

APPALACHIAN REGIONAL COMMISSION
Revolving Loan Fund
Grant Number OH-9322-85-YI-302-0610

SURVEY REPORT

OHIO VALLEY REGIONAL DEVELOPMENT COMMISSION
740 Second Street - Griffin Hall
Portsmouth, Ohio 45662-4088

OIG Report No. 95-12c(H)

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PURPOSE AND SCOPE

We performed a survey of the financial and programmatic records as they relate to Grant Number OH-9322-85-YI-302-0610 awarded by the Appalachian Regional Commission (ARC) to the Ohio Valley Regional Development Commission (Grantee). The grant period began October 1, 1985 and continues as long as the Revolving Loan Fund is in operation. We performed this survey during the period February 27 to March 1, 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 Number OH-9322-85-YI-302-0610. 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/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 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 September 30, 1992 Ohio Valley Regional Development Commission's OMB Circular A-128 audit.
8. Performed three 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 the RLF Program Manager/Financial Manager to discuss any observations and recommendations.

BACKGROUND

The Ohio Valley Regional Development Commission (OVRDC) was awarded a Revolving Loan Fund (RLF) grant for \$500,000 by the Appalachian Regional Commission on October 1, 1985. Additional obligations totaling \$400,000, deobligations totaling \$132,676.79, and conversion of \$300,000 to a sub-grant, leaves a remaining capitalization of \$467,323.21.

As of September 30, 1994, the Grantee had seven loans outstanding totaling \$386,801.18. One loan of \$100,000 has been paid in full. Of this amount, \$19,477.97 has been loaned from the repaid principal. These loans have been used for energy-related improvements, acquisition of buildings, machinery, equipment, and working capital.

As of the date of our survey, OVRDC has an undrawn balance of \$100,000 at ARC available for loaning. There are several loan prospects, but there have been no commitments.

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. One loan has currently been given a 6 month deferral, but is being closely monitored by OVRDC. One loan, with the prior approval of ARC, has been converted to a sub-grant. This decreases the loan pool by \$300,000.
3. It appears that all the borrowers have currently achieved or are achieving their job creation goals of one job per each \$15,000 borrowed.
4. It appears that the Grantee maintains adequate contact with the borrowers.

Our survey did disclose a few matters which we believe need to be brought to the attention of the Ohio Valley Regional Development Commission.

OBSERVATION #1

Our survey indicates that for the period ending September 30, 1994, OVRDC had incurred \$31,167.62 in administrative expenses related to this grant. However, they only reported to ARC \$25,194.74 in administrative expenses. This understatement of \$5,972.88 was apparently the result of an internal audit at OVRDC. A corrected Financial Status Report has yet to be submitted to ARC.

RECOMMENDATION

We recommend that OVRDC submit a revised Financial Status Report to ARC for the period ended September 30, 1994 to reflect the accurate administrative expenses of \$31,167.62 resulting from the OVRDC internal audit.

OBSERVATION #2

OVRDC has not yet received a copy, from their auditors, of their OMB Circular A-128 audit report for the period ending September 30, 1993. They have been persistently asking for it but as of the date of our review it has not been delivered. The most current OMB Circular A-128 audit report they have is for the period ending September 30, 1992. Also, their auditor has not yet begun the audit for the year ended September 30, 1994. Section V, Part C, Paragraphs (1) and (2) of the ARC RLF Guidelines state:

An organization-wide financial and compliance audit is required annually (emphasis added) throughout the life of the grant.

Audits must be performed by an independent auditor in accordance with OMB Circular No. A-128. Audits must conform to the General Accounting Office Standards for Audit of Government Organizations, Programs, Activities and Functions and the Guidelines for Financial and Compliance Audits of Federally Assisted Programs and to audit requirements contained in the grant.

Section 13. Part f. of OMB Circular A-128 states:

...The reports shall be sent within 30 days after the completion of the audit, but no later than one year after the end of the audit period unless a longer period is agreed to with the cognizant agency.

OVRDC is in violation of the ARC Revolving Loan Fund Guidelines and OMB Circular A-128 Regulations.

RECOMMENDATION

We recommend that OVRDC work out a timetable with their auditor for the delivery of the audit report, which conforms to the RLF Guidelines. If the auditors are unable to meet this schedule, we recommend OVRDC hire an independent auditor who can comply with ARC Guidelines and OMB Regulations.

OBSERVATION #3

During our survey it came to our attention that there was an appearance of a conflict-of-interest in connection with a 1986 loan made to the father of a Loan Review Committee member. Although this loan has since been repaid in full, this loan was prohibited by ARC RLF Guidelines, which state in Section III, Part D, Paragraph (6):

RLF loans which would create...the appearance of a conflict-of-interest for any...current member of the grantee's loan administration board...or people related to them...are prohibited.

We noted that the son of the loan recipient was a member of the Loan Review Committee at the time the Committee approved the loan. Although the member abstained from voting on this loan approval, his membership on the committee, which approved a loan to his father, created the appearance of a conflict-of-interest.

RECOMMENDATION

All Loan Review Committee members and OVRDC staff should be fully informed of the conflict-of-interest provisions in this program and the nature of loans which are prohibited.

GRANTEE COMMENTS

The Grantee concurred with all of the observations. The Grantee noted that corrective action has been taken for Observation #1 and is being implemented for Observations #2 and #3.

CURRENT FINANCIAL STATUS OF LOANS
(Unaudited)

| Borrower | Loan Amount | Date Closed | Status | Loan Balance as of 11/30/94 |
|----------------------------------|--|--------------------|---------------|---|
| Sherman-Kricker Insurance Agency | \$16,431.20 | 11/11/86 | C | \$3,275.10 |
| A.J. Stockmeister | 100,000.00 | 11/21/86 | PO | 0.00 |
| Craftsman Printing, Inc. | 57,573.00 | 08/17/88 | C | 25,010.49 |
| AeroFrame Corporation | 87,500 | 12/13/93 | C | 86,105.99 |
| FRP Engineering | 30,000.00 | 12/15/93 | C | 25,655.17 |
| Robert W. Meadows | 33,500.00 <u>66,500.00</u> <u>100,000.00</u> | 03/10/94 | C | 31,397.52 <u>65,068.30</u> <u>96,465.82</u> |
| B.C Sales Company, Inc. | 70,000.00 | 08/31/94 | F | 70,000.00 |
| Colonel's Pizza, Inc. | 75,000.00 | 08/31/94 | C | 74,032.03 |
| Iron-ton Iron, Inc. | 300,000.00 | 06/27/87 | S | 0.00 |
| TOTAL | <u>\$836,504.20</u> | | | <u>\$380,544.60</u> |

PO = Paid Off

C = Current

D = Default

S = Converted to sub-grant 10/88

F = Given a six month deferral