



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

**RURAL ENTERPRISE COMMUNITY LOANS AND
GRANTS ADMINISTERED BY THE WILLIAMSBURG
ENTERPRISE COMMUNITY COMMISSION, INC.
KINGSTREE, SOUTH CAROLINA**



**Report No.
04004-1-AT
AUGUST 2001**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL
Southeast Region - Audit
401 West Peachtree Street, Suite 2328
Atlanta, Georgia 30308
TEL: 404-730-3210 FAX: 404-730-3221



DATE: August 30, 2001

REPLY TO
ATTN OF: 04004-1-At

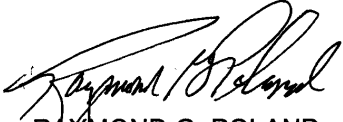
SUBJECT: Rural Enterprise Community Loans and
Grants Administered by the Williamsburg
Enterprise Community Commission, Inc.
Kingstree, South Carolina

TO: Charles Sparks
State Director
Rural Development
South Carolina State Office
1835 Assembly Street, Room 1007
Columbia, South Carolina 29201

This report presents the results of the subject audit. The Rural Development's August 15, 2001, response to the official draft report is included as Exhibit D. Excerpts from the response and the Office of Inspector General's position are incorporated into the Findings and Recommendations section of the report. Based on your response, management decisions have been accepted on all 19 recommendations contained in the report.

The Office of the Chief Financial Officer (OCFO), U.S. Department of Agriculture, has responsibility for monitoring and tracking final action for the findings and recommendations. Please note that final action on the findings and recommendations should be completed within 1 year of each management decision. Follow your agency's internal procedures in forwarding final action correspondence to OCFO.

We appreciate the assistance and cooperation of your staff during our audit.


RAYMOND G. POLAND
Regional Inspector General
for Audit

EXECUTIVE SUMMARY

RURAL ENTERPRISE COMMUNITY LOANS AND GRANTS ADMINISTERED BY THE WILLIAMSBURG ENTERPRISE COMMUNITY COMMISSION, INC. KINGSTREE, SOUTH CAROLINA

AUDIT REPORT NO. 04004-1-AT

RESULTS IN BRIEF

This report represents the results of our audit of the Williamsburg Enterprise Community Commission, Inc., (WECC) the lead entity for the Williamsburg Enterprise Community, consisting of six census tracts in Williamsburg County and one in Florence County. The census tracts are located in central eastern South Carolina. WECC's overall mission, as stated in its strategic plan, is to (1) facilitate significant improvements in the quality of life in the region; (2) extend to each citizen a literate, safe, productive and prosperous life; and (3) provide a healthy environment free of racism and prejudice and ecological detriment. This mission is embodied in the U.S. Department of Agriculture's (USDA) approved WECC strategic plan containing 24 benchmarks.

The audit of WECC was conducted in response to a request by the South Carolina Rural Development (RD) State office. RD conducted a review of WECC's operations in January 1999, and had concerns that (1) earmarked funds for health and education projects were used for general office operations; (2) funds were used for unnecessary travel, decorations, gifts, and entertainment; and (3) the enterprise was not making progress in achieving its benchmarks.

Our objectives were to determine if funds were used and accounted for in accordance with regulations, the strategic plan and related benchmarks, and that expenditures were properly supported and assets safeguarded.

Our audit disclosed that WECC expended \$222,948 on administrative expenses, although the funds were intended for specific benchmark projects. The \$222,948 included \$200,920 in Social Services Block Grant (SSBG) funds, \$16,993 provided by a nonprofit organization, and \$5,035 in interest earned on WECC's revolving loan fund bank account. A

former WECC official in written requests for SSBG funds mislead South Carolina Department of Health and Human Services (SCDHHS)¹ and RD officials by stating that the funds would be used to implement benchmark projects. Organizations who depended on the funding had to reduce or delay project implementation. In addition, we found the following conditions during the audit.

- RD's oversight and monitoring of enterprise communities needs improvement to ensure that Federal funds are administered in accordance with program requirements. RD did not ensure that WECC reported its benchmark activities in a timely and accurate manner. In addition, RD has not established a performance review plan to evaluate WECC's progress in implementing or complying with its strategic plan. As a result, the objectives of the strategic plan and the Benchmark Management System (BMS) were not met, program accomplishments were misstated, and program funds were not used for intended projects.
- WECC officials used SSBG funds for unallowable expenses, such as entertainment, gifts, and unauthorized travel. Additionally, WECC officials either lost or misfiled financial documents that secured loans and supported expenditures. Also, WECC officials did not properly account for their office equipment. WECC officials did not adhere to spending restrictions specified in their Memorandum of Agreement (MOA) with SCDHHS, and they did not establish written guidelines for securing and accounting for records and office equipment. Our review disclosed \$13,640 in unallowable expenditures and \$169,003 in expenditures not supported by paid receipts, invoices, or bills. The review also disclosed that grant agreements, loan security instruments, and equipment were missing.
- WECC did not adequately administer its grant programs for housing rehabilitation and repair, community projects, and its loan program for business startups. WECC officials did not provide servicing, oversight, or technical assistance to the grant loan and recipient. As a result, WECC provided additional funds for home repairs and disbursed grant funds for a community project prior to need. Additionally, two business loans for \$105,038 were placed in foreclosure because of inadequate servicing.

¹ The Department of Health and Human Services (HHS) makes SSBG to the States, and the designated State agency (SCDHHS) approves and obligates the grant funds to Empowerment Zone and Enterprise Community (EZ/EC) for specific benchmark projects. Also, RD approves all requests for funds before SCDHHS distributes the funds. The WECC was approved for a one-time grant of \$2.9 million in 1995.

We are also concerned that WECC expended the majority of its SSBG funds without fully implementing its strategic plan or making progress in becoming self-supporting. As of June 30, 2000, WECC expended \$2,006,880 (70 percent) of its \$2,947,368 SSBG grant. WECC expended \$1,096,047 (53 percent) for administrative expenses and the remaining \$970,832 (47 percent) for grants to local organizations. However, WECC has about \$1.1 million in planned projects to be funded by the remaining \$880,488 in SSBG funds.

KEY RECOMMENDATIONS

We recommend that RD consult with SCDHHS and determine whether to (1) retroactively approve the use of the \$200,920 in SSBG project funds for WECC administrative expenses, (2) require WECC to reimburse the Intermediary Relending Program (IRP) interest bearing account for the \$5,035 interest used for administrative expenses, and (3) require WECC to reimburse the SBBG for \$13,640 in unallowable expenditures. In addition, RD should require WECC to enhance its management controls by updating its benchmark data in the BMS, establishing office operation procedures for securing financial records and office equipment, adhering to OBM Circular A-122, and monitoring the progress of its grants.

AGENCY RESPONSE

report.

In its response to the draft report, dated August 15, 2001, RD was in agreement with the findings and recommendations. RD's response is included as Exhibit D of the audit

OIG POSITION

We agree with RD's response to the report. Based on RD's response, we have achieved management decision on the report's 19 recommendations.

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INTRODUCTION

BACKGROUND

Congress established the Empowerment Zone and Enterprise Community (EZ/EC) program in the Omnibus Budget Reconciliation Act of 1993 (ACT), Public Law 103-66. The purpose of the program was to create jobs and opportunities as part of a Federal, State, local, and private-sector partnership. Communities that wanted to participate had to meet specific criteria for poverty rates, geographic size and population, and prepare a strategic plan for implementing the program. Under the ACT, the Secretary of Agriculture designated 3 rural EZ's and 30 EC's on the basis of their strategic plans. Each EZ received \$40 million and each EC received \$2.9 million (Round I). Under a second round of funding (Round II), 5 rural EZ's and 20 EC's were designated to receive funding from the U.S. Department of Agriculture (USDA) fiscal year (FY) 2000 appropriation. EZ's may receive \$18 million and EC's \$2.25 million.

Health and Human Services (HHS), USDA, and States played key roles in administering the program. HHS makes Social Services Block Grants (SSBG) to the States, and the designated State agency approves and obligates the grant funds to EZ/EC's for specific benchmark projects. RD is responsible for managing the programmatic aspects of the Act, providing technical assistance, and oversight of the progress in implementing the strategic plan and related benchmarks. The designated EZ/EC or specified lead entity is responsible for implementing their strategic plan, related program activity, and fiscal management of the allocated funds.

The designated EZ/EC communities are eligible to receive several types of Government assistance in addition to HHS SSBG funds. Businesses located in the EZ/EC's are eligible for low-interest loans from State or local Governments to be used for facilities and land. A number of Federal departments and agencies also made commitments to give EZ/EC's special consideration in the competition for funds from many other Federal programs and to work cooperatively with them on overcoming regulatory impediments.

The Federal assistance provided to the EZ/EC must be spent in accordance with strategic plans, as approved by the RD State Director. These plans must be developed in accordance with four key principles that will be utilized to evaluate the plan and assess the propriety of the use of EZ/EC funds. The key principles are (1) economic opportunity,

including job creation within the community and throughout the region, entrepreneurial initiatives, small business expansion, and training for jobs that offer upward mobility; (2) sustainable community development; (3) community-based partnerships; and (4) strategic vision for change. In addition, the strategic plans outline how the communities would achieve their goals including ensuring the active participation by members of the community, the local private and nonprofit entities, and the Federal, State, and local Governments.

In addition to the HHS SSBG, the USDA through RD, makes loans and grants to the EZ/EC through the Intermediary Relending Program (IRP), Rural Business Enterprise Grant (RBEG), Housing Preservation Grant (HPG), community facility, and other loan and grant programs. Certain loans and grants are made directly to the designated lead EZ/EC entity and others are made to municipalities and other community governing authorities. The RD State Director is responsible for (1) oversight, monitoring, and evaluating the EZ/EC's progress in implementing their strategic plans and benchmarks, and (2) providing the entities with technical assistance in the achievement of their goals. Additionally, the Secretary of Agriculture may revoke the designation of a rural area if the EZ/EC has modified the boundaries of the area, failed to make satisfactory progress in achieving its benchmarks, or has not complied substantially with its strategic plan.

Each EZ/EC develops its own performance benchmarks to ensure adherence to and measure the results of each activity in its EZ/EC strategic plan. Under this initiative, EZ/EC specific benchmarks measure results of activities detailed in the EZ/EC strategic plan (i.e., number of houses repaired or people completing a training program). These benchmarks provide guidance for planning, distributing funds, fulfilling commitments, and measuring success. The benchmarks are documented in an agreement between EZ/EC and USDA to form the basis for status reports and evaluations. Additionally, the benchmarks form the basis for the continuing partnership between the Federal Government and the EZ/EC, identifying priority projects that may need additional resources; regulatory relief; or technical assistance. Since 1998, EZ/EC has been required to use the RD's Office of Community Development's (OCD) Benchmark Management System (BMS), a shared computerized management information system to document benchmarks, funding and progress in achieving benchmark goals.

Williamsburg Enterprise Community Commission, Inc. (WECC) is the lead entity for the Williamsburg Enterprise Community, consisting of six census tracts in Williamsburg County and one in Florence County. The census tracts are located in central eastern South Carolina. WECC's administrative office is located in Kingtree, South Carolina. WECC's overall mission as

stated in its strategic plan is to (1) facilitate significant improvements in the quality of life in the region; (2) extend to each citizen a literate, safe, productive and prosperous life; and (3) provide a healthy environment free of racism and prejudice and ecological detriment. This mission is embodied in the USDA approved WECC's strategic plan containing 24 benchmarks. WECC was designated as an EC under Round I for 10-years beginning December 31, 1994, and ending December 31, 2004. Funding made available to WECC as of June 30, 2000, totaled about \$5.3 million².

The following is a schedule listing the funding source and the amounts as of June 30, 2000.

Table 1

| Funding Agency/ Organization | Type Grant/ Loan | Award Amount | Funds Received | Funds Remaining |
|---------------------------------------------|---------------------------------------------------------|-------------------------|---------------------------|----------------------------|
| U.S. Dept. of Health and Human Services | Social Services Block Grant | \$2,947,368 | \$2,066,880 | \$880,488 |
| U.S. Dept. of Agriculture | Rural Business Enterprise Grant | 500,000 | 55,038 | 444,962 |
| | Intermediary Relending Program Loan | 1,000,000 | 290,250 | 709,750 |
| | Self Help Technical Assistance Grant | 10,000 | 10,000 | 0 |
| | Housing Preservation Grant Program | 112,540 | 112,540 | 0 |
| | Rural Business Enterprise Technical Assistance Grant | 336,400 | 88,115 | 248,285 |
| U.S. Dept. of Housing and Urban Development | Supportive Housing Grant | 270,209 | 179,644 | 90,565 |
| U.S. Dept of Education | Charter School Planning Grant | 40,000 | 40,000 | 0 |
| Mary Babcock Reynolds Foundation | Community Problem Solving Grant | 53,900 | 35,933 | 17,967 |
| Sisters of Charity Foundation | Entrepreneurial Opportunity Demonstration Project Grant | 25,000 | 25,000 | 0 |
| Totals | | \$5,295,417 | \$2,903,400 | \$2,392,017 |

The South Carolina RD State office conducted a State Internal Review (SIR) of WECC operations in January 1999. The review disclosed that (1) earmarked funds for health and education projects were used for administrative expenses to support general office operations; (2) Federal funds were used for unallowable expenses such as gifts, entertainment, and decorations; and (3) WECC was not making significant progress in implementing its strategic plan.

² RD approved a \$46,600 community facilities grant to help finance the purchase of a building for WECC. This grant was not disbursed to WECC since a building was not purchased.

