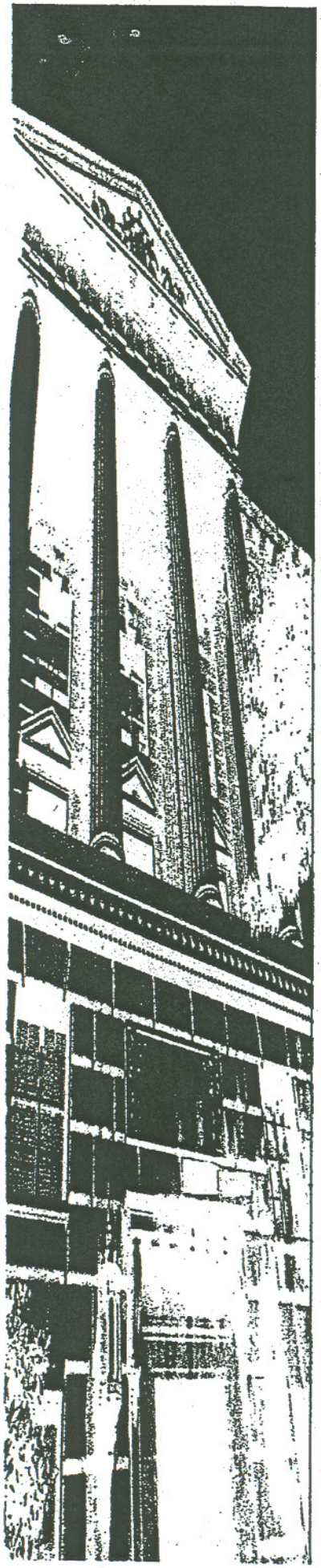

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General

PUBLIC RELEASE

ECONOMIC DEVELOPMENT ADMINISTRATION

Panhandle Area Council
Hayden, Idaho
Revolving Loan Fund
EDA Grant No. 07-39-02500.03

Audit Report No. STL-14141-1-0001/July 2001

Office of Audits, Seattle Regional Office

CONTENTS

EXECUTIVE SUMMARY

The Economic Development Administration awarded grant No. 07-39-02500.03 to the Panhandle Area Council in June 1998 in the amount of $350,000 to recapitalize a revolving loan fund originally awarded in 1982. We found that the Council did not utilize the EDA RLF during the period of recapitalization. Many of the loan applications processed by the Council during this period qualified for financing under several other loan programs, and the Council opted to use the other loan programs instead of the EDA RLF. Consequently, no loans were funded by the EDA RLF since January 1998, and there is little prospect of using the recapitalized funds before the expiration of the grant disbursement schedule in June 2001.

The existing RLF had a cash balance of over $661,000 at September 30, 2000, and therefore had sufficient funds to meet current loan demands. Therefore, we recommend that EDA terminate the recapitalization award and deobligate the $350,000 balance. We also recommend that EDA monitor the existing RLF to ensure that the fund is serving its intended purpose.

INTRODUCTION

The Panhandle Area Council was organized in 1972 to promote economic development and business growth in the five counties of Northern Idaho. The Council provides low interest loans, business counseling, incubators, and job training assistance for the private sector, and provides economic development planning, procurement assistance, and grant writing and administrative assistance for local governments in the service area. Members of the Council consist of elected officials from North Idaho cities and counties, the Coeur d'Alene and Kootenai Indian Tribes, and business leaders from the five-county area.

The EDA revolving loan fund was originally awarded to the Panhandle Area Council in September 1982. EDA recapitalized the award three times, in September 1984, August 1987, and June 1998, as shown in Table 1:

Table 1. EDA Grant Award & Amendments

Actions	Period	EDA	PAC	Total
Original Award	Sept. 1982	$350,000	--	$350,000
Amendment #1	Sept. 1984	300,000	$350,000	650,000
Subtotal		$650,000	$350,000	$1,000,000
Amendment #2	Aug. 1987	150,000	50,000	200,000
Subtotal		$800,000	$400,000	$1,200,000
Amendment #3	June 1998	350,000	116,000	466,000
Totals		$1,150,00	$516,000	$1,666,000

The audit was limited to the last Amendment (No. 3), awarded by EDA in June 1998 under award No. 07-39-02500.03 to recapitalize the existing RLF. The award was selected for audit because EDA records showed that there were no drawdowns from the grant through 2000.

