



September 1, 2004

Memorandum for: The Federal Co-Chair
ARC Executive Director

Subject: OIG Report 04-12
Review of Revolving Loan Fund (RLF) Grants for the
Broome County Industrial Development Agency (BCIDA)

Attached are copies of the subject report dealing with the RLF grants to the Broome County Industrial Development Agency (BCIDA). BCIDA received its initial RLF grant in 1978. As of December 31, 2003, BCIDA has received \$1,543,369 in ARC RLF grants, and has 31 loans outstanding, with unpaid balances totaling approximately \$1,755,800.

The report contains one recommendation. The response by the grantee and ARC are considered responsive to the recommendation. They have agreed to take the necessary steps outlined in 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.

A handwritten signature in black ink, appearing to read "Cliff H. Jennings", with a stylized flourish at the end.

Clifford H. Jennings
Inspector General

Attachment

cc: Director for Program Operations
Director for Finance and Administration



LEON SNEAD
& COMPANY, P.C.

*Certified Public Accountants
& Management Consultants*

416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
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MEMORANDUM

DATE: August 26, 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
Broome County Industrial Development Agency

Enclosed for distribution to ARC and Grantee Officials are revised 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
Broome County Industrial Development Agency**

**Report No. 04-12
August 2004**

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



**LEON SNEAD
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August 23, 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 Broome County Industrial Development Agency (BCIDA), Revolving Loan Fund (RLF). The audit was performed at the request of the Appalachian Regional Commission (ARC), Office of the Inspector General (OIG), to assist in its oversight of ARC operations.

The primary objective of the audit was to ensure that BCIDA operated the ARC RLF in accordance with the grant agreement, and its RLF operating plan. The audit covered the period October 1, 2002 through March 31, 2004. Audit work at the grantee's office was completed on July 15, 2004.

The audit determined that BCIDA: (1) generally operated the RLF in compliance with ARC regulations and guidelines, the grant agreement, and operating plan; and (2) implemented sufficient internal control policies and procedures to assure semiannual reports to ARC were completed accurately and timely. However, we noted that BCIDA's RLF Operating Plan did not fully meet ARC requirements.

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

Sincerely,

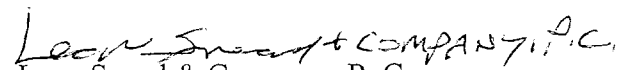

Leon Snead & Company, P. C.

TABLE OF CONTENTS

Introduction.....	1
Objective, Scope and Methodology.....	1
Summary of Audit.....	2
Finding and Recommendation	3
1. RLF Operating Plan	3
Appendix A – Management Response.....	4

Introduction

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

BCIDA was established on May 8, 1970 as a public benefit corporation by special act of the New York State Legislature in accordance with the General Municipal Law of New York State. One of the Agency's primary missions is to stimulate the creation and expansion of small businesses in order to create and/or retain job opportunities in the New York Southern Tier Region. The region is defined as Broome, Chenango, Cortland, Delaware, Otsego, Tompkins, Tioga, and Schoharie counties.

BCIDA received its initial RLF grant in 1978. As of December 31, 2003, BCIDA had received \$1,543,369 in ARC RLF grants, and had 31 loans outstanding, with unpaid balances totaling approximately \$1,755,800.

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 loans, the money is returned to the RLF to make other loans. RLF loans are not intended to match or replace the capacity of lending institutions, rather, RLF's fill gaps in local lending, and provide capital which otherwise would not be available for economic development.

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 applicable laws, 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 applicable laws, OMB Circulars, ARC Guidelines, 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 ARC on its semiannual reports, (3) administrative costs reported on 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 BCIDA activities during the period October 1, 2002 to March 31, 2004. Audit fieldwork was completed at BCIDA on July 15, 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 BCIDA to assure RLF operations adhered to applicable ARC Guidelines, OMB regulations, and BCIDA's grant agreement and operating plan. The audit included tests of BCIDA's subsidiary and detailed loan records to assure the financial information submitted to ARC was supported. We verified that loans made by the grantee complied with ARC Guidelines and the RLF operating plan. We performed tests of selected administrative costs claimed by BCIDA to validate that the costs were allowable, reasonable and supported. We also reviewed BCIDA's most recent single audits, 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.

Summary of Audit

The audit determined that BCIDA: (1) generally operated the RLF in compliance with ARC guidelines, the grant agreement, and operating plan; and (2) implemented sufficient internal control policies and procedures to assure semiannual reports to ARC were completed accurately and timely. However, we determined BCIDA needed to strengthen its procedures and controls to ensure that its RLF Operating Plan fully meets ARC requirements. This matter is discussed in the Finding and Recommendations section of this report.

FINDING AND RECOMMENDATIONS

1. RLF Operating Plan

The current BCIDA RLF Operating Plan did not include a certification or statement of assurance that the RLF will be managed and operated in accordance with ARC requirements and regulations. Consequently, the Operating Plan did not fully comply with ARC regulations.

ARC RLF Guidelines, Section III.C.2 requires that Operating Plans include an affirmation that the grantee understands and agrees to operate the RLF in accordance with the ARC policies contained in the Guidelines. ARC relies on this affirmation as a basis for releasing loan funds.

We reviewed BCIDA's current RLF Operating Plan to determine whether it included the requirements specified in the ARC RLF Guidelines. We determined that the Operating Plan did not include assurances or certifications that the RLF will be managed and operated in accordance with ARC policies and guidelines. We discussed this matter with BCIDA officials. They agreed that the current Operating Plan did not include this requirement, and it needed to be revised accordingly.

Recommendation

ARC should require BCIDA to revise its RLF Operating Plan to include assurances that the RLF will be managed and operated in accordance with ARC RLF Guidelines.

Management Response

The Executive Director of ARC concurred with the funding and recommendation. The Executive Director stated that BCIDA has revised its operating plan, called "Program Guidelines and Operating Criteria". The revision now includes the required assurance signed by the Executive Director, who is also the Grantee's Project Director, as required by ARC BDRLF Guidelines, paragraph III.c.2.

Auditors Comments

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

APPENDIX A
MANAGEMENT RESPONSE



APPALACHIAN
REGIONAL
COMMISSION

*A Proud Past,
A New Vision*

August 16, 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 Broome County Industrial Development Agency performed by Leon Snead & Company, P.C.

Dear Mr. Snead:

Thank you for your thorough examination of the Broome County Industrial Development Agency (BCIDA) ARC RLF grant. The assistance provided by this examination will aid BCIDA in keeping their RLF Operating Plan fully compliant with ARC RLF Guidelines. Please correct the typographical error on the first line (RLF) of the third paragraph on page 1 of the draft report.

RLF Operating Plan

BCIDA has revised its operating plan, called "Program Guidelines and Operating Criteria" and included the required signed assurance, signed by the Executive Director who is also the Grantee's Project Director, as required by ARC BDRLF Guidelines, paragraph III.C.2.

Sincerely,

Thomas M. Hunter
Executive Director



APPALACHIAN REGIONAL COMMISSION *A Proud Past. A New Vision*

August 16, 2004

Leon Snead, President
Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
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Sincerely,

Thomas M. Hunter
Executive Director