



November 21, 2005

Memorandum for: The Federal Co-Chair
ARC Executive Director

Subject: OIG Report 06-03
Review of Revolving Loan Fund (RLF) Grant
Operated by the Three Rivers Planning
And Development District, Pontotoc, Mississippi

Attached is the subject report dealing with the RLF grant to the Three Rivers Planning and Development District (TRPDD). Currently, the TRPDD RLF grant has a balance of \$1,106,000. The TRPDD received its initial RLF grant in 1986 for \$500,000. As of December 31, 2004, the TRPDD had 30 loans outstanding, with an unpaid balance totaling approximately \$2.002 million.

The report contains two recommendations. The responses by the grantee are considered responsive to the recommendations. This report is considered closed.

A handwritten signature in black ink, appearing to read 'CH Jennings', is written over a horizontal line.

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
THREE RIVERS PLANNING AND
DEVELOPMENT DISTRICT
PONTOTOC, MISSISSIPPI**

ARC GRANT NUMBER: (CO-9492-86-Y1-302-0421)

June 15, 1986 through September 30, 2004

ARC OIG Report Number: 06-03

Date: November 14, 2005

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.

**ALLMOND & COMPANY
Certified Public Accountants
8181 Professional Place, Suite 250
Landover, Maryland 20785
(301) 918-8200**

TABLE OF CONTENTS

Independent Auditor's Report	1
Schedule of Fund Balance	3
Statement of Source and Application of Funds	4
Report on Compliance and on Internal Control Over Financial Reporting	5
Summary Report	7
Introduction	
Objectives of the Audit	
Background	
Scope of the Audit	
Audit Results	
Reportable Weakness in Internal Control	
Appendix – Auditee's Comments	



MARVIN C. ALLMOND, CPA

Appalachian Regional Commission
Office of Inspector General

INDEPENDENT AUDITOR'S REPORT

We have audited the Appalachian Regional Commission (ARC) Revolving Loan Fund (RLF) grant Schedule of Fund Balance of Three Rivers Planning and Development District as of September 30, 2004, and the related Statement of Source and Application of Funds for the period of June 15, 1986 through September 30, 2004. These financial statements are the responsibility of Three Rivers Planning and Development District. 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 Office of Inspector General (OIG) Audit Guide of ARC Revolving Loan Funds 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 Three Rivers Planning and Development District's fiduciary activities as of September 30, 2004 and the source and application of funds resulting from fiduciary activities for the period of June 1986 through September 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 June 10, 2005 on our consideration of Three Rivers Planning and Development District'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.

Allmond & Company

Allmond & Company
Landover, Maryland
June 10, 2005

**THREE RIVERS PLANNING AND DEVELOPMENT DISTRICT
SCHEDULE OF FUND BALANCE**

AS OF SEPTEMBER 30, 2004

Cash in Bank	\$ 39,591
Loans Outstanding	2,002,302
Unexpired Expenses	<u>2,149</u>
 Fund Balance	 <u>\$2,044,042</u>

**THREE RIVERS PLANNING AND DEVELOPMENT DISTRICT
STATEMENT OF SOURCE AND APPLICATION OF FUNDS**

For the Period June 15, 1986 through September 30, 2004

SOURCE OF FUNDS

ARC Grant	\$1,106,000
Loan Principal Repayments	3,624,919
Loan Interest Income	1,346,908
Investment Interest Income	149,228
Fees Charged	112,143
Other	<u>0</u>
Total Funds Available	<u>\$6,339,198</u>

APPLICATION OF FUNDS

Cash in Bank	\$ 39,591
Loans Outstanding	2,002,302
Loans Disbursed by Grantee	3,657,488
Due to General Fund	(14,605)
Administrative Costs	572,650
Loan Closing Costs	49,118
Foreclosure Property Mgmt. Costs	30,505
Unexpired Expenses	<u>2,149</u>
Total Funds Applied	<u>\$6,339,198</u>



MARVIN C. ALLMOND, CPA

Appalachian Regional Commission
Office of Inspector General

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS
OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the Appalachian Regional Commission (ARC) Revolving Loan Fund (RLF) grant financial statements of Three Rivers Planning and Development District as of and for the period of June 15, 1986 through September 30 2004, and have issued our report thereon dated June 10, 2005. 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 a part of obtaining reasonable assurance about whether Three Rivers Planning and Development District'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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Three Rivers Planning and Development District'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 controls over financial reporting. However, we noted certain matters involving internal controls 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 controls over financial reporting that, in our judgment, could adversely affect Three Rivers Planning and Development District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Two reportable conditions were identified during the audit and are described in the accompanying Summary Report.

