Performance Audit Report

Video Lottery Operations Revenue
Small, Minority, and Women-Owned Businesses Account

October 2015

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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October 23, 2015

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
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Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

As required by Section 9-1A-35 of the State Government Article of the Annotated Code of Maryland, we conducted a performance audit to evaluate the utilization of the video lottery terminal (VLT) funds that are allocated to small, minority, and women-owned businesses as loans and investment capital by fund managers during fiscal year 2014. The source of these funds is grants made by the Board of Public Works (BPW) to fund managers from the Small, Minority, and Women-Owned Businesses Account (Account).

Our audit found that the appropriate amount of VLT proceeds, which totaled $8,421,677, was distributed to the Account for fiscal year 2014. All loans we selected for testing appeared to be made to eligible small, minority, and women-owned businesses by the fund managers. We also concluded that each fund manager awarded at least 50 percent of its grants funds as loans to eligible businesses in targeted areas, as required by State law.

Fiscal year 2014 was the first year grants were made to fund managers. Although BPW and the Department of Business and Economic Development (DBED), which was designated by BPW as the grant administrator, had established certain protocols and processes for the awarding of grants, and directing and monitoring fund manager activities (hereinafter referred to as the Program), oversight and controls could be improved.

Oversight could be enhanced by establishing overall goals, objectives, and related outcome measures to direct the lending and investing activities and to measure and evaluate the success of this Program and fund manager performance. Consequently, the overall expectations as to what should be achieved by the Program and the fund managers, beyond meeting the requirements of State law (that is, making loans or providing investment capital to eligible businesses, a certain portion of which are to be made to those within targeted areas) had not been specified. Program goals and objectives could be established pertaining to desired economic impact, targeted industries (or types of businesses) and geographic distribution of loan and investment activity. For example, we noted that businesses in 12 of the 24 State jurisdictions did not receive any of the 66 loans made by fund managers totaling $6,374,369 during fiscal year 2014.

We also found that DBED needs to improve its monitoring of fund manager financial activity and establish formal processes to verify fund managers' compliance with key contractual requirements and to evaluate fund manager performance. For example, DBED had not established a formal process to verify that fund managers made loans only to eligible businesses, that 50 percent of each fund manager's loan activity was made to businesses in targeted areas, and that appropriate loan underwriting standards and practices were used. In addition, DBED had not established a formal annual evaluation process to assess the performance of fund managers, including achieving desired results, which could be used to recommend actions to improve fund manager performance and to help make decisions regarding subsequent year grant fund distributions and fund manager retention.

DBED lacked effective controls over the financial transactions processed by fund managers, such as loans and authorized fund manager administrative expenses, to ensure the propriety of all transactions processed. For example, DBED was unaware of certain account activity processed by one fund manager, including $75,611 in manager's expenses that was paid without prior authorization or sufficient support of costs incurred. DBED also authorized the administrative expense payments of two managers totaling $130,000 even though the requests were untimely, which meant that, under the terms of the fund manager agreements, DBED was not obligated to authorize these payments.

BPW's response to this audit, which included DBED's response, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by BPW and DBED.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Overview

State Law generally requires that 1.5 percent of video lottery terminal (VLT) proceeds at each licensed video lottery facility be paid into the Small, Minority, and Women-Owned Businesses Account (the Account). This Account was created by legislation enacted in the 2007 special legislative session of the General Assembly, and is a special, non-lapsing fund under the authority of the Board of Public Works (BPW).

State Law specifies that the purpose of the Account is to provide investment capital and loans to small, minority, and women-owned businesses in the State. The law further specifies that at least 50 percent of such activity must be allocated to eligible businesses in the jurisdictions and communities surrounding a video lottery facility (referred to as 'targeted areas').

Video Lottery Terminal Licensees

Licenses have currently been awarded to operate VLTs in six casinos within the State. For each casino, Table 1 provides the date that the license was issued and VLT gaming operations began, and includes the number of VLTs authorized by the license of as June 30, 2014. VLT gaming operations have not yet begun at MGM National Harbor in Prince George's County.

Table 1
Video Lottery Terminal Licensee Operations Data

Casino Name (Video Lottery Facility)	Local Jurisdiction	Date of License	Date Operations Began	Number of Authorized VLTs as of June 30, 2014
Hollywood Casino Perryville	Cecil	10/21/2009	9/27/2010	1,158
Casino at Ocean Downs	Worcester	9/23/2009	1/4/2011	800
Maryland Live! Casino	Anne Arundel	12/7/2009	6/6/2012	4,170
Rocky Gap Casino Resort	Allegany	4/26/2012	5/22/2013	577
Horseshoe Casino Baltimore	Baltimore City	7/31/2012	8/26/2014	2,500
MGM National Harbor	Prince George's	8/14/2014	Future	3,600

Source: Video Lottery Facility Location Commission

Board of Public Works' Authority

Although BPW has authority over the Account, State law created a mechanism for disbursing the funds to eligible businesses via the use of fund managers. Under State law, BPW was to develop criteria to define eligible fund managers (entities with significant financial or investment experience) to whom BPW would make grants, and who in turn would use those grant funds to provide investment capital and loans to businesses. The process of awarding grant funds and the subsequent loan activity is collectively referred to by BPW as the Program. To assist it in its required duties, on August 22, 2012, BPW entered into a Memorandum of Understanding (MOU) with the Department of Business and Economic Development (DBED), whereby DBED serves as BPW's agent to administer the Program.[1]

Although BPW retains overall authority for the Account and the Program, the MOU delegated certain administrative and operational responsibilities to DBED. DBED has the authority to conduct the procurement of fund managers, recommend approval of fund managers to BPW, enter into agreements with fund managers on BPW's behalf and, pursuant to those agreements, disburse grants in amounts approved by BPW to the fund managers. Nevertheless, according to the MOU, BPW has the sole discretion to designate fund managers, the amount and timing of grants to each fund manager, and the amount of each grant that may be used by the fund managers for administrative-related expenses.

BPW is responsible for approving the grant awards for each fund manager. As noted in our preceding audit report, on April 17, 2013, BPW approved the award of grant funds to three fund managers; however, as of June 30, 2013, no Account funds had been disbursed to the fund managers.

