

**APPALACHIAN REGIONAL COMMISSION**  
Revolving Loan Fund  
Grant Number MD-9235-85-YI-302-0220

**SURVEY REPORT**

**TRI-COUNTY COUNCIL FOR WESTERN MARYLAND**  
111 South George Street  
Cumberland, MD 21502

OIG Report No. 95-12<sup>f</sup> (H)  
April 27, 1995

### **REPORT RELEASE RESTRICTION**

This report may not be released to anyone outside of the Appalachian Regional Commission without the approval of the Appalachian Regional Commission - Office of Inspector General, except to an agency involved in the negotiating or administering of the grant. Furthermore, information contained in this survey report should not be used for purposes other than the intended without prior consultation with the Appalachian Regional Commission - Office of Inspector General regarding its applicability.

## PURPOSE AND SCOPE

We performed a survey of the financial and programmatic records as they relate to Grant Number MD-9235-85-YI-302-0220 awarded by the Appalachian Regional Commission (ARC) to the Tri-County Council for Western Maryland (Grantee). The grant period began July 1, 1985 and continues as long as the Revolving Loan Fund is in operation. We performed this survey during the period from March 29 to March 31, 1995.

The objective of the survey was to determine whether the Grantee maintained adequate accountability over program funding and programmatic records as it relates to ARC Grant Number MD-9235-85-YI-302-0220. 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 the 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 September 30, 1994 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 and OMB Circulars A-102.
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 September 30, 1994 Tri-County Council for Western Maryland OMB Circular A-128 Single 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 the RLF Program Manager.
9. Held an exit conference with Grantee personnel to discuss the observations and recommendations in this report.

## **BACKGROUND**

The Tri-County Council for Western Maryland (TCCWM) was awarded a Revolving Loan Fund (RLF) grant for \$360,200 by the Appalachian Regional Commission on July 1, 1985. Additional obligations totaling \$662,468 and deobligations totaling \$166,780.50 result in a total capitalization of \$855,887.50.

The Grantee had made 32 loans over the life of the program, totaling \$1,490,187.50. Twenty-one loans, totaling \$1,090,187.50, were reported outstanding on the September 30, 1994 Financial Status Report prepared by TCCWM and submitted to ARC. Of these 21 loans, 18 are current, totaling \$1,030,187.50, two loans are in default totaling \$25,000, and one loan of \$35,000 has been paid in full since that report.

Of the \$1,490,187.50 total loans made, \$734,887.50 has been disbursed from ARC funds and 755,300.00 of the loans has been disbursed from repaid principal. These loans have been used for acquisition of buildings, equipment, and working capital.

As of the date of our survey, TCCWM has \$50,000 at ARC in undrawn funds available for loans. There is one major loan prospect for \$1,000,000, but there has been no commitment. TCCWM is in the process of obtaining additional funding for this loan from various sources, including ARC.

## **SUMMARY OF SURVEY RESULTS**

1. The Grantee maintained adequate financial records and controls relating to the Revolving Loan Fund.
2. Of the outstanding loans, two are currently in default. Efforts are being made to recover collateral in one of these cases, while in the other the balance has been written off.
3. It appears that all the borrowers have currently achieved or are achieving their job creation goals of one job per each \$10,000 borrowed.
4. It appears that the Grantee maintains adequate contact with the borrowers.

Our survey did disclose two matters which we believe need to be brought to the attention of the Tri-County Council for Western Maryland.

### **OBSERVATION #1**

In the limited sampling of costs which we performed, we noted one invoice which was charged to ARC, which did not appear to be related to ARC's activities. The invoice was a reimbursement for travel expenses to an EDA conference for the RLF Manager for \$784.43, of which 40% (\$313.77) was charged to ARC. Costs may only be charged to ARC programs when there is a benefit to be derived from the costs.

### **RECOMMENDATION**

We recommend that TCCWM credit the ARC travel expense account for \$313.77 and charge the entire invoice to EDA.

## **OBSERVATION #2**

As of January 9, 1995, TCCWM had a balance of \$50,000 at ARC available to loan. This money was obligated on October 5, 1989.

Section V, Part E, Paragraph (2) of the ARC RLF Guidelines states:

*Grant funds not initially disbursed within 36 months from the date of grant (or amendment) approval may be deobligated and returned to the state's allocation for use in other projects. (ARC Code, Section 12-3(2) (a))*

It has been over 60 months since the amendment obligating this money was approved and these funds have not been disbursed.

We do recognize, however, that TCCWM is in the process of entering into a loan agreement as part of a large project in the area. This project would require the \$50,000 balance plus additional funding from ARC.

## **RECOMMENDATION**

We recommend that the \$50,000 balance remain available to TCCWM for use in this pending project. However, if TCCWM does not participate in this project, we recommend that the \$50,000 balance at ARC be deobligated and returned to the State's allocation according to the ARC RLF Guidelines.

## **GRANTEE'S COMMENTS**

The Grantee concurred with all observations and recommendations noted in this report.

**FINANCIAL STATUS OF LOANS OUTSTANDING  
AS OF SEPTEMBER 30, 1994  
(Unaudited)  
EXHIBIT A**

Borrower	Loan Amount	Date Closed	Status	Loan Balance as of 09/30/94
Williams Concrete	\$49,687.50	07/17/87	C	\$717.48
TCS, Inc.	50,000.00	12/13/89	C	7,435.40
Jerry's Subs & Pizza	50,000.00	12/08/89	C	8,409.43
Ed Mason's Restaurant	42,500.00	01/19/90	C	17,025.13
Pepper's Inc	50,000.00	01/19/90	C	19,392.50
Depot Street Development	100,000.00	05/04/90	C	75,476.87
Hoof Prints Livery	35,000.00	07/17/90	PO	0.00
Antietam Ford Tractor	37,500.00	03/26/91	C	13,249.85
Casselman Lumber	50,000.00	05/28/91	C	20,678.64
Mountain Fresh Meats	50,500.00	07/03/91	C	50,500.00
Miller's Painting	10,000.00	12/04/91	DF	9,740.70
Bowman's Equipment	15,000.00	12/16/91	DFB	0.00
Hardware Discounters	50,000.00	01/24/92	C	26,591.30
Sir Speedy	20,000.00	04/27/92	C	14,554.94
Paramount Optical	20,000.00	05/05/92	C	11,433.36
Apparatus Repair & Engineering	75,000.00	05/18/92	C	53,584.11
Mountain Surf, Inc.	50,000.00	10/21/93	C	42,096.02
ROCS Cards/Gifts	50,000.00	10/30/93	C	45,894.87
Harley Farm R&B	35,000.00	04/08/94	C	34,095.72
Casselman Lumber	100,000.00	09/16/94	C	100,000.00

**EXHIBIT A**  
**(continued)**

<b>Borrower</b>	<b>Loan Amount</b>	<b>Date Closed</b>	<b>Status</b>	<b>Loan Balance as of 09/30/94</b>
Green Hills Group Home	150,000.00	09/19/94	C	150,000.00
<b>TOTAL</b>	<b><u>\$1,090,187.50</u></b>			<b><u>\$700,876.32</u></b>

PO = Paid Off

C = Current

DFB = Default, Balance written off

DF = Default