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**APPALACHIAN REGIONAL COMMISSION  
OFFICE OF INSPECTOR GENERAL  
AUDIT OF GRANT AWARD**

**Regional Economic Development and Energy Corp.  
Corning, New York**

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**Final Report Number: 18-02  
Project Number: NY-7532  
November 6, 2017**

**Prepared By:**

**Bonadio & Co., LLP**  
Certified Public Accountants

November 6, 2107

Appalachian Regional Commission  
Office of Inspector General  
1666 Connecticut Avenue, N.W.  
Washington, D.C. 20009

Bonadio & Co., LLP completed an audit of grant number NY-7532 awarded by the Appalachian Regional Commission (ARC) to the Regional Economic Development and Energy Corp. (the Grantee). The audit was performed to assist the Office of Inspector General in carrying out its oversight of ARC grant funds.

The primary objectives of the audit were to determine whether: (1) program funds were expended in accordance with the ARC and Federal grant requirements; (2) grant funds were expended in accordance with the terms of the grant agreement; and (3) internal controls were in place to ensure compliance with grant requirements.

Overall, the Grantee's financial management and administrative procedures and related internal controls were adequate to manage the funds provided under the ARC grant reviewed. The loans tested were supported and are considered reasonable within the scope of the grant. In addition, the records and reports indicated that the tasks required by the grant agreement were being accomplished. The Finding and Recommendation section discusses an issue identified related to supporting documentation maintained by the Grantee.

A draft report was issued on October 27, 2017 and reviewed by the Grantee. The Grantee provided a written response on October 3, 2017. The response is included in Appendix 1.

Bonadio & Co., LLP appreciated the cooperation and assistance received from the Grantee and the ARC staff during the audit.

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## BACKGROUND

Bonadio & Co., LLP completed an audit of grant number NY-7532 awarded by the Appalachian Regional Commission (ARC) to the Regional Economic Development and Energy Corp. (the Grantee). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of the ARC grant funds.

The Grantee is a not-for-profit corporation whose mission is to provide economic development lending capability for businesses in Chemung, Schuyler and Steuben Counties, and to furnish loan program servicing in support of local and regional economic development activities. The Grantee manages the Regional Economic Development and Energy Revolving Loan Fund (RLF).

ARC grant number NY-7532 was originally awarded in 1980 and provided ARC funds to be used by the Grantee for the purpose of making loans to create and retain jobs. As loans are repaid, money is returned to the fund and made available for additional loans. ARC uses revolving loan funds as an effective tool for economic development. Revolving loan funds are not substitutes for conventional lending sources and are intended to fill gaps in existing local financial markets and to provide or attract capital which other would not be available for economic development.

The primary objective of the ARC RLF program is saving and creating private-sector jobs. For each loan, borrowers must agree to create new jobs and/or save existing jobs, within a time frame to be prescribed by the grantee. Each loan agreement includes language that permits an increase in interest rate to commercial levels if it becomes apparent that the number of jobs created or jobs saved in the project will not meet the Grantee's RLF Operating Plan criteria.

## OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objectives of the audit were to determine whether: (1) program funds were expended in accordance with the ARC and Federal grant requirements; (2) grant funds were expended in accordance with the terms of the grant agreement; and (3) internal controls were in place to ensure compliance with grant requirements.

We reviewed the documentation provided and interviewed Grantee personnel to obtain an overall understanding of the grant activities, the accounting system, and operating procedures. We reviewed the Grantee's administrative procedures and related internal controls to determine whether they were adequate to administer the grant funds. We also reviewed the most recent financial statement audit report to determine whether there were any findings reported that could have impacted the ARC grant. No such findings were noted.

As of August 31, 2017, the Grantee had 15 loans outstanding with unpaid balances totaling \$583,148. All loan files with activity in the last two years were chosen for testing.

Our review was based on the terms of the grant agreement, ARC Business Development Revolving Loan Fund Grant Guidelines and on the application of procedures in the modified ARC Audit Program. The Grantee's loan policy was updated in October 2016 and reflects ARC guidelines. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed the week of September 18, 2017, including on-site work at the Regional Economic Development and Energy Corp. in Corning, NY. The audit results were discussed with Grantee representatives at the conclusion of the on-site visit.

## **SUMMARY OF AUDIT RESULTS**

Overall, the Grantee's administrative procedures and internal controls were adequate to manage grants funds in accordance with ARC guidelines, the grant agreement and the operating plan. The loans tested were supported and considered reasonable, and we did not question any eligibility. However, we did identify an area that requires management's attention.

### **Finding and Recommendation:**

#### **Grantee Reporting**

Each grantee must, semiannually, submit to ARC financial progress reports of the loan activity underway. The Grantee has recently experienced turnover and as a result, could not provide supporting documentation for schedules B-1 and B-2 of the ARC semi-annual reports prior to the September 2016 report. In addition per the terms of the RLF loan agreement, the borrower agrees to create or retain jobs within 24 months of the loan closing. Per our review of the March 31, 2017 semi-annual report, the Grantee reported that 87 new jobs were created from the 14 outstanding loans. No supporting documentation related to jobs created was maintained by the Grantee. Loan recipients communicated the data verbally.

#### **Recommendation**

The Grantee should maintain back up documentation to support crucial information included in all semi-annual reports going forward. The Grantee should also obtain verifiable documentation from the borrower supporting these accomplishments, i.e. borrower employment records.

APPENDIX I

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October 31, 2017

www.redec.us

Gregg H. Evans, CPA, CFE, Partner  
The Bonadio Group  
432 North Franklin Street  
Syracuse, New York 13204

RE: ARC Audit Report - REDEC

Dear Mr. Evans:

Thank you for the opportunity to respond to the findings of the audit report for grant # NY-7532 awarded by the Appalachian Regional Commission to REDEC in 1980. REDEC was specifically created in 1980 to administer the ARC grant. Over the past 37 years REDEC has successfully administered these loan funds lending the initial \$ 1,450,000 and then relending the loan proceeds to make an additional \$ 6 million+ in additional loans. These loans help create and expand numerous small businesses and create hundreds of much needed employment opportunities for residence of the Central Southern Tier Region of New York State. REDEC takes great pride in its accomplishments in promoting economic growth.

Specific to the findings of the audit, I agree that the job reporting documentation has not been sufficient to meet the requirements of ARC, nor other government funders of REDEC loan programs. Since the audit was conducted, we have contacted each borrower, and asked that they submit a letter, signed by an authorized individual, certifying the number of fulltime equivalent employees employed as of 12/31/2016, and each anniversary (12/31) going forward. Letters will be sent each year to make sure these employment certifications are received. Job reporting requirements are specified in loan commitment letters, and loan documents, and failure to provide adequate information can affect the interest rate on loans, or eventually become grounds for terminating the loan. Still, REDEC recognizes that it is responsible for satisfactorily documenting this job information, and will make a concerted effort to insure this information is obtained without being intrusive to each individual employee's confidential information.

I am confident that this action by REDEC will be successful in satisfy ARC, and that REDEC will continue to be successful in meeting the goals of ARC as set forth in the original grant.

Respectfully,

George E. Miner, President  
Cc: REDEC Board of Directors*Serving Chemung, Schuyler, and Steuben Counties*

This institution is an equal opportunity provider, and employer.