DBED Responsibilities

According to the MOU, DBED is responsible for:

- Participating, along with BPW, via a competitive procurement process, in the solicitation of prospective eligible fund managers, through the preparation of the draft Request for Proposals (RFP), the issuance of the RFP, collecting bidder proposals, and recommending proposed awards for BPW review and approval;
- Disbursing and reconciling Account proceeds;

[1] Chapter 141, Laws of Maryland, 2015, effective October 1, 2015 created the Department of Commerce as successor to DBED.

- Monitoring fund manager reporting, and collecting and forwarding reports to BPW; and
- Annually, submitting a report to BPW that details the Program activities for the year, including an itemized list of businesses to which fund managers provide investment capital or loans.

The MOU did not intend for DBED's administration of the fund to have a fiscal impact on DBED, so each fiscal year, DBED was to be allocated $50,000 from the Account for Program administration (such as staff time, underwriting, and management services). If DBED's administrative expenses are greater than $50,000 in any given fiscal year, DBED can request BPW to approve reimbursement for the excess.

Grant and Fund Management Service Agreements

State law specifies that BPW shall make grants to fund managers to provide investment capital and loans to small, minority, and women-owned businesses in the State. BPW is required also to ensure that fund managers allocate at least 50 percent of the grant funds to businesses in the jurisdictions and communities surrounding a video lottery facility (targeted areas). To accomplish this, DBED, with the approval of BPW, executed Grant and Fund Management Services Agreements with the three fund managers effective May 1, 2013 (which were modified on May 30, 2013). These fund manager agreements (which incorporate by reference the RFP requirements and other procurement documents) include descriptions of the services to be provided by and the responsibilities of the fund managers.

Each agreement generally contained similar terms and conditions, but differed in terms of the actual grant awards for each fund manager. These agreements were for an initial five-year period and renewable for another five years at the option of BPW. The fund managers may request to receive grant funds from available VLT proceeds. Those funds, plus any repaid loan principal, are then available for new investment capital and loans.[2] Currently, except for fund manager compensation, all grants, loan assets, and related records remain the property of the State and are held by each fund manager in trust for the benefit of the State.

Under the aforementioned agreements, the fund managers are compensated for their costs related to the Program generally by origination and transaction fees paid by the business, interest earned on loan assets, and an expense fee

[2] At the time of this audit, there was minimal principal repayment due to the newness of the loans. Consequently, the fiscal year 2014 loans made by the fund managers were financed by the grant funds.

paid from the Account, which during the first year of the Program was not to exceed eight percent of the initial grant funds.

The fund manager agreements contained the following general duties and services to be provided by the fund managers:

- Make loans or investments to eligible targeted businesses located in the State of Maryland, with at least 50 percent of the loans or investment made to businesses in three targeted areas in Maryland.
- Provide fund management services, which are defined as:
  - Identifying potential borrowers or investment opportunities,
  - Originating loans or investments,
  - Advertising,
  - Outreach to minority businesses, women-owned businesses, and other under-served communities that is directed to such businesses in a targeted area or areas or within the State,
  - Underwriting,
  - Loan placement,
  - Documenting and closing transactions,
  - Loan and investment account administration, accounting, and reporting.
- Establish an interest bearing checking account for all Program activity in the name of the State of Maryland at a financial institution approved by the Maryland State Treasurer. The fund manager will designate its personnel who will be authorized signors and have access to the account (the agreement also requires a DBED employee be designated as an authorized signor with account access). Although a State account, each fund manager has custody over its checking account and is responsible for related record keeping and reconciliation functions.
- Submit a report to DBED, by January 31 of each year, on a DBED provided form, detailing the use of the Fund and the fund manager's earnings from its related operations during the preceding calendar year. This report is to be accompanied by unaudited financial statements for the same period.
- By March 31 of each year, submit to DBED audited financial statements for the Fund prepared by an independent certified public accountant in accordance with generally accepted accounting principles.

- Pay all costs and expenses of establishing and administering the Fund, bank fees, and the performance of all functions and duties under the agreement. (Fund managers receive an expense fee from the Account to assist with these costs. During the first year of the Program, the expense fee was eight percent of the grant award to each fund manager.)

Under the agreements, DBED's Division of Business and Enterprise Development is designated as the grant administrator with the authority to represent the BPW in all matters relating to the services provided by the fund managers and the disbursement and use of grant funds (by the fund managers) in the course of implementing the Program. Finally, DBED was expressly empowered to issue and enforce any all directives to the fund managers reasonably necessary for the fulfillment of the provisions of this agreement and the RFP to ensure the implementation of the Program.

Businesses Targeted by the Program

In accordance with the scope of services in the RFP, the fund managers are required to make loans to targeted businesses, which are minority businesses and women-owned businesses certified by the Maryland Department of Transportation, or small businesses as defined by the U.S. Small Business Administration (SBA). To qualify as a small business, SBA has established size standards that are, for the most part, expressed in either millions of dollars of receipts or average number of employees, and vary based on the industry in which the business is engaged. According to the current SBA size standards (effective as of July 14, 2014), the current maximum dollar threshold is $38.5 million in receipts and the maximum average employee threshold is 1,500. The agreements encourage fund managers to make loans and investments in microenterprises. A microenterprise is a business that employs fewer than 10 persons and with annual revenue not exceeding $2 million.

As previously mentioned, fund managers are required to allocate at least 50 percent of their grant funds to businesses in three targeted areas in Maryland. These targeted areas were defined in the agreements using a county and zip code description, and generally consist of an area within a ten mile radius surrounding each of the three video lottery facilities in Hanover, MD; Berlin, MD; and Perryville, MD.

The agreements also identified prohibited purposes for loan or investment transactions, including the refinancing of existing debt, effecting a partial change in business ownership, the reimbursement of funds owed to an owner (or injection of capital for the business' continuance), and repaying delinquent State or federal withholding taxes. Finally, seven types of organizations were generally identified as being prohibited from taking part in the Program:

- Real estate investment firms,
- Firms involved in speculative activities that develop profits from fluctuations in price,
- Firms involved in lending activities, such as banks, finance companies, and leasing companies,
- Pyramid sales plans,
- Firms engaged in activities that are prohibited by federal or local laws,
- Gambling activities, and
- Charitable, religious, or other non-profit institutions, etc.