OBJECTIVES

The objectives of the audit were to determine if (1) Federal funds were being expended in accordance with Federal regulations and WECC's strategic plan, (2) benchmark goals and timeframes were met for implementing and completing projects, (3) Federal funds were properly deposited and accounted for, and (4) expenditures were properly supported and assets safeguarded.

SCOPE

The fieldwork was performed at the RD State office in Columbia, South Carolina, and at WECC in Kingstree, South Carolina. We initiated the audit in response to a request by the South Carolina RD State office. They were concerned because the results of their SIR disclosed program and fund mismanagement. The initial fieldwork began in November 1999 and was temporarily suspended in December 1999 due to staff turnover. The audit resumed in April 2000, when staff was available to complete the review. The fieldwork was completed in August 2000.

WECC was authorized to receive a \$2,947,368 one-time SSBG grant over the 10-year life of the designation (December 31, 1994, through December 31, 2004). Our audit of WECC program and financial activities covered the period from October 16, 1995 (the date of USDA and WECC's Memorandum of Agreement (MOA), to June 30, 2000.

We performed detailed reviews of (1) benchmark management, including input and updating of data; (2) RBEG loan-making and servicing activities; (3) grants for community projects made from SSBG funds; (4) housing repair grants; (5) administrative operations and fund management; and (6) RD's oversight and supervision of WECC programs and activities.

We encountered difficulties in conducting this review because management and internal controls over receipt and disposition of funds, and accountability for property and records had not been established or were not effective. Additionally, a substantial number of records (invoices, receipts, etc.) to support WECC expenditures were either missing or misfiled.

We reviewed the BMS as of June 30, 2000, and judgmentally selected SSBG funding for verification of funds received and funds disbursed. SSBG funds were budgeted for 22 of 24 benchmarks and accounted for approximately \$2.9 million of WECC total funding of \$5.3 million. We selected SSBG funding for review because the SIR disclosed that SSBG funds earmarked for community projects might have been used for general administrative operations. We also selected the RBEG program because the SIR disclosed that loan recipients were behind on their

scheduled payments. WECC made two loans totaling \$105,038. We reviewed both loans.

We judgmentally selected grants to community organizations and HPG's for review because of the amount of funds involved. WECC made 14 grants to community organizations as of June 30, 2000, totaling \$616,344. We selected 12 for review. We also judgmentally selected 3 of 8 homes repaired with HPG program funds in the last 12-months for review and inspection. The repairs for the homes totaled \$41,495. Since October 16, 1995, 57 recipients received HPG's. RD provided \$112,540 in HPG program funds and \$327,550 in 504 program grants for the home repairs. WECC provided \$160,877 from SSBG funds. The following table shows WECC's SSBG awards to community organizations as of June 30, 2000.

Table 2

| GRANTEE/COMMUNITY ORGANIZATION | AMOUNT AWARDED | AMOUNT DISBURSED |
|------------------------------------------|-----------------------|-------------------------|
| Waccamaw Public Health District | \$80,600 | \$0 |
| Lake City Fire Department | 5,000 | 5,000 |
| Computer Tutorial Program | 6,000 | 6,000 |
| Neighborhood Legal Assistance Program | 5,020 | 5,020 |
| Williamsburg County Emergency 911 System | 70,000 | 70,000 |
| St. Ann Catholic Outreach Center | 6,000 | 6,000 |
| Williamsburg County School District | 94,084 | 94,084 |
| Williamsburg Technical College | 121,500 | 61,500 |
| Black River Healthcare, Inc. | 135,040 | 101,260 |
| Lake City Chamber of Commerce | 9,500 | 9,500 |
| Lake City Water and Sewer | 20,000 | 20,000 |
| Williamsburg County Water and Sewer | 45,000 | 45,000 |
| Williamsburg County Fire Dept (2 Grants) | 18,600 | 18,600 |
| Totals | \$616,344 | \$441,964 |

We also reviewed WECC's expenditures to determine whether or not they were allowable under the Office of Management and Budget's (OMB) guidelines and properly supported by paid receipts or invoices, etc. The review covered both administrative and project expenses. We judgmentally selected 1,843 expenditures for review (totaling \$329,351) that were paid by WECC during the period October 16, 1995, through December 31, 1999. The expenditures reviewed were from paid checks, accounting records (general ledger, check register, payroll, etc.), credit card monthly statements, and travel and expense claims. The review was limited because some documents did not show descriptions of the expense or supporting paid receipts and invoices were missing (see Finding Nos. 5 and 6).

The audit was conducted with the assistance of staff from the HHS Office of the Inspector General (OIG).

The audit was conducted in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, it included such tests of program and accounting records as considered necessary to meet the audit objective.

To accomplish the audit objectives we:

METHODOLOGY

- Reviewed program regulations, instructions, policies, and procedures applicable to EZ/EC programs;
- Reviewed RD's SIR report on WECC's operations, WECC's audited financial statements, and WECC's benchmark reports;
- Reviewed the MOA's between RD and WECC and South Carolina Department of Health and Human Services (SCDHHS) and WECC and WECC's Articles of Incorporation and By-Laws, and WECC's strategic plan;
- Interviewed RD State and area office officials, current and former WECC officials and board members, and WECC consultants;
- Interviewed selected vendors and representatives from Certified Public Accountants that provided accounting, record keeping, and auditing functions for WECC;
- Interviewed officials of community organizations that received SSBG or RD funds through WECC;
- Visited and observed community projects, housing repair, and rehabilitation projects;
- Reviewed the receipt and disposition of SSBG funds, including RD program funds (IRP loan funds and HPG funds); and
- Reviewed accounting and safeguarding of records and property including buildings, vehicles, equipment, furniture, and fixtures.

FINDINGS AND RECOMMENDATIONS

| | |
|------------------|---------------------------------------------------------------------------------------------------------------|
| CHAPTER 1 | CONTROLS ARE NEEDED TO ENSURE THAT PROJECT DATA ARE REPORTED ACCURATELY AND FUNDS ARE USED AS INTENDED |
|------------------|---------------------------------------------------------------------------------------------------------------|

RD's oversight and monitoring of WECC's operations needs improvement to ensure that Federal funds are administered in accordance with program requirements. RD did not ensure that WECC reported its benchmark activities in a timely and accurate manner. In addition, RD did not have processes in place to evaluate WECC's progress in implementing or complying with its strategic plan. RD had not established adequate oversight procedures or conducted a sufficient number of on-site reviews of WECC's operations. As a result, the objectives of the strategic plan and the BMS were not met, program accomplishments were misstated, and program funds were not used for intended projects.

FINDING NO. 1

BENCHMARK FUNDING AND PROJECT DATA WERE INACCURATE

WECC's benchmark funding levels were not accurate as reported in the BMS. Also, WECC's progress for completing benchmarks or benchmark tasks was misstated in the BMS. According to WECC officials, funding and staffing reductions resulted in staff not being trained or assigned to manage the system. As a result, WECC's BMS reports (1)

did not accurately show funding and completion of benchmark activities; (2) did not meet the intent of the system, which was designed, in part, as a management tool to spot problems; (3) did not target needs for technical help; and (4) did not demonstrate accountability to the Government and the public.

RD's OCD developed the online BMS in 1998. The BMS was designed to (1) create a management tool for EZ/EC's and RD to monitor progress in funding and completing benchmarks; (2) identify the best practices and success stories for wider appreciation and peer learning; (3) spot problems early and target the need for technical assistance; (4) streamline the flow of information; (5) demonstrate accountability to Congress, the White House and the public; and (6) promote the accomplishments of rural EZ/EC's.

OCD Instructions for the BMS, dated September 1999 provides, in part, that every community should update their benchmarks on a monthly basis; and if the update is not made, the community will risk losing eligibility for RD earmarked funding and will be considered for de-designation of its EZ/EC status. The benchmark updating process is to take special note of (1) outputs to date, (2) secondary outputs, (3) budgets for tasks, (4) funding and technical assistance resources, and (5) tasks done. If a significant change is made to an individual benchmark, the BMS electronically prompts the RD State office for approval action and, with that action, OCD is electronically prompted, making them aware of the change.

We reviewed WECC's BMS data as of June 30, 2000. We found that data for benchmark funding and progress were either not updated or were not accurate. We judgmentally selected benchmarks funded by SSBG (22 of 24 total) for verification of funding received. We found that funding for 16 of the 22 SSBG benchmarks were either under reported or over reported. Overall, 12 benchmarks were over reported by \$571,131 and four benchmarks were under reported by \$697,906.

In addition, 11 of WECC's 24 total benchmarks, including 9 of the 22 benchmarks funded by SSBG, were not updated monthly as required.

The following schedule shows BMS data as of June 30, 2000, and funding reported by WECC compared to funding levels we verified from the SCDHHS³.

Table 3

| BENCHMARKS | FUNDS REPORTED BY WECC'S | FUNDS REPORTED BY SCDHHS | LAST UPDATE |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|-------------|
| 1. Administration | \$498,748 | \$1,096,047.38* | 4/18/00 |
| 2. Business Startup | 256,150 | 78,512 | 6/27/00 |
| 3. Water and Sewer | 45,000 | 20,000 | 6/27/00 |
| 4. Industrial Park | 0 | 0 | 6/27/00 |
| 5. Business Startup (New Type) | 25,000 | 0 | 4/18/00 |
| 6. State Park | 0 | 0 | 4/18/00 |
| 7. Parenting Program for Schools | 0 | 0 | 4/18/00 |
| 8. Upgrade School Facilities etc. | 100,084 | 100,084 | 4/18/00 |
| 9. Fully Utilize Schools | 16,700 | 0 | 6/27/00 |
| 10. Healthcare at Schools | 0 | 0 | 6/27/00 |
| 11. Healthcare Senior Citizens | 67,530 | 110,760 | 6/27/00 |
| 12. Transportation | 10,000 | 0 | 6/27/00 |
| 13. Extend Water Service | 215,000 | 45,000 | 6/27/00 |
| 14. Law Enforcement | 41,000 | 5020 | 5/30/00 |
| 15. 911 System | 70,000 | 70,000 | 4/18/00 |
| 16. Youth Program | 25,000 | 22,600 | 6/27/00 |
| 17. Upgrade Fire and Rescue | 35,000 | 23,600 | 6/27/00 |
| 18. Home Improvement | 156,000 | 160,876.52 | 6/27/00 |
| 19. Increase Housing Units | 44,000 | 0 | 6/27/00 |
| 20. Access to Capital | 250,000 | 200,000 | 4/18/00 |
| 21. Charter School (Non-SSBG) | 0 | 0 | 4/7/00 |
| 22. Job Training | 25,000 | 77,500 | 6/27/00 |
| 23. Increase Housing Units | 59,893 | 56,879.73 | 2/24/00 |
| 24. Facilities for Healthcare (Non-SSBG) | 0 | 0 | 4/18/00 |
| TOTAL BENCHMARKS | \$1,940,105 | \$2,066,879.63 | |
| *Includes \$200,920 originally drawn down for specific earmarked projects but later used for administrative expenses (see Finding 2). | | | |

The benchmark funding data was inaccurate for 16 of the SSBG benchmarks shown above. In addition, other data reported in the BMS was inaccurate. For instance, the reported percent of project completion was often not proportional to the reported funds expended and tasks completed. Examples of inaccurate and inconsistent benchmark data follow.

Benchmark 1. – This benchmark is for WECC's administrative operation expenses including staffing and the purchase of an office building. However, only data for staffing was recorded on the BMS, Benchmark

³ The SCDHHS distributes SSBG funds to WECC on behalf of HHS. Funds are released to WECC after RD approves WECC draw down requests.

Detail Report. The report showed WECC used \$498,748 for staffing expenses. However, SCDHHS reports showed that WECC requested and received \$895,127 for staffing and other administrative expenses. In addition, WECC used an additional \$200,920 in SSBG funds earmarked for benchmark projects for administrative expenses (See Finding 2). The \$200,920 includes \$37,800 specifically requested by WECC to partially fund the purchase of an office building. In total, WECC used \$1,096,047 (\$895,127 + \$200,900) for administrative expenses although the BMS Benchmark Detail Report shows only \$498,748. Also, the report showed all tasks (staffing and office building) were 100 percent complete and the benchmark was complete even though an office building was not purchased and administrative expenses are ongoing.

Benchmark 9. - This benchmark is for establishing after-school recreational programs. The BMS (Benchmark Detail Report) shows that \$16,700 in SSBG funds was requested and received by WECC. However, we found that WECC had not requested or received SSBG funds for this benchmark activity. In addition, the BMS shows this benchmark as 14 percent complete although no tasks have been completed for this benchmark.

Benchmark 14. – This benchmark is for reducing the response time to crime scenes by increasing the number of trained law enforcement personnel. This benchmark was recorded in the BMS as 100 percent complete. However, only one of the two tasks, which were funded with \$46,020 in SSBG funds, was completed. The task for the development of a crime prevention program (\$5,020) was completed and the other task for implementation of a new rural crime response and prevention program (\$41,000) was not completed. The BMS shows that \$46,020 in SSBG funding had been requested and \$41,000 was received. However, our review disclosed that only \$5,020 in SSBG funding for the development of a crime prevention program was actually received.

The examples cited above show that there are inconsistencies between data recorded in the BMS and actual SSBG funding and accomplishments by WECC.

An RD State office official advised that current WECC employees were not trained to manage the BMS. The RD official stated that as a result, RD employees were obtaining information from State agencies, local entities, and WECC to correct and update the data in the BMS. The RD official stated that prior to a reduction in staffing, WECC employees were doing the data input, and that erroneous information, input errors, and difficulty in obtaining data from community entities were the likely causes of the discrepancies. The RD official further advised that the RD State office had

done little in the past to monitor benchmark progress or oversee the input of data but RD was aware of the problem.

