



**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
Washington, DC 20416**

Audit Report
Issue Date: March 20, 2003
Report Number: 3-18

To: Wilma Goldstein
Associate Administrator, Office of Women's
Business Ownership

Eugene Cornelius, Jr.
Assistant Administrator for Administration

From: Robert G. Seabrooks, Assistant Inspector General
For Auditing

Subject: Audit of Grants to the Texas Center for Women's Business Enterprise

Attached is a copy of the subject audit report. The report contains one finding and six recommendations. Four recommendations are addressed to the Office of Women's Business Ownership and two are addressed to the Assistant Administrator for Administration. The written response from the Office of Women's Business Ownership is included in Appendix A of this report.

The recommendations in this report are subject to review and implementation of corrective action by your office in accordance with the existing Agency procedures for audit follow-up. Please provide your management decisions for the recommendations to our office within 30 days of the date of this report using the attached SBA Forms 1824, Recommendation and Action Sheet.

Any questions or discussion of the finding and recommendations contained in the report should be directed to Garry Duncan, Director, Credit Programs Group, at (202) 205-7732.

Attachment

AUDIT REPORT
GRANTS TO THE TEXAS CENTER FOR
WOMEN'S BUSINESS ENTERPRISE

Austin, Texas

AUDIT REPORT NO. 3-18

March 20, 2003

The finding in this report is the conclusion of the OIG's Auditing Division based on testing of SBA operations. The finding and recommendations are subject to review, management decision, and corrective action in accordance with existing Agency procedures for follow-up and resolution. This report may contain proprietary information subject to the provisions of 18 USC 1905 and must not be released to the public or another agency without permission of the Office of Inspector General.

AUDIT REPORT
GRANTS TO THE TEXAS CENTER FOR
WOMEN'S BUSINESS ENTERPRISE
Austin, Texas

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BACKGROUND

The Texas Center for Women's Business Enterprise (Center) was founded in the early 1990's under a grant through the U.S. Small Business Administration's (SBA) Office of Women's Business Ownership. The Center is a nonprofit organization headquartered in Austin, Texas, providing training and technical assistance to small business concerns and potential businesses owned and controlled by women.

The current grant to the Center was awarded by SBA in the amount of \$425,000 for the period July 1, 2001 through June 30, 2002. The grant project was renewable annually through June 30, 2006. The award was for three Center offices located in Austin, Temple, and San Antonio, Texas. The award for fiscal year (FY) 2002 was reduced to \$275,000 with the closing of the Temple office in February 2002.

In August 2002, the OIG received a referral stating that grant funds had been misused by the Center. Subsequent to our audit notification letter on August 27, 2002, the Executive Director resigned effective September 15, 2002. On September 20, with the exception of the President, the entire Board of Directors resigned. On October 30, the Board's President also resigned. Both the Board and the Executive Director were immediately replaced.

AUDIT SCOPE AND OBJECTIVE

The audit objectives were whether grant funds were misused by the Center and if the Center's operations were adequately monitored by the SBA. We reviewed SBA files and the Center's financial records and supporting documentation relating to amounts charged to SBA grants. We also interviewed district office and Center personnel. Audit fieldwork was conducted during September and October 2002. We made a site visit to the Center's office location in Austin, Texas. The audit was performed in accordance with Government Auditing Standards.

RESULTS OF AUDIT

FINDING SBA Grant Funds were Misused

Grant funds were misused because the SBA did not adequately monitor the Center's financial and accounting operations. Our audit disclosed that: (i) the Center's financial management system permitted unsupported disbursements and the accounting records did not properly reflect numerous checks cleared by the bank; (ii) payroll and unemployment taxes in excess of \$70,000 were delinquent; (iii) the former Executive Director used a Center automobile for personal purposes; and (iv) questionable costs of \$38,073 (\$30,478 + \$7,595) were charged to the grant. As a result of inadequate SBA oversight, the Center's management of the grant operations was ineffective.

The Center's Financial Management System Needed Improvement

The Center did not maintain an adequate financial management system. A review of the general ledger revealed numerous unsupported and unrecorded disbursements. During calendar year (CY) 2000, unsupported payments totaling \$30,478 were made as follows:

- 17 payments to the former Executive Director's spouse totaling \$23,000;
- 2 payments to the former Executive Director's mother for \$4,201;
- 6 payments to the former Executive Director for \$2,893; and
- 2 payments to other employees totaling \$384.

Additionally, during FY 2001 and FY 2002, 29 checks totaling \$22,638 were not recorded in the general ledger but were properly supported. The Center did not have internal controls in place to ensure adequate and proper documentation for such expenditures. OMB Circular A-110, Standards for Financial Management System, requires the recipient's financial system to maintain records that adequately identify the source and application of funds for Federally sponsored activities. Effective controls must be maintained over assets and funds to assure they are used for authorized purposes. According to OMB Circular A-122, costs must be adequately documented to be allowable under an award.

Delinquent Payroll and Unemployment Taxes

The Center owed delinquent Federal payroll taxes, penalties, and interest in excess of \$70,000 to the Internal Revenue Service. The delinquency occurred when payroll taxes due (both employer's share and amount withheld from employees) for five quarters during CY 1999 to CY 2001 were not remitted. The Center also failed to pay Federal unemployment taxes for CY 1999. Additionally, the Center owes delinquent state unemployment taxes, penalties, and interest to the Texas Workforce Commission in excess of \$4,400 for CY 2001 and two quarters of CY 2002.