Fiscal Year 2014 Small, Minority, and Women-Owned Businesses Account Activity

The Small, Minority, and Women-Owned Businesses Account began receiving funds during fiscal year 2011 when the first VLT facility began gaming operations. During our preceding two audits of the Account (the first of which included the initial fiscal year 2011 activity) and during this audit through June 30, 2014, we determined that the Account has been properly credited with VLT proceeds as specified by law. As of June 30, 2013, Account disbursements consisted of a legislatively authorized transfer of $1,867,000 to the Education Trust Fund on June 1, 2012, and a $50,000 transfer to DBED during fiscal year 2013 for administrative costs as provided for in the MOU.

A summary of Account activity for the fiscal year ended June 30, 2014 is presented in Table 2 that is based on the results of our current audit and the Comptroller of Maryland's accounting records.

Table 2 Summary of Account Activity for Fiscal Year 2014	
Account Balance – July 1, 2013	$ 10,945,566
Revenues	8,421,677
Disbursements to Fund Managers	(6,837,800)
Transfer to DBED for Administrative Fees	(50,000)
Account Balance – June 30, 2014	$ 12,479,443

Fiscal Year 2014 Fund Manager Activity

As of June 30, 2014, DBED had disbursed $6.8 million in grant awards from the Account to the three fund managers who had used $6.4 million of these funds to provide loans to small, minority, and women-owned businesses in the State. No capital investments were made. During fiscal year 2014, interest and fees collected on these loans by the fund managers from borrowers totaled $168,000, and DBED, as provided for by the one-time fund establishment expense fee provision in the MOU, reimbursed the fund managers $744,000 from the Account for administrative costs related to the Program.

Table 3 provides a summary by fund manager of each manager's fiscal year 2014 activity. Subsequent to our audit fieldwork, BPW approved four new fund managers and authorized disbursements totaling approximately $9.1 million to the now seven fund managers. During fiscal year 2015, 64 loans totaling $8.4 million were made by the seven fund managers, and this activity will be subject to review during our next audit of the Account.

Table 3
Grant and Fund Manager Activity for the Fiscal Year Ending June 30, 2014

Measurement Statistic	Fund Manager (By Headquarters Location)			Total
	Anne Arundel County	Wicomico County	Baltimore City	
Summary of Grant Authorizations				
DBED Grant Award Authorizations	$3,360,000	$1,000,000	$3,500,000	$7,860,000
Grants to Fund Managers	3,260,800	750,000	2,827,000	$6,837,800
Remaining Grant Award Not Yet Released to Fund Managers	99,200	250,000	673,000	$1,022,200
Allocation of Grants to Fund Managers				
Grants to Fund Managers (from above)	$3,260,800	$750,000	$2,827,000	$6,837,800
Amounts Provided For Loans to Be Made by Fund Managers	2,992,000	700,000	2,547,000	$6,239,000
Amounts Provided for Fund Manager Establishment Expenses per Grant Agreement	268,800	50,000	280,000	$598,800
Fund Manager Income				
Interest and Fees Received from Borrowers	$71,825	$56,365	$39,718	$167,908
Establishment Expenses Reimbursed by State	268,800	50,000	425,000[3]	$743,800
Total Fund Manager Income	340,625	106,365	464,718	$911,708
Fiscal Year 2014 Loan Data				
Fund Manager Loans Made to Businesses	$2,992,000	$807,869[4]	$2,574,500[5]	$6,374,369
Number of Loans Made	21	27	18	66
Average Annualized Interest Rate Charged Businesses by Fund Managers	3.3%	8.8%	6.2%	6.3%

Sources: Fund Manager schedules, Fund Manager agreements, and DBED's annual activity report as of June 30, 2014

[3]Fund Manager spent more than its allowed administrative expenses (see Finding #6).
[4]Fund Manager used its own funds to make loans and had not yet been reimbursed by DBED.
[5]Fund Manager used available grant funds to make loans in excess of amounts requested for reimbursement at year end. Presumably, this would be funded by unreleased grant award.

Projection of Small, Minority, and Women-Owned Businesses Account Revenue

Table 4 summarizes annual VLT revenue activity since inception in fiscal year 2011 projected through fiscal year 2019. As of June 30, 2014, on a cumulative basis, approximately $21 million had been deposited into the Account from VLT revenues. During the next five years, VLT revenue allocated to the Account is projected to increase annually. The most significant increase in annual VLT revenue is expected to occur during fiscal 2017, with the commencement of gaming operations at the MGM National Harbor Casino in Prince George's County.

Table 4
Account Revenue By Fiscal Year

Fiscal Year	Actual and Projected Revenue		
	Actual / Projected	Annual	Cumulative[6]
2011	Actual	$ 1,546,992	$ 1,546,992
2012	Actual	2,926,396	4,473,388
2013	Actual	8,389,178	12,862,566
2014	Actual	8,421,677	21,284,243
2015	Projected	10,048,000	31,332,243
2016	Projected	10,603,000	41,935,243
2017	Projected	16,124,000	58,059,243
2018	Projected	16,988,000	75,047,243
2019	Projected	17,216,000	92,263,243

Sources: DBED Annual Reports and Bureau of Revenue Estimates

[6]Cumulative revenues do not consider amounts distributed from the Account. Although we were not readily able to calculate the actual amounts available in each year for loans, it should be noted that as funds distributed from the Account in early years in the form of loans are repaid, they will become available (recycled) for new loans.

Audit Scope, Objectives, and Methodology

Audit Scope

As required by Section 9-1A-35 of the State Government Article of the Annotated Code of Maryland, we conducted an audit to evaluate the utilization of the video lottery terminal (VLT) funds that are allocated to small, minority, and women-owned businesses as loans and investment capital by fund managers. The source of these funds are grants made by the Board of Public Works (BPW) to fund managers from the Small, Minority, and Women-Owned Businesses Account (Account), and the law further provides that BPW shall ensure that fund managers allocate at least 50 percent of the funds from this Account to eligible businesses in the jurisdictions and communities surrounding a video lottery facility (targeted area). The collective BPW grant and fund manager loan activities are referred to as the Program.

Our audit covered Account and Program activity for the period beginning July 1, 2013 and ending June 30, 2014. Our audit was performed in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives and Methodology

Our audit included the following objectives related to Account or Program activity:

1. To determine if the appropriate VLT proceeds were paid into the Account.

2. To evaluate the use of VLT grant funds by fund managers to make loans to eligible businesses, including disbursing at least 50 percent of the grant funds as loans to eligible businesses in targeted areas, and pay for fund establishment expenses.

