



U.S. Department of Agriculture  
Office of Inspector General  
Midwest Region  
Audit Report

RURAL HOUSING SERVICE  
COMMUNITY PROGRAM LOANS TO  
RIVER VALLEY HEALTH SYSTEM

COLUMBUS, OHIO



Report No.  
04099-3-Ch  
JUNE 2001



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Midwest Region - Audit

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DATE: June 21, 2001

REPLY TO

ATTN OF: 04099-3-Ch

SUBJECT: Community Program Loans To River Valley Health System

TO: Randall C. Hunt  
State Director  
Rural Development  
200 North High Street - Room 507  
Columbus, OH 43215

ATTN: David Douglas  
Director, Community & Business Programs

Based on a request from USDA-Office of Inspector General – Investigations, we have completed a limited scope audit of two community facility loans to River Valley Health System (RVHS) in Ironton, Ohio. Our audit was designed to evaluate the use of \$557,695 in loan funds that were transferred to RVHS in January 2000. Our audit disclosed that RVHS used these funds for approved loan purposes to construct a clinical laboratory.

#### BACKGROUND

The Community Facility Loan Program (CP) is administered by the Rural Housing Service through its Rural Development State and area offices (hereafter referred to as RD). CP loans, which can be either direct or guaranteed, are available to rural communities with populations of not more than 20,000 for the purposes of constructing, enlarging, extending, or improving essential community facilities. CP loans are administered in accordance with Title 7 of the Code of Federal Regulations, part 1942-A, loan-making procedures, and part 1951-E, policy and procedures for loan servicing.

All applicants must have the legal authority to borrow and repay loans, to pledge security for the loans, and must be financially sound and able to manage the facilities. Qualified lenders can obtain guarantees on their CP loans made to

borrowers that are unable to obtain commercial credit elsewhere. RVHS is a public hospital operated by a governing board appointed by the Lawrence County Commissioners in Ironton, Ohio. On July 20, 1992, RVHS received two CP direct loans totaling \$4.9 million from RD. After RVHS completed an addition to the hospital for which RD approved the loans, \$758,100 of the \$4.9 million remained. In July 1998, RD authorized RVHS to use \$200,405 of the remaining funds to construct a new clinic.

On January 20, 2000, RD authorized RVHS to construct a clinical laboratory using the remaining loan funds totaling \$557,695. As of April 10, 2001, the laboratory had not been completed. Contractors refused to complete their work on the laboratory because RVHS still owed them for some of the work they had completed earlier on this laboratory. On January 28, 2001, the hospital ceased patient care operations due to mounting debts and lack of operating funds. After the hospital closed, the Lawrence County Court appointed a receiver to temporarily manage all of RVHS' assets. On February 5, 2001, RD sent a notice of acceleration to the Lawrence County Commissioners for both loans totaling \$4.9 million, which demands full payment immediately of the January 31, 2001, unpaid principal of \$4,063,000 and interest of \$102,057, plus daily interest accruals until paid in full.

#### OBJECTIVES:

The objective of our audit was to determine if CP loan funds totaling \$557,695 were used according to RD's instructions and approvals.

#### SCOPE AND METHODOLOGY OF THE AUDIT

The audit was conducted at the RD State office in Columbus, Ohio; the RD Area office in Hillsboro, Ohio; the borrower's office in Ironton, Ohio; and the court-appointed receiver's office in Southpoint, Ohio. Our audit was limited to the use of the \$557,695 remaining loan balance, and the payments for the construction of a clinical laboratory at the hospital. We reviewed accounting activities and transactions for the period of January 1, 1999, through January 31, 2001. We interviewed RD officials and the RVHS court-appointed receiver and contacted the contractors to confirm the award amounts and payments received.

#### AUDIT RESULTS:

Our audit disclosed that RVHS properly used the \$557,695 loan funds for approved purposes to construct a clinical laboratory. We reviewed the construction records for RVHS' clinical laboratory and found that the project cost totaled \$751,653 (not including

any change orders because of ongoing litigation concerning some of these). RVHS was responsible for paying the difference of \$193,958 related to the cost of the laboratory.

We traced CP loan funds of \$557,695 that RD's Finance Office released to the RD Hillsboro area office on January 5, 1999. The RD area office deposited the \$557,695 in an interest-bearing account with a local bank until the \$557,695 plus \$23,841 interest was released to RVHS on January 19, 2000. RVHS officials deposited the funds totaling \$581,536 into a certificate of deposit (CD) account with a local bank in Ironton, Ohio. The transaction history on this account indicated loan funds and interest earned totaled \$610,373 as of March 21, 2001. There were four draws from the account totaling \$607,127, leaving a balance of \$3,246. We verified that RVHS paid contractors \$607,127 using loan funds and interest earned on the account. We reviewed RVHS' bank statements for its operating account to verify that draws from the CD account were deposited and checks to contractors were actually redeemed. We found support for all transactions involved. As of the completion of our audit fieldwork, RVHS had outstanding obligations for work performed or to be performed on the clinical laboratory of \$144,526 (not including any change orders).

We contacted all seven contractors involved with the laboratory project regarding the amount of contract award, payments received, and outstanding balances. We received confirmations from five of the contractors; the other two confirmed that they worked on the project but did not provide specific information due to legal proceedings. The construction is substantially complete, according to both RD and the court-appointed receiver.

Based on our review, we concluded that CP loan proceeds were used as specified by RD's approved plans. Based on the result of our work, we have no recommendations to offer, and will report to the Chief Financial Officer that management decision and final action on this report is achieved upon issuance.

The CP loans to RVHS are current, as of the date of our audit fieldwork. According to the court-appointed receiver, he expects to meet the next CP loan payments due in July 2001. In March 2001, the Assistant U.S. Attorney gave the receiver 90 days to explore options with other interested parties for possibilities of reopening the hospital.

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EDWARD R. KRIVUS  
Regional Inspector General