



March 16, 2006

Memorandum for:     The Federal Co-Chair  
                                  ARC Executive Director

Subject:                 OIG Report 06-05  
                                  Review of Revolving Loan Fund (RLF)  
                                  Operated by the Golden Triangle Planning and  
                                  Development District  
                                  Starkville, Mississippi

Attached is the subject report dealing with the RLF grant to the Golden Triangle Planning and Development District. Currently, the Golden Triangle Planning and Development District RLF grant has a balance of \$273,000. The Golden Triangle Planning and Development District received its initial RLF grant in 1995 with a grant of \$273,000. As of August 31, 2005, the Golden Triangle Planning and Development District had 6 loans outstanding, with an unpaid balance totaling approximately \$ 270,392.

The report includes one recommendation. This report will be kept open until the implementation of the recommendation has been verified.

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  
          Mary Moran



**AUDIT OF THE ARC REVOLVING LOAN  
FUND OPERATED BY  
GOLDEN TRIANGLE PLANNING AND  
DEVELOPMENT DISTRICT  
STARKVILLE, MISSISSIPPI**

**ARC GRANT NUMBER: (MS-11998-95-I-302-0320)**

**September 26, 1997 through August 31, 2005**

**ARC OIG Report Number: 06-05  
Date: March 7, 2006**

**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**

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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 Golden Triangle Planning and Development District as of August 31, 2005, and the related Statement of Source and Application of Funds for the period of September 26, 1997 through August 31, 2005. These financial statements are the responsibility of Golden Triangle 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 Golden Triangle Planning and Development District's fiduciary activities as of August 31, 2005 and the source and application of funds resulting from fiduciary activities for the period of September 26, 1997 through August 31, 2005 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 November 18, 2005 on our consideration of Golden Triangle 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  
November 18, 2005

**GOLDEN TRIANGLE PLANNING AND DEVELOPMENT DISTRICT  
SCHEDULE OF FUND BALANCE**

**AS OF AUGUST 31, 2005**

Cash in Bank	\$ 70,697
Loans Outstanding	270,392
Less: Amount Due to Other Funds	<u>(7,363)</u>
Fund Balance	<u>\$333,726</u>

**GOLDEN TRIANGLE PLANNING AND DEVELOPMENT DISTRICT  
STATEMENT OF SOURCE AND APPLICATION OF FUNDS**

**For the period September 26, 1997 through August 31, 2005**

**SOURCE OF FUNDS**

ARC Grant	\$273,000
Loan Principal Repayments	324,608
Loan Interest Income	108,476
Investment Interest Income	6,782
Fees Charged	5,950
Other	<u>0</u>
 Total Funds Available	 <u>\$718,815</u>

**APPLICATION OF FUNDS**

Cash in Bank	\$ 70,697
Loans Disbursed by Grantee	595,000
Administrative Costs	<u>53,118</u>
 <b>Total Funds Applied</b>	 <u><b>\$718,815</b></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 Golden Triangle Planning and Development District as of and for the period of September 26, 1997 through August 31 2005, and have issued our report thereon dated November 18, 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 Golden Triangle 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 Golden Triangle 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 Golden Triangle Planning and Development District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. One reportable condition was identified during the audit and is 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  
November 18, 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 Golden Triangle Planning and Development District (GTPDD) 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 GTPDD 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 September 1995, ARC granted the GTPDD \$273,000 in accordance with Grant Number MS-11998-95-I-302-0320. The GTPDD has been an active lender through the RLF program since 1997. Currently, the GTPDD RLF grant with ARC has a balance of \$273,000. Since the inception of the original grant to GTPDD, the grant program has expanded to create assistance loans for capital investments for the creation and/or retention of jobs in Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster, and Winston counties 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 GTPDD for the period September 26, 1997 through August 31, 2005.

As of August 31, 2005, GTPDD had 6 ARC RLF loans outstanding, with an unpaid balance of \$270,392.

## **AUDIT RESULTS**

As a result of the audit performed, we concluded that (1) GTPDD 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) GTPDD '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) GTPDD was meeting the objectives of the grant program. We found no material weaknesses and one reportable condition.

### **REPORTABLE WEAKNESS IN INTERNAL CONTROL**

#### **Finding: Current Year Administrative Expenses were not Recorded as Revolving Fund Activities During the Year**

Golden Triangle Planning and Development District (GTPDD) did not record administrative expenses for its ARC Revolving Fund activities on its books during the year. At year-end, a percentage of total administrative expenses is determined and allocated to the revolving fund.

