



**APPALACHIAN
REGIONAL
COMMISSION**

*A Proud Past,
A New Vision*

Office of Inspector General

December 8, 2004

Memorandum for: The Federal Co-Chair
ARC Executive Director

Subject: OIG Report 05-08
Review of Revolving Loan Fund (RLF) Grant for the
Northwest Pennsylvania Regional Planning and Development
Commission

Attached are copies of the subject report dealing with the RLF grant to the Northwest Pennsylvania Regional Planning and Development Commission. The Northwest Pennsylvania Regional Planning and Development Commission received its initial RLF Grant in 1981. As of April 30, 2004, the Southwestern Pennsylvania Corporation had received \$490,970 in ARC grant funds and has 11 loans outstanding, with an unpaid balance totaling \$778,162.

The report contains two recommendations. The responses by the grantee are considered generally responsive to the recommendations.

This report is considered closed. However, ARC staff should verify that the promised actions have indeed taken place. Please contact me if you have any questions on this issue.

Clifford H. Jennings
Inspector General

Attachment

cc: Director for Program Operations
Director for Finance and Administration

**AUDIT OF THE ARC REVOLVING LOAN FUND
OPERATED BY
Northwest Pennsylvania Regional Planning and Development Commission
Oil City, Pennsylvania**

**ARC Grant Number: PA-8285-81-I-302-0723
PA-7752F-93-I-302-1117**

October 1, 1981 through April 30, 2004

CAUTION: Certain information contained herein is subject to disclosure restrictions under the Freedom of Information Act, 5 U.S.C. 522 (b) (4). Distribution of this report should be limited to Appalachian Regional Commission and other pertinent parties.

Report Number: 05-08

Date: November 30, 2004

**AUDIT OF THE ARC REVOLVING LOAN FUND
OPERATED BY
Northwest Pennsylvania Regional Planning and Development Commission
Oil City, Pennsylvania**

**ARC Grant Number: PA-8285-81-I-302-0723
PA-7752F-93-I-302-1117**

October 1, 1981 through April 30, 2004

Prepared By:

**Tichenor & Associates, LLP
Certified Public Accountants
304 Middletown Park Place, Suite C
Louisville, Kentucky 40243**

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
Independent Auditor's Report	1
Schedule of Fund Balance	2
Statement of Source and Application of Funds	3
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	4
Executive Summary	6
Purpose	6
Background	6
Scope	6
Audit Results	7
Recommendations	7
Auditee's Response	7
Auditor's Conclusion	7
Schedule of Findings	8
Exhibit – Auditee's Response	9

TICHENOR & ASSOCIATES, LLP

CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE, SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775
FAX: (502) 245-0725
E-MAIL: TICHENORKY@AOL.COM

To: Appalachian Regional Commission (ARC)
Office of Inspector General (OIG)

Report For: Federal Co-Chair Anne B. Pope
ARC Executive Director Thomas M. Hunter
OIG Report Number: 05-08

Independent Auditor's Report

We have audited the ARC RLF grant Schedule of Fund Balance of the Northwest Pennsylvania Regional Planning and Development Commission as of April 30, 2004, and the related Statement of Source and Application of Funds for the period October 1, 1981 through April 30, 2004. These financial statements are the responsibility of the Northwest Pennsylvania Regional Planning and Development Commission. Our responsibility is to express an opinion on these financial statements based on our audit.

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. We also used the ARC, OIG Audit Guide of ARC Revolving Loan Funds (RLF) as a guide. 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 our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying ARC RLF grant financial statements present fairly in all material respects the financial position of the Northwest Pennsylvania Regional Planning and Development Commission's fiduciary activities as of April 30, 2004 and the source and application of funds resulting from fiduciary activities for the period October 1, 1981 through April 30, 2004 in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 16, 2004, on our consideration of the Northwest Pennsylvania Regional Planning and Development Commission's internal control over ARC RLF grant financial reporting and on our tests of compliance with certain provisions of laws and regulations, included herein. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Tichenor & Associates, LLP

Tichenor & Associates, LLP
Louisville, Kentucky
September 16, 2004

Northwest Pennsylvania Regional Planning and Development Commission

SCHEDULE OF FUND BALANCE
(As of April 30, 2004)

Cash in Bank	\$ 191,689
Loans Outstanding	<u>778,162</u>
Other Investments	<u>0</u>
Due from Other Accounts	<u>0</u>
Other Assets	<u>0</u>
Less: Current Liabilities	<u>0</u>
 Fund Balance	 <u>\$ 969,851</u>

The accompanying auditor's report should be read with these financial statements.

