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**APPALACHIAN REGIONAL COMMISSION  
OFFICE OF INSPECTOR GENERAL  
AUDIT OF REVOLVING LOAN FUND  
Southern Tier Central Planning Development Board**

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**Report No. 05-01  
October 2004**

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



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October 1, 2004

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

Leon Snead & Company, P.C. has completed an audit of the Southern Tier Central (STC) Regional Planning and Development Board, 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 STC 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 2, 2004.

The audit determined that STC: (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 in a timely manner. However, we noted that: (1) STC's RLF Operating Plan did not fully meet ARC requirements; and (2) the March 31, 2004 semiannual financial report was inaccurate.

A draft report was provided to ARC and RLF officials for comment on July 7, 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 ARC and STC 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 the Revolving Loan Fund (RLF) grant awarded by the Appalachian Regional Commission (ARC) to Southern Tier Central (STC) Regional Planning and Development Board. 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.

STC was established in 1969 under Articles B-12 and 5-G of the New York State General Municipal Law. The organization provides a broad range of services to local government agencies and the private sector in Chemung, Schuylers and Steuben counties. STC's primary objective is to participate in projects, which benefit the business and industrial community while improving the quality of life in the region.

STC received its initial RLF grant in 2000. As March 31, 2004, STC had received \$41,383 in ARC grant funds, and had one outstanding loan, with an unpaid balance totaling approximately \$14,000.

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 STC activities during the period October 1, 2002 to March 31, 2004. Audit fieldwork was completed at STC on July 2, 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 STC to assure RLF operations adhered to applicable ARC Guidelines, OMB regulations, and STC's grant agreement and operating plan. The audit included tests of STC'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 STC to validate that the costs were allowable, reasonable and supported. We also reviewed STC'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 with *Government Auditing Standards*, and included appropriate tests necessary to achieve the audit objectives.

### **Summary of Audit**

The audit determined that STC: (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 in a timely manner. However, we determined STC needed to strengthen its procedures and controls to ensure that the RLF Operating Plan fully meets ARC requirements, and semiannual financial reports are accurate. These matters are discussed in the Findings and Recommendations section of this report.

## **FINDINGS AND RECOMMENDATIONS**

### **1. RLF Operating Plan**

The current STC RLF Operating Plan did not include: (1) a definition for delinquent loans and the actions to be taken on delinquent loans; and (2) 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 the Plan: (1) define what constitutes a delinquent loan, and specify what actions the grantee will take on delinquent loans; and (2) 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 STC's current RLF Operating Plan to determine whether the plan included the requirements specified in the ARC RLF Guidelines. We determined that the Plan did not include: (1) a definition of delinquent loans, and the actions to be taken on delinquent loans; and (2) an assurance or certification that the RLF will be managed and operated in accordance with ARC policies and guidelines. We discussed these matters with STC officials. They agreed that the current Plan did not include these requirements, and the Plan needed to be revised accordingly.

#### **Recommendation**

ARC should require STC to revise its RLF Operating Plan to include: (1) a definition of delinquent loans and the actions to be taken on delinquent loans; and (2) assurances that the RLF will be operated in accordance with ARC RLF Guidelines.

#### **Management Response**

The ARC Executive Director concurred with the finding and recommendation. STC has revised its operating plan to include the required signed assurance of compliance with ARC guidelines. In addition, STC expanded a section of its operations plan to define a delinquent and defaulted loan and the actions to be taken by STC on such loans.

#### **Auditor's Comments**

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

## **2. Semiannual Financial Reports**

STC's March 31, 2004 semiannual financial report was inaccurate. The report understated administrative costs by \$1,050. As a result, ARC did not receive accurate and complete cost information.

ARC RLF Guidelines, Section VI.E requires grantees to provide accurate and timely financial reports. Section VI.F.6 states that grantee reports and accounting systems must include an accurate accounting for any principle repayments, loan interest, loan fees, or other income generated by the RLF, and must document how these funds are used.

We reviewed STC's accounting records to identify the costs and expenditures for the period October 1, 2003 through March 31, 2004 and compared this data with the amounts reported on the March 31, 2004 semiannual financial report. We determined that STC's administrative costs were understated by \$1,050. The semiannual report showed administrative costs of \$6,383. STC's accounting records, however, showed that administrative costs were \$7,433.

We discussed this matter with STC officials. They agreed that administrative costs were understated, and appropriate adjustments should be made on the September 30, 2004 semiannual financial report.

### **Recommendation**

ARC should ensure STC's September 30, 2004 semiannual financial report accurately reflects the administrative costs associated with the RLF.

### **Management Response**

The ARC Executive Director concurred with the finding and recommendation and stated that STC has justified a payment for the understated administrative costs identified during the audit.

### **Auditor's Comments**

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

**APPENDIX A  
MANAGEMENT RESPONSE**





**APPALACHIAN  
REGIONAL  
COMMISSION**

*A Proud Past,  
A New Vision*

September 20, 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  
Entrepreneurship Micro Enterprise Revolving Loan Fund at the Southern Tier Central  
Planning and Development Board performed by Leon Snead & Company, P.C.

Dear Mr. Snead:

Thank you for your thorough examination of the Southern Tier Central Planning Development Board (STCPDB) ARC RLF grant. The assistance provided by this examination will aid STCPDB in keeping their RLF Operating Plan fully compliant with ARC RLF Guidelines and correct the understatement of grant administrative costs. Please correct the typographical errors on the first line (STCPDB instead of REDEC and RLF instead of RFL) of the third paragraph on page 1 of the draft report.

#### RLF Operating Plan

ARC agrees with the finding that the STCPDB RLF Operating Plan did not include an affirmation that the ARC funded RLF would be operated in accordance with ARC RLF polices contained in the BDRLF Guidelines. ARC agrees that the STCPDB Operating Plan did not include a definition of delinquent loans and the actions to be taken on delinquent loans.

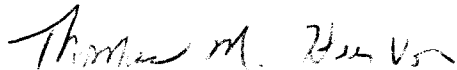
STCPDB has revised its operating plan, called "Entrepreneurial Loan Fund Operations Plan" and included the required signed assurance, signed by the Executive Director who is also the Grantee's Project Director, as required by ARC BDRLF Guidelines, paragraph III.C.2. STCPDB expanded a section in its operations plan defining a delinquent loan a defaulted loan and the actions to be taken by STCPDB on delinquent loans.

## Semiannual Financial Reports

ARC agrees with the finding and recommendation regarding the accuracy of semiannual financial reports.

ARC relies on the accuracy certification of the grantee on Schedule B-1 of the RLF Semi-annual Financial Report and the STCPDB annual independent auditors report to ensure the accuracy of all financial information. The independent auditors' report of Richard M. McNeilly, CPA dated July 5, 2004 stated that the statements were presented fairly in all material respects. STCPDB has justified a payment for the understated administrative costs identified by your firm.

Sincerely,

A handwritten signature in cursive script that reads "Thomas M. Hunter".

Thomas M. Hunter  
Executive Director