

AUDIT OF TEP CONSULTING, INC.

AUDIT REPORT NUMBER 3-14

MARCH 14, 2003

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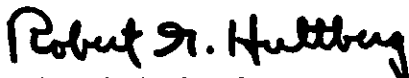


**U.S. Small Business Administration
Office of Inspector General
Washington, DC 20416**

AUDIT REPORT
Issue Date: March 14, 2003
Number: 3-14

TO: William D. Elmore
Associate Administrator for Veterans Business Development

Sharon A. Gurley
Director, Office of Procurement and Grants Management

FROM: *for* 
Robert G. Seabrooks
Assistant Inspector General for Auditing

SUBJECT: Audit Report on TEP Consulting Inc.

The Office of Inspector General (OIG) completed an audit of TEP Consulting Inc. (TEP) after SBA's Office of Veterans Business Development (OVBD) requested the OIG's assistance in examining TEP's compliance with various program requirements on cooperative agreement No. SBAHQ-99-0-0004. This report presents the results of the audit.

BACKGROUND

OVBD serves veteran entrepreneurs by formulating, executing and promoting policies and programs to provide assistance to veterans seeking to start and develop small businesses. One of the programs administered by OVBD is the Veterans Business Outreach Program (VBOP). The VBOP is designed to provide entrepreneurial development services such as business training, counseling and mentoring to eligible veterans owning or considering starting a small business. Currently, SBA has selected four organizations to participate in the program and each serves as a Veterans Business Outreach Center.

TEP was awarded cooperative agreement No. SBAHQ-99-0-0004 for \$128,000 to operate one of the four Veterans Benefit Outreach Centers. The initial project term was from September 1, 1999 to August 31, 2000, but the Notice of Award gave SBA the option to exercise additional 12 month extensions through a five year term, subject to the availability of funds. At the time of the audit, the cooperative agreement was operating under Option 2, for the period February 1, 2002 to January 31, 2003.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

The audit objective was to determine whether TEP complied with certain provisions of SBA's Notice of Award. The audit scope covered TEP's operations from September 1999 to June 2002. We reviewed relevant laws and regulations, TEP's financial records, the Notice of Award, and TEP's financial and performance reports submitted to the program office. We interviewed TEP's president and program officials. We also made a site visit to TEP's office.

We performed fieldwork from June to September 2002. The audit was conducted in accordance with Government Auditing Standards.

AUDIT RESULTS

TEP did not comply with certain provisions of SBA's Notice of Award. Specifically, we found that TEP did not comply with provisions relating to: (1) the proper accounting of costs and the maintenance of expense records and supporting documentation; and (2) maintenance of a Web site. Consequently, we questioned costs totaling \$37,002.90 and determined that veterans were not being served via the Internet.

Finding 1: Lack of Proper Accounting and Supporting Documentation

TEP charged unallowable expenses of \$8,409.00 to the cooperative agreement and did not maintain documentation to support expenditures of \$28,593.90, for a total of \$37,002.90 in questioned costs. Unallowable charges included those for "Holiday Wages" and "Sick Leave," which were in addition to TEP's regular charges for salaries and should not have been reimbursed. Unsupported costs were those lacking sufficient supporting documentation to demonstrate that the claimed costs were actually incurred. (See chart below for a breakdown by account number/name.)

Questioned Cost Expenditure Items

Unallowable Expenditures (Account Name)	Questioned Costs
6045- Holiday Wages- VBOC	\$5,795.00
6050- Sick Leave	\$2,614.00
Total:	\$8,409.00
Unsupported Expenditures (Account Name)	Questioned Costs
6010- VBOC Other Exp.	\$10,474.00
6035- Meals	\$900.00
6040- Indirect Labor/ Admin VBOC	\$6,225.00
6060- Employee Training- VBOC	\$1,500.00
6081- Postage Exp.	\$1,195.58
6087- EDP/Computer Supplies - VBOC	\$2,846.36
6091- Accounting- VBOC	\$688.54
6095- Property Tax- VBOC	\$2,902.52
6097- Professional Dues & Fees- VBOC	\$393.00
6100- Misc. Indirect- VBOC	\$1,468.90
Total:	\$28,593.90
Total Unallowable + Unsupported Exp.:	\$37,002.90

The Notice of Award, Item A, *Fiscal Administration*, allows for reimbursement of actual expenses based on "the Recipient's bona fide requirements." Item G, *Advance*

Understandings, states that the Recipient agrees “to maintain complete and accurate records and supporting documentation to support and facilitate financial and/or program audits.”