Northwest Pennsylvania Regional Planning and Development Commission

**STATEMENT OF SOURCE AND APPLICATION OF FUNDS
(For the Period October 1, 1981 - April 30, 2004)**

<u>Source of Funds</u>	
ARC Grant	<u>\$ 490,970</u>
Program Income Transferred	
from PA Department of Commerce	<u>299,753</u>
Loan Interest Income	<u>446,444</u>
Fees Charged	<u>70,705</u>
Other Income	<u>108,508</u>
 Total Funds Available	 <u>\$ 1,416,380</u>
 <u>Application of Funds</u>	
Cash in Bank	<u>\$ 191,689</u>
Loans Outstanding	<u>778,162</u>
Loan Losses	<u>250,029</u>
EDA Matches	<u>196,500</u>
Administrative Expenses	<u>0</u>
 Total Funds Applied	 <u>\$ 1,416,380</u>

The accompanying auditor's report should be read with these financial statements.

TICHENOR & ASSOCIATES, LLP

CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE, SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775
FAX: (502) 245-0725
E-MAIL: TICHENORKY@AOL.COM

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the ARC RLF grant financial statements of the Northwest Pennsylvania Regional Planning and Development Commission as of and for the period October 1, 1981 through April 30, 2004, and have issued our report thereon dated September 16, 2004. 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.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Northwest Pennsylvania Regional Planning and Development Commission's ARC RLF grant financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Northwest Pennsylvania Regional Planning and Development Commission's internal control over financial reporting for the ARC RLF grant in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Northwest Pennsylvania Regional Planning and Development Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The one reportable condition is described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the ARC; however, the final report is a matter of public record and its distribution is not limited.

Tichenor & Associates, LLP

Tichenor & Associates, LLP

Louisville, Kentucky

September 16, 2004

EXECUTIVE SUMMARY

ARC makes grants to grantees. The grantee uses the grant funds to make loans to achieve economic benefits for a designated project area. As the loans are repaid, the principal funds and interest in excess of expenses are returned to the RLF to make other loans. The program's primary goal is private sector job creation and capital formation.

ARC requires that RLF projects be administered in accordance with the grantee's RLF plan. This plan defines specific objectives and operating procedures, including standards and selection criteria for loans. ARC does not normally approve or review individual RLF loans. Instead, ARC monitors RLF project grantee objectives for conformance with guidelines, the RLF plan and other grant agreement conditions.

The grantee is required to submit financial and progress reports to ARC.

Purpose:

The purpose of the audit was to determine if (a) the administration by the Northwest Pennsylvania Regional Planning and Development Commission for its ARC Revolving Loan Fund Program was managed in accordance with the ARC approved grant and did not violate any restrictions imposed by the terms and conditions of the grant; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operation information applicable to the revolving loan program; and (c) that the objectives of the grant are being met.

Background:

ARC awarded Grant Numbers PA-8285-81-I-302-0723 and PA-7752F-93-I-302-1117 to Northwest Pennsylvania Regional Planning and Development Commission, effective October 1, 1981 and October 1, 1992, respectively. Total grant funding was for \$490,970. ARC did not require that the grant be matched with any grantee cash, contributed services, or in-kind contributions.

Scope:

Tichenor & Associates, LLP, under contract to the Appalachian Regional Commission (ARC), Office of Inspector General (OIG), performed a financial, compliance and internal control audit in accordance with Government Auditing Standards and ARC, OIG Audit Guide of ARC Revolving Loan Funds (RLF) of ARC grant funds administered by Northwest Pennsylvania Regional Planning and Development Commission for the period October 1, 1981 through April 30, 2004.