RECOMMENDATION NO. 1

Require WECC employees to be trained (by RD program officials) to manage and operate the BMS.

RD Response

A RD Enterprise Community Specialist has been trained in BMS management. The specialist will provide the training and technical assistance to the employee(s) designated by WECC as being responsible for managing and operating the BMS.

The training of the WECC official will be completed within 90 days from the date of receipt of the final audit report.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 2

Require WECC employees to update and correct the benchmark data in the BMS.

RD Response

WECC will be required to update and correct the benchmark data in the BMS on a monthly basis as required in the OCD instructions for the BMS. RD will monitor the BMS to ascertain that the updates are made in a timely manner. WECC is presently in the process of updating Benchmarks to ensure that remaining SSBG funds are utilized to best serve the community. The BMS will be updated within 30 days after receipt of the final audit report.

OIG Position

We accept RD's management decision for this recommendation.

FINDING NO. 2**FUNDS EARMARKED FOR
PROJECTS WERE USED FOR
ADMINISTRATIVE OPERATIONS**

WECC expended \$222,948 in funds on administrative expenses and office operations, although the funds were intended for specific benchmark projects. Included in the \$222,948 were \$200,920 in SSBG funds, \$16,993 provided by a nonprofit organization and \$5,035 in interest earned on a revolving loan account. A former WECC official in

written requests for SSBG funds mislead SCDHHS officials by stating that the funds would be used to implement benchmark projects. The

expenditures during this period included \$5,843 that was unallowable under OMB Circular A-122 guidelines. As a result, organizations that depended on the funding had to reduce or delay their programs for education and healthcare for children and adults.

The MOA between SCDHHS and WECC, dated July 1, 1995, provides that SCDHHS shall distribute funds under the agreement to the lead entity, WECC, at the lead entity's directive, provided that such requests are consistent with USDA approved strategic plan and designated benchmark activities. Also, the agreement provides that all requests for funds shall be categorized by specific benchmark activity for which the funds are to be applied. The agreement also provides that WECC is responsible for applying for any required program waivers or other programmatic changes with HHS, the Department of Housing and Urban Development, and RD. RD is responsible for approving all requests for funds before SCDHHS distributes the funds.

WECC entered into agreements with community based health and educational organizations to implement specific benchmark projects. Based on these agreements, WECC requested and received SSBG funds. They also requested and received grant funds from a nonprofit organization. In addition, they earned interest on SSBG funds drawn down to fund business loans.

The WECC budget for administrative expenses was \$498,748 (17 percent) of the \$2,947,368 SSBG funding. By November 6, 1997, (less than 3-years of the 10-year grant) the WECC drew down \$498,154 (99.9 percent of the budget amount) in SSBG funds for administrative expenses.

From December 1997 to July 1998 (8 months) the former WECC official did not request draw downs of SSBG and RD funds for administrative expenses. Instead, the former official requested \$200,920 in SSBG funds for benchmark projects but used the funds for administrative expenses. The former official resigned in July 1998.

The former official misled SCDHHS and RD officials by stating that the funds were intended for specific benchmark projects. The former official also attached grant agreements to the requests to support the need for the funding.

The following table (as of December 31, 1999) shows details of the earmarked funds used by WECC for administrative expenses.

Table 4

| GRANTOR/ TYPE | GRANTEE/ PROJECT | AMOUNT OF GRANT | AMOUNT OF DRAWDOWN | AMOUNT DISTRIBUTED TO GRANTEE | AMOUNT USED FOR ADMINI- STRATION |
|-------------------------------------|----------------------------------------------------------------------------------|-----------------------|--------------------------|-------------------------------------|-------------------------------------------|
| HHS/SSBG | Black River Healthcare Inc./Healthcare for Seniors | \$135,040.00 | \$135,040.00 | \$67,520.00 | \$67,520.00 |
| HHS/SSBG | Waccamaw Health District/ Healthcare for Seniors and School Children | 80,600.00 | 80,600.00 | 0 | 80,600.00 |
| HHS/SSBG | Williamsburg Technical College/ Construction Trades Program | 121,500.00 | 15,000.00 | 0 | 15,000.00 |
| HHS/SSBG | WECC'S/ Purchase of Office Building | 37,800.00 | 37,800.00 | 0 | 37,800.00 |
| HHS/SSBG | WECC'S/ Interest to be Used for Business Loans | 5,034.71 | 5,034.71 | 0 | 5,034.71 |
| SISTERS OF CHARITY/ NONPROFIT | WECC'S/Adult and Youth Education | 25,000.00 | 25,000.00 | 8,007.00 | 16,993.00 |
| Total | | \$404,974.71 | \$298,474.71 | \$75,527.00 | \$222,947.71 |

The following examples illustrate the effects on projects that depended on funding from WECC.

Black River Healthcare, Inc. – WECC awarded the organization \$135,040 on October 11, 1997, for healthcare screening and medication assistance for older citizens. WECC drew down \$135,040 on February 11, 1998, and transferred \$67,250 to the organization in two installments of \$33,760 each on March 17 and September 17, 1998. WECC used the remaining \$67,520 for its own administrative expenses. WECC subsequently requested additional SSBG funds and transferred \$33,740 to the organization on January 26, 2000; however, the remaining \$33,740 had not been received by the organization as of June 30, 2000.

A high-level healthcare official stated that the program was suspended on September 1, 1999, when funds were not received from WECC as promised. The official stated that their organization could not continue the

healthcare screening and medication assistance without funding from WECC. The program was restarted when they received additional funding from WECC on January 26, 2000. The official stated that before the suspension of the program, the organization provided healthcare screening to about 350 people age 60 and older and had enrolled over 150 people in the medication assistance program. The official further stated that they need the remaining \$33,780 (WECC obligation) to continue the program.

Williamsburg Technical College – WECC approved a grant for \$121,500 on January 26, 1998, to provide for an instructor (\$30,000 a year for 3-years) and materials (\$31,500) for a building trades program. WECC also agreed to purchase a lot for a house. The students were to use the materials to construct a house on the lot. The sale of the house was to provide funds to continue the program. WECC requested and received \$15,000 in SSBG funds on May 28, 1998, to start the project. However, WECC used the funds for administrative expenses rather than transfer the funds to the college in accordance with the grant agreement.

A high-level college official stated that although they did not receive the \$15,000, the college hired an instructor and started the building trades class. The official stated that the college funded the instructor's salary and the class for the first 2-years and as a result incurred a financial hardship. Also, since WECC did not provide \$31,500 as promised for materials and did not purchase a lot, the students built small-scale houses and reused materials. WECC subsequently requested and received additional SSBG funds for the grant. WECC transferred \$61,500 on January 27, 2000, to the college for the cost of the instructor (2 years) and \$1,500 for materials. WECC is obligated to the college for \$60,000 in SSBG funds and still needs to purchase a lot for a house.

Waccamaw Health District – WECC requested and received \$80,600 in SSBG funds for a healthcare project sponsored by this organization however, the funds were used instead for administrative expenses. The agreement between WECC and Waccamaw Health District dated October 14, 1997, stated that the funds were to assist the organization to provide registered nurses for the Williamsburg County School Healthcare Program. The WECC received the \$80,600 on February 2, 1998.

WECC'S Office Building – WECC requested and received \$37,800 in SSBG funds for the purchase of a building to house WECC's operations. However, the funds were used for administrative expenses. The funds were drawn down on July 20, 1998, and were for WECC contribution to the purchase. RD agreed to finance the remainder of the purchase (\$46,600) under a Community Facilities Grant (this grant was not disbursed since a building was not purchased). WECC could have

reduced its operation expenses had it used the funds as intended. The FY 2001 budget shows anticipated rent expenses of \$12,000.

Sisters of Charity – WECC used \$16,993 of a \$25,000 grant provided by this non-profit organization for administrative expenses. The grant was intended to fund business counseling, technical skills development, support services, and start-up capital for both youth and adults. The Sisters of Charity requested that WECC refund the \$16,993 since it was not used for intended purposes. WECC does not have funds of its own to repay the grant.

Interest on IRP Bank Account - WECC deposited \$150,000 in an interest bearing account on February 4, 1998. The \$150,000 was drawn down from SSBG funds and was intended to be WECC contribution to its small business loan program. RD contribution to the program was \$1.5 million in IRP program funds. RD's IRP agreement with WECC required that loan funds and interest accrued on the account be used only for making loans to small business to generate job opportunities for the area. WECC used \$5,035 in interest accrued on the account to pay for its administrative expenses.

As mentioned above, WECC requested and received additional SSBG funds for two benchmark projects that previously requested funds were used for administrative expenses. WECC received and transferred payments of \$33,740 to the Black River Healthcare, Inc., and \$61,500 to the Williamsburg Technical College. Therefore, WECC's obligations to the grantees as of June 30, 2000, were \$234,207.71 (\$404,974.71 less the amount \$75,527 distributed and less the additional \$33,740 + \$61,500) in funds distributed.

We found \$5,843 in unallowable expenditures, during the 11-months period in which benchmark funds were used for administrative operations. The expenditures, unallowable under OMB guidelines, included entertainment, gifts, decorations, bottled water and coffee, and donations to nonprofit organizations. WECC also paid for in-town meals for its employees and gasoline for employees receiving mileage reimbursement. Our review of WECC expenditures for the period, October 16, 1995, through December 31, 1999, disclosed a total of \$13,640 in unallowable expenses (See Finding No. 4).

Current WECC officials were concerned that the SSBG funds earmarked for projects were used for administrative purpose. WECC officials have requested additional SSBG funds to complete the projects. The RD State office officials stated they might retroactively approve the funds used for administrative expenses if the expenses were allowable and were used to support WECC's operations.

In addition, as of June 30, 2000, WECC has expended or obligated \$2,066,880 (70 percent) of the \$2,947,368 in SSBG funds. WECC officials used \$1,096,047 (53 percent) for administrative expenses and \$970,832 (47 percent) to make grants to community-based organizations to implement benchmark projects. WECC does not have enough funds remaining to pay ongoing administrative expenses and fund remaining benchmark projects. WECC has \$880,488 (June 30, 2000) remaining in SSBG funds to pay its own administrative expenses and complete about \$1.1 million in benchmark projects according to its strategic plan. RD officials should continue to work with WECC officials to develop criteria to determine which remaining benchmark projects should be funded.

RECOMMENDATION NO. 3

Consult with SCDHS and determine whether to require WECC to reimburse the IRP interest bearing account for the \$5,035 interest used for administrative expenses.

RD Response

RD has consulted with SCDHHS and as a result, RD will make demand on WECC to reimburse the IRP interest bearing account for \$5,035.00.

RD will make written request to WECC within 45 days from receipt of the final audit report. WECC will be requested to reimburse the account within 90 days from date of request from RD.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 4

Consult with SCDHHS and determine whether to retroactively approve the use of the \$200,920 (the \$5,843 in unallowable expenditures is addressed in

Recommendation No. 7) in project funds for WECC administrative expenses. If approval is granted, establish criteria to determine which projects will be funded with the remaining SSBG funds (including \$16,993 to complete the Sisters of Charity project).

RD Response

RD has consulted with SCDHHS and determined that retroactive approval for the use of the \$200,920 can be made subject to WECC obtaining the contract services of a professional accountant to maintain financial records and to disburse all future SSBG funds. WECC will be required to establish criteria (subject to RD's concurrence) to determine which project will be funded. WECC will be required to include \$16,993 to complete the Sisters of Charity project provided it will allow WECC to complete the project.

RD will advise WECC of the requirement within 30 days of receipt of final audit report. WECC will be required to obtain the contract services of a professional accountant within 90 days of request by RD.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 5

Establish controls to approve draw downs of SSBG funds to implement benchmark projects. At a minimum, WECC should be required to submit a grant agreement with a

recipient and receipts and/or invoices showing SSBG funds were spent to implement the benchmark project.

RD Response

RD will establish necessary controls to approve draw downs of SSBG funds to implement benchmark projects. WECC will be required to submit a grant agreement between WECC and the grant recipient at time of draw down request. In addition WECC must submit receipts and/or invoices showing SSBG funds were spent to implement the benchmark project for which draw down requests are made. Controls to establish draw downs for funds can be accomplished within 60 days after receipt of final audit report.

OIG Position

We accept RD's management decision for this recommendation.

FINDING NO. 3

ADDITIONAL OVERSIGHT AND MONITORING NEEDED

Additional oversight and monitoring was needed to evaluate WECC's progress in implementing its strategic plan and to prevent unauthorized spending. RD had not established a performance review program for oversight and monitoring of enterprise communities. As a result, the WECC

expended most of its SSBG funds without implementing all of its benchmark tasks or achieving the goals of its strategic plan.

7 CFR Subtitle A Subpart E – Post-Designation Requirements, Subsection 25.400 subparagraph (a) provides that on the basis of specific periodic reports, other information, and on-site reviews, USDA will prepare and issue periodic reports on the effectiveness of the EZ/EC program. Subsection 25.402 provides that USDA will regularly evaluate the progress in implementing the strategic plan in each designated EZ/EC on the basis of performance reviews to be conducted on-site and using other information submitted.

Subsection 25.404 subparagraph (a) provides that USDA on the basis of the performance reviews described in subsection 25.402, and subject to provision relation to the revocation of designation appearing in subsection 25.405, USDA will make findings as to the continuing eligibility for the validity of the designation of any EZ/EC, or Champion community. Subsection 25.405 subparagraph (a) provides that the Secretary may revoke the designation of a rural area as an EZ/EC on the basis of the periodic monitoring and assessments described in subsection 25.402, that the entity has failed to make progress in implementing the strategic plan or has not complied substantially with the strategic plan (which may include failing to apply funds as contained in the strategic plan without advance written approval from USDA).

