



**APPALACHIAN
REGIONAL
COMMISSION**

*A Proud Past,
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File
Office of Inspector General

May 24, 2005

Memorandum for: The Federal Co-Chair
ARC Executive Director

Subject: OIG Report 05-15
Review of Revolving Loan Fund (RLF) Grant for the
Center for Rural Health Development, Incorporated

Attached are copies of the subject report dealing with the RLF grant to the Center for Rural Health Development, Incorporated. The Center for Rural Health Development, Incorporated received its initial RLF Grant on June 9, 2003. A second grant was awarded on June 15, 2004. As of March 15, 2005, the Center for Rural Health Development, Incorporated had received \$114,000 in ARC grant funds and has 4 loans outstanding, with an unpaid balance totaling \$105,000.

The report contains two recommendations. The responses by the grantee and ARC are considered responsive to the recommendations. One response requires follow-up to ensure grantee compliance and the report will remain open until documentation is received documenting compliance.

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
Center for Rural Health Development, Incorporated**

**Report No. 05-15
May 2005**

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



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May 12, 2005

Robert M. Decker, Director
Finance and Administration
Appalachian Regional Commission
1666 Connecticut Avenue, N.W.
Washington, D.C. 20009

Leon Snead & Company, P.C. has completed an audit of the Center for Rural Health Development, Incorporated (the Center) 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 the Center operated the ARC RLF in accordance with the grant agreement, and its RLF operating plan. The audit covered the period October 1, 2003 through March 18, 2005. Audit work at the grantee's office was completed on March 18, 2005.

The audit determined that Center: (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 determined that the Center needed to strength its procedures and controls, as follows: (1) in one area, the RLF Operating Plans did not comply with ARC requirements; and (2) one of two loan files reviewed did not include sufficient documentation to show that other sources of credit were not available to the borrower. These areas are 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 ARC Director of Finance and Administration concurred with our audit findings, and stated that corrective actions have been taken or planned to address the report recommendations.

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 Center for Rural Health Development, Incorporated (the Center). 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 Center was established in 1993 under Chapter 31, Article 1, Sections 27 and 28 of the West Virginia code. The mission of the Center is to improve health care services in rural areas by coordinating resources, providing technical assistance and advocating for an accessible and quality rural health care system.

The Center was established to: (1) provide technical assistance to communities in the planning, organizing and financing of health care services; (2) promote and support the development of integrated health care systems; (3) promote and coordinate health care research and analysis; (4) publicize innovative health delivery models; and (5) advance charity and education in West Virginia and surrounding areas. The Center is a non-profit corporation, and is exempt from federal income tax under Internal Revenue Code, Section 501 (c) (3).

The Center received its first ARC grant on June 9, 2003. ARC awarded a second grant to the Center on June 15, 2004. As of March 15, 2005, the Center had received \$114,000 of ARC funds, and had 4 outstanding loans with unpaid balances totaling approximately \$105,000.

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 Center activities during the period October 1, 2003 to March 18, 2005. Audit fieldwork was completed at the Center on March 18, 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 Center to assure RLF operations adhered to applicable ARC Guidelines, OMB regulations, and the Center's grant agreement and operating plan. The audit included tests of the Center'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 the Center to validate that the costs were allowable, reasonable and supported. We also reviewed the Center'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 Center: (1) generally operated the RLFs in compliance with ARC guidelines, the grant agreements, and operating plans; 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 Center needed to: (1) revise its RLF Operating Plans, in one area, to comply with ARC requirements; and (2) one of two loan files reviewed did not include sufficient documentation to show that other sources of credit were not available to the borrower. These areas are discussed in the Findings and Recommendations section of this report.

FINDINGS AND RECOMMENDATIONS

1. RLF Operating Plans

The Center's current RLF Operating Plans did not include the anticipated term for the various types of loans identified in the Plans. Consequently, the Operating Plans did not fully comply with ARC requirements in this one area.

