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**APPALACHIAN REGIONAL COMMISSION  
OFFICE OF INSPECTOR GENERAL**

**AUDIT OF GRANT AWARD**

**Northeast Mississippi Planning and Development District  
Booneville, Mississippi**

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Final Report Number: 17-11  
Project Number: MS-9490  
March 2017

Prepared by:

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March 29, 2017

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Leon Snead & Company, P.C. completed an audit of the Revolving Loan Fund (RLF), grant number MS-9490, awarded by the Appalachian Regional Commission (ARC) to the Northeast Mississippi Planning and Development District (NEMPDD). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of ARC grant funds.

The audit objectives were to determine whether: (1) The grantee was in compliance with Office of Management and Budget (OMB) Circular 2, CFR 200; ARC Guidelines; the grant agreement and operating plan, (2) The grantee's internal control policies and procedures were adequate to assure that RLF transactions were properly recorded and accurately and timely reported to ARC on its semi-annual reports, (3) administrative costs reported on semi-annual reports were allowable, supported and reasonable, and (4) the matching requirements and the goals and objectives of the grant were met.

Overall, the NEMPDD's financial management system and related internal controls were adequate to manage the RLF in compliance with ARC guidelines, the grant agreement, and operating plan. Administrative costs tested were supported and considered reasonable. Semi-annual reports were submitted timely to ARC. Matching cost requirements and the goals and objectives of the RLF grant program were being met. However, we identified two areas that require management attention. Performance reporting on the semi-annual reports submitted to ARC did not include updated numbers relating to jobs saved and jobs created for each loan. There was no documentation on file to support the qualifications of the members of the Revolving Loan Fund Review Committee. These issues and the corresponding corrective actions are discussed in the Findings and Recommendations section of this report.

A draft report was provided to the NEMPDD on February 21, 2017, for comments. The NEMPDD provided a response to the report on March 24, 2017. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the NEMPDD and ARC staffs during the audit.

Sincerely,

*Leon Snead & Company, P.C.*  
Leon Snead & Company, P.C.

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## **Background**

Leon Snead & Company, P.C. completed an audit of the Revolving Loan Fund (RLF), grant number MS-9490, awarded by the Appalachian Regional Commission (ARC) to the Northeast Mississippi Planning and Development District (NEMPDD). The audit was conducted at the request of the ARC, Office of Inspector General, to assist the office in its oversight of ARC grant funds.

NEMPDD was established as a non-profit corporation in 1970 to promote the economy, community, and human resources in the counties of Alcorn, Benton, Marshall, Prentiss, Tippah, and Tishomingo, as well as 25 municipalities. It is governed by a 24 member board of directors. NEMPDD serves as a Local Development District (LDD) for the ARC and provides a wide range of services to the businesses and industries in the above counties and municipalities. These services include comprehensive planning and technical assistance, preparation of grant applications, project and program administration, loan programs and human services programs.

A RLF is a business development revolving loan fund that is used by eligible grantees to make loans to create and/or save jobs. As loans are repaid by the borrowers, the money is returned to the RLF to make additional loans. RLF loans are not intended to match or replace the capacity of lending institutions, rather, RLF's fill gaps in local lending, and to provide capital which otherwise would not be available for economic development.

The goal of the RLF is to help meet capital needs for private job-creating projects. The objectives include: create and retain private sector jobs; improve the tax base; increase per capita income; overcome financial gaps in development projects which private lenders cannot provide; leverage other private and public funds; provide a source of capital for businesses owned by minorities, women, or other economically disadvantaged persons; and assist small businesses and local entrepreneurs in obtaining credit.

The grantee is required to administer the RLF in accordance with its grant agreement and operating plan. The operating plan, developed by the NEMPDD as part of the grant agreement, defines specific objectives and operating procedures, including standards and selection criteria for loans in the portfolio. ARC does not review and approve individual loans made by the RLF. Instead, ARC monitors RLF activities for conformance with the ARC code, RLF Guidelines, operating plan, and other conditions of the grant agreement.

## **Objectives, Scope, and Methodology**

The audit objectives were to determine whether: (1) The grantee was in compliance with Office of Management and Budget (OMB) Circular 2, CFR 200; ARC Guidelines; the grant agreement and operating plan, (2) The grantee's internal control policies and procedures were adequate to assure that RLF transactions were properly recorded and accurately and timely reported to ARC on its semi-annual reports, (3) administrative costs reported on semi-annual reports were allowable, supported and reasonable, and (4) the matching requirements and the goals and objectives of the grant were met.

NEMPDD received its initial RLF grant in 1986. As of December 31, 2016, NEMPDD had received \$1,810,611 in ARC grant funds. They had 46 loans outstanding, with unpaid loan balances totaling approximately \$2,355,104. The audit covered NEMPDD ARC RLF activities during the period January 1, 2015 to December 31, 2016.

We reviewed documentation provided by NEMPDD and interviewed personnel to obtain an overall understanding of the RLF activities, the accounting system, and general operating procedures and controls. We reviewed written policies and administrative procedures to determine if they were compliant with federal requirements and adequate to administer the RLF. We reviewed semi-annual reports to ARC to determine if they were submitted in accordance with requirements. We reviewed the most recent A-133 audit, financial audit and financial statements to identify any issues that significantly impacted the ARC grant and the grant audit. We verified that the loans made by the NEMPDD complied with ARC Guidelines and the RLF operating plan. We performed tests of selected administrative costs claimed by NEMPDD to validate that the costs were allowable, supported and reasonable.

