

Appalachian Regional Commission
Revolving Loan Fund
Grant Number SC-10034-88-I-302-0613

SURVEY REPORT

SOUTH CAROLINA APPALACHIAN COUNCIL OF GOVERNMENTS
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Greenville, South Carolina 29606

OIG Report No. 95-12a(H)

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PURPOSE AND SCOPE

We performed a survey of the financial and programmatic records as they relate to Grant Number SC-10034 awarded by the Appalachian Regional Commission to the South Carolina Appalachian Council of Governments (grantee). The grant period began October 1, 1988, and continues as long as the revolving loan fund is in operation. We performed this survey during the period February 16-17, 1995.

The objective of the survey was to determine whether the South Carolina Appalachian Council of Governments maintained adequate accountability over program funding and programmatic records as they relate to ARC Grant Number SC-10034. The scope of our survey was limited to the procedures enumerated in the following paragraph:

1. Held an entrance conference with Grantee personnel and discussed the scope of the survey.
2. Obtained and reviewed a copy of the grant agreement and all amendments.
3. Held discussions with the financial manager and loan officer regarding financial records and reporting and programmatic operations.
4. Obtained and reviewed the grantee borrower files to determine the extent of grantee contact with the borrowers.
5. Obtained and reviewed a list of the current loans outstanding, and the loans committed but not yet closed.
6. Obtained and reviewed a copy of the most recent Financial Status Report prepared by the grantee and filed with ARC and traced several expenses to supporting documentation to determine that the expenses were in accordance with ARC Revolving Loan Fund Guidelines.
7. Performed survey procedures to determine the grantee's adherence to ARC's Revolving Loan Fund Guidelines as related to: revolving loan fund management, reporting requirements, and financial audit requirements.
8. Obtained and reviewed the September 30, 1994 Appalachian Development Corporation's OMB Circular A-128 audit.
9. Visited several borrowers, to verify the accuracy of the report of jobs created and retained, and to determine the extent of contact between the borrowers and their loan officer.

10. Held an exit conference with the RLF Manager to discuss any observations or recommendations.

BACKGROUND

The South Carolina Appalachian Council of Governments was awarded a Revolving Loan Fund (RLF) grant for \$1,000,000 by the Appalachian Regional Commission on October 12, 1988. The administration of the South Carolina Council of Governments Appalachian Regional Commission Revolving Loan Fund program is provided by the Appalachian Development Corporation (ADC), a private non-profit affiliate of South Carolina Appalachian Council of Governments. Since the initial capitalization, there has been one recapitalization for \$250,000 bringing the total capitalization for this project to \$1,250,000. To date, the South Carolina Appalachian Council of Governments has awarded \$1,365,885.92 to local recipients for building renovations, equipment purchases, operating capital, and inventory purchases. Of the amount awarded, the entire initial capitalization of \$1,000,000 has been used. The remaining \$365,885.92 was awarded using funds from repaid principal and interest. The South Carolina Appalachian Council of Governments is currently in the process of making four additional loans totaling \$327,200. This would use the remaining additional capitalization of \$250,000.

The State of South Carolina also awarded an RLF grant of \$500,000 to the South Carolina Appalachian Council of Governments. The South Carolina Appalachian Council of Governments' policies require bank participation. The Revolving Loan Fund is marketed to the banks as a way of reducing risk when lending to the Revolving Loan Fund's target borrowers, while allowing banks the opportunity to make "riskier" loans to local private business owners. The South Carolina Appalachian Council of Governments has been very successful in getting local banks to participate in this program.

SUMMARY OF SURVEY RESULTS

1. Based on our limited review of financial activity, as described in the *Scope* section, the Grantee maintained adequate financial records and controls relating to the Revolving Loan Fund.
2. The financial analyst/loan officer being contracted to administer the Revolving Loan Funds program is experienced and knowledgeable in packaging loans.
3. As of the date of our survey, the South Carolina Appalachian Council of Governments had drawn down \$1,000,000 from ARC and expects to draw down the balance of \$250,000 as soon as the pending loans are finalized.
4. There appears to be adequate interaction between the Grantee and the borrowers.
5. Based on our borrower site visits, it appears that all borrowers have currently achieved or are achieving their job creation goals of one job per each \$10,000 loaned.
6. The South Carolina Appalachian Council of Governments currently has one borrower in default. An investigation is in process and the South Carolina Council of Governments expects to receive most of the unpaid principal when this situation is resolved.

Our survey did disclose one matter which we believe needs to be brought to the attention of the South Carolina Appalachian Council of Governments.

OBSERVATION

While visiting with the borrowers we became aware that borrowers and the RLF loan officer were not completely familiar with the Appalachian Regional Commission and the extent of the funding ARC provided for these loans. In several cases were taken to visit borrowers that did not use Appalachian Regional Commission funds, but instead were using State Revolving Loan Funds.

The ARC borrowers we did visit did not seem to know about the Appalachian Regional Commission or that the Appalachian Regional Commission was part of the funding behind their loan. Although we recognize that this is not a requirement of the Revolving Loan Fund guidelines, we believe that the borrowers should be made aware of funding sources so as to better understand the impact that the Appalachian Regional Commission is having on their businesses and the entire Appalachian region.

RECOMMENDATION

Grantee and borrower awareness about the extent of loan dollars being funded by the Appalachian Regional Commission should be increased.

GRANTEE'S COMMENTS

The Grantee concurred with the observation noted in this report.

**CURRENT FINANCIAL STATUS OF LOANS
(Unaudited)**

Borrower	Loan Amount	Date Closed	Status	Loan Balance as of 12/31/94
Flint/Clarkson Ind.	\$37,000.00	9/89	PO	\$0.00
Norfab, Inc.	\$85,800.00	7/90	PO	\$0.00
Flint/Clarkson Ind.	\$71,400.00	7/91	PO	\$0.00
Taz, Inc.	\$63,393.54	4/92	PO	\$0.00
Doctor's Orders	\$100,000.00	9/91	PO	\$0.00
Datascan Corp.	\$30,000.00	5/92	PO	\$0.00
Eye Associates	\$90,000.00	2/91	C	\$77,050.78
Commercial Plant Relocators	\$30,000.00	6/91	C	\$11,089.65
Fenwick Machine & Tool	\$70,000.00	2/92	C	\$62,591.16
Foundry & Steel	\$95,889.00	1/92	C	\$84,238.12
Emprise, Inc.	\$62,403.38	7/92	C	\$51,595.41
Blue Ridge Packaging	\$80,000.00	11/92	C	\$68,659.72
Industrial Container	\$100,000.00	1/93	C	\$87,094.07
Mechanix, Inc.	\$40,000.00	5/93	C	\$28,808.25
Commercial Plant Relocators #2	\$50,000.00	7/93	C	\$38,093.59
Nature's Walk	\$100,000.00	7/93	C	\$94,287.03
Eastside Guitars	\$20,000.00	7/94	C	\$18,603.86
Instalok Corporation	\$100,000.00	7/94	D	\$97,205.91
F & G Partnership	\$100,000.00	8/94	C	\$99,006.31
Associated Systems, Inc.	\$40,000.00	12/94	C	\$40,000.00
TOTAL	<u>\$1,365,885.92</u>			<u>\$858,323.86</u>

PO = Paid off
C = Current
D = Default