



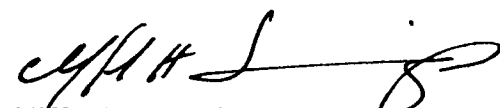
July 8, 2004

Memorandum for The Federal Co-Chair
 ARC Executive Director

Subject: OIG Report 04-09, Audit of Revolving Loan Fund
 Ohio Valley Regional Development Commission

Attached is a copy of the subject report dealing with the Ohio Valley Regional Development Commission (OVRDC) Revolving Loan Fund (RLF). The audit was performed by the firm of Leon Snead & Company, P.C. The auditors determined that, overall, the OVRDC: (1) operated the RLF in compliance with ARC regulations and guidelines, the grant agreement, and operating plan; (2) implemented sufficient internal controls to assure semiannual reports to ARC were completed accurately and timely; and (3) had taken actions to correct a deficiency identified by ARC personnel during a prior review. The auditors did note that OVRDC needed to strengthen its follow-up to ensure key borrower financial information, used for loan servicing, is obtained as required by the borrower's loan agreement. The ARC Executive Director agreed with the findings and recommendation. The audit will be considered closed.

Please contact me if you have any questions on this issue.


Clifford H. Jennings
Inspector General

Attachment



**LEON SNEAD
& COMPANY, P.C.**

416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
fax: 301-738-8210
leonsnead.companypc@erols.com

*Received
6/29/04*

Certified Public Accountants
& Management Consultants

MEMORANDUM

DATE: June 25, 2004

TO: Clifford Jennings, Inspector General
Appalachian Regional Commission
Office of Inspector General
1666 Connecticut Avenue, N.W. Room 215
Washington, DC 20009-1068

FROM: 
Leon Snead, President

SUBJECT: Final Audit Report
Ohio Valley Regional Development Commission (OVRDC)

Enclosed for distribution to ARC and Grantee Officials are five copies of the subject audit report. If you have any questions, please call me at 301-738-8190.

Enclosure

**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF REVOLVING LOAN FUND
Ohio Valley Regional Development Commission**

**Report No. 04-09
June 2004**

**Prepared by
Leon Snead & Company, P.C.**



**LEON SNEAD
& COMPANY, P.C.**

*Certified Public Accountants
& Management Consultants*

416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
fax: 301-738-8210
leonsnead.companypc@erols.com

June 25, 2004

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, N.W.
Washington, D.C. 20009

Leon Snead & Company, P.C. has completed an audit of the Ohio Valley Regional Development Commission (OVRDC) Revolving Loan Fund (RLF). The audit was performed at the request of the Appalachian Regional Commission's (ARC), Office of the Inspector General (OIG) to assist in carrying out its oversight of ARC activities.

The audit objectives were to determine if: (1) the grantee complied with the requirements of applicable laws, OMB Circulars, ARC Guidelines and its grant agreement and operating plan (2) the grantee's internal control policies and procedures were adequate to assure that RLF transactions were properly recorded, and accurately and timely reported to the ARC on its semiannual reports, (3) administrative costs reported on the semiannual reports were allowable, supported and reasonable, and (4) appropriate actions have been taken to resolve or correct deficiencies identified in prior audits and reviews.

The audit determined that, overall, the OVRDC: (1) operated the RLF in compliance with ARC regulations and guidelines, the grant agreement, and operating plan; (2) implemented sufficient internal controls to assure semiannual reports to ARC were completed accurately and timely; and (3) had taken actions to correct a deficiency identified by ARC personnel during a prior review performed. However, we did note during our audit that OVRDC needed to strengthen its follow-up to ensure key borrower financial information, used for loan servicing, is obtained as required by the borrower's loan agreement.

A draft report was provided to ARC program officials and RLF officials for comment on May 25, 2004. The Executive Director, ARC agreed with the findings and recommendations. The comments of the Executive Director are included in their entirety in Appendix A.

Leon Snead & Company appreciates the cooperation and assistance received from OVRDC and ARC personnel during the audit.