RD officials were aware that the WECC would expend their SSBG funds without achieving the goals of its strategic plan. Several issues alerted them to this fact:

- The WECC expended 99.9 percent of the funds (\$498,748) budgeted for administrative expenses in less than 3-years of the 10-year grant (November 1997).
- SSBG funds were being used for unallowable expenses (See Finding No. 4) such as farewell receptions and holiday parties, which were attended by RD officials.
- Benchmark projects were not being implemented in accordance to WECC's strategic plan.

RD does not have a performance review program for monitoring and oversight of enterprise communities. According to RD State Office officials they sought advice from OCD concerning their oversight authority for WECC. RD State officials stated that they were concerned because WECC had not submitted draw down requests for administrative funds on a regular basis and project funds drawn down previously by WECC had been used to pay administrative expenses. RD State Office officials stated that OCD officials agreed to the State Office performing a SIR of WECC.

The RD State Office conducted the SIR in January 1999. In the notice to WECC, dated January 21, 1999, scheduling the SIR, State Office officials also expressed concerns about WECC past due benchmark reports.

RD conducted the SIR in January 1999 and the SIR disclosed that funds earmarked for WECC's projects were instead spent on administrative expenses (See Finding No., 2) and that BMS reports needed to be corrected and undated (See Finding No 1). The SIR also disclosed

expenditures for unallowable items, problems associated with record keeping, and property accountability and security (See Findings 4, and 5).

As a result of the SIR's findings, RD State Office officials established additional requirements for the draw down of funds by WECC. The WECC was required to submit additional documentation and evidence for expenses incurred. Also, the RD State Office required WECC to reduce its staff from 10 employees to three.

Besides the SIR, RD's monitoring and oversight efforts consisted mainly of attending board meetings and other public meetings, approving fund requests, and approving the annual budget. RD's area office official also attended board meetings, and other public meetings. In addition, the RD area office official assisted WECC with its day-to-day activities and provided technical advice about RD programs.

Periodic on-site performance reviews may have disclosed the cited deficiencies sooner or prevented them. A written performance review program is needed to ensure that WECC's finances, programs, and activities are adequately reviewed.

RECOMMENDATION NO. 6

Establish a performance review program for conducting on-site performance reviews at WECC. The program guidance should require that reviews be made in such frequency to validate WECC's benchmark progress, reports, administrative expenditures, and other program accomplishments.

RD Response

RD will establish a performance review program for conducting on-site performance reviews at WECC. The performance review program will require that reviews be made at least quarterly and more frequently if necessary to validate WECC's benchmark progress reports, administrative expenditures, and other program accomplishments. RD will establish and implement a performance review program within 60 days after receipt of final audit report.

OIG Position

We accept RD's management decision for this recommendation.

WECC officials used SSBG funds for unallowable expenses, such as entertainment, gifts, and unauthorized travel. Additionally, WECC officials either lost or misfiled financial documents that secured loans and supported expenditures. Also, WECC officials did not properly account for its office equipment. WECC officials did not adhere to spending restrictions specified in their MOA with SCDHHS and they did not establish written guidelines for securing and accounting for records and office equipment. Our review disclosed \$13,640 in unallowable expenditures and \$169,003 in expenditures not supported by paid receipts, invoices, or bills. The review also disclosed that grant agreements and loan security instruments and equipment were missing.

FINDING NO. 4
**SSBG FUNDS WERE USED FOR
UNALLOWABLE EXPENSES**

WECC used SSBG funds for expenses, which were unallowable under OMB Circular A-122. The unallowable expenses include entertainment, gifts, decorations, bottled water and coffee, and donations to nonprofit organizations. WECC also paid for in-town meals for its employees and gasoline for

employees receiving mileage reimbursement. WECC did not have management controls in place to prevent unauthorized spending and did not follow OMB guidelines, which were made part of their MOA with SCDHHS. Our review disclosed \$13,640 in unallowable expenditures.

OMB Circular A-122 dated June 27, 1980, which was included as Attachment B to the MOA dated July 1, 1995, between SCDHHS and WECC prohibits the expenditure of SSBG funds for the following:

- **Entertainment** - Costs of amusement, diversion, social activities, ceremonies, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable.
- **Contributions** - Contributions and donations to others are not allowable.
- **Motor vehicles** - Capital expenditures for general-purpose equipment are unallowable as a direct cost except with the prior approval of the awarding agency.

We judgmentally selected and performed a cursory review of 1,843 expenditures totaling \$329,351 paid by WECC during the period October 16, 1995, through December 31, 1999. Our review disclosed 170 unallowable expenditures totaling \$13,640. Additionally, \$5,843 of the unallowable expenditures was during the 11-month period in which benchmark funds were used for administrative operations (See Finding 2). The expenditures reviewed were selected from accounting records (general ledger, check register, payroll, etc.), paid checks, and credit card monthly billing statements. The review was limited, however, because some supporting documents such as paid checks, invoices, and paid receipts did not show the description of the expense or were missing (See Finding 5).

During the review period of October 16, 1995, through December 31, 1999, WECC received \$2,260,687 from all funding sources.

The following are examples of some of the unallowable expenses disclosed by our review. See Exhibit B for a schedule of all the unallowable expenditures disclosed.

Table 5

| UNALLOWABLE EXPENSE | DATE | AMOUNT | DESCRIPTION/ VENDOR |
|---------------------|----------|----------|--------------------------------------------------------------------------------------------------|
| Gifts | 9/20/96 | \$202.65 | "Gifts for field Reps", Community relations/ Gift Store |
| Donation | 10/21/96 | \$500.00 | BBQ festival, Community relations/ Vendor not shown |
| Entertainment | 12/19/96 | \$407.50 | Description not recorded / Restaurant |
| Donation | 3/21/97 | \$50.00 | Not shown, Transaction Journal shows "seminar"/ College |
| Gifts | 4/14/97 | \$111.57 | Description not recorded/Florist and Gift Store |
| Gifts | 4/14/97 | \$207.76 | Description not recorded/ Sporting Goods and Gift Store |
| Gifts | 12/17/97 | \$124.02 | No paid receipt found. Credit card statement shows flowers, plants, gifts/Florist and Gift Store |
| Entertainment | 12/18/97 | \$400.00 | Catering Christmas drop- in/Individual |
| Entertainment | 12/18/97 | \$50.00 | Entertainment – music/Individual |
| Gifts | 5/8/98 | \$359.19 | Crystal paper weights and letter openers for gifts to board members/Gift Store |
| Gifts | 5/10/98 | \$232.62 | Crystal paper weights and letter openers for gifts to board members/Gift Store |
| Entertainment | 6/2/98 | \$325.00 | Catering Farewell Reception for WECC official |
| Gifts | 6/11/98 | \$102.23 | Plaque/Gift Store |
| Entertainment | 6/11/98 | \$387.88 | Flowers and decorations for annual meeting/Florist and Gift Store |
| Entertainment | 6/11/98 | \$325.00 | Reception Individual |
| Entertainment | 6/25/98 | \$466.65 | Catering for board meeting meal paid from petty cash/ Vendor not shown |
| Entertainment | 1/6/98 | \$9.95 | Food – Beverage, in town meals/Restaurant |
| Entertainment | 11/3/98 | \$77.65 | Bottled Water, Coffee, Sugar and Creamer/Beverage Co. |
| Gift | 11/19/98 | \$87.98 | Print presented to a WECC official |
| Donation | 12/31/98 | \$240.00 | None, no receipt found/National non-profit organization |
| Entertainment | 5/3/99 | \$650.00 | None, no receipt found/Individual |
| Entertainment | 5/10/99 | \$303.72 | Decorations for annual meeting/Florist and Gift Store |

Our review also disclosed other purchases that further demonstrated that management controls were not in place to prevent unallowable spending. WECC purchased an automobile without advance approval from RD. Automobiles are capital expenditures and advance approval from the awarding agency is required by OMB guidelines. The automobile was purchased August 31, 1996, for \$14,995 and financed through a local bank. Although RD did not pre-approve the purchase, RD approved a July 1997 request to draw down \$12,188 from SSBG funds to pay off the loan principal (\$12,100) and current interest (\$88.00).

WECC's strategic plan specifies that all funds were to be used to accomplish benchmark projects and goals. However, WECC did not have management controls, such as management directives or other written procedures, prohibiting unallowable expenditures. Some restrictions such as spending for entertainment, catering, luncheons, gifts, and flowers were added to WECC's Finance and Accounting manual after the January 1999 SIR review. However, WECC's manual did not stress the importance of adhering to spending restrictions and did not identify the spending prohibitions contained in OMB guidelines that apply to WECC. For instance, WECC's manual did not contain restrictions on spending for ceremonials (related decorations) and donations.

RECOMMENDATION NO. 7

Consult with SCDHHS and determine whether to require WECC to refund SSBG the \$13,640 in unallowable expenditures.

RD Response

RD has consulted with SCDHHS and RD will make demand on WECC to refund SSBG the \$13,640 in unallowable expenditures.

RD will make a written request to WECC within 45 days from the receipt of the final audit report. WECC will be requested to refund the \$13,640 within 90 days of demand letter from RD.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 8

Provide WECC with detailed guidance to prevent the use of SSBG funds for unallowable expenditures as specified in OMB Circular A-122 guidelines.

RD Response

WECC will be required to contract for the services of a professional accountant to maintain records and make all future disbursements of the SSBG funds. The accountant will be responsible to verify that expenditures are allowable under OMB circular A-122 guidelines prior to disbursement.

WECC will be required to contract with a professional accountant to maintain records and disbursements within 90 days of RD's request.

OIG Position

We accept RD's management decision for this recommendation.

FINDING NO. 5

WECC HAD NOT IMPLEMENTED A SYSTEM TO MAINTAIN AND SECURE FINANCIAL RECORDS AND EQUIPMENT

WECC had not properly maintained financial records, such as invoices and/or paid receipts to support the expenditure of SSBG funds and had not safeguarded and accounted for office equipment. WECC did not have written procedures that provided specific direction for record retention and securing supporting documentation. Additionally, they had not performed physical inventories, kept accurate

and complete equipment records, or periodically changed office access security codes. This resulted in documents being lost or misfiled and the loss of equipment. Our review disclosed \$169,003 in unsupported expenditures and \$2,117 in unaccounted office equipment.

Title 7 CFR Subtitle A (1-1-99 Edition) Subpart E, subsection 25.401 provided that the lead managing entity will be responsible for strategic plan program activities and monitoring the fiscal management of the funds of the EZ/EC.

WECC's Financial and Accounting Procedures Manual (undated) required the maintenance of a proper filing and retention system for all financial records. However, the manual did not contain specific procedures for record retention, filing, and securing financial documents. Additionally, WECC's manual did not contain requirements for periodic physical inventories or documenting equipment acquisition and disposal, such as description, date acquired, and cost.

Maintenance of Financial Records - Our review of 1,145 expenditures totaling \$272,757 disclosed that paid receipts, bills and invoices were not maintained for 318 expenditures totaling \$169,003. The sample was selected from WECC's expenditures during the period October 16, 1995, through December 31, 1999.

WECC did not have a system for filing and securing records. The following are examples of the difficulties we encountered when we tried to locate financial records to support WECC's expenditures.

- Supporting documentation for October 1995 through June 1996 was scattered in offices and storage rooms. Some documents were in storage boxes containing unrelated materials while other documents were in boxes with related checkbooks and/or filed between pages of unused checks.
- Paid receipts, bills and invoices for July 1996 through June 1997 were stored in alphabetical order in an accordion file. Supporting documentation for July 1997 through June 1998 was

filed in monthly folders in a storage box. The box also contained some paid receipts from calendar year 1996 (these records could not be found at the beginning of the audit, see details below). Supporting documentation for July 1998 to December 1999 was filed in monthly folders in the operations manager's office.

- Other invoices and paid receipts from July 1996 through June 1998 were stored in vendor files in file cabinets, while others were in various unlabeled boxes in storage rooms and offices. Some paid receipts for this period were also filed in boxes with related checkbooks.
- A total of 41 paid checks were not maintained in related bank statement files. We found 27 of these checks in unrelated bank statement files. Some were filed in unmarked folders in file cabinets containing unrelated vendor records (these were found during an extensive search by OIG and WECC office staff). We were unable to find 14 paid checks.

Property Accountability - We judgmentally selected 50 of 300 items listed on WECC's equipment list. Our selection was based on items that could likely be converted to personal use, such as computers, software, and electronic devices. We also selected other items less likely to be lost such as large printers to test overall record keeping. Our tests disclosed that 9 of the 50 selected equipment items were missing. Six of the missing items cost \$2,116.79 (cost was not shown for the other 3 missing items).

The following table contains the description for the nine missing items.

Table 6

| Property Item | Cost | Purchase Date | WECC'S ID# | Condition/ As Shown On WECC'S Record |
|---------------------------|-------------------|---------------|------------|--------------------------------------|
| Microsoft Office Software | Not shown | Not shown | 73 | Good |
| Corel Office 7 Software | \$317.99 | 10/08/96 | 80 | Good |
| Windows 98 Software | 89.95 | 9/04/98 | 293 | New |
| Radio Shack Sound Mixer | Not shown | Not shown | 219 | Good |
| Pitney Bowes Printer | Not shown | Not shown | 221 | Good |
| Advantix 35mm Camera | \$159.87 | 1/08/98 | 273 | Good |
| Olympus Tape Recorder | 99.99 | 4/30/98 | 274 | Good |
| Olympus Tape Recorder | 99.99 | 3/97 | 275 | Broken |
| Computer | 1,349.00 | 6/24/98 | 280 | New |
| Total | \$2,116.79 | | | |

Office Security - WECC did not change security system codes periodically or after employees left WECC employment. Security codes should be changed periodically to prevent unauthorized access to equipment and records, especially after employees leave WECC employment. During the audit, security codes were changed after the matter was brought to the attention of WECC officials.