ARC RLF Guidelines, Section III.C (b) (2) states that the grantee's RLF Operating Plan must include the types of loans permitted, and the anticipated term of each type of loan.

The Center had developed an RLF Operating Plan for each of its two ARC grants (i.e. grant numbers 14476 and 14828). We reviewed each Plan to determine whether they included the requirements specified in the ARC RLF Guidelines. We determined that the Operating Plans met all requirements except one. The Plans did not include the anticipated term for the types of loans identified in the Plans. Each plan identified seven types of loans, but neither Plan included the anticipated term for these loans.

We discussed this matter with Center officials. They pointed out that the Center's Lending and Operations Policy included the anticipated term for Center loans, but this information was not included in the RLF Operating Plans. They agreed, however, that the current Operating Plans should be revised accordingly.

Recommendation

ARC should require the Center to revise its RLF Operating Plans to include the anticipated terms for the loans identified in the Plans.

Management Response

The ARC Director of Administration responded that the Center revised its RLF Operating Plan to include anticipated loans terms and this item was considered closed

Auditor's Comments

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

2. Non-Availability of Other Sources of Credit

The loan file for a loan made to a West Virginia for-profit corporation did not include sufficient documentation that other sources of credit were not available to the borrower. As a result, loan file documentation did not fully comply with ARC requirements.

ARC RLF Guidelines, Section IV.A (3) states that a borrower is eligible for RLF financing only when credit is not otherwise available on terms and conditions that would permit accomplishment of the borrower's project. The Guidelines further state that grantees are responsible for determining that a borrower meets this requirement and for maintaining documentation in the loan file describing the basis for the determination. The Guidelines require that borrower eligibility determinations must be supported by: (1) a loan commitment letter from the commercial lender participating in the project; (2) a commercial lender letter declining participation; or (3) a memorandum documenting discussions with commercial lenders about the limits of their participation in a borrower's project.

During February 2005, the Center made a loan to a West Virginia for-profit corporation to finance an equipment acquisition. The total loan amount was \$43,963, of which \$24,000 was from the ARC RLF authorized under grant number 14828. The loan file did not include any of the three borrower eligibility documents specified in the ARC RLF Guidelines. The loan file only contained a letter from the borrower stating that a loan at the reduced rate available from the Center would make the equipment purchase more cost effective, and allow for an earlier acquisition than otherwise possible.

We discussed this matter with Center officials. They stated that the borrower had an immediate need for the equipment, and the loan enabled the borrower to fulfill this need. They agreed, however, that the loan file did not include the specific documents required by the ARC RLF Guidelines. They indicated that appropriate actions would be taken to ensure the non-availability of other sources of credit is properly documented in the loan files.

Recommendation

ARC should ensure the Center acquires and maintains appropriate documentation verifying that other sources of credit were not available to borrowers.

Management Response

ARC responded that the Center will ensure RLF loan files will comply with the ARC requirements for documenting that other sources of credit were not available to borrowers. ARC concurred with the Center's comments.

Auditor's Comments

The comments received from ARC and the Center are considered responsive to the finding and recommendation.

**APPENDIX A
MANAGEMENT RESPONSE**



**APPALACHIAN
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May 2, 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 Center for Rural Health Development, Incorporated performed by Leon Snead & Company, P.C.

Dear Mr. Snead:

Thank you for your thorough examination of the Center for Rural Health Development (Ctr for RHD) ARC RLF grant contracts WV-14476 and WV-14828. 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 Plans

The Center's Board of Directors has approved of the plan revisions recommended in the audit to comply with ARC RLF Guidelines, Section III.C.1.b.(2). ARC has received the amended plans from the Grantee. This item is considered closed.

Non-Availability of Other Sources of Credit

The grantee responds that they will ensure that documents in their loan files will more specifically comply with the requirement (ARC Guidelines paragraph IV.A.3.). ARC concurs with the response but considers the item open requiring future follow-up with the grantee to assure compliance.

Sincerely,

Robert M. Decker, Director
Finance and Administration