

**Appalachian Regional Commission
Revolving Loan Fund
Grant Number NC-10182-88-I-302-0909**

SURVEY REPORT

**NORTH CAROLINA
WESTERN PIEDMONT COUNCIL OF GOVERNMENTS
317 First Avenue, NW
Hickory, North Carolina 28601**

OIG Report No. 95-12b(H)

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PURPOSE AND SCOPE

We performed a survey of the financial and programmatic records as they relate to Grant Number NC-10182 awarded by the Appalachian Regional Commission to the North Carolina Western Piedmont 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 13-15, 1995.

The objective of the survey was to determine whether the North Carolina Western Piedmont Council of Governments maintained adequate accountability over program funding and programmatic records as it relates to ARC Grant Number NC-10182. The scope of our survey was limited to the procedures enumerated in the following paragraphs:

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 RLF program manager regarding financial records, reporting and programmatic operations.
4. Obtained and reviewed a list of the current loans outstanding and their current status.
5. Obtained and reviewed a copy of the most recent Financial Status Report filed by the grantee with ARC and traced several expenses to supporting documentation to determine that expenses were spent in accordance with the ARC Revolving Loan Fund Guidelines.
6. Performed survey procedures to determine the Grantee's adherence to the ARC Revolving Loan Fund Guidelines as related to: revolving loan fund management, reporting requirements, and financial audit requirements.
7. Obtained and reviewed the June 30, 1994 Western Piedmont Council of Government's OMB Circular A-128 audit.
8. Performed two borrower site visits to verify the accuracy of the report of jobs created and retained, and to determine the extent of contact between the borrowers and their RLF program manager.
9. Held an exit conference with the Executive Director to discuss any observations and recommendations noted during the survey.

BACKGROUND

The Western Piedmont Council of Governments was awarded a Revolving Loan Fund (RLF) grant for \$250,000 by the Appalachian Regional Commission on October 1, 1988. The Grantee made six loans to area businesses, totaling \$243,826, for inventory purchases, machinery and equipment, and land & building purchases, since the inception of the Revolving Loan Fund grant.

The Revolving Loan Fund Program is funded by the Appalachian Regional Commission to provide loans to small businesses, in the Appalachian region in North Carolina, which can not obtain one hundred percent of their financing needs from other sources. Unfortunately, the Western Piedmont Council of Governments has had continued difficulties getting area banks to participate in this program because of the size of the loans.

As of the date of our survey, one loan had been paid off and the remaining five loans are current and active.

SUMMARY OF SURVEY RESULTS

1. The Grantee maintained adequate financial records and controls relating to the Revolving Loan Fund.
2. The loans are all current.
3. It appears that all the borrowers have currently achieved or are achieving their job creation goals of one job per each \$15,000 loaned.

Our survey did disclose a few matters which we believe need to be brought to the attention of the Western Piedmont Council of Governments.

OBSERVATION #1

The Western Piedmont Council of Governments is still having difficulty in making loans. This problem stems from various reasons. They have had difficulty in getting adequate participation from the area banks which had initially indicated that they were interested in participating in the RLF Program.

In addition, the Western Piedmont Council of Governments cannot make loans to businesses in their own county (Catawba) because it is not an ARC-designated county. Most of the for-profit businesses in the four-county region are in Catawba County. Therefore, most of the businesses, to which the Western Piedmont Council of Governments could make loans, are not eligible to participate in the ARC-funded program. The Western Piedmont Council of Governments Revolving Loan Fund currently has approximately \$75,000 of cash on hand from repaid principal and interest. While they have been complying with ARC guidelines and refunding the cash retained, in excess of 25% of the reported total loans outstanding and loans committed but not settled every six months, this is not making the best use of ARC money.

RECOMMENDATION

We recommend that the Western Piedmont Council of Governments increase their marketing efforts to include more banks in the Appalachian Region. This would increase the number of possible RLF-funded loans and help make this a more viable program.

OBSERVATION #2

Based on performance of the site visits at the borrowers and review of the borrowers' files, it appears that there is insufficient written documentation of contact between the borrowers and the RLF program manager. However, the RLF program manager stated that they had just purchased a software program from Anchor Commercial Services for their Small Business Administration loans that they also will be using for the Appalachian Regional Commission loans. This software will document all visits, telephone calls, and correspondence between the Grantee and the borrowers.

RECOMMENDATION

We recommend that the Western Piedmont Council of Governments maintain adequate documentation of their interaction and correspondence with the borrowers in the RLF Program.

GRANTEE'S COMMENTS

The Grantee concurred with all observations noted in this report.

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

Borrower	Loan Amount	Date Closed	Status	Loan Balance as of 9/30/94
Graystone Autobody	\$23,863.00	7/19/89	PO	\$0.00
Innovative Wood Products	50,750.00	1/23/90	C	15,370.03
BriGam, Inc.	101,500.00	12/15/93	C	81,039.73
BREUX, Inc.	22,500.00	8/13/93	C	16,927.91
Earl Huffman	17,763.00	1/21/94	C	15,953.89
Dan/Ruth Polen	27,450.00	5/12/94	C	26,263.78
TOTAL	<u>\$243,826.00</u>			<u>\$155,555.34</u>

PO = Paid Off
C = Current
D = Default