Three occurrences, disclosed during the audit, indicated that the office was not physically secure.

- Someone used an employee's WECC assigned credit card and/or account number to purchase \$1,103.69 in clothing and office supplies at area stores. At the conclusion of our fieldwork (August 2000) the charges were still under investigation by the credit card company.
- A former part-time employee's time and attendance records disappeared from the personnel files. According to WECC officials, the records documented that the former employee was on leave when he used his WECC assigned credit card for travel (see Finding No. 6).
- Records we requested at the beginning of the audit, which could not be located, were found about 3-months later on a table in the upstairs hallway of the WECC office. Employees said that they did not know where the records came from or how they got there.

All of these records and equipment cited with the possible exception of documents filed in the Operation Manager's office and the locked personnel files were accessible to all employees.

RECOMMENDATION NO. 9

Require WECC to develop and implement filing procedures for financial records and supporting documentation.

RD Response

WECC will be required to develop and implement filing procedures for all financial records and supporting documentation. WECC will be required to obtain the contract services of an accountant to maintain financial records and disburse SSBG funds. The selected accountant can assist with establishing and implementing the filing procedures.

RD will make written request to WECC within 45 days from the receipt of the final audit report. Filing procedures of financial records and supporting documentation can be obtained within 120 days from request from RD.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 10

Require WECC to recover the camera, tape recorders (2), and the computer or the replacement value for the items from the WECC official accountable for the property.

RD Response

RD will make demand on WECC to recover the camera, 2 tape recorders, and the computer or collect the replacement value for the items from the WECC official accountable for the property.

RD will make written request to WECC within 45 days from the receipt of the final audit report. WECC will be requested to recover the equipment or collect the replacement value within 90 days from RD's demand letter.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 11

Require WECC to conduct periodic physical inventories of its equipment and to update its inventory records.

RD Response

RD will require WECC to conduct a complete physical inventory of all equipment. Once the inventory list is updated and current, WECC will be required to maintain the list current by listing all properties as they are acquired. Any disposal must be documented as to reason for disposal and method of disposal. WECC will be required to review the list at least annually to ascertain that all property is present.

RD will make written request to WECC within 45 days from the receipt of the final audit report. WECC will be required to complete a physical inventory within 60 days of request from RD.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 12

Require WECC to develop and implement procedures to periodically change security codes, (and door locks if necessary) especially when employees leave WECC

employment.

RD Response

RD will require WECC to develop procedures to periodically change security codes (and door locks if necessary). The procedures will be required to include provisions that security codes and door locks if necessary be changed when WECC employees leave. A record of all changes must be maintained. Once the procedures are developed by WECC and reviewed by RD, WECC will be required to implement said procedures.

RD will make written request to WECC within 45 days from the receipt of the final audit report. WECC will be required to develop and implement procedures to periodically change security codes and door locks when necessary within 60 days of the request from RD.

OIG Position

We accept RD's management decision for this recommendation.

FINDING NO. 6
MANAGEMENT CONTROLS AND PROCEDURES NEEDED FOR TRAVEL

WECC had not established adequate management controls or procedures for employee travel and reimbursement. WECC employees did not always obtain advance approval for travel or provide receipts to support travel expenditures and reimbursements. This resulted in unauthorized travel expense of \$806, duplicate travel

payments of \$778 and unsupported travel reimbursement payments of \$11,415.

OMB Circular A-122 which was included as attachment B to the MOA, dated July 1, 1995, between SCDHHS and WECC, provides that allowable travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the organization.

WECC's Financial and Accounting Manual (Undated) requires that all out-of-town travel be approved in advance by the executive director and stipulates that employees will only be reimbursed for expenses supported by receipts. WECC's Personnel Manual, dated January 1, 1997, contained generally the same requirements.

According to WECC's records, employees spent \$74,973 for travel from July 1, 1995, through December 31, 1999. Our review of credit card statements from the date WECC's corporate charge cards were first used for travel (July 20, 1997, through December 31, 1999) showed \$31,264 in travel charges, \$11,415 of these charges were not supported by paid receipts. A former WECC official incurred \$9,701 of the \$31,264 travel charges of which \$4,771 was unsupported.

We also reviewed the former WECC official's travel claims from July 15, 1996, to December 31, 1999. The official incurred \$21,530 in travel expenses of which \$8,299 was unsupported. In addition, our review disclosed that the official was reimbursed twice for certain travel expenses. We found that the official received reimbursement for travel expenses supported by either personal or WECC's credit card receipts.

The official was also reimbursed for the same travel expenses when the official's personal or WECC's monthly credit card billing statement was used to obtain travel reimbursements. WECC paid the monthly credit card balances that contained the same expenses for which the former official had already claimed and received reimbursement. The former official received \$778 in over payments. Exhibit C shows the travel claims made by the former employee, which resulted in the over payments of \$778.

Our review also disclosed that an employee made a personal trip to California in August 1999, and used WECC's corporate credit card to charge \$806 for airline tickets, rental car, and lodging. WECC officials told us that they discovered the charges soon after the credit card monthly statement arrived. They said that the employee was on leave at the time the charges were made, and that the charges were unauthorized. They said that the charges were paid by WECC since they were on the monthly billing statement but the charges were deducted from the employee's last paycheck. However, WECC officials could not provide documentation to verify that the charge for the trip was deducted from the employee's paycheck. WECC officials informed us that the employee's time and attendance record was placed in the employee's personnel folder, which was missing.

The employee told us that the travel was for official purposes to attend training. He stated that the travel and training was arranged in accordance with what he thought was WECC's standard office operating procedures. He said that written advance approval for travel was not required because everybody in the office was aware of each individual's travel plans. The former employee stated that the procedure was for an employee to pick the training desired from brochure listings that were passed around the office, and then personally make the related travel arrangements. The employee stated that the paid receipts for the training

and those for the motel and rental car were misplaced. He thought that the lost receipts were the reason that he had been accused of making an unauthorized trip and the charges deducted from his paycheck.

RECOMMENDATION NO. 13

Require WECC to initiate collection action to collect the \$778 from the former WECC official.

RD Response

RD will require WECC to make efforts to collect the \$778 from the former WECC official.

RD will make written request to WECC within 45 days from the receipt of the final audit report. RD will require WECC to initiate efforts to collect the \$778 within 90 days after request from RD.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 14

Require WECC to provide documentation that they recovered \$806 from the former employee for the unauthorized trip.

RD Response

RD will require WECC to provide documentation that \$806 has been recovered from the former employee.

RD will make written request to WECC within 45 days from the receipt of the final audit report. RD will require that documentation be provided within 90 days from the written request from RD.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 15

Require WECC to establish management controls, such as written guidelines to ensure that travel is approved in advance, and that travel expenditures and claims are supported

by appropriate documentation.

RD Response

RD will require WECC to establish written management controls to ascertain that all travel is approved in advance and that all claims are supported by appropriate documentation. Once the management controls are established

in writing, RD will review the travel advances as part of the performance review program as established under recommendation #6.

RD will make written request to WECC within 45 days from the receipt of the final audit report. WECC will be required to establish written management controls within 60 days from being informed in writing of the requirement by RD.

OIG Position

We accept RD's management decision for this recommendation.

CHAPTER 3

WECC HAD NOT ADEQUATELY ADMINISTERED ITS RURAL BUSINESS LOANS AND HPG AND COMMUNITY GRANT PROGRAMS

WECC did not adequately administer its grant programs for housing rehabilitation and repair, community projects, and its loan program for business startups. WECC officials did not provide servicing, oversight, or technical assistance to the grant or loan recipient. As a result, WECC provided additional funds for home repairs, and disbursed grant funds for a community project prior to need. Additionally, two business loans were placed in foreclosure because of inadequate servicing.

FINDING NO. 7

WECC HAD NOT ADEQUATELY ADMINISTERED ITS HOUSING REPAIR AND COMMUNITY GRANT PROGRAMS

WECC did not adequately administer its housing repair and rehabilitation and community project grant programs. WECC did not determine the housing repairs needed, or oversee and approve construction inspections. Additionally, WECC did not monitor the progress of its grant projects. As a result, work needed to repair or rehabilitate homes was not performed adequately or in

some instances not done at all. WECC paid \$11,300 to make additional repairs to one house. Also, WECC disbursed \$70,000 to one project 2-years prior to the project startup.

RD Instruction 1944-N, Section 652 provides that RD makes HPG's available to grantees to operate a repair and rehabilitation program for individual housing, rental properties, or co-ops for low and very low income persons. According to Section 658, eligible grantees must have the necessary background and experience on the part of its staff or governing body with proven ability to perform responsibility in low-income housing development, repair, and rehabilitation. Section 665 provides that grantees have the responsibility for supervision of all rehabilitation and repair work financed with HPG assistance. After all HPG work is completed, a final inspection is required.

WECC had not developed written guidelines for the use of community grant funds.

Housing Repair and Rehabilitation - RD provided \$112,540 in HPG funds and \$327,550 in 504 program grants for housing repair and rehabilitation in the Williamsburg Enterprise Community. WECC contributed \$160,877 in SSBG funds. As of June 30, 2000, 57 housing repair and rehabilitation grants had been made to eligible recipients. We

judgmentally selected and visited three of the eight houses in process of repair or rehabilitation during July 1999 to August 2000. RD Instructions 1944-N requires WECC to be responsible for supervising all rehabilitations and repairs, and for ensuring that a final inspection is completed; however, no one at WECC was assigned this responsibility. Our reviews disclosed that RD employees were specifying the repairs needed and performing the final inspections.

Our visits to three homes disclosed that specified repairs were not done or that the repairs were not sufficient to correct the identified deficiencies. The results of our visits to the three repair projects follow.

- **Home Repair A** – This home repair had to be redone at an additional cost of \$11,300 because the original repairs did not solve the problems. The original specifications were for roof and heating system repairs; however, replacement was needed and was performed under a subsequent contract. The original contract was \$10,175 and included \$400 for heat pump repair and \$2,600 for roof repair. Also included was \$2,570 for flooring and insulation; \$1,450 for inside painting; and \$2,000 for outside painting. These repair costs also included \$1,155 for other general work. An RD employee did the final inspection on August 16, 1999.

The new contract for \$11,300 allocated \$6,000 for removal and reconstruction of a collapsed roof on the rear of the house and replacement of damaged sheet rock and insulation. Also included was \$4,500 for a new heat pump and related electrical work and \$800 for a new hot water heater and plumbing. According to the RD grant file, the old roof collapsed due to the weight of snow and ice. The total cost of repairing this house was \$21,475 (\$11,300 + \$10,175).

We visited the property on August 3, 2000, and found that the repairs were in progress. The new roof was nearly complete and tarps were being used to protect the inside of the house from rain. One of the bedroom floors, which was not included in the new repairs had water damage and probably needed to be replaced. The contractor stated that the water damage occurred after the roof collapsed and he did not notice it when he made the inspection prior to his bid. Also, the contractor stated that there was nothing wrong with the original work, the roof collapsed because of heavy ice and snow. The contractor stated that he replaced the old roof with a more sloping roof, which was much stronger than the old one.

- **Home Repair B** – The specifications for this contract did not include needed repairs for all floors damaged by moisture or for a pump house and concrete pad. The \$11,500 contract dated May 25, 1999, provided \$1,500 for a water well and a pump but did not specify a pump house or pad to protect the equipment and prevent surface water contamination of the well. A water damaged kitchen floor was included in the repair grant but not a damaged hall floor. The final inspection dated July 28, 1999, performed by an RD employee showed that all repairs had been completed. Our visit to this property disclosed that the repairs to the kitchen floor had not been done. Additionally, the water well had been drilled and the pump installed, but since it was not specified in the contract, neither the contractor nor the owner had provided a pad to protect the well from surface water contamination. Also, our visit disclosed that a hall floor, which had water damage and appeared to be collapsing, was not included in the contract.
- **Home Repair C** - This contract dated May 27, 1999, provided \$200 for a minor roof repair. Our visit did not disclose any problems with this repair. However, the previous contract for \$8,320, dated September 5, 1997, included door replacements. We noted a large gap under the kitchen door, which was one of the doors replaced. The homeowner said that the previous contractor left it that way and that she had called him, repeatedly, requesting that he finish the work, but he had not returned. The final inspection under the September 5, 1997, contract was performed by an RD employee on December 4, 1997.

WECC has the responsibility for supervision of all rehabilitation and repair work financed with HPG funds. Additionally, WECC should have the necessary background and experience on the part of its staff or governing body with proven ability to perform responsibility in low-income housing development, repair and rehabilitation.

Community Projects Grant Program - WECC drew down SSBG funds to award 14 grants to community projects totaling \$616,344 as of June 30, 2000. We judgmentally selected 12 of the 14, for review, and made on-site visits to 11 (one grant had not received any funding).

Our review of the grants disclosed that WECC had not adequately monitored one of the grant projects as follows.

