



May 2, 2005

Memorandum for: The Federal Co-Chair
ARC Executive Director

Subject: OIG Report 05-14
Review of Revolving Loan Fund (RLF) Grant for the
4-C Economic Development Authority

Attached are copies of the subject report dealing with the RLF grant to the 4-C Economic Development Authority. The 4-C Economic Development Authority received its initial RLF Grant in 1999. As of November, 2004, the 4-C Economic Development Authority received \$715,000 in ARC grant funds and had 12 loans outstanding, with an unpaid balance totaling \$545,000.

The report contains one recommendation. The responses by the grantee and ARC are considered responsive to the recommendations.

This report is considered closed.

A handwritten signature in black ink, appearing to read "Cliff H. Jennings", with a long horizontal flourish extending to the right.

Clifford H. Jennings
Inspector General

Attachment

cc: Director for Program Operations
Director for Finance and Administration

**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF REVOLVING LOAN FUND
4-C Economic Development Authority**

**Report No. 05-14
April 2005**

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



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

*Certified Public Accountants
& Management Consultants*

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April 18, 2005

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

Leon Snead & Company, P.C. has completed an audit of the 4-C Economic Development Authority (the Authority), 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, 2003 through December 31, 2004. Audit work at the grantee's office was completed on March 10, 2005.

The audit determined that Authority: (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. We determined, however, that the Authority needed to strength its procedures and controls to ensure the RLF Operating Plan fully complies with ARC requirements. This area is discussed in the Findings and Recommendations section of this report.

A draft report was provided to ARC and RLF officials on April 8, 2005. The Director, of Finance and Administration, ARC, provided documentation in a letter dated April 13, 2005 addressing our audit recommendation. The comments are included in their entirety in Appendix A.

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.
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 the 4-C Economic Development Authority (the Authority). 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.

The Authority was established in 1988 through legislation enacted by the West Virginia Legislature. It was established to plan and coordinate economic development within the counties of Fayette, Nicholas, Raleigh, and Summers, and participating municipalities. The Authority's mission is to improve the quality of life for all 4-C region citizens by expanding and diversifying the regional economy with increased and enhanced employment. Its specific goals are to: (1) improve the regional environment and capacity for economic development; (2) recruit compatible new businesses; (3) retain and expand existing businesses; and (4) maintain the Authority as a viable and effective organization to provide leadership and professional services to the four counties and the cities it serves.

A 13-member Board of Directors manages and controls the Authority, including its property, operations and business affairs. The Directors are appointed by the County Commissions of the member counties, and the Mayors of participating municipalities.

The Authority received its initial ARC RLF grant in 1999. As of November 2004, the Authority had received \$715,000 in ARC grants funds, and had 12 active loans with unpaid balances totaling approximately \$545,000.

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 Authority activities during the period October 1, 2003 to December 31, 2004. Audit fieldwork was completed at the Authority on March 10, 2005.

We reviewed grantee policies and operating procedures to gain an understanding of the grantee's system of administrative and accounting controls. In addition, we assessed the accounting and administrative controls established by the Authority to assure RLF operations adhered to applicable ARC Guidelines, OMB regulations, and the Authority's grant agreement and operating plan. The audit included tests of the Authority'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 also reviewed the Authority'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 the Authority: (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. We determined, however, that the Authority needed to strength its procedures and controls to ensure the RLF Operating Plan, in one area, fully complies with ARC requirements. This area is discussed in the Findings and Recommendations section of this report.

FINDINGS AND RECOMMENDATIONS

1. RLF Operating Plan

The Authority's current 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. Consequently, the Authority was not in full compliance with ARC requirements in this one area.

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 the Authority's current RLF Operating Plan to determine whether it included the requirements specified in the ARC RLF Guidelines. We determined that the Operating Plan met all requirements, except that it did not include assurances or certifications that the RLF will be managed and operated in accordance with ARC policies and procedures. We discussed this matter with Authority officials. They agreed that the current Operating Plan did not include the required affirmation, and it should be revised accordingly.