The unallowable costs resulted from the Recipient’s double counting for holidays and sick leave, which should not have been reimbursed. The unsupported costs resulted from the Recipient’s insufficient supporting documentation for certain expenses. We found documentation supporting other expenses that appeared eligible for reimbursement, but reimbursement requests had not been submitted to claim those costs. TEP’s accounting records also did not reflect amounts invoiced to SBA. TEP’s actual expenditures exceeded certain budgeted line items, however, TEP wanted to stay within the overall budget and shifted cost overruns to other categories that could absorb the cost.

Recommendations:

We recommend that:

- 1A. The Director, Office of Procurement and Grants Management recover \$8,409.00 from TEP for unallowable costs charged to the cooperative agreement and \$28,593.90 for unsupported costs unless TEP can provide documentation sufficient to establish that the questioned reimbursements were legitimate expenses.
- 1B. The Associate Administrator for Veterans Business Development ensure TEP establishes and implements procedures so that expenses are claimed and necessary supporting documentation is maintained for all expense reimbursements in accordance with the Notice of Award.

Auditee and SBA Management Comments

TEP provided additional documentation, such as TEP’s profit and loss statements, which the OIG did not find supportive of the unallowable or unsupported costs. TEP’s response, excluding attachments, is included as Attachment 1. The Director, Office of Procurement and Grants Management did not state whether she agreed or disagreed with the recommendation addressed to her and action to address the recommendation will be evaluated during the audit resolution process. The Associate Administrator for Veterans Business Development stated that he intends to implement the recommendation addressed to him and his response is included as Attachment 2.

Finding 2: TEP’s Web Site was Non-functional

TEP’s Web site was inoperable from February 2002 through the end of June 2002. The Revised Notice of Award, Item F, *Internet and Web-site Requirements*, stipulates that each Veterans Benefit Outreach Center make the transition to a Web-based center in order to reach a larger audience of potential veteran clientele using the Internet

to access information. Item D, *Program Requirements*, stipulates that the Recipient provide Web-based counseling and mentoring.

The inoperable Web site was caused by TEP's failure to maintain payment for Internet service, which TEP's president attributed to a reduction in cooperative agreement funds by OVBD during the period of September to December 2001. According to TEP's president, the Web site service was cancelled because OVBD gave instructions in January 2002 not to incur any more expenses due to the lack of cooperative agreement funds available for reimbursements. As a result, Web-based services to veterans were substantially interrupted, limiting clientele access to information, a specific component of the cooperative agreement's outreach activities.

Recommendation:

- 2A. We recommend that the Associate Administrator for Veterans Business Development monitor TEP's Web site to ensure that it remains operational and take appropriate action if the Website stops operating.

Auditee and SBA Management Comments

TEP did not provide any comments regarding the finding and recommendation. The Associate Administrator for Veterans Business Development stated he intends to implement the recommendation addressed to him. He further responded that he found no legitimate rationale for TEP's lack of Web-based delivery of assistance for eligible veterans from February to June 2002.

* * * * *

The recommendations in this audit report are based on the conclusions of the Auditing Division. **The recommendations are subject to review, management decision and action by your office in accordance with existing Agency procedures for audit follow-up and resolution.**

Please provide us your management decision for each recommendation within 80 days. Your management decisions should be recorded on the attached SBA Forms 1824, "Recommendation Action Sheet," and show either your proposed corrective action and target date for completion, or explanation of your disagreement with our recommendations.

Should you or your staff have any questions, please contact Robert G. Hultberg, Director, Business Development Programs Group at (202) 205-7204.