OMB Circular A-122 states that fines and penalties resulting from noncompliance with Federal regulations are disallowed expenditures. The former Executive Director indicated that she was not experienced in proper payroll tax remittance and reporting. During the last half of CY 2001, the Center outsourced the payroll accounting functions to an external processing activity. The Center has now entered into an installment agreement with the Internal Revenue Service to pay their outstanding delinquent debt. If the Center is unable to adhere to the agreement, the Internal Revenue Service has indicated that the former Executive Director will be held personally responsible.

Personal Use of Vehicle

The former Executive Director utilized a Center furnished automobile for personal use. The Center purchased a vehicle in October 2001, financing \$31,935 for 60-months. The former Executive Director indicated the vehicle was also for her personal use with \$7,595 included in her salary for such use during CY 2000 and CY 2001. According to OMB Circular A-122, the portion of the cost of organizational-furnished automobiles that relates to personal use by employees is unallowable regardless of whether the cost is reported as taxable income to the employees. Monies spent on disallowed expenditures could place the Center in a negative financial position, thus hamper its ability to accomplish its grant's goals and objectives of ensuring the success of women owned businesses and protecting SBA's investment in the Center.

Inadequate Oversight by SBA

The SBA did not adequately monitor the financial and accounting operations of the Center. In accordance with the Small Business Act, SBA is required to complete an annual financial examination of grant recipients' funds to ascertain compliance with financial reporting requirements. Specifically, the review allows for an assessment of the financial reporting process of the entity. The SBA reviewer noted that the "Center has a good financial and client tracking record system both at the main office in Austin and in San Antonio". The audit of the Center, however, revealed that financial reporting lacked the standards reasonably expected of such an entity. Specifically, bank reconciliations were not performed, the general ledger was not posted for all activity, a listing of assets was not maintained, and some expenditures were not supported.

OMB Circular A-102 requires the awarding agency to assess a grantee's financial management system to assure prudent management of agency funds. The weaknesses discussed above, however, were not identified because SBA District personnel assigned to perform Center oversight did not have a financial background or proper training to perform financial reviews. The San Antonio District Director indicated that to prevent future occurrences, specialized training would be necessary for individuals responsible for such reviews. The inability of the financial examination to identify discrepancies in financial reporting and assess the financial condition of the organization could result in the SBA not meeting its responsibility to ensure that grantees use Federal funds properly. A proper financial examination would have allowed for early detection of internal control weaknesses and would have possibly prevented the problems identified in this report.

RECOMMENDATIONS

We recommend that the Associate Administrator for the Office of Women's Business Ownership take the following actions:

- 1.A** Require the Texas Center for Women's Business Enterprise to implement appropriate internal controls to preclude the identified financial and accounting discrepancies from occurring in the future.
- 1.B** Ensure trained examiners perform future monitoring of the Center. The examination should be accomplished in a thorough and diligent manner to enable assessment of the Center's actual financial condition.
- 1.C** Require the Center to remit timely payments to the Internal Revenue Service in accordance with their installment agreement. Upon evidence that installments are not being paid, the grant should be terminated.
- 1.D** Consider suspending and debarring the former Executive Director from participating in or receiving future Federal grants due to the egregious nature of her non-compliance with Federal Grant regulations and Internal Revenue Service requirements.

We recommend that the Assistant Administrator for Administration take the following actions:

- 1.E** Require the Center to refund the \$30,478 of unsupported costs unless it can provide sufficient evidence to show that these payments were allowable in accordance with the Federal cost principles of OMB Circular A-122.
- 1.F** Require the Center to refund \$7,595 for costs of a vehicle furnished to the former Executive Director for personal use.

Office of Women's Business Ownership Comments

In their response, the Office of Women's Business Ownership agreed to take appropriate action on all recommendations.

Office of Administration

The Office of Administration had no comments on the report.

MEMORANDUM

DATE: March 18, 2003

TO: Robert G. Seabrooks
Assistant Inspector General for Auditing
Office of the Inspector General

FROM: Wilma Goldstein ^{WG}
Associate Administrator
Office of Women's Business Ownership

SUBJ: Audit of Grants to the Texas Center for Women's Business
Enterprise (TXCWBE)

The Office of Women's Business Ownership (OWBO) has reviewed the draft audit report and concurs with the four recommendations which were addressed to this office.

If funding continues --

- OWBO will require Texas Center for Women's Business Enterprise to implement appropriate internal controls to preclude the identified financial and accounting discrepancies from occurring in the future. Special terms and conditions that the recipient must meet for continued funding would be incorporated within the modified Cooperative Agreement.
- OWBO will ensure that trained examiners participate in monitoring the WBC. Additionally, the cooperative agreement will include terms and conditions requiring the grantee to verify, annually, that it has a financial management system that clearly reflects the Center's actual financial conditions.
- OWBO will require the WBC to submit proof to OWBO that timely payments are being remitted to the Internal Revenue Service (IRS) in accordance with their installment agreement. If the WBC does not provide to OWBO proof of payment to the IRS, the grant will be terminated.

FOIA EX. 5

Please let us know if additional information is needed.

OFFICE OF INSPECTOR GENERAL
AUDIT REPORT DISTRIBUTION

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General Accounting Office-----	1