The Panhandle Area Council acquired and operated five other loan programs since 1982. They include: i) another RLF for the five-county service area, originally capitalized with Department of Housing and Urban Development CDBG funds from the state, and now funded from local sources, only; ii) another EDA RLF limited to Shoshone County, originally awarded to another grantee and transferred to the Council in 1987; iii) the Small Business Administration 504 loan program for fixed assets; iv) the SBA Micro-loan program; and v) the Department of Agriculture's Rural Development–Intermediary Relending Program.

PURPOSE AND SCOPE OF AUDIT

This report presents the results of a financial related audit of the EDA award to the Panhandle Area Council for administration of the RLF. Financial related audits assess compliance with laws, regulations, and award terms; adequacy of accounting systems and internal controls; and the degree to which a project achieved the intended results. The audit did not include a review of costs incurred.

The objectives of our audit were to (1) identify the reasons for the delay in disbursing award funds, and (2) determine whether the need for the recapitalization was valid. The audit covered the period between the recapitalization in June 1998 and September 30, 2000. We conducted site work in February 2001; we examined project records and interviewed officials.

We reviewed the audit reports issued by the Council's independent auditors under the Single Audit Act for the period ended September 30, 2000. The independent auditors gave clean opinions on the Council's financial statements, and found no reportable deficiencies with regard to the Council's internal controls or compliance with federally funded programs.

We did not rely on the other independent reviews of the Council's operations, but instead satisfied our audit objectives with tests of project transactions related to the EDA project to evaluate internal controls, compliance with laws and regulations, and reliability of computer-generated data. We did not find any deficiencies that impacted on the audit objectives or our conclusions regarding the EDA project.

The audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13 dated May 22, 1980, as amended.

FINDINGS AND RECOMMENDATIONS

RLF RECAPITALIZATION WAS NOT USED

We found that the Council did not utilize the EDA RLF during the period of the recapitalization award. Many of the loan applications processed by the Council qualified for financing under several other loan programs administered by the Council, and the Council opted to use the other loan programs rather than the EDA revolving loan fund. Consequently, no loans were funded by the EDA RLF since the fund was recapitalized in 1998. There is little prospect of using those funds before the expiration of the grant disbursement schedule in June 2001. Therefore, we recommend that EDA deobligate the recapitalization grant.

The Panhandle Area Council acquired five other loan programs after the EDA RLF was started in 1982, as shown in Table 2:

Table 2. Panhandle Area Council Loan Programs

			Loans Made Through 9/30/00		
Year	**Agency**	**Loan Program**	**No.**	**Federal**	**Total Loans**
1982	EDA	RLF	42	$3,343,100	$10,352,800
1983	HUD [1]	RLF (Local)	34	--	1,978,000
1984	SBA	504 program	50	11,851,000	48,854,300
1987	EDA [2]	RLF (Shoshone)	22	550,000	1,712,400
1993	SBA [3]	Micro-loans	53	531,900	531,900
1995	USDA [4]	RD-IRP	9	842,000	842,000

Notes:

1 Originally capitalized with HUD CDBG funds to State; but no longer has Federal identity. All funding is now from non-federal sources.

2 Limited to Shoshone County. The RLF was originally awarded to another recipient in Shoshone County in 1982, and RLF custody was later transferred to the Council in 1987.

3 SBA Micro-loans are small loans (under $25,000) targeted to small businesses. They do not compete with the RLF loans.

4 U.S. Department of Agriculture's Rural Development-Intermediary Relending Program.

The Council presented several reasons for using the other loan programs in preference to the EDA RLF. For example, construction loans with Davis-Bacon wage scale requirements cannot be marketed easily in Idaho because local banks and contractors will often refuse to participate in projects with union wage scale requirements. Other loan programs do not have wage scale requirements, and therefore construction loan packaging efforts are easier under the other programs.

Council records indicated that the SBA 504 program was the loan program used most consistently over the years. As shown on Table 3, during the period of the EDA RLF application and award process in 1997-1998 the Council processed almost all loans through the SBA 504 program (11 loans for about $4,000,000), without using the other loan programs. Therefore, while there may have been valid economic reasons to justify the EDA RLF application in 1997, there was not a demonstrated need for the recapitalization as measured by market demand or actual loans processed.