Sincerely,

Leon Snead & Company, P.C.
Leon Snead & Company, P. C.

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Introduction

Leon Snead & Company, P.C. has completed an audit of Revolving Loan Fund (RLF) grant awarded by the Appalachian Regional Commission (ARC) to Ohio Valley Regional Development Commission (OVRDC). The audit was performed at the request of ARC Office of the Inspector General (OIG) to assist it in carrying out its oversight of ARC grant activities.

OVRDC was established as a not-for-profit corporation in 1967, and was designated a “Regional Planning and Development Organization” by Ohio in 1977. A commission of about 150 officials governs OVRDC. A 12 member Executive Committee, representing all counties in the commission, provides routine oversight over OVRDC activities. OVRDC serves as a Local Development District (LDD) for the ARC and provides loan services in 11 Ohio counties.

OVRDC received its initial RFL grant in 1985. As of March 31, 2004, it had received over \$1 million in ARC RLF grants, of which about \$740,000 was outstanding for lending purposes. Of this outstanding grant amount, OVRDC had 14 loans outstanding with unpaid balances totaling approximately \$591,680.

A RLF is a business development revolving loan fund that is used by eligible grantees to make loans to create and/or save jobs. As borrowers repay their loan, the money is returned to the RLF to make additional loans. RLF loans are not intended to match or replace the capacity of lending institutions, rather, they fill gaps in local lending, and provide capital which otherwise would not be available for economic development. The primary goals of OVRDC’s RLF were to: (1) encourage the expansion and stability of the economic base of the area served; (2) encourage increased employment opportunities, particularly for low/moderate income residents; (3) stimulate private sector capital formation; (4) encourage redevelopment of blighted or vacant areas for productive uses; (5) provide employers with needed capital for start up, expansion, or retention of businesses; and (6) coordinate business development activities with other economic development organizations.

The grantee is required to administer the RLF in accordance with its grant agreement and operating plan. The operating plan, developed by the grantee as part of the grant agreement, defines specific objectives and operating procedures, including standards and selection criteria for loans in the portfolio. ARC does not review and approve individual loans made by the RLF. Instead, ARC monitors RLF activities for conformance with the ARC code, RLF Guidelines, operating plan, and other conditions of the grant agreement.

Objectives, Scope, and Methodology

The audit objectives were to determine if: (1) the grantee complied with the requirements of applicable laws, OMB Circulars, ARC Guidelines and its grant agreement and operating plan (2) the grantee’s internal control policies and procedures were adequate to assure that RLF transactions were properly recorded, and accurately and timely reported

ARC on its semiannual reports, (3) administrative costs reported on the semiannual reports were allowable, supported and reasonable, and (4) appropriate actions have been taken to resolve or correct deficiencies identified in prior audits and reviews. The audit covered OVRDC RLF activities for the period October 1, 2002 to March 31, 2004. Audit fieldwork was completed at OVRDC on April 30, 2004.

We reviewed grantee policies and operating procedures to gain an understanding of the grantee's system of administrative and accounting controls. In addition, we accessed the accounting and administrative controls established by OVRDC to assure RLF operations adhered to applicable ARC Guidelines, OMB regulations, and OVRDC's grant agreement and operating plan. The audit included tests of OVRDC's subsidiary and detailed loan records to assure the financial information submitted to ARC was supported. We verified that the loans made by the grantee complied with ARC Guidelines and the RLF operating plan. We performed tests of selected administrative costs claimed by OVRDC to validate that the costs were allowable, reasonable and supported. We also reviewed OVRDC's most recent single audit, and ARC internal reviews to ensure that corrective actions were taken on any reportable or material weaknesses identified in the reports.

The audit was performed in accordance *Government Auditing Standards*, and included appropriate tests necessary to achieve the audit objectives.