3. To determine if BPW and the Department of Business and Economic Development (DBED), acting as its administrative agent, had established adequate oversight of, and accountability over, the VLT funds allocated to the Account and awarded as grants to the three fund managers.

To accomplish our objectives, we reviewed applicable State laws, and the policies and procedures established by BPW, DBED, and the fund managers, governing the use of the Account and the grants funds disbursed to the three fund managers. We interviewed appropriate personnel at the various parties (BPW, DBED, and the fund managers), inspected the State's and fund managers' documents and records, and observed DBED operations related to the management and oversight of the Program.

We conducted a number of tests of the allocation of VLT proceeds to the Account (based on records of the Maryland Lottery and Gaming Control Agency), various Account activity (including revenues and disbursements to and from the Account), compliance with fund manager contract provisions, and fund manager establishment expenses. We also performed extensive testing of fund manager loan activity, including loan applications, loans made, compliance with targeted area requirements, and loan repayments. Although, our tests consisted of reviews of 100 percent of activity in a limited number of cases, generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless otherwise noted, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

Our audit did not include a review of the procurement of the fund managers by DBED, as that was subject to review and testing during our regular fiscal compliance audit of DBED.

Fieldwork and Agency Response

Our fieldwork was completed during the period from May 2014 through February 2015. A copy of the draft report was provided to BPW. Its response to our findings and recommendations appear as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise BPW regarding the results of our review of its response.

Conclusions

Our audit found that the appropriate amount of VLT proceeds, which totaled $8,421,677, was distributed to the Account for fiscal year 2014 and that, based on our testing of 20 of 66 loans issued by the fund managers, the loans appeared to be made to eligible small, minority, and women-owned businesses. We also concluded that each fund manager awarded at least 50 percent of its grants funds as loans to eligible businesses in targeted areas in accordance with the requirements of State law.

Although BPW and DBED had established certain protocols and processes for awarding grants, and directing and monitoring fund manager activities, oversight and controls could be improved. BPW and DBED's oversight could be enhanced by establishing Program goals, objectives, and related measures to direct the lending and investing activities and to measure and evaluate the success of the Program and fund manager performance. Consequently, neither BPW nor DBED had specified the overall expectations as to what should be achieved by the Program and the fund managers, beyond meeting the requirements of State law (that is, making loans or providing investment capital to eligible businesses, a certain portion of which are to be made to those within targeted areas). Program goals and objectives could be established pertaining to desired economic impact, targeted industries (or types of businesses) and geographic distribution of loan and investment activity. We noted that businesses in 12 of the 24 State jurisdictions did not receive any of the 66 loans made by fund managers during fiscal year 2014.

We also found that DBED oversight of the fund managers needs to be improved in the areas of financial reporting, contract compliance monitoring, and fund manager performance. For example, fund managers were not required by DBED to submit interim financial reports of grant activity and the audited financial statements for one fund manager were not prepared in accordance with contract terms. DBED also had not established a formal process to verify that fund managers complied with their primary contractual responsibilities, and other requirements as identified in the annual grant agreements. For example, DBED did not ensure that the fund managers' loans and investments were made only to eligible businesses, appropriate loan underwriting standards and practices were used, and insurance requirements were met. Although each fund manager reported to DBED that at least 50 percent of its activity was for businesses in targeted areas, DBED did not verify the businesses were actually located in targeted areas. In addition, DBED had not established a formal annual evaluation process to assess the performance of fund managers, including whether desired results were achieved. Such evaluations could be used by DBED to recommend actions to improve fund manager performance, and to help make decisions regarding subsequent year grant fund distributions and fund manager retention.

DBED did not comply with all terms and conditions in the agreements that fall under BPW authority. DBED authorized a contract modification for one fund manager that increased the fund establishment expense fee for administrative costs by $145,000 without BPW approval. Consequently, these funds, which would otherwise had been available for lending and investing purposes, were used by the fund manager for administrative costs. DBED lacked effective oversight of the financial transactions processed by fund managers through the State checking accounts established to disburse loan and investment funds and pay the fund managers' expenses. Specifically, DBED did not ensure that effective controls were established over the account activity and that all transactions processed were proper. Consequently, DBED was unaware of certain account activity processed by one fund manager, including $75,611 that was paid from its checking account for the manager's expenses without prior authorization or sufficient support of costs incurred. Also, the amounts paid for that fund manager's expenses exceeded the budget by $9,000. DBED also authorized payments for establishment expenses of two fund managers totaling $130,000 even though the requests were untimely. Under the terms of the fund manager agreements, DBED was not obligated to authorize payment of these expenses. Finally, DBED had not established comprehensive policies governing the process for fund managers' requests for additional grant funds to replenish the State checking account to make additional loans and investments.

Findings and Recommendations

Program Goals and Objectives

Finding 1
Formal goals, objectives, and related measures had not been established for directing the lending and investment activities and for evaluating Program and fund manager performance.

Analysis

The Board of Public Works (BPW) and the Department of Business and Economic Development (DBED) had not established a process to define the goals and objectives of the Program, which could be used to direct the lending and investing activities and to measure and evaluate Program and fund manager performance. Neither BPW nor DBED had specified the overall expectations as to what should be achieved by the Program and the fund managers, beyond meeting the requirements of State law (that is, making loans or providing investment capital to eligible businesses, a certain portion of which are to be made to those within targeted areas).

The fiscal years 2014, 2015, and 2016 budget documents for DBED's Division of Business and Enterprise Development (the DBED unit designated by BPW as the administrator for the Program) showed that Managing For Results performance data had been established for a number of its programs, but not for the Small, Minority, and Women-Owned Businesses Investment Program.

The establishment of goals, objectives and related outcome measures could help ensure DBED and fund managers are working together to achieve the desired results. For example, goals, objectives, and measures could be established that address: 1) desired economic impact, 2) targeted industries, and 3) geographic distribution.

<u>Desired Economic Impact</u>
Many of the programs operated by DBED seek to achieve certain defined results pertaining to Maryland's economy. However, BPW and DBED had not determined whether the Program should seek to promote certain economic benefits such as creating and retaining jobs and leveraging private investment.

