



January 13, 2005

Memorandum for: The Federal Co-Chair  
ARC Executive Director

Subject: OIG Report 05-11  
Review of Revolving Loan Fund (RLF) Grant for the  
Southern Alleghenies Planning and Development Commission

Attached are copies of the subject report dealing with the RLF grant to the Southern Alleghenies Planning and Development Commission. The Southern Alleghenies Planning and Development Commission received its initial RLF Grant in 1992. As of April 30, 2004, the Southern Alleghenies Planning and Development Commission had received \$262,457 in ARC grant funds and has 10 loans outstanding, with an unpaid balance totaling \$410,966.

The report contains six 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.

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  
Southern Alleghenies Planning and Development Commission  
Altoona, Pennsylvania**

**ARC Grant Number: PA-7752C-93-I-302-1117**

**October 1, 1992 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: 05-11**

**Date: January 7, 2005**

**AUDIT OF THE ARC REVOLVING LOAN FUND  
OPERATED BY  
Southern Alleghenies Planning and Development Commission  
Altoona, Pennsylvania**

**ARC Grant Number: PA-7752C-93-I-302-1117**

**October 1, 1992 through April 30, 2004**

**Prepared By:**

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

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# TICHENOR & ASSOCIATES, LLP

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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: 05-11

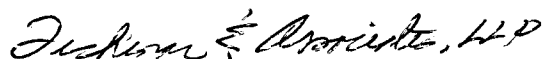
## Independent Auditor's Report

We have audited the ARC RLF grant Schedule of Fund Balance of the Southern Alleghenies Planning and Development Commission as of April 30, 2004, and the related Statement of Source and Application of Funds for the period October 1, 1992 through April 30, 2004. These financial statements are the responsibility of the Southern Alleghenies 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 Southern Alleghenies 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, 1992 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 13, 2004, on our consideration of the Southern Alleghenies 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  
Louisville, Kentucky  
September 13, 2004

**Southern Alleghenies Planning and Development Commission**

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

Cash in Bank	\$ 121,683
Loans Outstanding	<u>410,966</u>
Other Investments	<u>                    </u>
Due from EDA	<u>69,812</u>
Other Assets	<u>                    </u>
Less: Current Liabilities	<u>                    </u>
Fund Balance	<u>\$ 602,461</u>

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

**Southern Alleghenies Planning and Development Commission**

**STATEMENT OF SOURCE AND APPLICATION OF FUNDS  
(For the Period October 1, 1992 through April 30, 2004)**

Source of Funds	
ARC Grant	\$ 262,457
Program Income Transferred from PA Department of Commerce	316,318
Loan Interest Income	230,670
Fees Charged	22,116
Other Income	16,856
Total Funds Available	\$ 848,417
Application of Funds	
Cash in Bank	\$ 121,683
Loans Outstanding	410,966
Loan Losses	93,670
Set Aside for Grant Match	199,812
Administrative Expenses	22,286
Total Funds Applied	\$ 848,417

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

# TICHENOR & ASSOCIATES, LLP

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## **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 Southern Alleghenies Planning and Development Commission as of and for the period October 1, 1992 through April 30, 2004, and have issued our report thereon dated September 13, 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 Southern Alleghenies 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 instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the Southern Alleghenies 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Southern Alleghenies Planning and Development Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are 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 believe none of the reportable conditions 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 13, 2004

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## EXECUTIVE SUMMARY

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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 Southern Alleghenies 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 Number PA-7752C-93-I-302-1117 for the period October 1, 1992 through April 30, 2004. Total grant funding was for \$262,457. 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 Southern Alleghenies Planning and Development Commission for the period October 1, 1992 through April 30, 2004.

As of April 30, 2004, Southern Alleghenies Planning and Development Commission had ten (10) ARC RLF loans outstanding, with an unpaid balance of \$410,966.

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## EXECUTIVE SUMMARY

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### **Audit Results:**

The audit resulted in the following:

#### 1. Compliance

- 1.1. Loan agreements did not include a requirement that jobs be created/saved, nor was a remedy for a borrower's failure to meet the jobs requirement provided.
- 1.2. A difference of \$4,207 was noted between Total Funds Available and Total Funds Applied, as of April 30, 2004.
- 1.3. An EDA grant match of \$69,812 is reported in the Schedule of Fund Balance as an account receivable from the EDA grant fund.

#### 2. Internal Control

- 2.1. Bank reconciliations are prepared by an employee who handles cash receipts.
- 2.2. Cash receipts are not deposited daily.
- 2.3. Persons in key financial positions are currently not required to take annual vacations.

