



**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416**

Management Advisory
Report Number: 19-20

DATE: September 19, 2019

TO: Christopher M. Pilkerton
Acting Administrator and General Counsel

FROM: Hannibal "Mike" Ware 
Inspector General

SUBJECT: IMMEDIATE ACTION NEEDED—Review of Women’s Business Center, Inc.,
Compliance with Cooperative Agreement Requirements

This advisory memorandum presents the results of our review of the Women’s Business Center, Inc., in Mobile, Alabama, (Recipient) as part of our ongoing audit to determine whether the Small Business Administration (SBA) has effective oversight to ensure Women’s Business Centers (WBCs) complied with cooperative agreement financial requirements.¹ We identified material deficiencies in the Recipient’s compliance with federal regulations financial requirements and the terms and conditions of its two cooperative agreements.² Due to the gravity and timing of our findings related to the Recipient, we are issuing this advisory memorandum to you with two recommendations for the Office of Entrepreneurial Development (OED) to take prompt corrective action necessary to protect taxpayer funds. Therefore, in accordance with federal regulations, it is imperative that OED take immediate action to remedy the Recipient’s failure to comply with federal statutes, regulations, and the terms and conditions of its two cooperative agreements.³ We will continue our review of SBA’s oversight of WBCs and issue a subsequent report on those results.

Background

The purpose of the WBC program is to provide long-term training and counseling to women business owners, including those who are socially and economically disadvantaged, and to assist women in starting and growing small businesses. Under the WBC program, eligible private nonprofit organizations can obtain federal funds to create and operate WBCs that provide training, mentoring, coaching, and counseling to women who own businesses or who are contemplating business ownership. WBCs are financed through SBA cooperative agreements, as well as through matching funds from nonfederal sources.

SBA’s Office of Women’s Business Ownership (OWBO), within OED, has primary responsibility for oversight of WBCs. It shares this responsibility with the Financial Examination Unit, also within OED, and the district directors and district office technical representatives in the Office of Field Operations (OFO) to ensure WBCs’ financial and programmatic compliance with federal regulations and the terms and conditions of the cooperative agreements. Personnel within OED and OFO

¹ “Cooperative agreement” means an agreement in which the federal government provides funding authorized by public statute where the government plays a substantial role in assisting the funding recipient in carrying out the activity contemplated by the award.

² According to the Women’s Business Center, Inc., website, the organization was renamed Women’s Business Alliance in 2014.

³ 2 CFR 200.338.

conduct financial reviews of the WBCs' cooperative agreement activity. Additionally, to assist in SBA's oversight of the WBCs, the Office of Grants Management assists OWBO with pre-award phase, administers indirect cost rates, and oversees grant and cooperative agreement closeout.

In fiscal year (FY) 2018, OWBO awarded the Recipient two cooperative agreements, each for \$131,250. One cooperative agreement covered the WBC of South Alabama (South WBC), which is colocated with the Recipient office in Mobile, Alabama; the other covered the WBC of Rural Alabama (Rural WBC), located in Brewton, Alabama.

Results

We determined that the Recipient's failure to comply with federal statutes, regulations, and the terms and conditions of its two cooperative agreements warrants SBA to take prompt corrective actions to protect taxpayer funds.⁴

We identified that the Recipient violated specific terms and conditions of the cooperative agreements by not having available client service facilities and service hours or staffing the WBCs with full-time program directors. Because the WBCs did not have full-time staff or open and accessible locations, they were not fulfilling their cooperative agreements' performance requirements. Additionally, the Recipient's blatant refusal to allow SBA Office of Inspector General (OIG) auditors access to its office location, personnel, and records during an unannounced site visit, even after having been instructed to do so by OWBO, showed further disregard for the cooperative agreements' requirements.

After the Recipient denied OIG auditors access during our site visit, we exercised our statutory authority by issuing an administrative subpoena to the Recipient. Through analysis of the resulting information, we also determined that the Recipient violated federal regulation financial requirements and additional terms and conditions of the cooperative agreements. We identified that the Recipient was continuously late in processing its personnel payroll, had considerable obligations or liabilities that were not paid by their due dates, and did not provide WBC program directors access to financial information. These issues were indicative of the Recipient's inability to effectively deliver the WBC program requirements and substantially increased the opportunity for fraud and mismanagement of taxpayer funds. The Recipient also failed to maintain an adequate financial management system and requisite supporting documents, records, or policies and procedures, as required by federal regulations.⁵ Additionally, the Recipient did not have audited financial statements for FYs 2016–2018 as required by the terms and conditions of the cooperative agreements. As required by federal regulations, because of the Recipient's continued inability to produce the required audited financial statements and its unwillingness to allow OIG auditors to perform our review, SBA must take appropriate action.⁶

Denied access to Recipient's office and WBCs records. In June 2019, we conducted an unannounced site visit to the Recipient's office location to perform a comprehensive review of its two WBCs' financial compliance with the cooperative agreements' requirements. The Recipient denied us access to its office and the records for the two WBCs.⁷ Subsequently, we contacted SBA program officials about the Recipient's refusal to grant us access. SBA program officials recognized the seriousness of the Recipient's refusal and contacted the Recipient to emphasize the requirement that the Recipient comply with our review. Nevertheless, the Recipient still did not comply and

⁴ 2 CFR 200.338 and Cooperative Agreement Notice of Award Appendix B.

