

BILL PURCELL  
MAYOR



**METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

DEPARTMENT OF FINANCE  
OFFICE OF FINANCIAL ACCOUNTABILITY  
222 3<sup>RD</sup> AVENUE NORTH, SUITE 650  
NASHVILLE, TN 37201

June 30, 2005

Francis Guess, Board Chair  
**Nashville Minority Business Development Loan Fund, Inc.**  
223 8<sup>th</sup> Avenue North, Suite 205  
Nashville, Tennessee 37201

Dear Mr. Guess:

Please find attached the Monitoring Report for the Nashville Minority Business Development Loan Fund, Inc. This report provides the results of our review of the agency's grant contract with the Metropolitan Government of Nashville and Davidson County issued in the fiscal year that ended June 30, 2003 and subsequently extended by amendment issued on August 25<sup>th</sup> 2003. The Office of Financial Accountability is responsible for monitoring grant funds from Metro Government to nonprofit organizations that receive grant appropriations. Staff from our office conducted the site review in March 25, 2005.

We appreciate your cooperation and the assistance provided us by your agency during the course of the review. We hope you find the results of the review useful for administering grants for the Nashville Minority Business Development Loan Fund, Inc. If you have any questions, please call me at (615) 880-1035.

Sincerely,

Fred Adom, CPA  
Director

cc: Marilyn Robinson, Executive Director, Minority business Development Loan Fund, Inc.  
David L. Manning, Director of Finance, Metro Government  
Talia Lomax-O'dneal, Deputy Director of Finance, Metro Government  
Kim McDoniel, Audit Manager, Metro Government  
Mitzi Martin, Chief Accountant, Metro Government



## Metropolitan Government of Nashville and Davidson County

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◆ Monitoring Report of ◆

# Nashville Minority Business Development Loan Fund, Inc.



Issued by



## Office of Financial Accountability

June 30, 2005

Fred Adom, CPA  
Director

*Our Vision: To be excellent and proficient in monitoring and management services.*

**MONITORING REPORT**  
FOR THE  
**NASHVILLE MINORITY BUSINESS DEVELOPMENT LOAN FUND, INC.**

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## **EXECUTIVE SUMMARY**

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The Office of Financial Accountability (hereinafter referred to as “OFA”) has completed a monitoring review for the Nashville Minority Business Development Loan Fund, Inc. (hereinafter referred to as “**OneFund**” or “agency”). The OFA conducted its monitoring review along the major compliance areas identified in the Office of Management and Budget (OMB) Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations” and in accordance with Generally Accepted Government Auditing Standards and the Metro Grants Manual of the Metropolitan Government of Nashville and Davidson County (hereinafter referred to as “Metro”).

### **Overview of the Agency**

The Nashville Minority Business Development Loan Fund, Inc. OneFund is affiliated with but separate from the Nashville Minority Business Center (the Nashville MBC). The Nashville MBC provides management and technical assistance, and market development services to minority entrepreneurs. The One Fund was established to provide an alternative or supplemental funding to small and disadvantaged businesses especially those that have difficulty obtaining loans from the traditional sources such as banks. The OneFund uses a pool of money contributed by several national and local financial institutions to provide loans and technical assistance to businesses in the Nashville MSA. The focus of the OneFund is to help existing businesses but twenty percent of the funds are dedicated to assisting new start-up companies.

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

A monitoring review is substantially less in scope than an audit. The OFA did not audit Minority business Development Loan Fund, Inc.’s financial statements and, accordingly, does not express an opinion or any assurances regarding the financial statements of Nashville Minority Business Development Loan Fund, Inc. or Metro. The OFA is responsible for monitoring the direct appropriations awarded by the Metro Council to nonprofit organizations. The OFA is also responsible for monitoring Metro departments that receive Federal and State grants and financial assistance, including cooperative agreements. In summary, any agreement(s) that imposes performance and/or financial requirements on Metro government is subject to review by the OFA.

The monitoring objectives for this review were as follows:

- To determine whether the agency possesses the resources and capacity to administer the grant funds
- To determine if services and costs reported are allowable and eligible
- To determine whether the agency is meeting program objectives
- To determine the reliability of financial reports
- To determine the reliability of internal controls
- To determine contractual compliance

Our review covered the agency’s operations and expenses from the inception of the grant in March 2003 through December 31, 2004. The grant contract expired in June 30, 2004.

To accomplish the objectives of the monitoring review, the OFA conducted a site visit to review supporting documentation and to interview Nashville Minority Business Development Loan Fund, Inc. administrative staff. The OFA obtained an understanding of the agency’s operations through interviews and inquiries, physical inspection of accounting records and supporting documentation, and observation of operations and controls in place.

### **Monitoring Review Highlights**

Our review revealed the Nashville Minority Business Development Loan Fund, Inc. staff was knowledgeable about program and financial operations and provided valuable assistance during the site visit. The OneFund has established some good controls over its lending procedures but we found weaknesses in its accounting and financial reporting system that needs improvement.

In the “Results of Monitoring” section that follows, the OFA provides an overview of the overall results of the tests and analyses performed to meet the monitoring review objectives.