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

### **Recommendations:**

We recommend that the ARC require that Southern Alleghenies Planning and Development Commission take the following actions:

#### 1. Compliance

- 1.1. We recommend that loan agreements be updated to include the job impact requirement as a condition of lending and remedy options for borrowers that fail to meet the claimed number of jobs created or saved.
- 1.2. The grantee was able to reconcile the difference of \$4,207; however, we recommend that in the future accurate financial records be maintained in accordance with ARC Guidelines.
- 1.3. We recommend that the original transaction for \$69,812 be reversed to properly recognize the nature of the grant match.

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## EXECUTIVE SUMMARY

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### 2. Internal Control

- 2.1. We recommend that bank reconciliations be performed by an employee or responsible official who does not process cash receipts or cash disbursements.
- 2.2. We recommend that all cash receipts be deposited daily.
- 2.3. We recommend that persons in key financial positions be required to take annual vacations.

#### **Auditee's Response:**

In response to our draft report, Southern Alleghenies Planning and Development Commission officials agreed to each of the report's recommendations with the exception that, because their personnel policies are currently being reviewed by a consultant, our recommendation that persons in key financial positions be required to take annual vacations is being presented to their consultant and Personnel Committee for consideration.

A copy of Southern Alleghenies Planning and Development Commission's complete response to the draft report is included in this report as Exhibit – Auditee's Response.

#### **Auditor's Conclusion:**

We believe that by implementing the above recommendations, Southern Alleghenies Planning and Development Commission will (a) be in compliance with the requirements and responsibilities of its ARC approved grant; and (b) 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 Southern Alleghenies Planning and Development Commission is meeting the objectives of its grant.

## **Southern Alleghenies 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 Southern Alleghenies Planning and Development Commission for the period October 1, 1992 through April 30, 2004.
2. Three (3) instances of noncompliance were disclosed during the audit.
3. Three (3) reportable conditions were disclosed during the audit.

#### **FINDINGS AND RECOMMENDATIONS**

##### **NONCOMPLIANCES**

1. Loan agreements do not include a requirement that jobs be created or saved, nor was a remedy for a borrower's failure to meet the jobs requirement provided.

Currently, the job creation or retention requirement and remedy for a borrower's failure is covered in the promissory note and referenced in the loan agreement under the headings "The Note" and "Periodic Reports".

ARC RLF Guidelines (V.A.7.) requires that the job impact (created/saved) requirement, and a remedy for borrower's that fail to meet job claims, be included in the loan agreement as a condition of lending.

Failure to include job impact as a requirement in the loan agreement could result in loan funds being distributed contrary to ARC RLF objectives. Failure to comply could further result in not having a legal basis to demand repayment in the event that jobs are not created or saved with ARC funds.

We recommend that the ARC require that the grantee update loan agreements to include the job impact requirement as a condition of lending and that the loan agreement also be updated to include remedy options for borrowers that fail to meet the claimed number of jobs created or saved.

In response to our draft report, the grantee stated that henceforth both the notes and loan agreements will include the required language. (See Exhibit – Auditee's Response.)

2. As of April 30, 2004, Total Funds Applied exceeded Total Funds Available by \$4,207.

The grantee stated that Total Funds Applied exceeded Total Funds Available due to an error probably made several years ago. The grantee further stated that it is difficult to trace such information back more than four years due to the implementation of a new accounting system.

ARC RLF Guidelines (VI.F.6.) requires that grantees maintain accurate financial records of RLF activities.

Failure to maintain accurate records could result in funds being expended for purposes contrary to ARC objectives and/or a reduction in the RLF capital base and the amount of funds available to loan.

The grantee was able to reconcile the \$4,207 discrepancy and Total Funds Applied currently equal Total Funds Available. We recommend that in the future, the grantee maintain accurate financial records in accordance with ARC Guidelines.

In response to our draft report, the grantee stated that the \$4,207 correction was made to its August 31, 2004 semi-annual report. (See Exhibit – Auditee’s Response.)

3. The grantee organization has recorded on its general ledger an account receivable due from the EDA fund and an account payable due to ARC/PCLF fund in the amount of \$69,812.

The grantee stated that they did not know why this transaction was handled this way. The grantee further stated that a prior Controller had prepared this transaction in 1996, and it had been carried on the books ever since.

ARC RLF Guidelines (VI.F.6.) requires that grantees maintain accurate financial records of RLF activities.

Failure to maintain accurate records could result in funds being expended for purposes contrary to ARC objectives and/or a reduction in the RLF capital base and the amount of funds available to loan.

We recommend that the ARC require that the grantee reverse the original transaction for \$69,812, since an actual disbursement has been made from the ARC/PCLF fund bank account to the EDA fund bank account to support the use of the funds for the EDA grant match.

In response to our draft report, the grantee stated that their Controller has asked to reverse the original transaction to allow for the proper recognition of the match on both the ARC/PCLF and EDA funds. (See Exhibit – Auditee’s Response.)

