

**AUDIT OF THE ARC REVOLVING LOAN FUND  
OPERATED BY  
Southwestern North Carolina Planning & Economic Development Commission  
Bryson City, North Carolina**

**ARC Grant Numbers: NC-13776-I-302  
September 1, 2000 through June 30, 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.

**Report Number: 06-16**

**Date: May 24, 2006**

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Bryson City, North Carolina**

**ARC Grant Numbers: NC-13776-I-302  
September 1, 2000 through June 30, 2005**

**Prepared By:**

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

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# TICHENOR & ASSOCIATES, LLP

CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

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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: 06-16

## Independent Auditor's Report

We have audited the ARC RLF grant Schedule of Fund Balance of the Southwestern North Carolina Planning & Economic Development Commission as of June 30, 2005, and the related Statement of Source and Application of Funds for the period of September 1, 2000 through June 30, 2005. These financial statements are the responsibility of the Southwestern North Carolina Planning & Economic 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 Southwestern North Carolina Planning & Economic Development Commission's fiduciary activities as of June 30, 2005 and the source and application of funds resulting from fiduciary activities for the period of September 1, 2000 through June 30, 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 December 8, 2005 on our consideration of the Southwestern North Carolina Planning & Economic 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*

Tichenor & Associates, LLP  
Louisville, Kentucky  
December 8, 2005

**Southwestern North Carolina Planning & Economic Development Commission**

**SCHEDULE OF FUND BALANCE**  
**(As of June 30, 2005)**

Cash in Bank	\$ 0
Loans Outstanding	
Other Investments	
Due from Other Accounts	
Other Assets	
Less: Current Liabilities	
Fund Balance	\$ 0

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

**Southwestern North Carolina Planning & Economic Development Commission**

**STATEMENT OF SOURCE AND APPLICATION OF FUNDS**  
**(For The Period of September 1, 2000 through June 30, 2005)**

Source of Funds	
ARC Grant	\$ 0
Loan Interest Income	
Fees Charged	
Other Income	
Total Funds Available	\$ 0
Application of Funds	
Cash in Bank	\$ 0
Loans Outstanding	
Grant Funds Returned	
Loan Losses	
Administrative Expenses	
Total Funds Applied	\$ 0

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 Southwestern North Carolina Planning & Economic Development Commission as of June 30, 2005 and for the period of September 1, 2000 through June 30, 2005, and have issued our report thereon dated December 8, 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 part of obtaining reasonable assurance about whether the Southwestern North Carolina Planning & Economic Development Commission 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 one instance of noncompliance that is 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 Southwestern North Carolina Planning & Economic 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 statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

December 8, 2005



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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 Southwestern North Carolina Planning & Economic 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 NC-13776-I-302 to Southwestern North Carolina Planning & Economic Development Commission. Total grant ARC funding obligation for the grant was for \$200,000 as of September 1, 2000. ARC did not require that the grants 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 Southwestern North Carolina Planning & Economic Development Commission for the period of September 1, 2000 through June 30, 2005.

### **Status:**

Since the ARC obligation of funds on September 1, 2000, the Southwestern North Carolina Planning & Economic Development Commission has not drawn down any of these funds.

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## EXECUTIVE SUMMARY

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### **Audit Results:**

The audit resulted in the following:

#### **a. Compliance**

Per the Grant Agreement, the purpose of the grant is to provide financing for downtown revitalization in the towns in the Southern Region of Appalachian North Carolina. Since the inception of the grant in September of 2000, no funds have been drawn down on this grant, nor are there any loan commitments for these funds. As such, the funds have not been used for the intended purpose and, therefore, we recommend that the funds should be deobligated.

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

#### **b. Internal Control**

No internal control issues were noted.

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

In response to our draft report, the Grantee officials concurred with our recommendation that they deobligate funds under this grant and will contact ARC to begin the deobligation process. A copy of the grantee's response to the draft report is included in this report as Exhibit – Auditee's Response.

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

We believe that by implementing the report recommendation, the Grantee will be in compliance with the requirements and responsibilities of its ARC approved grant.

## **Southwestern North Carolina Planning & Economic 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 Southwestern North Carolina Planning & Economic Development Commission for the period of September 1, 2000 through June 30, 2005.
2. One (1) instance of noncompliance was disclosed during the audit.
3. No reportable conditions were disclosed during the audit.

#### **FINDINGS AND RECOMMENDATIONS**

##### **NONCOMPLIANCES**

1. Per the ARC RLF Guidelines, Grants are awarded for the purpose of making loans to eligible participants to create and/or save jobs.

Since the inception of the grant in September of 2000, funds have been obligated but never drawn down on this grant, nor are there any plans or loan commitments for these funds.

The Grantee stated that it has another ARC grant (NC-10181) that has been adequately servicing the region needs for financing projects. Thus, there has been no need to draw down funds from this grant.

As these funds have been obligated for the purposes of the grant, they cannot be used by other ARC Grantees.

We recommend that the Southwestern North Carolina Planning & Economic Development Commission agree to deobligate these funds and make them available for the use of other ARC Grantees in North Carolina or other states.

In response to our draft report, the Grantee officials concurred with our recommendation that they deobligate funds under this grant and will contact ARC to begin the de-obligation process. A copy of the Grantee's response to the draft report is included in this report as Exhibit – Auditee's Response.

##### **REPORTABLE CONDITIONS**

No reportable condition issues were noted.

## **AUDITOR'S CONCLUSION**

We believe that by implementing the report recommendation, the Grantee will be in compliance with the requirements and responsibilities of its ARC approved grant.

**EXHIBIT**

**Auditee's Response**

# SOUTHWESTERN COMMISSION

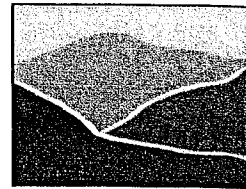
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Bryson City

March 27, 2006

Mr. William R. Tichenor, CPA  
Tichenor & Associates, LLP  
304 Middletown Park Place, Suite C  
Louisville, KY 40243

Dear Mr. Tichenor:

Following are our responses to the draft report for the referenced Appalachian Regional Commission-Revolving Loan Fund Grants:

Grant No. NC-13776-I-302 – We concur with your recommendation that Southwestern Commission deobligate funds under this grant so that they can be made available for use by other ARC Grantees in North Carolina and other states. We will contact Sara Stuckey, NC ARC Coordinator, to begin the deobligation process.

Please let me know if you have any questions or need additional information.

Sincerely,

Bill G. Gibson, Executive Director  
Southwestern Commission

Appalachian Development District










Rural Planning Organization


Area Agency on Aging

Workforce Investment Act

Economic Development District

Regional Revolving Loan Fund

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
From: William R. Tichenor

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Attachments:  cvad-05.pdf(453KB)  skedc05.pdf(301KB)  swncpedc05-2.pdf(271KB)  swncpedc05.pdf(463KB)

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Cliff,

Enclosed are 4 of 5 of the final reports for your review and comments. Also need report numbers. The last report will be sent tomorrow.

Thanks!

- Bill

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