Targeted Industries

The plans established by the fund managers regarding their intended uses of the Program funds disclosed that one of the three managers intended to provide loans for new business technology start-ups and two fund managers planned to "emphasize" loans to microenterprises (companies with less than 10 employees and annual revenues not exceeding $2 million), which was encouraged by DBED. Generally, however, the plans lacked specificity regarding the types of industries to be targeted. DBED had not assessed the desirability of directing a certain portion of the loan and investing activity towards particular industries (such as manufacturing and new technologies) or businesses of a certain size (microenterprises).

Geographic Distribution

None of the fund manager plans specifically mentioned serving Western and Southern Maryland counties. Further, only one fund manager mentioned serving Eastern Shore counties outside of the Berlin targeted area and another mentioned serving "non-target areas throughout the State of Maryland." Given the focus on serving targeted areas, all three fund managers also planned on serving the Hanover and Berlin targeted areas, while only one mentioned Perryville. Although we were advised by DBED that it had verbally instructed the fund managers to make loans outside of targeted areas, this requirement was not formalized nor had DBED developed any targets with respect to the loan and investment activity among the targeted areas and the rest of the State.

Our review of loan activity disclosed that businesses in 12 of the 24 State jurisdictions did not receive any of the 66 loans made by fund managers during fiscal year 2014. Furthermore, in one of the three targeted areas, we noted that only two loans were made. While we recognize that fiscal year 2014 was the first year for loan activity and that this may have contributed to this situation, BPW and DBED should consider establishing regional targets to promote fairness in lending and investing activities.

Table 5 Fiscal Year 2014 Fund Manager Loans By Local Jurisdiction			
Local Jurisdiction	Number of Loans Made	Total Loans Made (Dollar Totals)	Jurisdiction Percentage of Total Loans
Allegany	0	-	-
Anne Arundel	18	$1,987,249	31.2%
Baltimore City	12	882,797	13.8%
Baltimore	10	1,400,000	22.0%
Calvert	0	-	-
Caroline	0	-	-
Carroll	0	-	-
Cecil	1	150,000	2.3%
Charles	0	-	-
Dorchester	0	-	-
Frederick	0	-	-
Garrett	0	-	-
Harford	2	280,000	4.4%
Howard	3	355,000	5.6%
Kent	0	-	-
Montgomery	2	300,000	4.7%
Prince George's	1	150,000	2.3%
Queen Anne's	1	50,000	0.8%
Somerset	0	-	-
St. Mary's	0	-	-
Talbot	1	10,000	0.2%
Washington	0	-	-
Wicomico	1	13,000	0.2%
Worcester	14	796,323	12.5%
Total Loans Made	**66**	**$6,374,369**	**100.0%**
Loans in Targeted Areas[7]	**40**	**$4,098,821**	

Source: Fund Manager Schedules

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[7] Each of the three fund managers awarded at least 50 percent of its grant funds as loans to businesses within targeted areas.

Recommendation 1

We recommend that BPW and DBED establish Program goals, objectives, and related measures to direct the lending and investing activities and to evaluate Program and fund manager performance.

Finding 2

DBED did not establish interim financial reporting requirements and did not ensure the fund managers submitted audited financial statements of grant activity in accordance with the contract requirements.

Analysis

DBED did not establish interim financial reporting requirements and did not ensure the fund managers submitted audited financial statements of grant activity in accordance with the contract requirements.

Except for the requirement to provide annual audited financial statements, the only other financial reporting provision established in the fund manager agreements required the fund managers to provide a report (including unaudited financial statements) by January 31 detailing their use of the VLT Program monies during the immediate preceding calendar year. Realizing it needed more timely transaction information, DBED began requesting fund managers to report certain Program information in January 2014, but this was not a contract requirement and the information was not accompanied by sufficient substantiating documentation. Required periodic reporting of grant activity provides an overall accounting of grant activity during the grant year, would provide more timely information regarding a fund manager's use of funds, and help assist DBED in monitoring a fund manager's requests for additional grant funds.

Furthermore, one of the three fund managers had not met the audit requirement for calendar year 2013. Specifically, the fund manager's audited financial statements comingled its Program activity with its other business operations. According to the agreements, each fund manager was required to maintain separate financial records for Program activity and obtain annual audits of the related Program financial statements by an independent certified public accountant. In addition, the financial statement reporting period for the fund manager ended as of September 30, 2013, instead of December 31, 2013, as required by the contract.

The comingling of financial activity hampers DBED's ability to monitor Program activity and the reporting for a different period makes comparability with the other fund managers difficult. DBED advised us that contract audit provisions were not strictly enforced because the fund managers expressed concerns about the added costs of the audits. Nevertheless, fund managers are responsible for complying with the terms of their agreements and we noted that the two other fund managers did comply with the audited financial statement reporting requirement.

Recommendation 2

We recommend that BPW require DBED to

a. **develop interim financial reporting requirements and, accordingly, amend the applicable provisions of the fund manager contracts; and**
b. **enforce fund manager compliance with the financial reporting requirements.**

Finding 3

DBED had not established a formal process to verify fund manager compliance with key Program contractual requirements.

Analysis

DBED had not established a formal process to verify that fund managers complied with their primary contractual responsibilities and other requirements as identified in the Grant and Fund Management Services Agreements. For example, DBED did not ensure that the fund managers' loans and investments were made only to eligible businesses, that 50 percent of the activity was made to businesses actually located in targeted areas, that appropriate loan underwriting standards and practices were used, and that insurance requirements were met.

Eligible Businesses

DBED did not have a documented process to review fund manager activity to ensure that loans and investments were only made to eligible businesses, defined in the contract as meeting the federal government's small business definition or a minority or women-owned business as certified by the Maryland Department of Transportation. Our test of 20 loans made by the fund managers (10 from one fund manager and 5 each from the other two fund managers) disclosed that there was no evidence that DBED had verified business eligibility. Based on our test results, the businesses that received these loans appeared to meet the eligibility requirements.

Targeted Areas

DBED also did not sufficiently verify that businesses receiving loans were actually located in the targeted areas. Although DBED determined that the borrowers' zip codes reported by fund managers matched the targeted areas identified in the fund manager agreements, DBED did not verify that the businesses were actually located in those zip codes. As part of our review, we conducted a verification test of the 50 percent minimum target area requirement for each fund manager using business information on file at the State Department of Assessments and Taxation. Our test results confirmed that each of the fund managers had provided at least 50 percent of its loans to businesses that were located in the targeted areas.