## **REPORTABLE CONDITIONS**

1. Bank reconciliations are performed by an employee who handles cash receipts.

Bank reconciliations are performed by an employee who handles cash receipts due to the grantee being a small organization and having a limited finance staff.

Proper internal control procedures require that bank account reconciliations be performed by employees or responsible officials who do not process cash receipts or cash disbursements.

Failure to segregate these duties could lead to the misappropriation of funds.

We recommend that bank reconciliations be performed by an employee or responsible official who does not process cash receipts or cash disbursements.

In response to our draft report, the grantee stated that the duties of opening the mail and preparing the deposit ticket, recording deposits in the general ledger, and making bank deposits and reconciling bank statements will be segregated. (See Exhibit – Auditee’s Response.)

2. Cash receipts are not deposited daily.

Cash receipts are currently deposited weekly and at month end.

Proper internal control procedures require that cash receipts be deposited daily.

Failure to deposit cash receipts on a daily basis could lead to the loss or theft of funds while on the premises.

We recommend that all cash receipts be deposited on a daily basis.

In response to our draft report, the grantee stated that henceforth cash receipts would be deposited on a daily basis. (See Exhibit – Auditee’s Response.)

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

Persons in key financial positions are currently not 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 its personnel policies are currently under review by a consultant and this recommendation will be presented for further consideration with their consultant and Personnel Committee. (See Exhibit – Auditee’s Response.)

**AUDITOR’S CONCLUSION**

We believe that by implementing the above recommendations, Southern Alleghenies Planning and Development Commission will (a) be in compliance with the requirements and responsibilities of its ARC approved grant; and (b) 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 Southern Alleghenies Planning and Development Commission is meeting the objectives of its grant.

**EXHIBIT**

**Auditee's Response**



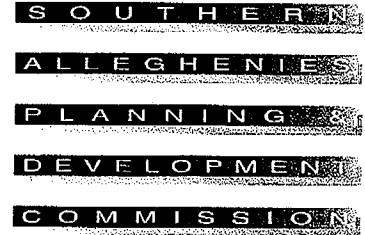
# SAP

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PROGRESS THROUGH REGIONAL COOPERATION

January 4, 2005

Tichenor & Associates, LLP  
7760 Olentangy River Road  
Suite #207  
Columbus, OH 43235



To Whom It May Concern:

This purpose of this letter is to provide our official response to the findings noted in your audit of the ARC Revolving Loan Fund for the period May 1, 2003 – April 30, 2004.

**Findings:**

1. Loan agreements do not include a requirement that jobs be created or saved, nor was a remedy for a borrower's failure to meet the jobs requirement provided.

**Response:** *Currently, the job creation or retention requirement and remedy for a borrower's failure is covered in Note and reference in the Loan Agreement under the headings "The Note" and "Periodic Reports". Going forward, the Grantee will include the required language in both the Note and Loan Agreement.*

2. As of April 30, 2004, Total Funds Applied exceeds Total Funds Available by \$4,206.

**Response:** *The Grantee supplied additional information to reconcile the difference. The correction was also made to August 31, 2004 ARC report.*

3. The grantee organization has recorded on its general ledger an account receivable due from the EDA in the amount of \$69,812.

**Response:** *The Controller is requesting the receivable be written off to fund balance on the ARC fund and the payable to fund balance on the EDA fund. This transaction will allow for the proper recognition of the match on both funds.*

4. Bank reconciliations are performed by an employee who handles cash receipts.

**Response:** *Effective October 1, 2004 the Grantee will change procedures in the Finance Office that include assigning the opening of mail and preparation of the deposit ticket to the Loan Fund Coordinator; the Assistant Controller will record*

*the deposits in the general ledger and Financial Analyst will make the deposit and reconcile the bank statement. The Controller will have final approval of the bank reconciliation and all related general ledgers.*

5. Cash receipts are currently deposited weekly and at month end, instead of daily.

**Response:** *Except at the beginning of the month, the receipts are generally minor on a daily basis. If large deposits are received on a particular day, a deposit would be made. Effective immediately, the Finance Office will deposit daily. The Controller will monitor the number of checks received; number of deposit slips utilized daily and amount of staff time dedicated to ensure that the cost of this recommendation does not outweigh the benefit.*

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

**Response:** *The grantee maintains a strict policy for personnel related to PTO. Mandatory vacations are not required, however, all financial personnel including the Executive Director and Controller take regular vacations. Our personnel policies are currently under review by a consultant and this recommendation will be presented for further consideration with our consultant and Personnel Committee.*

Should you require any additional information, please do not hesitate to contact our Controller, Pebble A. Bulvin-Albertelli, at 814-949-6540.

Sincerely,



Edward M. Silveti,  
Executive Director

c: Pebble A. Bulvin-Albertelli  
Tracey Dennis