

APPALACHIAN REGIONAL COMMISSION
Revolving Loan Fund
Grant Number OH-10296-89-I-302-0330

SURVEY REPORT

**BUCKEYE HILLS-HOCKING VALLEY REGIONAL DEVELOPMENT
DISTRICT**

Route 1, Box 299D
Marietta, Ohio 45750

OIG Report No. 95-12d(H)

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PURPOSE AND SCOPE

We performed a survey of the financial and programmatic records as they relate to Grant Numbers PA-10109-88-I-302-0615 (90-108) and PA-7752A-93-I-302-1117 (93-66) awarded by the Appalachian Regional Commission (ARC) to SEDA-Council of Governments (SEDA-COG). The grant period for Grant 93-66 began October 1, 1992 and continues as long as the Revolving Loan Fund is in operation. The grant period for Grant Number 90-108 began August 16, 1990 and also continues as long as the Revolving Loan Fund Program is in operation. We performed the survey during the week of March 6-10, 1995.

The objective of the survey was to determine whether the Grantee maintained adequate accountability over program funding and programmatic records as they relate to ARC Grant Numbers 90-108 and 93-66. 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 each grant agreement and the novation agreement.
3. Held discussions with the Financial Manager and the RLF Program Manager regarding financial records, reporting, and programmatic operations.
4. Obtained and reviewed a list of the current loans outstanding and their status as of February 14, 1995.
5. Obtained and reviewed a copy of the most recent Financial Status Report (September 30, 1994) filed by the Grantee with ARC and traced several expenses to supporting documentation to determine that the expenses were 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 related to: revolving loan fund management, reporting requirements, and financial audit requirements.
7. Obtained and reviewed the June 30, 1994 SEDA-Council of Governments OMB Circular A-128 Single Audit.
8. Held an exit conference with Grantee personnel to discuss any observations and recommendations.

BACKGROUND

The SEDA-Council of Governments was awarded a Revolving Loan Fund of \$250,000 by the Appalachian Regional Commission on October 15, 1990. The entire obligation has been loaned, but this grant continues as long as the Revolving Loan Fund Program is in operation.

The Appalachian Regional Commission funded a Pennsylvania Capital Loan Fund (PCLF) Program on September 30, 1980 (under Contract Number 80-232). This funding was available to the seven Local Development Districts (LDD) in Pennsylvania for lending under their Revolving Loan Programs. In 1992, ARC made the decision to close Grant 80-232 in order to transfer management for these funds from the PCLF to the LDDs. At the time of this novation (October 1, 1992), there was \$1,604,010.08 of grant funding, including all amendments, recapitalizations, and partial deobligations. Of this amount, SEDA-COG had \$545,692.42 in outstanding loan balances consisting of \$223,439.22 in ARC funds and \$322,253.20 in program income. In addition to the loan balances, the grant funds, which remained on deposit in the PCLF at the time of the novation agreement, were allocated to the seven LDDs. An additional \$43,132.37 was made available to SEDA-Council of Governments through this allocation. ARC deobligated the total funding to SEDA-COG of \$266,571.59 (\$223,439.22 and \$43,132.37) and reobligated it under Grant Number 93-89. As of the date of our survey, the additional \$43,132.37 is still available for drawdown from ARC.

As of February 14, 1995, SEDA-Council of Governments had 22 loans outstanding totaling \$1,333,500. These loans have a total remaining unpaid balance of \$699,500.19. Three of these loans are currently in default, two because of the companies went out of business and one because the company has filed Chapter 11 bankruptcy.

Since the novation agreement SEDA-Council of Governments has been reporting these two grants to ARC as one on the semi-annual Financial Status Reports.

SUMMARY OF SURVEY RESULTS

1. It appears that the Grantee maintains adequate financial records and controls relating to the Revolving Loan Fund.
2. Twenty-two of the outstanding loans are current, one company is in Chapter 11 bankruptcy and two are currently out of business.
3. It appears that the borrowers, who are current on their loans, have achieved or are achieving their job creation goals.
4. It appears that the Grantee maintains adequate contact with the borrowers.
5. It appears that the Grantee's method of allocating administrative expenses is reasonable.

Our survey disclosed two matters which we believe need to be brought to the attention of SEDA-Council of Governments.

OBSERVATION #1

While we recognize that the Financial Manager appears to have complete and accurate financial records relating to the ARC Grants, these records are being kept on a manual system. Because of the complexity of these records, this manual system is susceptible to human error and is overly dependent on the Financial Manager's knowledge of the system. SEDA-COG management stated that they are planning to expand the level of services they provide through an anticipated increase in future funding. We believe that without conversion to a computerized accounting system, this expansion would be very difficult to accommodate with the current manual system.

We understand that SEDA-COG has made the decision to computerize their financial accounting system and staff are currently receiving training in the new program, this effort should be a priority for the organization in order to expedite the conversion as quickly as possible. This may require additional short-term assistance for the Financial Manager in order to provide for the additional work this conversion process will require. The Financial Manager indicated she would like to have the system fully operational by July 1, 1995. We concur with this target but recognize that unless this project receives priority attention within SEDA-COG, the July first goal will not be met.

RECOMMENDATION

Priority emphasis be placed on automating the financial accounting system.