⁵ 2 CFR 200.302 and Cooperative Agreement Notice of Award Section III.B.1.

⁶ 2 CFR 200.505 and 2 CFR 200.338.

⁷ 2 CFR 200.336 and 2 CFR 200.501 through 200.510; Cooperative Agreement Notice of Award Section III.A.3. Record Keeping; SF-424B Certifications; and Section 6(a) of the IG Act.

vehemently refused to speak with the SBA program official further on the issue. The Recipient's refusal to allow OIG auditors access to its office location, personnel, and records during an unannounced site visit warrants SBA to take prompt corrective actions to protect taxpayer funds.⁸

Closed South WBC and Rural WBC facilities. We determined that the South WBC and Rural WBC were not in operation, were not accessible to the public for at least 40 hours per week, and did not have personnel working out of the locations in violation of the terms and conditions of the cooperative agreement.⁹ Specifically, we observed that the South WBC and the colocated Recipient office were closed both days of our site visits during regular business hours.¹⁰ In addition, we witnessed and spoke to a potential client who came to the location in search of services. This potential client left without obtaining services because the location was closed, and she could not contact WBC personnel due to nonworking phone numbers. Additionally, while on-site, we interviewed other building tenants and the building landlord, who told us they had not seen any WBC personnel at that location for approximately 6 months. The landlord also told us that the Recipient was approximately 6 months behind on its rent payments.

Furthermore, we determined that the Rural WBC was also closed. The program director for the Rural WBC told us that for the fourth quarter of FY 2018, she placed a sign on the office door stating that the office was closed, and she fielded calls on her personal cell phone. She further stated that she shared her program director duties with a part-time employee, who was the previous program director of that location, and that she was now working for another employer because the Recipient did not pay her after June 2018. As of the date of this report, the Rural WBC remained closed. The Recipient's failure to pay its rent and its nonoperational locations indicate the Recipient's inability to effectively deliver the WBC program requirements.

Inadequately staffed WBCs and potential conflict of interest. According to the cooperative agreement terms and conditions, a WBC program director must work 40 hours per week and dedicate 100 percent of their time to managing the day-to-day operations of the WBC, not share those duties, and avoid any organizational and individual conflicts of interest. We determined that the South WBC and Rural WBC program directors did not work full-time at the WBCs. During the first day of our site visit, we contacted the South WBC program director of record and met with her at her personal business. The program director told us that she did not work 40 hours per week or devote 100 percent of her time to the WBC because the Recipient had not paid her salary. She also stated that she had resumed working at her personal business shortly after taking the position at the South WBC in June 2018, which we identified as a potential conflict of interest.¹¹ Specifically, the program director operated her own business that provides substantially the same services to the public as the South WBC. Further, because the South WBC location was closed, the program director took referrals from the South WBC and provided services to clients at her personal business location. While the program director stated that she was keeping separate records and was counseling these purported South WBC clients for free, we were unable to verify this information.

Similarly, the Rural WBC program director did not work 40 hours per week and devote 100 percent of her time to the WBC. Based on the findings discussed above, the Recipient failed to maintain adequate client service facilities and service hours or staff the WBCs with a program director who worked at the WBC on a full-time basis, in accordance with the cooperative agreement terms and conditions.

⁸ 2 CFR 200.503(b) – (c).

⁹ Cooperative Agreement Notice of Award Section II.B and Appendix A.

¹⁰ The Recipient's location had posted business hours of 9am to 5pm.

¹¹ 2 CFR 2701.112(a).

Administrative subpoena issued. We exercised our statutory authority and issued an administrative subpoena a week after our site visit. In response to the subpoena, the Recipient provided us with financial and programmatic documentation. Through analysis of the subsequently provided information, we determined the Recipient violated federal regulation financial requirements and terms and conditions of the cooperative agreements. The Recipient was continuously late in processing its personnel payroll, had considerable obligations or liabilities that were not paid by their due dates, and did not provide WBC program directors access to financial information. The Recipient also failed to maintain an adequate financial management system and requisite supporting documents, records, or policies and procedures, as required by federal regulations.¹² Additionally, the Recipient did not have audited financial statements for FYs 2016–2018 as required by the terms and conditions of the cooperative agreements. The documentation the Recipient provided us was constantly delayed, incomplete and insufficient. The Recipient’s lack of financial system and audited financial statements is grounds for SBA suspending, terminating, or not renewing the Recipient’s two cooperative agreements.