As a result, \$7,363 of administrative costs for eleven months was not recorded as expenses. Additionally, a liability for the expense is not recorded on the books reflecting incurred costs not yet paid. Failure to record actual or estimated administrative expenses for ARC Revolving Fund may result in misleading information on funds available for loans.

#### **Recommendation:**

We recommend that GTPDD direct its responsible accounting officials to account for actual or estimated administrative expenses on its books monthly and, if necessary, adjust for estimated to actual at year-end.

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

GTPDD responsible officials stated subsequent to the audit that its accounting system, in fact, charged actual administrative expenses to each revolving fund on a monthly basis and generates internal reports that reflect monthly revenue and expenses for each revolving fund. At year-end, incurred but unpaid administrative expenses and corresponding liabilities are accrued.

**Auditor's Comments:**

During our fieldwork, we did not observe any evidence that actual administrative expenses were charged to each revolving fund monthly. Had an entry been made to record the administrative expenses to the various revolving funds, the revolving fund's cash would have been reduced or a liability established for the charge made. The general ledger for the ARC Revolving Fund did not reflect such an adjustment to either account. As a result, cash was overstated or liabilities were understated. Even if GTPDD's accounting system produced reports on actual administrative expenses per revolving fund, we believe an entry needed to be made to the general ledger to reflect the distribution of such expenses.



# GOLDEN TRIANGLE Planning and Development District, Inc.

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*Executive Director*

February 6, 2006

Mr. Marvin C. Allmond, CPA, CFE  
Allmond and Company, CPAs  
8181 Professional Place, Suite 250  
Landover, Maryland 20785

Dear Mr. Allmond:

Your firm recently audited GTPDD's ARC Revolving Loan Fund for the ten-year period ending August 2005. One finding was issued as a result of the audit procedures performed. Below is our response to that finding. Let me thank you again for your courtesy in allowing us an extension of time to submit our response to you.

### **Condition - Sentence One**

"...GTPDD did not record administrative expenses for its ARC Revolving Loan Fund activities on its books during the year."

**GTPDD's Response:** We do not concur. Perhaps we did not fully explain to the auditors how to read the printouts summarizing GTPDD's ARC transactions. GTPDD uses OMB-approved Grants Management Systems' accounting software to process all ARC Revolving Loan Fund transactions. This system allows GTPDD to charge *actual* administrative expenses to each project on a monthly basis. GTPDD generates monthly revenue and expenditure reports that contain separate columns for current month's transactions, fiscal year-to-date transactions, and project-to-date transactions.

### **Condition - Sentence Two**

"At year-end, a percentage of total administrative expenses is determined and allocated to the revolving fund."

**GTPDD's Response:** We do not concur. At year-end incurred but unpaid administrative expenses and the corresponding liabilities are accrued. This adjusted financial data is used to generate a set of annual financial statements that are audited by GTPDD's independent CPAs and subsequently released to appropriate parties.

**Condition -Sentences Three - Five**

“As a result, \$7,363 of administrative costs for eleven months was not recorded as expenses. Additionally, a liability for the expense is not recorded on the books reflecting incurred costs not yet paid. Failure to record actual or estimated administrative expenses for ARC Revolving Fund may result in misleading information on funds available for loan.”

**GTPDD’s Response:** We do not concur. As stated above in GTPDD’s response to *Condition - Sentence One* GTPDD charges *actual* administrative expenses to each project on a monthly basis. GTPDD generates monthly revenue and expenditure reports that contain separate columns for the current month and fiscal year-to-date transactions. This report will never mislead GTPDD employees or cause them to loan out more funds than are available because the actual amount of interest revenue and administrative expenses are clearly shown.

*charge from e-mail*

**Criteria Paragraph One**

“...GTPDD’s accounting policies and procedures manual, Section XV states, *The GTPDD follows GAAP to provide a sound, viable system of accountability for funds.*”

**GTPDD’s Response:** We concur; however, we believe that recording *actual* ARC Revolving Loan Fund income and expenses on a monthly basis and recording *accrued* income and expenses only at year-end meets the objective of GTPDD’s policies and procedures manual and is consistent with GAAP. In fact GAAP *discourages* (rather than requires) the booking of *immaterial monthly accruals to internal-use-only reports* when:

- (a) The difference between the cash and accrual methods is immaterial;
- (b) The reports are for internal use only and are understood by the intended users; and
- (c) The cost to prepare the monthly journal entries is greater than the benefit received.

**Criteria Paragraph Two**

“...GAAP’s matching principle ... is to report expenses on the income statement in the same accounting period as the revenues that were earned as a result of the expenses.”