- **911 Project** – WECC paid \$70,000 to Williamsburg County for support of an upgraded emergency 911 system. County and WECC records show that WECC disbursed the grant February 5, 1998, but that the county's first expenses were not

incurred until February 4, 2000. The county 911 coordinator stated that the funds were deposited into the county general fund. He stated that shortly after the grant was made he found that the building that the county planned to remodel was not state certified to withstand hurricane force winds. This delayed the project because he had to find a building that could be state certified. The coordinator did not know if there was an original grant agreement but a WECC official required him to sign a new agreement on June 3, 1999. He sent a progress report to WECC on that date and informed WECC of the reasons for the delay. Also, he was not aware of any oversight visits by WECC.

Our visits and discussion with representatives of the remaining 10 grantees selected for review disclosed that WECC had not made onsite inspections nor required the grantees to submit progress reports.

Also, grant agreements were not on file for four of the grants. The four grants without agreement were for grants to the Lake City Chamber of Commerce (\$9,500), Lake City Water and Sewer (\$20,000), and the Williamsburg County Fire Department (\$14,000) and (\$4,600).

The SIR completed February 12, 1999, disclosed that 8 of 12 grants at that time did not have grant agreements. As cited above four of eight still did not have agreements as of June 30, 2000. According to WECC officials, they were not aware that they did not have grant agreements for the four grants.

RECOMMENDATION NO. 16

Establish process for selecting qualified contractors for home repairs. The process should stipulate that contractor must properly complete home repairs on existing contracts

before they get a new contract.

RD Response

WECC has no undisbursed or unused home repairs funds outstanding at this time. If WECC is awarded additional repairs in the future, RD will require WECC to develop detailed repair specifications along with a cost estimate for each house to be repaired. Each repair job will then be competitively bid. The selection process for the successful bidder will include strong consideration of a bidder's failure or inability to perform on previous contracts.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 17

Require WECC to meet RD's qualifications for eligibility to administer the HPG program related to background, experience, proven ability, and supervision.

RD Response

All HPG funds awarded to WECC have been expended. Should WECC submit proposals in response to future HPG Notices of Fund Availability (NOFA), their eligibility will be carefully examined and evaluated, particularly regarding their background and experience. WECC will be required to demonstrate the presence of both experience and sufficient resources including agreements for independent third party inspections, to accomplish HPG program objectives.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 18

Require WECC to obtain written agreements for the grants that do not have agreements. Also, require that WECC develop written guidelines for monitoring the progress of projects.

RD Response

RD will require WECC to obtain written grant agreements for any grants that do not have agreements. For all future grants, WECC will be required to have RD's approval prior to a draw down request for a grant. WECC will be required to obtain grant agreements for the grants that do not have an agreement within 90 days of being requested by RD.

WECC will be required to develop written guidelines for monitoring the progress of projects. RD will make written request to WECC within 45 days from the receipt of the final audit report. WECC will be required to develop the written guidelines and submit to RD for review within 90 days of being notified by RD.

OIG Position

We accept RD's management decision for this recommendation.

FINDING NO. 8**WECC HAD NOT ADEQUATELY
ADMINISTERED
RURAL BUSINESS LOANS**

WECC had not adequately administered business loans financed with SSBG, RD, and RBEG funds. Our review disclosed that WECC did not (1) provide technical assistance to the borrowers, (2) filed security documents, (3) make adequate efforts to collect the debts, (4) have written procedures for supervision and servicing of loans, and (5) report

problems to RD as required. As a result, WECC may lose \$105,038 excluding legal fees and interest on the two loans. Both loans are in foreclosure.

WECC was awarded a \$500,000 (RBEG) on January 24, 1997, to establish a Revolving Loan Fund to finance small, private business enterprises in rural areas. The fund was also capitalized by a \$50,000 contribution from WECC, SSBG grant. As of June 30, 2000, WECC made two loans totaling \$105,038. One loan was for a variety store and the other was for a restaurant. WECC's work plan, which was part of the grant application, stated that WECC would administer the RBEG program. A "Letter of Conditions", agreed to by WECC and made a part of the loan agreement, provided that WECC will report problems and adverse conditions to RD. WECC also agreed that the disclosure would include a statement of action taken or planned to resolve the situation. However, neither WECC work plan nor RD's "Letter of Conditions" specified the supervision and servicing actions required for the successful administration of these loans.

RD Instruction 1942 G indicates that cost reimbursements and profits are available to the grantee on new loans made from the revolving fund once all original RBEG funds are loaned to third parties.

WECC did not provide sufficient servicing action for two loans. These loans were referred to an attorney for foreclosure.

Restaurant - This loan for \$76,500 was made January 22, 1998, and as of June 30, 2000, the recipient was \$23,622.38 behind on monthly payments of \$1,057.63. The recipient had not consistently made monthly payments since the loan was closed. For example, nine payments were missed from September 28, 1998, to September 28, 1999. Also a \$1,500 payment by check made March 21, 2000, was not honored by the bank or paid later by the borrower. The loan files, except for late notices, show that the borrower was not contacted for loan servicing until July 20, 1999, when a letter was sent requesting an appointment for technical assistance.

The SIR completed on February 12, 1999, disclosed that there was no documentation of assistance to help the business with problems. The SIR also disclosed that the restaurant's Uniform Commercial Code (UCC) forms for pledged collateral (equipment) did not contain serial numbers. A WECC memo, following up on the SIR findings, states that WECC contacted the borrower in an attempt to resolve the SIR finding but that the borrower refused to provide the serial numbers. The loan had been turned over to an attorney for foreclosure action.

Variety Store - This loan for \$28,538 was made October 8, 1997, and as of June 30, 2000, the recipient was \$5,918.25 behind on payments. Only one payment of \$500 had been made since February 28, 1999. The loan file did not show any contacts with the borrower until February 20, 1999, when a letter was sent to the borrower requesting an appointment for technical assistance.

The SIR review disclosed that several loan documents were missing from the loan file. One missing document was the recorded copy of the executed (signed by the borrower) UCC statement. A WECC memo dated July 23, 1999, documenting actions taken to resolve the SIR findings, states that the UCC statement had not been signed by the borrower and forwarded to the storeowner because of problems locating the storeowner. Another memo dated July 23, 1999, stated that the business had closed and moved twice but that WECC was not notified. This loan had also been turned over to an attorney for foreclosure action.

RD state office officials said that problems with these two loans were due to inadequate loan servicing by WECC.

WECC may lose the principal and interest and incur legal costs in the foreclosure process. In addition, they are not making progress in operating a self-supporting revolving loan fund. This grant was intended to be self-sustaining, in that, funds repaid by borrowers (both principal and interest) could be loaned to other eligible borrowers.

RECOMMENDATION NO. 19

Determine if WECC has the ability to make, supervise, and service loans. If WECC is allowed to continue to make loans, WECC needs to revise its work plan to include requirements for specific loan administrative and loan servicing responsibilities.

RD Response

The loans made since RD's SIR are current. Since the review and continuing, we are closely reviewing ultimate recipient applications, quarterly reports, and making routine servicing visits to review the revolving loan fund activity. Based on information we have obtained from these actions, we will require that WECC provide a Revolving Loan Fund Servicing Plan by October 30, 2001, that is acceptable to RD.

OIG Position

We accept RD's management decision for this recommendation.

GENERAL COMMENTS

WECC HAS NOT MADE SUFFICIENT PROGRESS TO BECOME SELF-SUSTAINING

WECC began operations on October 16, 1995, and as of June 30, 2000, expended most of their one-time 10-year SSBG grant on administrative operations. During the first 5-years of operations, they expended \$2,066,880 of the \$2,947,368 SSBG funds.

Under the ACT, WECC received \$2.9 million from HHS Title 20, SSBG funds as a one time 10-year grant. As of August 2000, WECC had not completed plans for continued funding except with the remaining SSBG funds.

RD's OCD brochure "The Empowerment Initiative", provides that SSBG funds were viewed under the ACT as "Capital Investment" funds to leverage additional dollars for programs rather than "program dollars or grant making funds" for directly funding programs.

We found that WECC expended most of their SSBG fund without leveraging additional funding to continue its programs.

- As of June 30, 2000, WECC expended or obligated \$2,066,880 (70 percent) of its \$2,947,368 in SSBG funds. WECC officials used \$1,096,047 (53 percent) for administrative expenses and \$970,832 (47 percent) to make grants for local health, education, housing, and public works projects. WECC does not have enough funds remaining to pay ongoing administrative expenses and fund remaining benchmark projects. WECC has \$880,488 remaining in SSBG funds to complete about \$1.1 million in benchmark projects according to its strategic plan.
- WECC employed as many as 10 employees at times. The salary expense and related expenses for office operations contributed to the rapid outflow of funds. In addition, WECC used their SSBG grant for unallowable expenses such as entertainment, gifts, decorations, and donations to other organizations (See Finding 4). Their monthly expenditures for administrative operations from July 1, 1997, to June 30, 1998, averaged \$32,318. They have reduced their staff to four full-time employees and thus cut their administrative spending to \$15,308 a month. Their budgeted expense for administrative operations for FY 2001 is \$16,586 a month.

As of August 10, 2000, WECC had not submitted a complete plan to RD showing how they planned to become self-sufficient. They submitted a partial plan on June 28, 2000, which was rejected by RD. In that plan, WECC proposed to partner

with WECC loan applicants that either did not have the required equity or did not meet program loan requirements.

RD needs to work closely with WECC to develop a feasible plan to find additional sources of funding to complete the remaining benchmark projects and to continue their operations.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

| FINDING NUMBER | DESCRIPTION | AMOUNT | CATEGORY |
|-----------------------|---------------------------------------------------------------------------|------------------|----------------------------------------|
| 2 | SSBG funds earmarked for projects were used for administrative operations | \$200,920 | Questioned Costs, No Recovery |
| 2 | Funds earmarked for IRP loans were used for administrative operations | 5,035 | Questioned Costs, Recommended Recovery |
| 4 | Funds that were used for unallowable expenditures | 13,640 | Questioned Costs, Recommended Recovery |
| 6 | Unauthorized trip | 806 | Questioned Costs, Recommended recovery |
| 6 | Duplicate claims for travel reimbursement | 778 | Questioned Costs, Recommended recovery |
| TOTAL | | \$221,179 | |

EXHIBIT B – UNALLOWABLE EXPENDITURES

| CATEGORY | | | | | | | | |
|----------|---------|---------------|---------|-------|-----------------------------|-------|-----------|----------|
| Date | Cost | ENTERTAINMENT | | | | | Other | |
| | | Food | Flowers | Gifts | Beverages, Bottled Water | Music | Donations | Gasoline |
| 09/17/96 | \$64.94 | | | | X | | | |
| 09/20/96 | 405.71 | | X | | | | | |
| 09/20/96 | 202.65 | | | X | | | | |
| 10/01/96 | 78.75 | X | | | | | | |
| 10/21/96 | 500.00 | | | | | | X | |
| 10/31/96 | 78.75 | X | | | | | | |
| 12/19/96 | 407.50 | X | | | | | | |
| 02/24/97 | 100.00 | X | | | | | | |
| 03/21/97 | 50.00 | | | | | | X | |
| 04/03/97 | 65.00 | X | | | | | | |
| 04/14/97 | 111.57 | | X | | | | | |
| 04/14/97 | 207.76 | | | X | | | | |
| 05/14/97 | 12.60 | X | | | | | | |
| 06/02/97 | 250.00 | X | | | | | | |
| 06/04/97 | 279.84 | X | | | | | | |
| 06/06/97 | 250.00 | X | | | | | | |
| 06/24/97 | 31.93 | X | | | | | | |
| 06/24/97 | 11.00 | X | | | | | | |
| 08/07/97 | 73.62 | X | | | | | | |
| 08/08/97 | 7.01 | X | | | | | | |
| 09/23/97 | 14.66 | X | | | | | | |
| 10/03/97 | 12.70 | X | | | | | | |
| 10/03/97 | 517.50 | X | | | | | | |
| 11/06/97 | 26.66 | X | | | | | | |
| 11/07/97 | 22.25 | X | | | | | | |
| 11/08/97 | 27.40 | X | | | | | | |
| 11/25/97 | 68.43 | X | | | | | | |
| 12/02/97 | 12.13 | X | | | | | | |
| 12/05/97 | 14.08 | X | | | | | | |
| 12/09/97 | 12.78 | X | | | | | | |
| 12/10/97 | 7.54 | X | | | | | | |
| 12/17/97 | 13.08 | X | | | | | | |
| 12/17/97 | 124.02 | | X | | | | | |
| 12/18/97 | 400.00 | X | | | | | | |
| 12/18/97 | 50.00 | | | | | X | | |
| 01/06/98 | 9.95 | X | | | | | | |
| 01/14/98 | 20.49 | X | | | | | | |
| 01/30/98 | 25.04 | X | | | | | | |
| 01/30/98 | 6.59 | X | | | | | | |
| 02/04/98 | 25.44 | X | | | | | | |