Recommendation

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

Management Response

ARC officials provided documentation that provides grantee affirmation requested by ARC guidelines.

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*

April 13, 2005

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 4-C Economic Development Authority performed by Leon Snead & Company, P.C.

Dear Mr. Snead:

Thank you for your thorough examination of the 4-C Economic Development Authority (4-C EDA) ARC RLF grant. The assistance provided by this examination will enhance ARC's oversight over the grantee's activities. The following is provided as comment on the draft report.

RLF Operating Plan

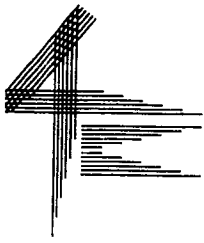
ARC RLF files contain two letters, dated April 18, 2002 and April 23, 2002, from the 4-C EDA Executive Director. These letters provide the grantee affirmation required by paragraph III.C.2. ARC BDRLF Guidelines. (Copies are attached)

Recommendation

ARC concurs in the recommendation and considers the item closed.

Sincerely,

Robert M. Decker, Director
Finance and Administration
Enclosures



Economic Development Authority

*Serving Fayette, Nicholas, Raleigh and
Summers Counties in Southern West Virginia*

April 23, 2002

Mr. Richard Dorwaldt
Revolving Loan Fund Manager
Appalachian Regional Commission
1666 Connecticut Avenue NW
Suite 700
Washington, DC 20009-1068

RE: Recapitalization of Revolving Loan Fund - \$350,000

Dear Mr. Dorwaldt:

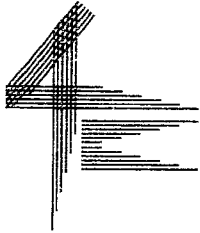
Thank you for the review and consideration of our application to recapitalize our 4-C Revolving Loan Fund. As executive director of the 4-C Economic Development Authority, I hereby agree and certify that the 4-C Economic Development Authority will adhere to ARC RLF Loan Program policies as recorded in the Appalachian Regional Commission **Business Development Revolving Loan Fund Guidelines**. On behalf of the 4-C EDA, I affirm that we understand and do agree to operate the 4-C RLF in accordance with the ARC RLF policies contained in the aforementioned guidelines.

The grant money will be instrumental in facilitating economic development activities in our 4-C Region. We look forward to working the Appalachian Regional Commission and the State of West Virginia in bringing new jobs and investment to our four counties.

Sincerely,

4-C ECONOMIC DEVELOPMENT AUTHORITY

Judy R. Radford
Executive Director



Economic Development Authority

*Serving Fayette, Nicholas, Raleigh and
Summers Counties in Southern West Virginia*

April 18, 2002

Mr. Richard Dorwaldt
Revolving Loan Fund Manager
Appalachian Regional Commission
1666 Connecticut Avenue NW
Suite 700
Washington, DC 20009-1068

RE: Recapitalization of Revolving Loan Fund - \$350,000

Dear Mr. Dorwaldt:

Thank you for the review and consideration of our application to recapitalize our 4-C Revolving Loan Fund. As executive director of the 4-C Economic Development Authority, I hereby agree and certify that in accordance with ARC guidelines and requirements, our organization will execute and carry out this project in accordance with our proposal, which includes our RLF Operating Plan.

The 4-C EDA Revolving Loan Fund program will be used to encourage entrepreneurship and job creation and retention by providing financing for businesses within our 4-C Region, which serves Fayette, Nicholas, Raleigh and Summers Counties in southern West Virginia. This revolving loan fund, specifically targeted to these distressed counties, will improve the access to capital. The ARC grant will be matched, loan by loan, by borrower investment and commercial lenders.

The grant money will be instrumental in facilitating economic development activities in our 4-C Region. We look forward to working the Appalachian Regional Commission and the State of West Virginia in bringing new jobs and investment to our four counties.

Sincerely,

4-C ECONOMIC DEVELOPMENT AUTHORITY

Judy R. Radford
Executive Director