Loan Underwriting

DBED had not reviewed loan underwriting processes established by each fund manager nor ensured that the loans were properly underwritten to reduce the risk of default. Consequently, DBED lacked assurance that fund managers had used appropriate standards and practices for evaluating loan applicants for suitability and credit worthiness. Underwriting is the process used to determine if the risk of offering a loan to a particular borrower under certain parameters is acceptable. Included is an analysis of the borrower's credit worthiness (for example, credit scores), capacity to make payments on the loan, and available collateral. The lack of appropriate underwriting standards and practices can expose the Program to greater risk of loss than might be desirable, and provides fund managers with wide latitude considering that State funds are at risk.

Our review found that the fund managers' technical proposals made little or no mention of the underwriting standards and processes each would follow. For example, one fund manager simply stated that "all loans will be underwritten using standard underwriting practices" and another made no overt mention of its underwriting practices.

Consequently, we noted that the fund managers generally did not perform background investigations to determine applicant suitability. We also noted certain variations in fund managers' loan underwriting practices. For example, one fund manager had established a minimum credit score rating while the other two managers had not. Our tests of 20 loans issued by the three fund managers disclosed that although the borrowers appeared to be suitable, two fund managers made two loans totaling $105,000 to businesses with at least one partner who had either a bad credit score (below 500 - industry standards generally require minimum scores of 620) or no credit score. In the latter case, for the partner with no credit score, the partner had filed for personal bankruptcy 13 months earlier. These loans were approved based on projected cash flows, other partner scores, third party guarantees, or equipment liens. We also noted that one fund manager made two equity loans totaling $450,000 to early development stage technology companies, which did not require loan repayment for up to five years, but also did not require collateral.

Insurance

DBED did not verify that fund managers had met the insurance requirements established in the agreements prior to the May 1, 2013 contract award and commencement of the services. Our review disclosed that as of July 21, 2015, DBED did not have certificates of insurance on file for two of the three fund managers for three of the four types of insurance coverage required (worker's compensation in the amount required by statute, and both public and automobile liability insurance policies of not less than $1 million). Furthermore, the certificate of insurance that was provided for fidelity insurance by one of the aforementioned two fund managers did not name DBED as an insured party as required. The agreements stated that no disbursement from the Account may be made before DBED approved the insurance policy or bond as satisfactory in form and substance, yet the two fund managers in question received Program funds totaling $3,577,000 during fiscal year 2014.

Recommendation 3

We recommend that BPW ensure that DBED establishes formal processes for verifying fund manager compliance with key contractual requirements, which at a minimum, address business eligibility, targeted areas, underwriting standards and practices, and insurance requirements.

Finding 4

DBED had not established a formal evaluation process to assess the performance of fund managers.

Analysis

DBED had not established a formal annual evaluation process to assess the performance of fund managers, including whether desired results were achieved. Such evaluations could be used by DBED to recommend actions to improve fund manager performance, and to help make decisions regarding subsequent year grant fund distributions and fund manager retention.

The fund manager agreements establish several requirements that could be used by DBED to evaluate fund manager performance. For example, the fund managers are responsible for identifying potential borrowers or investment opportunities, advertising, and outreach to eligible businesses and other under-served communities in a targeted area or areas or within the State. The fund managers are also required to provide specific plans for the use of grant funds both in and outside of targeted areas and for assuring geographic and demographic distribution of the funds. As previously noted, during fiscal year 2014, businesses in half the jurisdictions were not served and only two eligible businesses in one targeted area received loans. During a formal evaluation process, the reasons for this result could be identified, which in turn could be used by DBED to provide any recommendations to improve performance (such as, enhance outreach efforts).

In addition to the contractual requirements, other performance attributes could be evaluated, including operational efficiency (the percentage of grant funding spent on administrative expenses) and lending and collection effectiveness (percentage of loan delinquencies, loan loss ratios). Furthermore, with the establishment of more definitive program goals and objectives (finding 1), other attributes to measure effectiveness, such as job creation and retention, could be used to evaluate fund managers.

Recommendation 4

We recommend that DBED establish a formal process to annually evaluate fund manager performance.

Finding 5
DBED authorized a contract modification for one fund manager without obtaining BPW approval.

Analysis

DBED authorized a contract modification for one fund manager that increased the one-time fund establishment fee from 8 percent of the initial grant funds to 12 percent, without BPW approval. As stipulated by State law and the MOU, only BPW is authorized to set the maximum amount of grant money that each fund manager may use to pay expenses for administrative, actuarial, legal, and technical services. In addition, the fund manager agreements state that the agreement may be amended only as the BPW and the fund manager may mutually agree in writing.

DBED approved the increase based on a budget schedule showing the fund manager's increased expenses, which was not accompanied by any support to justify the need. DBED did not question why this fund manager required a greater percentage of grant funds to cover the initial Program start-up costs than what was needed by the other two fund managers. As a result, the fund manager was allowed to increase its budgeted fund establishment expenses by $145,000 (from $280,000 to $425,000), which reduced the amount of its grant funds available to make loans or investments.

Recommendation 5
We recommend that BPW require DBED to submit all contract modifications, including the aforementioned contract modification, and related justifications to BPW for its review and approval.

State Checking Accounts

Background

State checking accounts were established for each of the three fund managers to receive grant funds from the Account to disburse loan funds to eligible borrowers, conduct other related loan business, and pay the fund manager's establishment expenses. Based upon requests made to the BPW, funds from the Account are periodically transferred to a DBED controlled Program account. DBED then periodically disburses a portion of the awards from the Program account to the fund managers' State checking accounts upon receipt of acceptable funding requests. Initially, DBED deposited $250,000 into each fund manager's checking account from its Program account as allowed per the contract. Designated employees from DBED and the fund managers have signatory authority over these checking accounts; however, the fund managers have custody over the accounts and are responsible for related record keeping and reconciliation functions. Fund managers are required to submit written funding reimbursement requests to DBED to replenish their State checking accounts.

Finding 6
DBED had not established effective oversight of the transactions processed through the fund managers' State checking accounts.

Analysis

DBED lacked effective oversight of the financial transactions processed by fund managers through their State checking accounts. Specifically, DBED did not ensure that effective controls were established over the account activity and that all transactions processed were proper.

