

**OFFICE OF VETERANS BUSINESS  
DEVELOPMENT'S MONITORING OF  
COOPERATIVE AGREEMENT  
NO. SBAHQ-99-O-0004 TO  
TEP CONSULTING, INC.**

**AUDIT REPORT NUMBER 3-22**

**APRIL 2, 2003**

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

<b>AUDIT REPORT</b>
<b>Issue Date: April 2, 2003</b>
<b>Number: 3-22</b>

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

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

**SUBJECT:** Office of Veterans Business Development's Monitoring of Cooperative Agreement No. SBAHQ-99-O-0004 to TEP Consulting Inc.

The Office of Inspector General (OIG) identified SBA administrative oversight issues during the audit of the cooperative agreement awarded on September 7, 1999 to TEP Consulting Inc. (TEP). That audit began after SBA's Office of Veterans Business Development (OVBD) requested the OIG's assistance in examining TEP's compliance with various program requirements. The objective of the cooperative agreement was to provide outreach, long-term training, counseling and mentoring services to benefit small business concerns and potential concerns owned by eligible veterans. This report presents our findings concerning oversight issues.

#### **BACKGROUND**

The Veterans Business Outreach Program (VBOP), one of the programs administered by SBA's Office of Veterans Business Development (OVBD), is designed to provide entrepreneurial development services to eligible veterans owning or considering starting a small business. TEP is one of four organizations selected by SBA to serve as a Veterans Business Outreach Center.

The VBOP was created by Section 708 of the Small Business Reauthorization Act of 1997. The VBOP provides entrepreneurial development services such as business training, counseling and mentoring to eligible veterans. SBA makes grants and enters into contracts and cooperative agreements with educational institutions, private businesses, veterans' non-profit community-based organizations, and federal, state, and local departments, to provide VBOP services. Total VBOP funding for Fiscal Year 2002 was \$578,000.

## AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

The audit objective was to determine if OVBD effectively monitored TEP's compliance with the requirements of SBA Cooperative Agreement No. SBAHQ-99-O-0004. The audit covered administrative oversight of 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 OVBD. We interviewed TEP's president and SBA program officials. We also made a site visit to TEP's office.

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

## AUDIT RESULTS

### **Finding: OVBD Did Not Promptly Enforce Compliance with Certain Terms and Conditions of the Cooperative Agreement**

OVBD did not address TEP's possible noncompliance with cooperative agreement terms and conditions with TEP as they arose. This was due to a lack of expertise and training by OVBD staff and OVBD's overly cautious approach in notifying TEP of noncompliance issues. As a result, noncompliance issues were not corrected and federal funds may not have been used effectively and efficiently. The Notice of Award, Item 31, *SBA Involvement*, states that OVBD is responsible for monitoring the on-going operation of cooperative agreement recipients for effective and efficient use of federal funds.

OVBD officials acknowledged that they had neither the expertise nor the training to effectively respond to many of TEP's potential noncompliance issues as they emerged. Additionally, according to OVBD officials, TEP's president acted in a confrontational and non-cooperative manner, which caused OVBD to develop an overly cautious approach in resolving matters of noncompliance. OVBD officials stated that TEP's owner was not communicating with OVBD directly but was instead contacting various high ranking officials within and outside of SBA and making accusations against OVBD staff. Thus, when OVBD officials noticed that TEP appeared to be out of compliance with various cooperative agreement terms, they did not promptly notify TEP's president of these apparent deficiencies and attempt to rectify them. Rather, according to OVBD officials, they attempted to obtain support from other SBA offices in dealing with TEP, such as the Office of Procurement and Grant Management, the Office of General Counsel and the Office of Inspector General. The requested support was not always provided, however, and as a result, noncompliance issues were not corrected in a timely manner and effective and efficient operation of cooperative agreement initiatives were compromised. Issues that arose but were not immediately brought to TEP's attention were:

- Requests for reimbursement – documents submitted by TEP for reimbursement of expenses did not contain the necessary support, and yet such requests were approved for payment. SBA Form 2069, *Detailed Actual Expenditure for Period Covered by Request*, notes that “all cost categories must be supported by narrative justification.” None of TEP's 29

reimbursement requests to SBA for the period December 1999 to May 2002 had supporting narrative justification attached.

- Performance reports – Performance milestones were not being met for certain periods and TEP’s explanations for the shortcomings were insufficient. For example, for the quarterly period ending August 31, 2001, slippage against performance milestones was attributed simply to “the summer season” and no corrective action on TEP’s part was specified. For the period ending April 30, 2002, the main reason given for slippage was “the inability to receive reimbursements on time (and) a modification to the original contract that, if implemented, will severely change the way this VBOC can offer or provide services,” and no corrective action was specified. The Notice of Award, Item 31, *SBA Involvement*, states that SBA should “...review semi-annual narrative and data project reports for completeness and adequacy.” Also, The Notice of Award, Item C, *Performance Reports*, states that such reports must contain “reasons for slippage in those cases where milestones were not met and a plan of action to overcome the slippage or a detailed statement of how the program will better serve eligible veteran business owners if the milestones are revised.”
- Site visit report – OVBD officials conducted a site visit of TEP’s home-based VBOC and determined that the VBOC was not accessible to disabled veterans. While an OVBD official stated that a site report was prepared, OVBD could not find a copy of the site report and TEP’s president stated he never received it.
- TEP’s Web site was not functioning from February 2002 through the end of June 2002. According to the Revised Notice of Award, Part F, *Internet and Web-site Requirements*, each VBOC is to 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. As a result, Web-based services delivered to veterans were substantially interrupted, causing grant objectives to not be met.

By not being able to fulfill these oversight responsibilities properly, OVBD could not resolve TEP’s compliance deficiencies in a timely manner to ensure the effective and efficient use of cooperative agreement funds. As a result, cooperative agreement initiatives were compromised and service to veterans may have been negatively affected.

### **Recommendations:**

We recommend that the Associate Administrator for Veterans Business Development:

- 1A. Ensure that all deviations from the terms of the cooperative agreement are immediately communicated to TEP and rectified in a timely manner.
- 1B. Develop and implement a plan of training to ensure that OVBD staff can effectively administer cooperative agreements such as the one with TEP.

## **SBA Management Comments**

We received oral comments from OVBD officials. They agreed with the finding and recommendations.

\* \* \* \* \*

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 30 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.

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