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 controls over financial reporting would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe that 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.

Allmond & Company

Allmond & Company
Landover, Maryland
June 10, 2005

SUMMARY REPORT

INTRODUCTION

The Appalachian Regional Commission (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 Revolving Loan Fund (RLF) to make other loans. The program's primary goal is private sector job creation and capital formation, specifically in the Appalachian region.

ARC requires that RLF projects be administered in accordance with the grantee's RLF plan. This plan explicitly defines the specific objectives and operating procedures, including the standards and selection criteria that are used to grant funds through the RLF for loans. ARC does not approve or review the RLF loans on an individual basis. ARC monitors the 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 the ARC on a bi-yearly basis.

OBJECTIVES OF THE AUDIT

The objectives of the audit were (1) to determine whether Three Rivers Planning and Development District (TRPDD) is administering its ARC RLF in accordance with the ARC approved grant and did not violate any restrictions imposed by the terms and conditions of the RLF grant, (2) to determine whether the accounting, reporting and internal control structure of the TRPDD provides for the disclosure of pertinent financial and operation information applicable to the revolving loan program, and (3) to determine whether the objectives of the grant are being met.

BACKGROUND

In June 1986, ARC granted the TRPDD \$500,000 in accordance with grant number CO-9492-86-Y1-302-0421. The TRPDD has been an active lender through the RLF program since 1987. Currently, the TRPDD RLF grant with ARC has a balance of \$1,106,000, as amended in 2001. Since the inception of the original grant to TRPDD, the grant program has expanded to create assistance loans for capital investments for the creation and/or retention of jobs in the three-river region of the State of Mississippi.

SCOPE OF AUDIT

Allmond & Company, a certified public accounting firm, was contracted by the ARC's Office of Inspector General (OIG) to perform a financial, compliance, and internal control audit in accordance with Government Auditing Standards and ARC, OIG Audit Guide for Revolving Loan Funds of the ARC grants administered by the TRPDD for the period June 15, 1986 through September 30, 2004.

As of September 30, 2004, TRPDD had 30 ARC RLF loans outstanding, with an unpaid balance of \$2,002,302.

AUDIT RESULTS

As a result of the audit performed, we concluded that (1) TRPDD was administering its ARC RLF in accordance with the ARC approved grant and nothing came to our attention that they were violating restrictions imposed by the terms and conditions of the RLF grant, (2) TRPDD 's accounting, reporting, and internal control structure provided for the disclosure of pertinent financial and operation information applicable to the revolving loan program, and (3) TRPDD was meeting the objectives of the grant program. We found no material weaknesses and two reportable conditions.

REPORTABLE WEAKNESSES IN INTERNAL CONTROL

Finding 1:

Testing of internal controls over the payroll processing procedures revealed one exception that we are required to identify as a reportable condition. We observed that the Executive Director's timesheets were being approved by the Fiscal Director, an individual who reports to the Executive Director. We also noted that the Executive Director's leave slip is not being approved by any TRPDD official.

Recommendations:

We recommend that the Treasurer of the Board be designated as the approving official for the Executive Director's leave and time reporting and that he indicate approval of the Executive Director's Time and Attendance forms and leave slip by signing them.

Auditee's Response:

The auditee explained that the Treasurer of the Board was assessable once or twice a month and could not provide documented approval of time and attendance forms and leave slip in a timely manner. However, they concurred with the recommendation and plan to establish interim procedures for approval until the Treasurer is available.

Auditor's Conclusion:

We believe that with the implementation of the recommendation noted above, Three Rivers Planning and Development District will be in compliance with the requirements and responsibilities of its ARC approved grant, and its internal control structure will be strengthened.

Finding 2:

TRPDD did not have detailed procedures on the usage of signature stamps. We observed that two signature stamps were available for use, one with the Executive Director's signature and the other with the Chairman of the Board and the Executive Director. Our review disclosed that the office manager was in possession of and utilized the Executive Director's signature stamp. The Fiscal Director was in possession of and utilized the Chairman of the Board and Executive Director's signature stamp. We found no evidence that the owners of the signatures reviewed documents that reflected their signature.

