EDA-RLF Peer Training

Little Rock, Arkansas

June 24\textsuperscript{th}-25\textsuperscript{th}
Lessons from a Bad Audit

Background
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1993/1994
EDA Plan (77 Pages)
Procedure Manual (28 Pages)
Appendixes (70 Pages)
Policy Manual (33 Pages)
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The policy manual contained as much as 46 separate documents to be gathered throughout the application and approval process for presentation at closing.

* No loan tested contained all required document

* All Loans were determined to be incomplete and missing required documentation
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See Appendix O, for checklist

“The policy manual contains as much as 46 separate documents to be gathered throughout the application and approval process for presentation at closing.”

23-Application Requirements
38-Application Checklist
49-Closing Requirements
54-Closing Checklist Items
Our Checklists included many things that were optional. Although some of these things were collected and/or regularly requested by our Administrative Board don’t have your checklists as a part of the policy.

The auditor decided that if it was on the checklist, in the policy and there were no qualifiers such as (where applicable, optional) in the policy language, then the omission was a violation of policy and a Missing Required Documents and Thus, All loans were determined to be incomplete and missing required documentation.
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Shall means Shall

2.1 Financial Information
2.2 Ownership Information
2.3 Business Plan
2.4 Affiliates/Subsidiaries
2.5 Project Costs
2.6 Proforma
2.7 Projected Income Statements
2.8 Lease/Purchase Agreements
2.9 Major Competitors
2.10 Resumes

Lease/Purchase Agreements:
Borrower shall provide copies of all existing or proposed non-expired leases or purchase agreements (showing expiration date) or other financing arrangements if they relate to the specific release of RLF funding.
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Any and All

2.1 Financial Information
2.2 Ownership Information
2.3 Business Plan
2.4 Affiliates/Subsidiaries
2.5 Project Costs
2.6 Proforma
2.7 Projected Income Statements
2.8 Lease/Purchase Agreements
2.9 Major Competitors
2.10 Resumes

**Major Competitors:**
Borrower shall provide names of all major competitors and statements regarding the level of competition.

**Major Competitors:** An applicant’s business plan shall reference potential competition and/or the market.
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Absurd Wording

2.1 Financial Information
2.2 Ownership Information
2.3 Business Plan
2.4 Affiliates/Subsidiaries
2.5 Project Costs
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2.7 Projected Income Statements
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Resume:
Current typed resumes on all key management personnel and owners shall be provided. Resume’s must be signed and dated.

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Current typed resumes on all key management personnel and owners shall be provided. Resume’s must be signed and dated.
Recognize that after closing, Borrowers are required to send certain documents. While these documents should be kept the loan file, be careful of the policy wording. Staff has little control over their production. Example: Where the production of documents is in the hands of the borrower. Missing Document folders should contain evidence of the staff’s efforts to contact, remind or demand required documents.

10.1 Loan Files

Documentation to be placed in Loan Files include:
- RLF Loan Application
- A copy of participating private lender’s loan agreement
- Copies of monthly financial statements, providing for the first year and every six months thereafter
- Copies of annual tax returns
Loan collection procedures revolve around 10/20/30/60/90 day cycles and included notifications by the staff to the RLF Administrative Board.

The Board did not meet regularly and therefore, Board involvement at critical delinquent dates is lacking during those months the Board does not meet.
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Positive Communication

12.2 Normal collection Procedures:
Staff makes telephone contacts and site visits. Borrowers may be required to provide monthly financial statements. Borrowers are assessed a late charge of 5% of the loan payment for any month in which the monthly installment is not received by the tenth day of the month after the due date. An invoice for payment is sent to borrower on the 20th of each month, advising that the loan payment is due on the first of the following month. If the payment is not received by the 10th of the following month, a telephone call is made to the borrower to request payment. If payment is not received by the 20th of the following month, a written notice is mailed advising the borrower of delinquency and requesting payment. The loan becomes subject to immediate call at the discretion of the RLF Board. If the situation does not improve, with resumption of principal payment by the end of 60 days, a report is made to the RLF loan Board. A late charge of 5% of the late payment may be charged for each 30 day interval that the note remains in arrears.
12.6 Forbearance:
RLF staff may, at the discretion of the RLF Board, work with the borrower to develop a workout plan, which may include principal moratoria of up to six months, in an effort to keep the business open and jobs in place.
The Board must approve any workout plan and staff monitors the progress of the firms operating under work plans.

12.6 Forbearance (Deferral):
RLF staff may, at the discretion of the RLF Board or CEO, work with the borrower to develop a workout plan, which may include principal moratoria of up to six months, in an effort to keep the business open and jobs in place.
The Board must approve any workout plan and staff monitors the progress of the firms operating under work plans.

The RLF staff shall submit the Monthly Aging Report to advisory Committee and Administrative Board members regardless of whether scheduled meetings take place or not. In the event that 90 days passes without a meeting taking place, the CEP may approve a temporary workout plan pending the next Administrative Board Meeting.
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Questions

OR Contact me later

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