As of September 30, 2000 the EDA RLF cash balance was over $661,000. The recapitalization award in 1998 authorized the Council to retain up to $300,000 in principle repayments from earlier RLF loans in order to have sufficient funds on hand to make loans in areas not eligible under the recapitalization. (Special Award Condition N.) In the absence of any new loans made, the RLF balance has doubled the amount authorized in 1998.

Therefore, the existing RLF is sufficiently capitalized to meet future loan demands. Since the recapitalization award of 1998 has not been used we believe that EDA should deobligate that award, and monitor the existing RLF balance to ensure that the fund will be used to its intended potential.

RECOMMENDATIONS

We recommend that EDA's Seattle Regional Director:

1) Terminate the $350,000 recapitalization grant awarded to the Panhandle Area Council in June 1998 and deobligate the balance.

2) Monitor the existing RLF to ensure that the fund is properly utilized by the Council.

FUNDS PUT TO BETTER USE

Implementing the first recommendation will allow $350,000 in grant funds to be put to better use.

RECIPIENT'S RESPONSE

The Council agreed with the information in the draft report, but posited two reasons to retain the EDA RLF as awarded. First, the recent 2000 census will remove Kootenai County from the USDA loan program service area (because of population limitations in the RD-IRP program). And second, the Council has approved two loans totaling $485,000 since the audit in February, and both loans will be made out of the EDA RLF by July 2001. The Council's response (without loan write-up detail) is attached as Appendix A.

OIG COMMENTS

Our concern remains that the RLF is utilized at an optimum capacity. The two loans approved since the audit help in that regard, but all loans must be made out of the original RLF balance before the recapitalization award is used. Based on the original RLF balance in September 2000, the total RLF available is still over $642,000 (which includes the September 2000 balance of $661,000, the recapitalization award available of $466,000, minus the current loans approved of $485,000).

In addition, it remains to be seen whether the EDA RLF activity will increase as claimed by the Council. The Council's response (1) indicated that the $135,000 loan was already earmarked to another loan funding source before it was shifted to the EDA RLF in May; and (2) did not provide clear information that the $350,000 loan was being awarded from the EDA RLF or the Regional RLF, which is funded from local sources. Also, the elimination of Kootenai County from the USDA loan program may not have an impact on EDA-funded loans, since the Council has been using the SBA 504 program in preference to both the EDA and USDA loan programs.

For all of these reasons, we reaffirm the recommendations made in the draft report, since the Council has not demonstrated a need for the additional funds, both because of the adequacy of the original RLF amount and the existence of other loan funds available for the same purpose.

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PAC

PANHANDLE AREA COUNCIL

Council of Governments
Certified Development Company
Government Procurement
International Trade Associate Office
Private Industry Council
Business Incubator Center

June 6, 2001

Ray McIntosh, Regional Inspector General
Office of Inspector General
United States Department of Commerce
915 Second Avenue, Room 3062
Seattle, Washington 98174

RE: Draft Audit Report # STL-14141-1-xxxx concerning Panhandle Area Council
EDA Award # 07-39-02500.03

Dear Mr. McIntosh,

We agree with the information in the draft report. In an effort to accommodate our clients we have at times found other loan programs to be a better fit. However, we will not be able to use our USDA loan program in Kootenai County because of the new census, therefore our EDA/RLF pool will be a very important funding source in the near future.

Since the audit we have approved and committed to funding 2 projects involving our Revolving Loan Fund. Both of these projects will be funded before mid July. We will disburse $350,000 to Norm's Utility Contractor's and fund $135,000 to the Idaho Fish and Wildlife Foundation.

We intend to use the $350,000 mentioned in the audit for Norm's. Hopefully this will be acceptable to you. I have attached the PAC Board minutes approving the funding and a brief description of the project.

Please contact me at 208-772-0584 x 3005 for any additional information or questions.

Sincerely,

James L. Deffenbaugh
Executive Director

cc. A. Leonard Smith, Regional Director, EDA, Seattle

ATTACHMENTS NOT INCLUDED