Recommendations:

We recommend that TRPDD update its policies and procedures to reflect how the signature stamps are to be used and limit usage to individuals who are owners of the signatures placed on these stamps. We also recommend that signature stamp owners be briefed on the purpose of them signing a document to indicate approval.

Auditee's Response:

TRPDD officials did concur with the recommendation. They stated that they would establish control procedures over the use of signature stamps and would ensure that approval processes are not circumvented.

Auditor's Conclusion:

We agree that implementation of the control procedures would ensure that approval processes are not circumvented. Accordingly, the observation of an official's signature is an indication that he or she was aware and approved the transaction.

THREE RIVERS

THOMAS GRIFFITH
CHAIRMAN

ROBERT BLACKMON
VICE CHAIRMAN

JAMES 'PUG' WILEMON
SECRETARY

VERNON R. KELLEY, III
EXECUTIVE DIRECTOR

BOARD OF
DIRECTORS

AUBREY ENOCHS
TOM WEEKS
HOWARD W. MORGAN
CLIFF EASLEY
CHODIE MYERS, JR.
TOMMY CRIDDLE
JOHN HERROD
ALBERT RAYFORD
SAMUEL BUCHANAN
JOHN A. MOORE
ROOSEVELT BLACKMON
JAMES 'PUG' WILEMON
PAUL WALKER
LONNIE SENTER
JOHN MARVIN SMITH
JOHNNY MORGAN
FLOYD MARTIN
RICHARD HOWORTH
KEITH BROWN
ROBERT BLACKMON
TOMMIE LEE IVY
CLEVON SMITH
CHARLES DUKE
PHILLIP WEBB
LYNDA CONLEE
SYKES LAGRONE
JOHN DARDEN
THOMAS GRIFFITH
ROBERT BOOZER
PRESTON BELLE
BILLY KIRKPATRICK
DUANE TUTOR
WAYNE STOKES
TERRY CHEWE
EARLY MCKINNEY
BILL RUTLEDGE
JAMES BYERS
DANNY JORDAN
BILLY WISEMAN
THURMOND BEASLEY
JIM OWEN

PLANNING & DEVELOPMENT DISTRICT, INC.

P.O. BOX 690
75 SOUTH MAIN ST.
PHONE 662/489-2415
FACSIMILE 662/489-6815
PONTOTOC, MISSISSIPPI 38863

November 2, 2005

Mr. Marvin Allmond
ALLMOND & COMPANY
Certified Public Accountants
8181 Professional Place, Suite 250
Landover, Maryland 20785

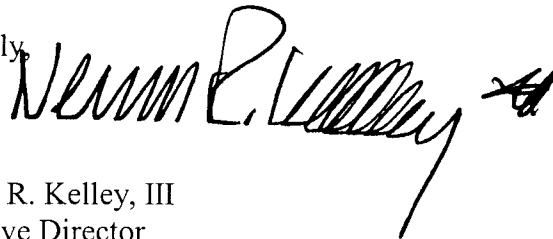
Re: ARC Grant audit report

Mr. Allmond:

We believe that having the Executive Director's timesheet approved after the fact by his supervisor that is only in the office once a month as a volunteer board member is not as good as the controls that are in place. However, we will change our procedure to concur with the first recommendation, except that the Chairman of the Board, instead of the Treasurer, will be designated as the approving official for the Executive Director's leave and time reporting and he will indicate approval of the Executive Director's Time and Attendance forms and leave slips by signing them. This will be done at the next monthly board meeting after each payroll period.

We feel like we have outstanding internal controls related to bills, invoices and check signing in place. However, we do concur that our written policies and procedures do not adequately document these controls. Therefore, we will concur with the second recommendation and TRPDD will update its policies and procedures to reflect how the signature stamps are to be used. Signature stamp owners will be briefed on the purpose of them signing a document to indicate approval. Please see the attached update to our policies and procedures.

Sincerely,



Vernon R. Kelley, III
Executive Director

THREE RIVERS PLANNING AND DEVELOPMENT DISTRICT, INC PROCEDURES FOR USE OF STAMPED SIGNATURES

I. Policy

The Board of Directors has approved limited use of stamped signatures restricted to the records identified below, and to be used only when all the procedures and controls set forth below are employed to ensure authenticity and integrity of the stamped record.