The on-site fieldwork was performed at the NEMPDD offices in Booneville, Mississippi during February 6-9, 2017. The preliminary results were discussed with the NEMPDD staff at the conclusion of the on-site visit. The NEMPDD staff was in general agreement with the preliminary results.

The primary criteria used in performing the audit were the grant agreement and amendments; the RLF Operating Plan; OMB Circular 2, CFR 200; and the ARC Business Development Revolving Loan Fund Grant Guidelines. The audit was performed in accordance with *Government Auditing Standards*.

### **Summary of Audit Results**

Overall, the NEMPDD's financial management and administrative procedures and related internal controls were adequate to manage and operate the RLF in compliance with ARC guidelines, the grant agreement, and operating plan. Administrative costs tested were supported and considered reasonable. Semi-annual reports were submitted timely to ARC. Matching cost requirements and the goals and objectives of the RLF grant program were being met.

However, we identified two areas that require management attention. Performance reporting on the semi-annual reports submitted to ARC did not include updated numbers relating to jobs saved and jobs created for each loan. There was no documentation on file to support the qualifications of the members of the Revolving Loan Fund Review Committee.

These issues and the corresponding corrective actions are discussed in the Findings and Recommendations section of this report.

## Findings and Recommendations

### A. Performance Reporting

ARC regulations require RLF grantees to submit semi-annual reports to ARC. These reports include Schedule B-2, "List of Loans Outstanding." Among the data elements required on this schedule are the jobs saved and jobs created for each loan project. ARC Business Development RLF Grants Guidelines: Appendix B, Preparing Schedule B-2 state "the schedule should show the most current success in creating and saving jobs during the reporting period."

Per the RLF loan agreement, the borrower agrees to create and/or retain the number of jobs stated on the RLF loan agreement within 24 months of the loan closing. In addition, the borrower agrees to respond semi-annually to NEMPDD's request for information on the total number of employees and cooperate with NEMPDD activities to monitor compliance with the loan agreement. The requests for loan data can be from on-site visits or a survey sent to the borrower. We found that NEMPDD was monitoring borrowers in accordance with their policy.

However, our testing of the semi-annual reports indicated that NEMPDD was reporting its original projections for jobs saved and jobs created for each reporting period, not the actual number of jobs that were saved and/or created during that period. While NEMPDD did not require this data for loans that were still in the period of the first 24 months of the loan close, loans more than 24 months past the loan closing date would have this data available. As NEMPDD is monitoring borrowers as required, they could use the data from their monitoring reports to complete the ARC semi-annual reports.

### Recommendation

NEMPDD should use the data from the semi-annual monitoring reports obtained from borrowers meeting the 24 month requirement as the basis for the jobs saved and jobs created section of Schedule B-2 on their semi-annual reports submitted to ARC.

### Grantee's Response

The grantee stated they have been in contact with ARC regarding the finding in order to better understand the expectations and desired information in regard to the semi-annual reporting. They will continue to discuss this and will wait for further instructions from ARC before an action can be decided on and put in place.

### Auditor's Comments

*The grantee should continue to work with ARC to determine an adequate resolution to resolve the finding and close the recommendation.*

## **B. Revolving Loan Fund Review Committee**

NEMPDD provided us with their internal RLF Review Committee Qualifications along with the current members of the committee. The list included the position each member filled on the committee and the experience requirements for each member, such as in commercial lending or in the private sector. In addition, we were told that the committee includes one member from each of the six counties in the planning and development district, and one member who can be from any of the six counties. The make-up of the committee met ARC qualifications.

However, NEMPDD did not maintain files for the current committee members that included documentation supporting their qualifications that enabled them to serve on the committee. We were told that each county finds members as needed and recommends them to NEMPDD for a spot on the committee. As the staff at NEMPDD normally is familiar with the individuals proposed for the committee, they rely on their knowledge of these individuals as well as the input from each county when members are appointed to the committee. While there was no indication that any of these individuals were not qualified to serve on the committee, we were unable to verify this information due to the lack of documentation on file.

### **Recommendation**

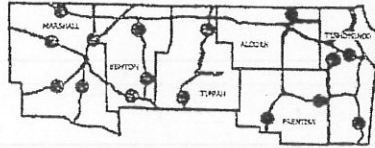
NEMPDD should obtain documentation from their respective counties and/or committee members to support and document the qualifications of the current members of the RLF Loan Review Committee. Also, a procedure should be put in place to ensure this documentation is obtained and placed on file for all future committee members.

### **Grantee's Response**

The grantee stated they concurred with the finding and have begun collecting resumes on each RLF Review member that shows their qualifications and background experience that qualify them to hold their position for their County on the Board.

### **Auditor's Comments**

*ARC will determine whether the actions proposed by the grantee are adequate to resolve the finding and close the recommendation.*



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March 23, 2017

Thomas Shawley  
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Dear Tom:

In response to the recent findings during the monitoring visit to Northeast Planning & Development District, we concur with the first finding. We have already begun collecting resumes on each RLF Review member that shows their qualifications and background experience that qualify them to hold their position for their County on the Board.

In regards to the second finding, Celita Miller has discussed this directly with William Grant from ARC to better understand the expectations and desired information in regards to the semi-annual reporting. We will continue to discuss this and wait for further instruction from ARC before an action can be decided on and put in place.

Thank you for your professionalism during the monitoring visit. It was a pleasure to meet with you and discuss our loan procedures.

Respectfully,

*Sharon Gardner*

Sharon Gardner  
Executive Director