## RESULTS OF MONITORING

The overall results of the monitoring review for the Nashville Minority Business Development Loan Fund, Inc. are provided in this section. These results are based on tests performed and include conclusions regarding specific review objectives and, if applicable, recommendations for improvement.

### 1. Resources and capacity to administer the grant funds

Our review of the agency's accounting system, the qualifications of the individuals assigned to manage the accounting records, and observation of the procedures in place indicate that the Minority Business Development Loan Fund, Inc. has the necessary resources and ability to administer the Metro grant funds. We found that the agency uses QuickBooks accounting software to record financial transactions. The agency contracts the bookkeeping services to an independent accountant who appears to be adequately performing the fiscal functions. In addition the agency receives accounting and financial advice from a consultant with several years experience in administering similar loan program across the country. The OFA reviewed the minutes of the Board of Directors meetings from March 2003 through June 2004. Based on this review, we have concluded that the Minority Business Development Loan Fund, Inc. appears to have adequate Board oversight. *The board of directors' membership roster lists three employees as members. The distinction between board members and the employees should be made clear to all because employees when attending board meetings should not have voting rights. Such distinction if not clearly defined could affect quorum.* The OneFund also has an advisory board comprised of representatives from several local banks and other lending institutions, responsible for reviewing and approving loans recommended by the loan officer. The OFA reviewed several advisory board meeting minutes that demonstrate their active participation and oversight. Nashville Minority Business Development Loan Fund, Inc. is currently going through its initial financial audit; the results were not available for our review.

### 2. Allowable and eligible services and costs

The contract between Metro and the Nashville Minority Business Development Loan Fund, Inc. for the period ending June 30, 2004 as amended was intended to cover its operations, mostly for salaries for employees that manage the loan fund.

	3/1/03-12/31/0	1/1/04-7/31/04	Combined 3/1/03-7/31/04	Adjusted Allowable Costs		Variance As of 7/31/04	
	Actual Per Agency's	Actual Per Agency's	Actual Per Agency's	Adjustment for Unallowable costs	Reported To Metro for	Difference	% Diff Actual
	Books	Books	Books		Actual per Agency per Reimbursement	Reported Vs. Allowable	to Reported
Salaries and Wages	106,068.20	74,686.49	180,754.69		180,754.69	49,061.34	37%
Employee benefits	22,106.60	8,257.69	30,364.29		30,364.29	2,313.63	8%
	128,174.80	82,944.18	211,118.98		211,118.98	51,374.97	
Professional Services	52,070.68	4,234.78	56,305.46	-	56,305.46	(24,694.54)	-30%
Supplies	2,720.24	814.00	3,534.24		3,534.24	(2,215.76)	-39%
Telephone	289.71		289.71		289.71	289.71	100%
Postage and Shipping			-		-	(2,426.00)	-100%
Occupancy	13,200.00	8,300.00	21,500.00		21,500.00	3,650.00	20%
Equipment Rental and Maintenance	2,076.00		2,076.00		2,076.00	(21,924.00)	-91%
Travel/Conference and Meetings	943.10		943.10		943.10	(1,221.90)	-56%
Insurance	4,747.00		4,747.00		4,747.00	(10,370.00)	-69%
Training	-		-		-	(790.00)	-100%
Marketing	7,408.71		7,408.71		7,408.71	2,508.71	51%
Advertising	2,805.00		2,805.00		2,805.00	(845.00)	-23%
Membership	4,409.82	450.00	4,859.82		4,859.82	3,359.82	224%
Other Non-personnel	50.00	20.00	110.00		110.00	110.00	100%
Interest Expense	-	4,487.45	4,487.45	(4,462.45)	25.00	25.00	100%
Printing and Publications	2,385.33		2,385.33		2,385.33	2,385.33	100%
	93,145.59	18,306.23	111,451.82	(4,462.45)	106,989.37	(52,158.63)	
	221,320.39	101,250.41	322,570.80	(4,462.45)	318,108.35	(783.66)	

## **RESULTS OF MONITORING**

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Based on tests performed, we determined the costs incurred by the OneFund were mostly eligible and allowable. The OFA tested 69% (\$220,456 of the \$318,892) of the documented expenses including 100% of salaries and fringe benefits through the test period. We certified \$318,108.35 worth of qualifying eligible expenditures after adjusting for \$4,462 unallowable interest expense for the period ending July 31, 2004. The OneFund had claimed \$318,892.01 through that date. Our tests revealed however amounts reported to Metro did not agree with its accounting records. It appears the amounts reported to Metro were rather estimates for drawdown. Based on the results of our testing, the OneFund had yet to earn \$783 of the funds it had received through July 31, 2004.

Per the Metro contract, the OneFund is required to submit a Final Expenditure Report and a Final Program Report within 45 days of the close of the grant period. Those reports are intended to reconcile amounts claimed to accounting records. Although the OneFund complied and submitted reports at the end of the grant period those reports did not appear to reconcile the amounts claimed to the actual expenses incurred.