Attachments



910 Barker Hill Road

P.O. Box 245

Herndon, VA 20172-0245

March 5, 2003

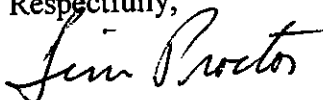
Mr. Mark P. Taylor
Office of Inspector General
Small Business Administration
409 3rd Street SW.
Washington, DC 20416

Mr. Taylor,
Per your instructions, contained within the Draft Audit Report faxed to TEPCI on 2/13/03, we are submitting these documents as the **documentation** your office requested to substantiate all costs incurred by TEPCI, and billed back to the SBA.

Included in these documents are the first three invoices for 9/99, 10/99, and 11/99 (Carol Greenfield instructed this office that it did not have to submit invoices for these months because TEPCI had received an advance that covered these periods, we have subsequently learned that these instructions were incorrect).

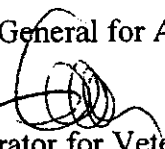
If there are any questions, please feel free to call me at (703) 707-0931.

Respectfully,


Tim Proctor

DATE: March 7, 2003

TO: Robert G. Seabooks
Assistant Inspector General for Auditing

FROM: William D. Elmore 
Associate Administrator for Veterans Business Development

SUBJECT: Response to Audit Report on TEP Consulting, Inc. dated February 5, 2003

The Office of Veterans Business Development has reviewed the Audit Report on TEP Consulting Inc. and we are in general agreement with the report. We intend to implement all of the recommendations made by IG that are specifically applicable to OVBD.

In accordance with your request, OVBD provides the following comments.

BACKGROUND

We are not in agreement with the background presented for the following reasons.

The previous SBA Office of Veteran Affairs (OVA) developed the VBOP center program in 1999 to implement Title 7 of PL 105-135. This law required the SBA to develop and implement a comprehensive outreach program to assist eligible veterans. When the Office of Veterans Business Development (OVBD) was created in January 2001, OVBD began a review of the VBOP center program to consider its effectiveness in achieving the requirement of the law. In February 2001, OVBD requested the assistance of the staff of the VBOP center(s) to help redesign the VBOP center program to achieve a more comprehensive outreach program. We also identified and began removing impediments to the efficient and effective operation of the program that were inherent from the original OVA design of the program. These changes were identified or recommended by OVBD and VBOP centers staff.

Finding 3: TEP's Web Site was Non-functional

In February 2002, following an appropriation from Congress specifically to support comprehensive outreach to veterans, SBA exercised Option 2 with the four VBOP centers, including TEP, Inc. Option 2 required all four VBOP centers to establish an interactive web based program to benefit small business concerns and potential concerns owned and controlled by eligible veterans. Previously, in the fall of 2001, OVBD offered all four VBOP centers the opportunity to be granted an extension (at reduced amounts) from September 2001 through January 31 2002. The other three VBOP centers agreed with this five month extension. TEP chose to be extended only from September 2001 through December 31, 2001 (four months). These extensions were provided by OVBD despite a lack of funds specifically appropriated to the agency for comprehensive outreach to eligible veterans. OVBD utilized its own operating funds for these extensions

at available but necessarily reduced amounts in an effort to maintain the viability of the four VBOP centers and to maintain a continuity of service delivery for eligible veterans. This funding decision was made by OVBD in anticipation of an expected appropriation from congress that was contained in appropriations bills pending in Congress that provided specific funds for comprehensive outreach to eligible veterans.

TEP, Inc. signed for and received additional funding totaling \$25,410 through a modification prepared September 30, 2001, and ratified by TEP October 21 2001.

The January 2002 OVBD instructions were provided to TEP in response to an inquiry from TEP. We informed TEP that no agreement was in place with TEP, and that no funds were available to reimburse TEP for expenses incurred in January 2002.

There is no legitimate rationale for TEP's lack of web based delivery of assistance for eligible veterans from February – June 2002. Funding for this period of time was included in the budget for the February 2002 Option 2.

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