Use of stamped signatures requires a secure system, with checks in place to ensure that only authorized individuals can access the signature stamp and stamp the record.

The individual using the signature stamp must have the education, training, and experience to perform the assigned task.

The genuine owner of the signature must certify that the signature stamp is intended to be the legally binding equivalent of the individual's handwritten signature. The genuine owner will be held accountable and responsible for the actions initiated under their signature stamp.

Once the Board chooses a new Chairman, it takes 8 to 10 weeks to receive a new signature stamp. Until the stamp is ready, the Board approves the use of the prior Chairman's signature stamp for check signing purposes.

The Board must be notified immediately if a signature stamp is lost, stolen, or missing.

A person may delegate or assign to another authority to use a signature stamp with the person's name or to sign the person's name. Signature delegation is not permitted in certain situations such as in the signing of contracts. It is the responsibility of the delegator to know the situations in which delegation may not occur. When delegation does occur, it is the responsibility of the delegator to assure that the individual to whom such authority is assigned understands the limits of the delegated authority. Such delegated authority may not be further subdelegated. The person delegating signature authority to another is ultimately responsible for the delegated individual's actions. The delegation of signature authority must be documented in writing and should be reviewed periodically. Completed Delegation of Signature Authority Forms should be kept on file by the department and a new form should be completed if authorized uses or limitations change or if staff terminate employment.

II. Procedures

A. Records

1. The Board has approved use of stamped signatures for the Chairman and the Executive Director for the signing of checks. Invoices are checked for accuracy, coded and initialed by fiscal staff. Jay Blissard, Deputy Director reviews the invoices and documentation and indicates approval of payment by initialing. The Chairman of the Board and the Executive Director review the approved invoices along with a summary check register of unsigned checks. They sign the check register as indication of their approval for Tracy Matthews, Fiscal Director, to sign the corresponding checks with their signature stamp. Any checks that are not approved will be voided. Checks will be signed

and mailed on the 15th or following workday and the last working day of the month. The Board has approved signing of checks for regular monthly payables with due dates that warrant not waiting for the regular scheduled check run. Such payables include fuel purchases, utility, phone and insurance bills, and payroll and payroll associated payables. The Board has also approved the signing of checks for board approved auto purchases and loan closings. The procedure for signing these checks is the same as above, except the Chairman of the Board and the Executive Director will review the approved invoices and the summary check register after the fact.

2. The Board has approved use of stamped signatures for the Executive Director for the signing of timesheets after approval by the Executive Director, the signing of mass mail outs and A-95s only after review and approval by the Executive Director.

3. On these documents, the stamp of the Chairman and the Executive Director will be equivalent to their handwritten signatures.

4. The signature of approval on all contracts, grant agreements and all other documents that require signatures must be handwritten.

B. Authorized Individuals

1. The Fiscal Director is authorized to access the double signature stamp of the Chairman of the Board and the Executive Director. The Office Manager is authorized to access the Executive Director's signature stamp.

C. Signature Stamp Controls

1. The check signing signature stamp shall be kept in the Fiscal Director's locked closet, except when it is being used by and only by the Fiscal Director to sign checks. A log of checks signed with the stamp shall be kept in the Accounting Office.

2. The Executive Director's signature stamp shall be kept in the Office Manager's locked desk, except when in use.

**THREE RIVERS PLANNING AND DEVELOPMENT DISTRICT, INC
DELEGATION OF SIGNATURE AUTHORITY**

If authority to approve expenditures is delegated to another person, then it is important that the individual understands the limit of their authority and that they may not further subdelegate this authority. The person delegating signature approval authority is ultimately responsible for the actions of others.

Name of DEO:

Title:

Name of the Individual to Whom Expenditure Approval Authority is delegated :

Authorized Uses:

Approval of all expenditures

The undersigned have read and understand the authorized uses contained in the Signature Assignment. A periodic review of the authorized uses is recommended (at least annually).

Signature of Person Accepting Delegated Authority

Date Signed

Signature of Person Granting Signature Authority

Date Signed

PERIODIC REVIEW RECORD*

Date of Review

Signature of Person
Granting Signatory
Authority

Signature of Person
Receiving Signature
Authority

*Recommend at least an annual review coinciding with performance review of person holding delegated signature authority. Please update the delegated authority form as staff is hired or terminated.

Authorized person granting signature authority is responsible for maintaining this form in the minutes of the Board of Directors.