| CATEGORY | | | | | | | | |
|----------|---------|---------------|---------|-------|-----------------------------|-------|-----------|----------|
| | | ENTERTAINMENT | | | | | Other | |
| Date | Cost | Food | Flowers | Gifts | Beverages, Bottled Water | Music | Donations | Gasoline |
| 02/05/98 | \$13.45 | X | | | | | | |
| 02/05/98 | 50.85 | X | | | | | | |
| 02/06/98 | 24.08 | X | | | | | | |
| 02/20/98 | 55.12 | X | | | | | | |
| 03/19/98 | 10.69 | X | | | | | | |
| 03/26/98 | 15.72 | X | | | | | | |
| 04/02/98 | 181.33 | X | | | | | | |
| 04/03/98 | 23.50 | X | | | | | | |
| 04/16/98 | 27.56 | X | | | | | | |
| 04/20/98 | 79.59 | | | | X | | | |
| 04/24/98 | 250.00 | | | | | | X | |
| 04/30/98 | 13.33 | X | | | | | | |
| 05/08/98 | 64.93 | X | | | | | | |
| 05/08/98 | 359.18 | | | X | | | | |
| 05/10/98 | 232.62 | | | X | | | | |
| 05/21/98 | 129.10 | | | | X | | | |
| 05/28/98 | 13.36 | | X | | | | | |
| 06/02/98 | 325.00 | X | | | | | | |
| 06/05/98 | 2.11 | X | | | | | | |
| 06/08/98 | 3.02 | X | | | | | | |
| 06/08/98 | 45.13 | X | | | | | | |
| 06/09/98 | 15.73 | X | | | | | | |
| 06/11/98 | 325.00 | X | | | | | | |
| 06/11/98 | 387.88 | | X | | | | | |
| 06/11/98 | 102.23 | | | X | | | | |
| 06/11/98 | 83.16 | | | | X | | | |
| 06/23/98 | 141.65 | X | | | | | | |
| 06/25/98 | 466.65 | X | | | | | | |
| 06/30/98 | 141.65 | X | | | | | | |
| 07/01/98 | 20.15 | X | | | | | | |
| 07/10/98 | 52.00 | X | | | | | | |
| 07/14/98 | 11.05 | X | | | | | | |
| 07/16/98 | 10.50 | | | | X | | | |
| 08/10/98 | 9.31 | X | | | | | | |
| 08/10/98 | 3.16 | X | | | | | | |
| 08/10/98 | 7.37 | X | | | | | | |
| 08/14/98 | 29.68 | | X | | | | | |
| 08/14/98 | 31.80 | | X | | | | | |
| 08/14/98 | 93.14 | | | | X | | | |
| 08/26/98 | 25.00 | X | | | | | | |
| 09/02/98 | 100.00 | | | | | | X | |

| CATEGORY | | | | | | | | |
|----------|---------|---------------|---------|-------|-----------------------------|-------|-----------|----------|
| | | ENTERTAINMENT | | | | | Other | |
| Date | Cost | Food | Flowers | Gifts | Beverages, Bottled Water | Music | Donations | Gasoline |
| 09/03/98 | \$15.66 | X | | | | | | |
| 09/10/98 | 173.84 | | X | | | | | |
| 09/10/98 | 78.17 | | | | X | | | |
| 09/11/98 | 93.14 | X | | | | | | |
| 10/02/98 | 32.92 | X | | | | | | |
| 10/02/98 | 16.95 | X | | | | | | |
| 10/05/98 | 48.28 | | | X | | | | |
| 10/14/98 | 57.54 | | | X | | | | |
| 10/15/98 | 15.82 | X | | | | | | |
| 10/16/98 | 64.36 | X | | | | | | |
| 10/19/98 | 53.71 | X | | | | | | |
| 11/03/98 | 77.65 | | | | X | | | |
| 11/19/98 | 26.50 | | X | | | | | |
| 11/19/98 | 87.98 | | | X | | | | |
| 11/24/98 | 14.60 | X | | | | | | |
| 11/25/98 | 100.00 | X | | | | | | |
| 11/30/98 | 27.62 | X | | | | | | |
| 12/02/98 | 34.82 | X | | | | | | |
| 12/08/98 | 10.00 | X | | | | | | |
| 12/09/98 | 6.60 | | | | | | | X |
| 12/10/98 | 7.37 | X | | | | | | |
| 12/12/98 | 44.47 | X | | | | | | |
| 12/17/98 | 15.29 | X | | | | | | |
| 12/17/98 | 52.94 | | | X | | | | |
| 12/17/98 | 80.19 | | | | X | | | |
| 12/21/98 | 13.78 | X | | | | | | |
| 12/21/98 | 14.04 | X | | | | | | |
| 12/22/98 | 49.76 | X | | | | | | |
| 12/31/98 | 240.00 | | | | | | X | |
| 01/07/99 | 6.89 | X | | | | | | |
| 01/14/99 | 19.39 | | X | | | | | |
| 01/14/99 | 21.20 | | X | | | | | |
| 01/14/99 | 37.10 | | X | | | | | |
| 01/14/99 | 100.57 | | | X | | | | |
| 01/14/99 | 38.37 | | | | X | | | |
| 01/20/99 | 65.34 | X | | | | | | |
| 01/22/99 | 12.04 | X | | | | | | |
| 01/28/99 | 23.73 | X | | | | | | |
| 01/29/99 | 55.38 | X | | | | | | |
| 02/01/99 | 75.52 | X | | | | | | |
| 03/04/99 | 7.50 | | | | | | | X |

| CATEGORY | | | | | | | | |
|----------|----------|---------------|---------|-------|-----------------------------|-------|-----------|----------|
| | | ENTERTAINMENT | | | | | Other | |
| Date | Cost | Food | Flowers | Gifts | Beverages, Bottled Water | Music | Donations | Gasoline |
| 03/25/99 | \$103.93 | | | | X | | | |
| 04/12/99 | 56.02 | | | | X | | | |
| 05/03/99 | 650.00 | X | | | | | | |
| 05/10/99 | 303.72 | | X | | | | | |
| 05/15/99 | 28.00 | | | | X | | | |
| 06/14/99 | 16.37 | X | | | | | | |
| 06/15/99 | 40.00 | | | | X | | | |
| 06/30/99 | 188.80 | X | | | | | | |
| 07/31/99 | 29.72 | X | | | | | | |
| 07/31/99 | 184.56 | X | | | | | | |
| 07/31/99 | 9.54 | X | | | | | | |
| 08/15/99 | 40.00 | | | | X | | | |
| 09/02/99 | 26.50 | | | | X | | | |
| 09/07/99 | 172.86 | X | | | | | | |
| 09/15/99 | 12.00 | | | | | | | X |
| 09/15/99 | 15.01 | | | | | | | X |
| 09/18/99 | 9.00 | | | | | | | X |
| 10/05/99 | 147.73 | X | | | | | | |
| 10/08/99 | 147.73 | X | | | | | | |
| 10/13/99 | 2.63 | | | | X | | | |
| 10/19/99 | 2.00 | | | | X | | | |
| 10/20/99 | 4.85 | | | | X | | | |
| 10/25/99 | 10.00 | | | | | | | X |
| 10/27/99 | 6.94 | | | | | | | X |
| 11/03/99 | 321.82 | X | | | | | | |
| 11/03/99 | 15.16 | | | | | | | X |
| 11/05/99 | 16.66 | | | | | | | X |
| 11/07/99 | 9.66 | | | | | | | X |
| 11/08/99 | 4.19 | X | | | | | | |
| 11/08/99 | 8.59 | X | | | | | | |
| 11/08/99 | 11.50 | X | | | | | | |
| 11/09/99 | 11.66 | X | | | | | | |
| 11/09/99 | 6.51 | X | | | | | | |
| 11/11/99 | 9.30 | X | | | | | | |
| 11/12/99 | 7.91 | X | | | | | | |
| 11/12/99 | 7.00 | | | | | | | X |
| 11/16/99 | 10.50 | | | | | | | X |
| 11/16/99 | 10.00 | | | | | | | X |
| 11/17/99 | 16.00 | | | | | | | X |
| 11/17/99 | 9.20 | | | | | | | X |
| 11/19/99 | 42.82 | | | | X | | | |

| CATEGORY | | | | | | | | |
|--------------|--------------------|---------------|---------|-------|-----------------------------|-------|-----------|----------|
| | | ENTERTAINMENT | | | | | Other | |
| Date | Cost | Food | Flowers | Gifts | Beverages, Bottled Water | Music | Donations | Gasoline |
| 11/21/99 | \$11.43 | | | | | | | X |
| 11/23/99 | 9.74 | | | | | | | X |
| 12/03/99 | 15.01 | | | | | | | X |
| 12/05/99 | 12.00 | | | | | | | X |
| 12/06/99 | 11.72 | | | | | | | X |
| 12/14/99 | 253.13 | X | | | | | | |
| 12/14/99 | 7.42 | X | | | | | | |
| Total | \$13,640.02 | | | | | | | |

EXHIBIT C – DUPLICATE TRAVEL CLAIMS

| Description of Expense | Date of Expense | Date 1 st Claim | Amount | Claim Supported By: | Date 2 nd Claim | Amount | Claim Supported By: | Over-payment |
|--------------------------------------|-----------------|----------------------------|----------|------------------------------|----------------------------|----------|--------------------------------|--------------|
| Lodging 1 st of two rooms | 5/7 - 9/97 | 5/19/97 | \$235.81 | Personal Credit Card Receipt | 6/20/97 | \$244.80 | Personal Credit Card Statement | \$244.80 |
| Lodging 2 nd of two rooms | 5/7 - 9/97 | 5/19/97 | \$251.78 | Personal Credit Card Receipt | 6/20/97 | \$251.78 | Personal Credit Card Statement | 251.78 |
| Software | 5/3/97 | 5/19/97 | \$51.91 | Personal Credit Card Receipt | 6/20/97 | \$51.91 | Personal Credit Card Statement | 51.91 |
| Lunch | 5/9/97 | 5/19/97 | \$18.01 | Personal Credit Card Receipt | 6/20/97 | \$18.01 | Personal Credit Card Statement | 18.01 |
| Parking | 5/9/97 | 5/19/97 | \$15.00 | Personal Credit Card Receipt | 6/20/97 | \$15.00 | Personal Credit Card Statement | 15.00 |
| Gasoline | 4/23/97 | 5/19/97 | \$10.61 | Personal Credit Card Receipt | 6/20/97 | \$10.61 | Personal Credit Card Statement | 10.61 |
| Gasoline | 4/24/97 | 5/19/97 | \$11.00 | Personal Credit Card Receipt | 6/20/97 | \$11.00 | Personal Credit Card Statement | 11.00 |
| Gasoline | 4/26/97 | 5/19/97 | \$10.25 | Personal Credit Card Receipt | 6/20/97 | \$10.25 | Personal Credit Card Statement | 10.25 |
| Gasoline | 5/1/97 | 5/19/97 | \$12.75 | Personal Credit Card Receipt | 6/20/97 | \$12.75 | Personal Credit Card Statement | 12.75 |
| Gasoline | 5/3/97 | 5/19/97 | \$11.75 | Personal Credit Card Receipt | 6/20/97 | \$11.75 | Personal Credit Card Statement | 11.75 |
| Gasoline | 5/11/97 | 5/19/97 | \$12.75 | Personal Credit Card Receipt | 6/20/97 | \$12.75 | Personal Credit Card Statement | 2.75 |

| Description of Expense | Date of Expense | Date 1 st Claim | Amount | Claim Supported By: | Date 2 nd Claim | Amount | Claim Supported By: | Over-payment |
|------------------------|-----------------|----------------------------|---------|------------------------------|----------------------------|---------|--------------------------------|-----------------|
| Gasoline | 5/18/97 | 5/19/97 | \$12.55 | Personal Credit Card Receipt | 6/20/97 | \$12.55 | Personal Credit Card Statement | \$12.55 |
| Gasoline | 5/22/97 | 5/19/97 | \$12.55 | Personal Credit Card Receipt | 6/20/97 | \$12.55 | Personal Credit Card Statement | 12.55 |
| Restaurant | 8/8/97 | 2/26/98 | \$7.01 | WECC'S Card Receipt | No 2 nd claim | \$7.01 | WECC'S Paid Statement | 7.01 |
| Gasoline | 8/19/97 | 12/3/97 | \$9.00 | WECC'S Card Receipt | No 2 nd claim | \$9.00 | WECC'S Paid Statement | 9.00 |
| Gasoline | 7/20/97 | 8/21/97 | \$10.00 | WECC'S Card Receipt | No 2 nd claim | \$10.00 | WECC'S Paid Statement | 10.00 |
| Gasoline | 7/22/97 | 8/21/97 | \$10.60 | WECC'S Card Receipt | No 2 nd claim | \$10.60 | WECC'S Paid Statement | 10.60 |
| Gasoline | 7/26/97 | 8/21/97 | \$11.37 | WECC'S Card Receipt | No 2 nd claim | \$11.37 | WECC'S Paid Statement | 11.37 |
| Food | 7/23/97 | 8/21/97 | \$19.70 | WECC'S Card Receipt | No 2 nd claim | \$19.70 | WECC'S Paid Statement | 19.70 |
| Merchandise | 7/5/97 | 8/21/97 | \$34.14 | WECC'S Card Receipt | No 2 nd claim | \$34.14 | WECC'S Paid Statement | 34.14 |
| Total | | | | | | | | \$777.53 |

EXHIBIT D – RD RESPONSE TO DRAFT REPORT

Page 1 of 10



United States Rural Development (803) 765-5163
Department of Strom Thurmond Federal Building (803) 765-5633 FAX
Agriculture 1835 Assembly Street, Room 1007 (803) 765-5697 TDD
Columbia, South Carolina 29201

August 15, 2001

SUBJECT: Rural Enterprise Community Loans and Grants Administered
by The Williamsburg Enterprise Community Commission, Inc.
Kingstree, South Carolina

TO: Mr. Raymond G. Poland
Regional Inspector General
U.S. Department of Agriculture
Office of Inspector General
401 W. Peachtree Street, Suite 2328
Atlanta, Georgia 30308

Attached is our response to subject audit of the Williamsburg Enterprise Community Commission, Inc. We have addressed each audit recommendation and provided proposed completion dates for implementation of each item. The monetary amounts discussed in exhibit A to your draft report have also been addressed.