OBSERVATION #2

SEDA-Council of Governments incurred extraordinary legal costs in defending against a suit filed by the Creeger Brick & Building Supply Company in 1987. The project included a Pennsylvania Capital Loan Fund approved by SEDA-COG under the ARC portion of the program. The legal fees totaled \$321,276.14 between the Creeger Brick legal costs and the insurance company lawsuit. (See Exhibit A)

The State of Pennsylvania component of the PCLF paid for the entire Creeger Brick suit totaling \$235,352.91. The total insurance lawsuit of \$85,923.23 was divided among the State portion of PCLF, ARC portion of PCLF and the RLF Program at SEDA-COG. The insurance settlement with SEDA-COG was for \$250,000. With this money, SEDA-COG reimbursed the State PCLF the entire \$235,352.91 of the Creeger Brick suit leaving \$14,647.09 remaining to be allocated. With the allocations based on the amount of funding each gave to the insurance suit, ARC should receive \$7,162.43, SEDA-COG RLF should receive \$5,111.83 and the State PCLF should receive \$2,372.83. However, ARC only received a reimbursement of \$1,435.42 as reported in the September 30, 1994 Financial Status Report.

RECOMMENDATION

We recommend that SEDA-Council of Governments reimburse ARC \$5,727.01, the difference between the correct amount for their portion of the total insurance settlement (\$7,162.43) and the amount that SEDA-COG has already reimbursed them for (\$1,435.42).

GRANTEE'S COMMENTS

The Grantee concurred with all observations noted in this report.

SEDA – COUNCIL OF GOVERNMENTS

EXHIBIT A

CREEGOR BRICK LEGAL FEE SUMMARY

LEGAL EXPENSES		PAYBACK OF \$250,000 SETTLEMENT	
Eckert, Seaman, Cherin, Mallott	\$ 139,366.63	PCLF (State)	\$ 250,000.00
McQuaide, Blasko/Rosenn, Jenkins	4,704.79	Remaining to be allocated	(235,352.91)
Miscellaneous Companies	42,356.86		<u>\$ 14,647.09</u>
Delafield, McGee, James, Kauffman	48,924.63	ARC	\$ 7,162.43 (14,647.09*48.9%)
Fulkrod, Reynolds, & Havas	85,923.23	RLF	5,111.83 (14,647.09*34.9%)
		PCLF	2,372.83 (14,647.09*16.2%)
TOTAL	\$ 321,276.14		<u>\$ 14,647.09</u>
Creeger Suit Costs	\$ 235,352.91	Previously refunded to ARC	\$ (1,435.42)
Insurance Suit Costs	85,923.23	Correct refund	<u>7,162.43</u>
TOTAL	\$ 321,276.14	Owed to ARC	<u>\$ 5,727.01</u>

ALLOCATED INSURANCE SUIT COSTS

PCLF (State)	\$ 13,923.23	16.2%
RLF	30,000.00	34.9%
ARC PCLF	42,000.00	48.9%
Total	\$ 85,923.23	100%

ALLOCATED CREEGOR SUIT COSTS

PCLF (State)	\$ 235,352.91	100%
Total	\$ 235,352.91	100%

SEDA - Council of Governments
CURRENT FINANCIAL STATUS OF LOANS
(unaudited)
EXHIBIT B

Borrower	Loan Amount	Date Closed	Status	Balance as of 2/14/95
Advanced Concrete Systems	\$83,000	5/22/92	C	\$40,797.90
American Crepe Corporation	61,500	7/12/94	C	55,894.26
Berwick Forge & Fabricating	100,000	4/11/86	D*	21,217.28
Bingaman & Son Lumber	81,000	3/2/90	C	3,037.46
Blough-Wagner Manufacturing	56,500	8/24/93	C	41,619.79
Brush Industries Inc.	100,000	12/22/94	C	98,516.37
Centroid Corporation	45,000	8/9/91	C	29,517.05
Creeger Brick & Building	75,000	8/24/84	D**	75,000.00
Equinox, Ltd.	25,000	9/24/92	C	13,952.71
Free Energy Vehicles, Inc.	50,000	5/6/86	D**	48,573.99
GECO, Inc.	24,000	7/3/91	C	9,121.08
Kleer Pak Corporation	100,000	6/28/84	C	15,116.15
M & M Sheet Metal	33,000	10/2/92	C	18,961.88
Milton Steel, Inc.	100,000	5/25/90	C	7,470.10
Nittany Geoscience, Inc.	100,000	7/30/91	C	71,376.46
Restek Corporation	100,000	6/8/89	C	50,733.83
Rightnour Manufacturing	15,000	2/22/94	C	12,469.36
Rightnour Manufacturing, Inc.	20,000	12/9/94	C	20,000.00
S. Wolf & Sons	38,000	10/7/92	C	21,835.00
Scientific Systems, Inc.	50,000	6/8/88	C	20,348.93
Suscon, Inc.	28,500	1/21/92	C	12,173.13
Yarger Tool Company	48,000	1/29/87	C	11,767.46
TOTAL	<u>\$1,333,500.00</u>			<u>\$720,995.19</u>

C Current
D* Default (Chapter 11 Bankruptcy)
D** Default (Company out of business)