FINDING AND RECOMMENDATION

1. OVRDC needs to strengthen its loan servicing processes to ensure that borrower financial information, such as annual audited financial statements, semiannual or quarterly financial data, and/or individual income tax information is received and reviewed, as required by the borrower's loan agreement. The absence of this key financial information could reduce the effectiveness of OVRDC's monitoring of high-risk borrowers.

ARC Guidelines require the grantee to have sufficient staff to enable it to perform required loan servicing, and require grantees to establish internal controls over Federal programs to ensure they are managing the RLF in accordance with provisions of the grant. The OVRDC loan agreement contains requirements that, generally, require borrowers to provide certified annual financial statements, within 90 days of fiscal close. In addition, the agreement also requires borrowers, in most agreements, to provide to OVRDC individual tax returns, and either quarterly or semiannual borrower certified financial statements.

OVRDC closed nine loans totaling \$595,500, since January 1999. Review of six of the nine borrowers loan agreements showed that the agreements required various financial information to be provided to OVRDC. Each of the six loan agreements required certified financial statements within 90 days of fiscal close. The six also required individual tax returns, and/or either quarterly or semiannual borrower certified financial statements to be sent to OVRDC.

Our review disclosed that five of the six borrowers were not providing OVRDC with certified annual financial, semiannual or quarterly borrower certified financial statements, and/or individual tax return information, as required by the borrower loan agreements. The absence of this key borrower financial information could hinder OVRDC monitoring of borrower operations. Review of financial information is an important aid in preventing or reducing borrower delinquencies or defaults.

OVRDC personnel advised that servicing actions on borrowers might not always be documented, even though servicing actions may have been taken. The personnel also advised that review of borrower financial information might also be performed at a participating lending institution, even though the borrower's financial statement was not on file at OVRDC. OVRDC personnel agreed that the receipt and documentation of the analysis of financial information received from borrowers could be strengthened.

The OVRDC has implemented strong requirements for the submission of borrower financial information, and incorporated these requirements into each borrower's loan agreement. This information can provide OVRDC with key data on the financial strength of its borrowers. Analysis of this data enables OVRDC personnel to target limited resources to borrowers that could be in financial distress. However, controls need to be strengthened to ensure that this data is received from borrowers. Also,

documentation needs to be strengthened concerning the loan servicing provided to borrowers in need of such servicing.

Recommendation

ARC should require the OVRDC to:

1. Strengthen controls to assure that required financial information is received from borrowers in a timely manner. Strengthen documentation of loan servicing actions taken based upon analysis of borrower provided financial information.

Management Response

The Executive Director, ARC concurred with the finding and recommendation. The Executive Director stated that by July 31, 2004, certified financial information will be obtained for the borrowers cited in the report. In the future, the grantee will require borrowers to submit annual financial reports/statements. Twice a year grantee job monitoring will take place.

Auditors Comments

The comments received from the grantee and ARC are considered responsive to the finding and recommendation.

APPENDIX A
MANAGEMENT RESPONSE



**APPALACHIAN
REGIONAL
COMMISSION**

*A Proud Past.
A New Vision*

Office of the Executive Director

June 23, 2004

Leon Snead, President
Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, Maryland 20850

Subject: Management Response to ARC Inspector General Audit of the ARC Funded Revolving Loan Fund at the Ohio Valley Regional Development Commission performed by Leon Snead & Company, P.C.

Dear Mr. Snead:

We concur with the audit findings and recommendations. The Ohio Valley Regional Development Commission, the grantee, has been asked to respond to the action required by the audit Findings and Recommendations. Their response is that:

Each of the five loan clients has been contacted by the grantee. Individual site visits are being established to meet with the borrowers and the primary lending institution to obtain the certified financial information identified in the fourth paragraph of the Findings and Recommendations. This should be completed by July 31, 2004.

In the future the grantee will require that borrowers submit annual financial reports/statements. Twice a year grantee job monitoring will take place. A reminder notification will be given to borrowers on the occasion of each job monitor to identify financial reports/statements needed by the grantee at that time.

Sincerely,

Thomas M. Hunter
Executive Director