 and Local Planning Assistance unit at headquarters has provided documentation for \$2,254.42 in matching in-kind funds (attached). Thus, all documentation has been provided to meet the match. It should be noted that the supporting documentation for the invoice requesting reimbursement for this mini-grant contained an error showing the total amount of the grant \$24,000 under the ARC heading. We are still looking for documentation to verify that this was a paper error and MDP was owed the additional \$12,000. For example the ARC portion of the Cumberland Economic Development Marketing project was \$12,500. MDP only requested and received reimbursement for \$10,000 though the Department should have requested (and can support) \$12,500.

Program Manager Office Computerization

The ARC auditor states the budget was exceeded. This was a \$7,000 grant; \$3,500 in ARC funds and \$3,500 in matching OP in-kind funds. Please see statement at introduction to section 3. We believe these costs should be allowed.

State Assistance to Local Governments for the Census 2000 Program

The auditor's report states the budget was exceeded. This was a \$15,000 grant; \$7,500 in ARC funds and \$7,500 in matching OP in-kind funds. Documentation in the file in the form of OP staff timesheets shows \$36,743 in matching in-kind funds. Please also see Enhanced Digital Street Map response.

Cumberland Economic Development Marketing Program

The auditor's report states the grant was not ARC approved.

Documentation in Western Maryland and headquarter files show this grant was approved as part of the original application to ARC for the grant year (see attachment). This was a \$25,000 grant, \$12,500 in ARC funds and \$12,500 in matching Cumberland in-kind funds.

4. Required Grant Matches Not Provided

The auditor states -we found the grantee had not provided grant matches required per the mini-grant agreementson two each ARC Grants MD-10952-97 and MD-10952-C7...

Enhanced Digital Street Address Map – see discussion under this heading in section 1 above.

Westernport Comprehensive Plan and Zoning Ordinance – see discussion under this heading in section 1 above.

Allegheny-Washington County Trails Guide – This was a \$24,000 grant; \$12,000 in ARC funds and \$12,000 in matching DNR and OP in-kind funds. The Western Maryland files provide documentation for \$10,399.67, of in-kind funds and the Local Planning Assistance unit in the headquarters office has provided documentation to support and additional \$2,254.42 of in-kind funds (attached). In addition files at headquarters show MDP spent \$11,500 to have the booklet for this project printed. We believe the additional documentation satisfies the match requirement for this mini-grant.

State Assistance to Local Governments for the Census 2000 Program – see discussion under this heading in section 3 above.

5. Non-ARC approved mini-grant expenditures

ARC Grant 10952-C7 Cumberland Economic Development Marketing Program – The documentation in the files (attached) indicates this grant was approved as part of the original application to ARC for the grant year, work was completed, match provided and funds expended in accord with the grant agreement. Therefore, the \$10,000 should be allowed.

6. *Fund reallocations not approved by ARC*

The Grantee has been advised of the need to obtain advance ARC approval for ARC grant fund transfers and reallocation to other mini-grants.

First we direct your attention to our response in section 3, which we believe in part addresses this issue. Second and more important, new grant management procedures have been put in place to address this issue. This greater level of accountability will ensure that the Grantee avoids such situations in the future.

7. *Mini-grants not Amended*

The audit "noted a number of instances on both ARC grants MD10952-97 and MD-10952-C7, where the grantee had reallocated ARC funds which were not needed on some mini-grant projects to other mini-grant projects.

The Grantee is aware of the need to ensure that all changes in ARC grant funding provided on each mini-grant is supported by appropriate documentation and the need to formally amend the grant agreements between the grantee and its sub-grantees. The regional office and headquarter office of agreed such procedures will be followed in the future.

8. *Multi-year, multi-location mini-grants*

We have reviewed the auditor's recommendations and agree to change the way grant expenditures are documented to ensure they are clear and accurate. The Grantee further agrees to accumulate project expenditures under the same mini-grant title and sub-grantee as approved by ARC. Any changes in these arrangements will be put in writing to ARC.

9. *Grant expenditures over-claims*

The auditor recommend that ARC disallow the \$1912 of duplicated charges the grantee included in the reported ARC Grant MD-10952.97 expenditures.

The audit discussion references overcharges under the "Garrett County Industrial Park Signage and Marketing Project" and the "Westernport comprehensive Plan and Zoning Ordinance." Please see the response in section 3 under the heading "Garret county Industrial Signage and Marketing Project, paragraph 2; and see the response in section 1 under the heading "Westernport comprehensive Plan and Zoning Ordinance", paragraph 3.