As of April 30, 2004, Northwest Regional Planning & Development Commission had eleven (11) ARC RLF loans outstanding, with an unpaid balance of \$778,162.

EXECUTIVE SUMMARY

Audit Results:

The audit resulted in the following:

1. Compliance

No compliance issues were noted.

2. Internal Control

2.1 Persons in key financial positions are not required to take annual vacations.

Refer to the Schedule of Findings for more details on each audit finding.

Recommendations:

1. Compliance

No compliance issues were noted.

2. Internal Control

2.1 We recommend that persons in key financial positions be required to take annual vacations.

Auditee's Response:

In response to our draft report, Northwest Pennsylvania Regional Planning & Development Commission officials agreed to our recommendation.

A copy of Northwest Pennsylvania Regional Planning & Development Commission's complete response to the draft report is included in the report as Exhibit – Auditee's Response.

Auditor's Conclusion:

We believe that Northwest Pennsylvania Regional Planning & Development Commission is in compliance with the requirements and responsibilities of its ARC approved grant, and by implementing the above recommendation will strengthen its systems of internal controls providing for disclosure of pertinent financial and operational information applicable to the revolving loan program. We further believe that Northwest Pennsylvania Regional Planning & Development Commission is meeting the objective of its grant.

Northwest Pennsylvania Regional Planning and Development Commission

SCHEDULE OF FINDINGS

SUMMARY OF AUDIT RESULTS

1. The auditors report expresses an unqualified opinion on the ARC RLF grant financial statements of the Northwest Pennsylvania Regional Planning and Development Commission for the period October 1, 1981 through April 30, 2004.
2. No instances of noncompliance were disclosed during the audit.
3. One (1) reportable condition was disclosed during the audit.

FINDINGS AND RECOMMENDATIONS

NONCOMPLIANCES

None noted.

REPORTABLE CONDITIONS

1. Persons in key financial positions are not currently required to take annual vacations.

Proper internal control procedures require that all persons in key financial positions be required to take annual vacations.

The detection of misappropriation of funds is made more difficult by not requiring that persons in key financial positions take annual vacations.

We recommend that persons in key financial positions be required to take annual vacations.

In response to our draft report, the grantee stated that henceforth persons in key financial positions would be required to take at least five (5) consecutive days, annually, away from the office.

AUDITOR'S CONCLUSION:

We believe that Northwest Pennsylvania Regional Planning & Development Commission is in compliance with the requirements and responsibilities of its ARC approved grant, and by implementing the above recommendation will strengthen its systems of internal controls providing for disclosure of pertinent financial and operational information applicable to the revolving loan program. We further believe that Northwest Pennsylvania Regional Planning & Development Commission is meeting the objective of its grant.

EXHIBIT

Auditee's Response



**NORTHWEST PENNSYLVANIA REGIONAL PLANNING
AND DEVELOPMENT COMMISSION**

A Pennsylvania Local Development District

November 15, 2004

Mr. Jack Somerville, CPA
Supervisor
Tichenor & Associates, LLP
304 Middletown Park Place, Suite C
Louisville, KY 42043

Dear Mr. Somerville:

The Northwest Pennsylvania Regional Planning & Development Commission received the draft report of our ARC Revolving Loan Fund audit. The audit revealed one reportable condition concerning internal control. The reportable condition was that persons in key financial positions are not currently required to take annual vacations.

The Northwest Commission is in the process of updating our HR Policies & Procedures to include "those persons in key financial positions take at least five consecutive days away from the office". The five consecutive days can be a combination of travel, training and vacation, but must be five consecutive days.

If you have any questions, please contact me at daryl@nwcommission.org or call (814) 677-4800 extension 112.

Sincerely,

A handwritten signature in dark ink, appearing to read "Daryl J. Coyne".

Daryl J. Coyne
Associate Director
Loan Programs