Although DBED began transferring grant funds to the fund managers' checking accounts in July 2013, no account monitoring procedures had been established by DBED until January 28, 2014. At that time, DBED established a reporting process for checking account activity by requiring fund managers to begin submitting copies of their monthly checking account bank statements and certain related detailed records (for example, check registers, check copies, and an expense activity spreadsheet) to DBED. The fund managers were also required to submit the same documents from the dates the accounts were opened. However, DBED did not require the fund managers to provide monthly bank reconciliations of their State checking accounts, nor did DBED attempt reconciliations with the information provided. DBED also did not obtain available copies of cancelled checks for disbursements from the fund managers' State checking accounts directly from the issuing bank to verify the reported payees.

DBED was also unaware of certain account activity processed by one fund manager after the reporting process had been instituted. During the period from April 2014 to August 2014, the fund manager paid establishment expenses from monies in its State checking account totaling $75,611 without obtaining advanced approval from DBED as required by the fund manager agreement. In addition, the expenses claimed by the fund manager were based on fee schedules rather than supported by actual costs incurred. Furthermore, the total amount paid from the State checking account to the fund manager applicable to the one-time fund establishment expense ($434,000) exceeded the DBED approved budget by $9,000.

DBED also authorized payments for establishment expenses of two fund managers even though the requests were untimely. The fund manager agreements, as amended on May 30, 2013, stipulate that "Any part of the expense fee not requested by the Fund Manager before the date one year after the date of this Agreement shall revert to and become part of the fund (that is, the Account) and shall not be subject to any claim of the Fund Manager." Although the reimbursement requests should have been submitted before June 2014, we noted that two reimbursement requests from the aforementioned fund manager were received in November 2014 ($25,000) and March 2015 ($75,000). Another fund manager submitted a request for reimbursement in August 2014 ($30,000). Accordingly, under the terms of the agreements, DBED was not obligated to authorize payment of these expenses totaling $130,000.

Recommendation 6

We recommend that BPW

a. ensure that DBED establishes effective checking account monitoring procedures and controls, which include obtaining and thoroughly reviewing appropriate documentation of account activity (for example, cancelled checks);
b. require DBED to obtain repayment of the excess expenses of $9,000 paid to one fund manager; and
c. assess whether the two fund managers should repay establishment expenses requested after the period stipulated in the agreement.

Finding 7
DBED had not established comprehensive policies governing the process for requesting additional grant funds to replenish the State checking accounts.

Analysis

DBED had not established comprehensive policies governing the process for fund managers' requests for additional grant funds to replenish their State checking accounts to make additional loans and investments. Specifically, DBED did not require the fund managers to provide adequate support to substantiate that they had fulfilled DBED's mandate that 80 percent of the funds previously received had been loaned or committed. Although the fund manager request included an itemized listing of closed and pending loans, DBED did not require the submission of loan closing and commitment documents and cancelled checks. Our test of four requests for additional grant funds totaling $2.75 million paid by DBED to the three fund managers disclosed that none of the requests were supported by loan documents and cancelled checks. In addition, DBED had not established a policy stipulating the period of time within which pending loans had to be closed before funds can be requested. Consequently, fund managers could have access to funds well in advance of actual need.

Recommendation 7

We recommend that BPW require DBED to establish comprehensive formal procedures requiring the submission of sufficient documentation (for example, loan closing statements) justifying the use of existing grant funds and the need for additional funds, and specify a maximum time frame for a pending loan to close before allowing its inclusion in the fund managers' grant requests (for example, 30 days from date of the grant request).

APPENDIX

MARYLAND
BOARD OF PUBLIC WORKS
Governor Treasurer Comptroller

Sheila McDonald, Esq.
Executive Secretary
sheila.mcdonald@maryland.gov

October 21, 2015

Thomas J. Barnickel III, CPA
Legislative Auditor, State of Maryland
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Barnickel:

This is the joint response of the Board of Public Works and the Department of Commerce[1] to the Legislative Auditor's performance audit of the *Video Lottery Terminals Small, Minority, and Women-Owned Businesses Account* (October 2015).[2]

The Board and the Department appreciate the diligent analysis by your Office of the first year in which grants were made to fund managers who loaned or invested the funds to small, minority, and women-owned businesses.

Importantly, the analysis concludes, "the appropriate amount of VLT proceeds was distributed to the Account for fiscal year 2014. All loans selected for testing appeared to be made to eligible businesses by the fund managers."

We recognize, however, the wisdom in your conclusion that "oversight and controls could be improved." We are pleased to report that our agencies had already implemented – in fiscal 2015 and 2016 – some of the business process improvements that were lessons learned from the first year of operations. Moreover, you will see from our response that we are taking active steps – based on your recommendations – to make the program more effective and accountable.

Sincerely,

Sheila McDonald

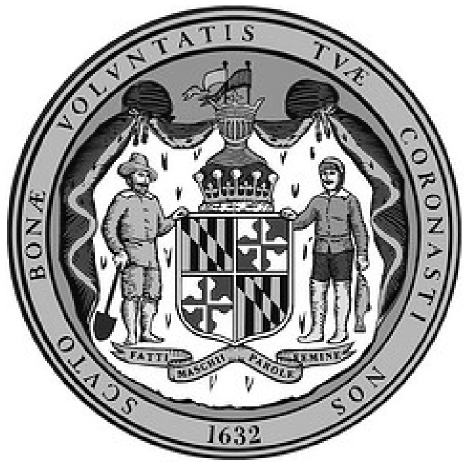
cc: The Honorable Larry Hogan
The Honorable Nancy K. Kopp
The Honorable Peter Franchot
The Honorable R. Michael Gill

[1] The attached joint response refers to "DBED," the predecessor name of the Department of Commerce. See Executive Order 01.01.2015.22 (Oct. 1, 2015). At all times the terms DBED and Commerce are used interchangeably.

[2] Please note in the attached joint response that for brevity sake, we repeat simply the Auditor's recommendation and follow it with our response.

VIDEO LOTTERY OPERATIONS REVENUE

SMALL, MINORITY, AND WOMEN-OWNED BUSINESSES ACCOUNT



Joint Response of the

Board of Public Works

and the

Department of Commerce

to the

Office of Legislative Audits
Performance Audit Report

October 21, 2015

Board of Public Works
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NOTE: DBED is the predecessor name of the Department of Commerce.[1]

Recommendation 1
We recommend that BPW and DBED establish Program goals, objectives and related measures to direct the lending and investing activities and to evaluate Program and fund manager performance**.**

We agree with the OLA recommendation.