Should you have any questions please contact me at (803) 765-5163.

A handwritten signature in cursive script, appearing to read "Charles D. Sparks".

CHARLES D. SPARKS
State Director

Attachment

cc: Financial Management Division
USDA/Rural Development
Washington, DC

Office of Community Development
USDA/Rural Development
Washington, DC

USDA Rural Development is an Equal Opportunity Lender, Provider, and Employer.
Complaints of discrimination should be sent to: USDA, Director,
Office of Civil Rights, Washington, D.C. 20250-9410

KEY RECOMENDATIONS

We recommend that RD consult with SCDHHS and determine whether to (1) retroactively approve the use of the \$200,920 in SSBG project funds for WECC administrative expenses, (2) require WECC to reimburse the Intermediary Relending Program (IRP) interest bearing account for the \$5,035 interest used for administrative expenses, and (3) require WECC to reimburse the SBBG for \$13,640 in unallowable expenditures. In addition, RD should require WECC to enhance its management controls by updating its benchmark data in the BMS, establishing office operation procedures for securing financial records and office equipment, adhering to OBM Circular A-122, and monitoring the progress of its grants.

AGENCY RESPONSE:

- (1) RD has consulted with SCDHHS and determined to retroactively approve the use of the \$200,920 in SSBG project funds for WECC administrative expenses. Approval is subject to WECC obtaining the contract services for a professional accountant to maintain financial records and disburse all future funds of the SSBG grants. This can be accomplished within 90 days of receipt of final audit report from OIG.
- (2) RD will make demand on WECC to reimburse the IRP interest bearing account for the \$5,035 interest used for administrative expenses within 90 days of RD's demand.
- (3) RD will require WECC to reimburse the SBGG for \$13,640 in unallowable expenditures within 90 days of being notified by RD.

In addition, RD will require WECC to update benchmark data in the BMS and maintain the information in a current status by updating at least monthly. RD will require WECC to establish office operation procedures for securing financial records and maintain an accurate physical inventory of all equipment. RD will require WECC to obtain contract services of a professional accountant to make all future disbursement of SSBG funds. This should be a check on ensuring that all disbursements are in strict compliance with OBM circular A-122. RD will also require WECC to obtain any grant agreements that are missing and will require WECC to obtain

RD's approval of all future grant agreements prior to approving draw down requests for grant.

RECOMMENDATION #1

Require WECC employees to be trained (by Rural Development Officials) to manage and operate the BMS.

AGENCY RESPONSE: An Enterprise Community Specialist (RD Employee) has been trained in BMS Management. The specialist will provide the training and technical assistance to the employee(s) designated by WECC as being responsible for managing and operating the BMS.

The training of the WECC official will be completed within 90 days from the date of receipt of the final audit report from OIG.

RECOMMENDATION #2

Require WECC employees to update and correct the benchmark data in the BMS.

AGENCY RESPONSE: WECC will be required to update and correct the benchmark data in the BMS on a monthly basis as required in the OCD instructions for the BMS. RD will monitor the BMS to ascertain that the updates are made in a timely manner. WECC is presently in the process of updating Benchmarks to ensure that remaining SSBG funds are utilized to best serve the community. The BMS will be updated within 30 days after receipt of the final audit report from OIG.

RECOMMENDATION #3

Consult with SCDHHS and determine whether to require WECC to reimburse the IRP interest bearing account for \$5,035 interest used for administrative expenses.

AGENCY RESPONSE: RD has consulted with SCDHHS and as a result, RD will make demand on WECC to reimburse the IRP interest bearing account for \$5,035.00.

RD will make written request to WECC within 45 days from receipt of the final audit report from OIG. WECC will be requested to reimburse the account within 90 days from date of request from RD.

RECOMENDATION #4

Consult with SCDHHS and determine whether to retroactively approve the use of the \$200,920 (the \$5,843 in unallowable expenditures is addressed in Recommendation No. 7) in project funds for WECC administrative expenses. If approval is granted, establish criteria to determine which projects will be funded with the remaining SSBG funds (including \$16,993 to complete the Sisters of Charity project).

AGENCY RESPONSE: RD has consulted with SCDHHS and determined that retroactive approval for the use of the \$200,920 can be made subject to WECC obtaining the contract services of a professional accountant to maintain financial records and to disburse all future funds of the SSBG Grant. WECC will be required to establish criteria (subject to RD's concurrence) to determine which project will be funded. WECC will be required to include \$16,993 to complete the Sisters of Charity project provided it will allow WECC to complete the project.

RD will advise WECC of the requirement within 30 days of receipt of final audit report from OIG. WECC will be required to obtain the contract services of a professional accountant within 90 days of request by RD.

RECOMMENDATION #5

Establish controls to approve draw downs of SSBG funds to implement benchmark projects. At a minimum WECC should be required to submit a grant agreement with a recipient and receipts and/or invoices showing SSBG funds were spent to implement the benchmark project.

AGENCY RESPONSE: RD will establish necessary controls to approve draw downs of SSBG funds to implement benchmark projects. WECC will be required to submit a grant agreement between WECC and the grant recipient at time of draw down request. In addition WECC must submit receipts and/or invoices showing SSBG funds were spent to implement the benchmark project for which draw down requests are made.

Controls to establish draw downs for funds can be accomplished within 60 days after receipt of final audit report from OIG.

RECOMMENDATION #6

Establish a performance review program for conducting on-site performance reviews at WECC. The program guidance should require that reviews be made in such frequency to validate WECC's benchmark progress reports, administrative expenditures, and other program accomplishments.

AGENCY RESPONSE: RD will establish a performance review program for conducting on-site performance reviews at WECC. The performance review program will require that reviews be made at least quarterly and more frequently if necessary to validate WECC's benchmark progress reports, administrative expenditures, and other program accomplishments.

RD will establish and implement a performance review program within 60 days after receipt of final audit report from OIG.

RECOMMENDATION #7

Consult with SCDHHS and determine whether to require WECC to refund SSBG the \$13,640 in unallowable expenditures.

AGENCY RESPONSE: RD has consulted with SCDHHS and RD will make demand on WECC to refund SSBG the \$13,640 in unallowable expenditures.

RD will make a written request to WECC within 45 days from the receipt of the final audit report from OIG. WECC will be requested to refund the \$13,640 within 90 days of demand letter from RD.

RECOMMENDATION #8

Provide WECC with detailed guidance to prevent the use of SSBG funds for unallowable expenditures as specified in OMB circular A-122 guidelines.

AGENCY RESPONSE: WECC will be required to contract for the services of a professional accountant to maintain records and make all future

disbursements of the SSBG funds. The accountant will be responsible to verify that expenditures are allowable under OMB circular A-122 guidelines prior to disbursement.

WECC will be required to contract with a professional accountant to maintain records and disbursements within 90 days of RD's request.

RECOMMENDATION #9

Require WECC to develop and implement filing procedures for financial records and supporting documentation.

AGENCY RESPONSE: WECC will be required to develop and implement filing procedures for all financial records and supporting documentation. WECC will be required to obtain the contract services of an accountant to maintain financial records and disburse SSBG funds. The selected accountant can assist with establishing and implementing the filing procedures.

RD will make written request to WECC within 45 days from the receipt of the final audit report from OIG. Filing procedures of financial records and supporting documentation can be obtained within 120 days from request from RD.

RECOMMENDATION #10

Require WECC to recover the camera, tape recorders (2) and the computer or the replacement value for the items from the WECC official accountable for the property.

AGENCY RESPONSE: RD will make demand on WECC to recover the camera , 2 tape recorders and the computer or collect the replacement value for the items from the WECC official accountable for the property.

RD will make written request to WECC within 45 days from the receipt of the final audit report from OIG. WECC will be requested to recover the equipment or collect the replacement value within 90 days from RD's demand letter.

RECOMMENDATION #11

Require WECC to conduct periodic physical inventories of its equipment and to update its inventory records.

AGENCY RESPONSE: RD will require WECC to conduct a complete physical inventory of all equipment. Once the inventory list is updated and current, WECC will be required to maintain the list current by listing all properties as they are acquired. Any disposal must be documented as to reason for disposal and method of disposal. WECC will be required to review the list at least annually to ascertain that all property is present.

RD will make written request to WECC within 45 days from the receipt of the final audit report from OIG. WECC will be required to complete a physical inventory within 60 days of request from RD. .

RECOMMENDATION #12

Require WECC to develop and implement procedures to periodically change security codes, (and door locks if necessary) especially when employees leave WECC employment.

AGENCY RESPONSE: RD will require WECC to develop procedures to periodically change security codes (and door locks if necessary). The procedures will be required to include provisions that security codes and door locks if necessary be changed when WECC employees leave. A record of all changes must be maintained. Once the procedures are developed by WECC and reviewed by RD, WECC will be required to implement said procedures.

RD will make written request to WECC within 45 days from the receipt of the final audit report from OIG. WECC will be required to develop and implement procedures to periodically change security codes and door locks when necessary within 60 days of the request from RD.

RECOMMENDATION #13

Require WECC to initiate collection action to collect the \$778 from the former WECC official.

AGENCY RESPONSE: RD will require WECC to make efforts to collect the \$778 from the former WECC official.

RD will make written request to WECC within 45 days from the receipt of the final audit report from OIG. RD will require WECC to initiate efforts to collect the \$778 within 90 days after request from RD.

RECOMMENDATION #14

Require WECC to provide documentation that they recovered \$806 from the former employee for the unauthorized trip.

AGENCY RESPONSE: RD will require WECC to provide documentation that \$806 has been recovered from the former employee

RD will make written request to WECC within 45 days from the receipt of the final audit report from OIG. RD will require that documentation be provided within 90 days from the written request from RD.

RECOMMENDATION #15

Require WECC to establish management controls, such as written guidelines to insure that travel is approved in advance, and that travel expenditures and claims are supported by appropriate documentation.

AGENCY RESPONSE: RD will require WECC to establish written management controls to ascertain that all travel is approved in advance and that all claims are supported by appropriate documentation. Once the management controls are established in writing, RD will review the travel advances as part of the performance review program as established under recommendation #6.

RD will make written request to WECC within 45 days from the receipt of the final audit report from OIG. WECC will be required to establish written management controls within 60 days from being informed in writing of the requirement by RD.

RECOMMENDATION #16

Establish process for selecting qualified contractors for home repairs. The process should stipulate that contractor must properly complete home repairs on existing contracts before they get a new contract.

AGENCY RESPONSE: WECC has no undisbursed or unused home repairs funds outstanding at this time. If WECC is awarded additional repairs in the future, RD will require WECC to develop detailed repair specifications along with a cost estimate for each house to be repaired. Each repair job will then be competitively bid. The selection process for the successful bidder will include strong consideration of a bidder's failure or inability to perform on previous contracts.

RECOMMENDATION #17

Require WECC to meet RD's qualifications for eligibility to administer the HPG program related to background, experience, proven ability, and supervision.

AGENCY RESPONSE: All HPG funds awarded to WECC have been expended. Should WECC submit proposals in response to future HPG Notices of Fund Availability (NOFA), their eligibility will be carefully examined and evaluated, particularly regarding their background and experience. WECC will be required to demonstrate the presence of both experience and sufficient resources including agreements for independent third party inspections, to accomplish HPG program objectives.

RECOMMENDATION #18

Require WECC to obtain written agreements for the grants that do not have grant agreements. Also require that WECC develop written guidelines for monitoring the progress of projects.

AGENCY RESPONSE: RD will require WECC to obtain written grant agreements for any grants that do not have agreements. For all future grants, WECC will be required to have RD's approval prior to a draw down request for a grant.

WECC will be required to obtain grant agreements for the grants that do not have an agreement within 90 days of being requested by RD.

WECC will be required to develop written guidelines for monitoring the progress of projects.

RD will make written request to WECC within 45 days from the receipt of the final audit report from OIG. WECC will be required to develop the written guidelines and submit to RD for review within 90 days of being notified by RD.

RECOMMENDATION #19

Determine if WECC has the ability to make, supervise, and service loans. If WECC is allowed to continue to make loans, WECC needs to revise its work plan to include requirements for specific loan administrative and loan servicing responsibilities.

AGENCY RESPONSE: The loans made since RD's SIR are current. Since the review and continuing, we are closely reviewing ultimate recipient applications, quarterly reports, and making routine servicing visits to review the revolving loan fund activity. Based on information we have obtained from these actions, we will require that WECC provide a Revolving Loan Fund Servicing Plan by October 30, 2001 that is acceptable to RD.

ABBREVIATIONS

| | |
|-------------------------------------------------|----|
| ACT | |
| Omnibus Budget Reconciliation Act of 1993 | 1 |
| BMS | |
| Benchmark Management System | 2 |
| EZ/EC | |
| Empowerment Zone and Enterprise Community | 1 |
| FY | |
| Fiscal Year | 1 |
| HHS | |
| Health and Human Services..... | 1 |
| HPG | |
| Housing Preservation Grant..... | 2 |
| IRP | |
| Intermediary Relending Program..... | 2 |
| MOA | |
| Memorandum of Agreement..... | 4 |
| OCD | |
| Office of Community Development's | 2 |
| OIG | |
| Office of the Inspector General | 6 |
| OMB | |
| Office of Management and Budget's..... | 5 |
| RBEG | |
| Rural Business Enterprise Grant..... | 2 |
| SIR | |
| State Internal Review | 4 |
| SSBG | |
| Social Services Block Grant | 1 |
| UCC | |
| Uniform Commercial Code..... | 38 |

USDA
U.S. Department of Agriculture..... 1

WECC
Williamsburg Enterprise Community Commission, Inc..... 3