**The OFA recommends the OneFund takes the necessary measures to ensure reports submitted to Metro reconcile to the accounting records, especially the Final Expenditure report. The OneFund would need to document an additional \$81,891.65 of eligible allowable expenditures to fully earn the entire amount of the award of \$400,000.**

The OFA noted a several instances that indicate potential commingling of funds between the OneFund and the Nashville MBC. For instance the One Fund grant award was budgeted to cover 92% of salaries. Our tests showed these expenses were recorded sometimes in the OneFund and but most of the time in the Nashville MBC accounting fund. Both of these entities are managed by the same employees. The OFA also noted an instance where a Metro grant check was deposited to the Nashville MBC account. The OneFund used adjusting entries to transfer the expenses and revenues between the two entities. The OFA reviewed the supporting documentation to confirm the appropriateness and accuracy of those adjustments.

Per the Metro Grants Manual, the accounting system used by Metro grant recipients must avoid the commingling of Metro funds with other sources of funding. **The OFA recommends the OneFund takes all necessary measures to ensure complete separation of transactions between the One Fund and the Nashville MBC. The OneFund should not co-mingle Metro grants with the Nashville MBC funds.**

### **3. Program objectives**

The program report has mixed results having attained some very important goals but short of others. Our review indicates the OneFund has attained its program objectives but it took three years to achieve its annual goals. As shown in the table below, the OneFund achieved 99 percent the goal of securing \$1million in contribution from participating lending institutions within the stated timeframe. It has certainly had an impact on some local businesses considering the number of jobs saved and jobs created. The table also indicates the OneFund has struggled to find viable good candidates and businesses to qualify for the assistance; it took 28 months to meet the annual target of 15 approved loans. Our assessment indicates the OneFund needs to reinvigorate its efforts to attract qualified applicants because as indicated in the table, all of the performance indicators are pointing downward.

OFA also noted evidence the OneFund provided technical an assistance to small and disadvantaged businesses in the form of business plan development, financial package preparation, financial and accounting, administrative and personnel counseling and coaching assistance. The OFA randomly selected and tested the 6 applications processed including 4 approved and 2 denied applications. The documentations on file were adequate to support the decisions made and the approved loans were discussed and approved by the advisory board.

## RESULTS OF MONITORING

	Annual				March 2003 through June 2005
<u>Quantitative measure</u>	<u>Goal</u>	<u>Beginning March FY 03</u>	<u>FY 04</u>	<u>Through June 30 FY 05</u>	<u>Total</u>
Dollars Deposited	1,000,000.00	608,333.00	383,333.00	-	\$991,666.00
Value of Loans Approved	750,000.00	379,100.00	245,000.00	\$233,600	\$857,700.00
Number of Loans Approved	15	8	5	2	15
No. of Jobs Saved	30	73	31	6	110
No. of Jobs Created	30	17	9	8	34
Application Intakes	75	51	31	13	95

The OFA noted none of the approved loans issued exceeded the \$75,000 limit but there a few loans below the lower threshold of \$25,000. The OFA also noted the OneFund efforts to ensure the successful candidates are headquartered in the Metro Nashville MSA area. None of the loans reviewed appeared to be personal loans. Based on the auditor's observations, an overview of agency operations, and tour of the Nashville Minority Business Development Loan Fund, Inc. facilities, the agency appears to be progressively working toward its program goals.

#### 4. Reliability of financial and programmatic reporting

Our review of the financial reports submitted by the Nashville Minority Business Development Loan Fund, Inc. revealed did not agree with its accounting records. Tests covered 100% of financial reports submitted to Metro through July 31, 2004. Based on the tests performed, we found that the costs incurred were allowable, in compliance with applicable guidelines, including OMB Circulars A-122 and the Metro Grants Manual, however amounts reported were not traceable to its accounting records. The details as noted under item *No. 2 Allowable and eligible services and costs* shows variances between the actual costs and amounts reported to Metro by line-item but the overall costs were close.

#### 5. Reliability of internal controls.

Based on our review of operations, we found that the agency's operations are well-managed and incorporate strong internal controls. The agency has the appropriate approval processes in place and financial duties are reasonably segregated and controlled. The OFA reviewed the Board of Directors Duties and Responsibilities Manual, which provides an overview of the board's responsibilities, agency policies and procedures, financial matters, and program details and the role of the Advisory Board. The Nashville Minority Business Development Loan Fund, Inc. also has implemented internal fiscal policies and procedures which cover cash receipts and disbursements, petty cash, purchasing, and payroll among other things. Particularly the agency appears to have good controls over loan approvals.

## RESULTS OF MONITORING

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### 6. Contractual compliance.

Overall, the OFA found the agency in compliance with the contract requirements. The purpose of the Metro grant funds was to provide lending program by establishing a pool of funds for loans to small and disadvantaged businesses Nashville MSA, increase access to financing,, increase their access to decision makers and also provide technical assistance to these small and disadvantaged businesses. The Nashville Minority Business Development Loan Fund, Inc. has complied with this scope, based on our inquiry and review of supporting documentation. The OFA noted no instances of noncompliance with these contractual requirements.