**GTPDD’s Response:** We believe that GTPDD’s income statement (a report that is an integral part of GTPDD’s audited annual financial statements) and GTPDD’s monthly revenue and expenditure report (an unaudited monthly report) that is distributed only to GTPDD staff are prepared in a manner that is consistent with GAAP’s matching principle because:

- (a) GTPDD’s income statement includes on a consistent annual basis year-end accrued revenue and accrued expenses for the ARC Revolving Loan Fund; and
- (b) GTPDD’s monthly expenditure and revenue reports include on consistent monthly basis actual revenue and actual administrative expenditures.

**Criteria Paragraph Three**

“...The objective of accrual basis is to report the economic effects of revenues and expenses when they are earned or incurred, not when cash is received or paid.”

**GTPDD's Response:** We believe that GTPDD's financial statements accurately *report* the economic effects of ARC's Revolving Loan program revenues and expenses since the financial statements are in fact prepared on the accrual basis (as attested to by the opinion letter issued by independent CPAs that audited GTPDD's annual financial statements).

#### **Criteria Paragraph Four**

"The *Standards for Internal Controls in the Federal Government* issued by the ... GAO states that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure all transactions are completely and accurately recorded."

**GTPDD's Response:** We believe that GTPDD's internal control system meets GAO's requirements because:

(a) Your firm's auditors identified no (zero) instances where a transaction was not completely and accurately recorded.

(b) Page twenty-one of the GAO's *Standards for Internal Controls in the Federal Government* (GAO/AIMD-00-21.3.1) states, "Financial information is needed for both external and internal uses. It is required to develop financial statements for periodic external reporting... and ... pertinent information should be identified, captured and distributed in a form and time frame that permits people to perform their duties efficiently."

(c) Page eight of the GAO's *Standards for Internal Controls in the Federal Government* (GAO/AIMD-00-21.3.1) states, "Management should design and implement internal controls based on the related cost and benefits. ... internal controls provide reasonable, not absolute, assurance of meeting agency objectives."

#### **Cause**

"GTPDD's accounting policy is to record revolving fund expenses on an annual basis at year end when the actual administrative expenses for all programs are known."

**GTPDD's Response:** We do not concur. GTPDD's accounting policy is to record revolving loan expenses when incurred since federal regulations allow GTPDD to expend no more than 50% of ARC program income for administrative expenses. At the end of each fiscal year GTPDD accrues administrative expenses that have been incurred but are not yet paid. This accrual entry is an immaterial amount.

#### **Effect**

"Funds available for future loans may be misleading because current year administrative expenses have not been considered on GTPDD's accounting records (general ledger)."

**GTPDD's Response:** We do not concur. GTPDD records administrative expenses as incurred as explained in detail in our responses listed above.

### Recommendation

“We recommend that GTPDD direct its responsible accounting officials to account for actual or estimated administrative expenses on its books monthly and if necessary adjust from estimated to actual at year end.”

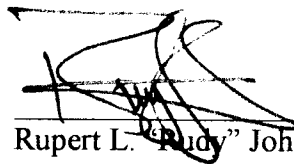
**GTPDD’s Response:** The recommendation does not require GTPDD to make any changes to current accounting procedures. GTPDD records actual administrative expenditures as incurred, thus the expenditures are included on GTPDD’s monthly financial reports that are prepared for internal use only. GTPDD prepares appropriate adjusting journal entries at year-end in order to issue financial statements that are prepared in accordance with GAAP.

### GTPDD Conclusion

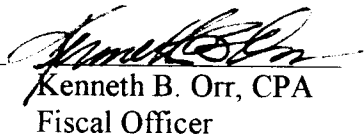
We believe that our responses to your finding clearly show that your firm’s auditors have attempted to apply GAAP’s strict accrual requirements for *audited annual financial statements prepared for use by external parties* to GTPDD’s *restricted-use revenue and expenditure reports* that are prepared solely for use by GTPDD staff who regularly work with the ARC Revolving Loan Fund.

Therefore, we respectfully request that you omit this finding from your report. However, should you decide to leave the finding in the report, we request that you include our full response in your report in accordance with *Governmental Auditing Standards*, Chapter 8 Section 31.

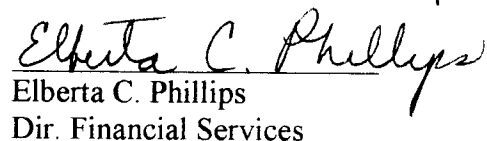
Sincerely,



Rupert L. "Rudy" Johnson  
Executive Director



Kenneth B. Orr, CPA  
Fiscal Officer



Elberta C. Phillips  
Dir. Financial Services