DBED will develop Program-specific goals, objectives, and performance metrics during fiscal year 2016. When the Board of Public Works approves DBED's proposed guidelines, DBED will used them in Program administration, including evaluating fund manager performance.

Recommendation 2
We recommend that BPW require DBED to 1. develop interim financial reporting requirements and, accordingly, amend the applicable provisions of the fund manager contracts; and 2. enforce fund manager compliance with the financial reporting requirements.

We agree with the OLA recommendation.

In fiscal year 2014, DBED's requirements that Fund Managers submit financial reports were not memorialized in the written contracts.

Since then – beginning with fiscal year 2015, DBED has included in its written contracts with its Fund Managers requirements that the Fund Managers submit:

- annual audited financial statement
- monthly bank statements and reconciliations
- monthly activity reports through DBED's Salesforce portal

Fund Managers submit the monthly activity reports through DBED's Salesforce portal. DBED uses its portfolio servicing tickler system Portfol to notify Fund Managers when they are past due for reporting. These tools will further hone DBED's capacity to monitor Fund Managers to ensure they report timely, accurately, and fully.

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[1] See Executive Order 01.01.2015.22 (Oct. 1, 2015).

Recommendation 3
We recommend that BPW ensure that DBED establishes formal processes for verifying fund manager compliance with key contractual requirements, which at a minimum, address business eligibility, targeted areas, underwriting standards and practices, and insurance requirements.

We agree with the OLA recommendation.

The VLT Account statute states that Fund Managers are to use Board grants "to provide investment capital and loans to small, minority, and women-owned businesses."[2] Moreover, half of the grant funds must be used to fund "small, minority, and women-owned businesses in the jurisdictions and communities surrounding a video lottery facility."[3] In fiscal year 2014 (and subsequently), the State has interpreted "jurisdictions and communities surrounding a video lottery terminal" to encompass areas within a ten miles of the facilities.

Eligible Businesses. DBED relies on the Fund Managers to verify that businesses are eligible to participate in the Program. An eligible business is a minority-owned or women-owned business that is MBE-certified under State law[4] or a small business as defined by the U.S. Small Business Administration.[5] Fund Managers are selected because of their expertise in, among other things, identifying the many businesses that fall into the General Assembly's broad parameters of those to whom the VLT proceeds are intended to spur economic growth and development.

Targeted Areas. DBED has established a formal process for verifying that the Fund Managers are lending to and investing in businesses located in the targeted areas. Specifically, DBED will use the State Department of Assessments and Taxation database to verify that half of the businesses are located in the target areas.

Loan Underwriting Standards. The Fund Manager agreements identify underwriting as a service to be provided by the Fund Managers. DBED will in the future verify that each Fund Manager is in compliance with the underwriting standards the Fund Manager has set for evaluating applicants' suitability and creditworthiness.

[2] Section 9-1A-35(c)(2), State Government Article, Annotated Code of Maryland.
[3] *Id.* at section 9-1A-35(c)(3).
[4] These businesses appear in the MDOT MBE Certification Directory.
[5] 13 C.F.R. Part 121.

Insurance. DBED has completed its review of insurance documents for the contract years of 2014 and 2015. At this time, all Fund Managers are in compliance with insurance requirements. To regularly ensure that coverages and updated policies are in place to protect the State's investments, DBED intends to track insurance certificates using its portfolio monitoring system Portfol, and plans to notify Fund Managers via email when insurance certificates are up for renewals.

Recommendation 4
We recommend that DBED establish a formal process to annually evaluate fund manager performance.

We agree with the OLA recommendation.

DBED will develop Program-specific goals, objectives, and performance metrics during fiscal year 2016. When the Board of Public Works approves DBED's proposed guidelines, DBED will used them in Program administration, including evaluating fund manager performance.

Recommendation 5
We recommend that BPW require DBED to submit all contract modifications, including the aforementioned contract modification, and related justifications to BPW for its review and approval.

We agree with the OLA recommendation.

DBED will request Board of Public Works approval for contract modifications, including the fiscal year 2014 expense amount modification. As Program guidelines develop, DBED will work with the Board of Public Works to ensure an appropriate process for approval of future expense-reimbursement requests.

Recommendation 6
We recommend that BPW a. ensure that DBED establishes effective checking account monitoring procedures and controls, which include obtaining and thoroughly reviewing appropriate documentation of account activity (for example, cancelled checks); b. require DBED to obtain repayment of the excess expenses of $9,000 paid to one fund manager; and c. assess whether the two fund managers should repay establishment expenses requested after the period stipulated in the agreement.

We agree with the OLA recommendation to the extent explained below.

a. DBED follows its established procedures for collecting and reviewing bank statements and bank reconciliation for State-operated checking accounts. DBED has notified the Fund Managers that they may not draw on the State checking account for any purpose other than loan disbursements and compensation without *advance* approval from DBED. Specifically, the Fund Managers may not draw on the VLT Account for expense reimbursement without DBED advance approval. As explained above, in the response to recommendation no. 2, DBED does require and review monthly bank statements and reconciliations.
b. DBED will request retroactive Board of Public Works approval for reimbursing one Fund Manager for fiscal year 2014 expenses that exceeded the amount that the Board pre-approved for fiscal year 2014.
c. DBED concludes that allowing Fund Managers to make late requests for reimbursement may be appropriate when assessed on a case by case basis.

Recommendation 7
We recommend that BPW require DBED to establish comprehensive formal procedures requiring the submission of sufficient documentation (for example, loan closing statements) justifying the use of existing grant funds and the need for additional funds, and specify a maximum time frame for a pending loan to close before allowing its inclusion in the fund managers' grant requests (for example, 30 days from date of the grant request).

We agree with the OLA recommendation.

DBED will develop Program-specific goals, objectives, and performance metrics during fiscal year 2016. When the Board of Public Works approves DBED's proposed guidelines, DBED will used them in Program administration. In the meantime, DBED has adopted a formal procedure for Fund Managers to use to request disbursements that includes providing copies of commitment approvals or promissory notes. The procedure also establishes a timeframe for loan closings.

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