Late payroll and unpaid WBC staff. Based on the documents provided, we determined that the Recipient was consistently late in processing its personnel payroll. In addition, both the South and Rural WBC personnel told us they were working without being paid. South WBC personnel provided us counseling forms and timesheets they kept for work done at the end of FY 2018. Those personnel had not been paid for the time they worked during the last quarter. When we asked a Recipient official about the work that staff performed during the last quarter of FY 2018, she told us conflicting information. The Recipient official initially stated that staff were not working after June 2018 because they had been laid off or furloughed. In that same interview, she also told us that staff were working with the full knowledge that they would not be paid and were volunteering their services, but later stated staff were supposed to keep track of their time so they could be paid when OWBO reimbursed the Recipient for its expenses. Because the Recipient did not have full-time staff assigned to the WBCs or accessible locations, the WBCs were not fulfilling their cooperative agreements’ performance requirements. The Recipient’s inability to pay its staff for work performed indicates serious business issues regarding its ability to operate and its financial stability.

Directors denied access to financial information. The cooperative agreements terms and conditions stipulate that the WBCs program directors must review and approve all expenditures and cosign all related financial reports transmitted to OWBO.¹³ WBCs program directors for both the South WBC and Rural WBC locations told us that they did not review and approve any WBC expenditures, or review and sign the submitted required reports to OWBO. We verified that the reports submitted to OWBO did not have the WBCs program directors’ signatures. The program directors also did not have access to bank accounts, bank or credit cards statements, or other WBC financial information.¹⁴ Key program personnel’s lack of access to financial information to prepare required reports and monitor the WBCs projects, as well as lack of audited financial statement for multiple FYs, substantially increases the opportunity for fraud and mismanagement of federal funds.

Inadequate financial management system and nonexistent audited financial statements. According to federal regulations, the Recipient must have an adequate financial management system to produce reports and trace funds to a level to ensure those funds were spent in accordance with federal regulations.¹⁵ Further, according to the cooperative agreements terms and

¹² 2 CFR 200.302.

¹³ Cooperative Agreement Notice of Award Appendix C: WBC Guide, Program Requirements #9(b).

¹⁴ 2 CFR 200.303.

¹⁵ 2 CFR 200.302 and 2 CFR 2701.1.

conditions, the Recipient must have audited financial statements.¹⁶ Based on documentation we received in response to the subpoena, we determined that the Recipient did not have an adequate financial management system or audited financial statements for FYs 2016–2018. Specifically, the Recipient did not have complete records to report its financial information or to support claimed cooperative agreement expenses. The Recipient was unable to provide complete financial records for both the South WBC and Rural WBC (e.g., general ledger, income statement, full accounting of credit card and bank statements) and had insufficient supporting documentation to verify expenses charged to the cooperative agreements. The Recipient provided OWBO with statements certifying it had an adequate financial management system; however, we determined these statements to be inaccurate. While the Recipient has an employee handbook that included information on financial management, it lacked any reference to record retention and conflict of interest policies, as required.¹⁷ We determined that the Recipient did not follow its own written guidance and violated federal regulations as well as the terms and conditions of the cooperative agreement.¹⁸ The Recipient lacked audited financial statements for multiple FYs, and because of its continued inability to produce the required audited financial statements and its grievous noncompliance with federal regulations and the terms and conditions of the cooperative agreements, it is urgent that SBA take appropriate action.¹⁹

Conclusion

We determined that the Recipient has materially violated federal statutes, regulations, and the terms and conditions of its cooperative agreements. Its lack of required financial systems, records, and policies, and inability to pay its obligations, maintain open and available facilities and service hours, and staff its WBCs with full-time program directors indicates serious issues in the Recipient's ability to operate and fulfill the WBC program requirements. We have deemed the documentation the Recipient has provided to us to be insufficient and incomplete.²⁰ The Recipient denied access to OIG, an independent, authorized oversight entity, and disregarded governing federal regulations and terms and conditions of its cooperative agreements.

These findings impel SBA to take prompt corrective action to protect taxpayers' dollars and help to ensure the integrity of the WBC program. SBA should pursue actions including, but not limited to, suspension, termination, and nonrenewal of the Recipient's cooperative agreements, as well as suspension and debarment of the Recipient and its personnel.²¹

Recommendations

We recommend the Administrator require the Associate Administrator for the Office of Entrepreneurial Development to:

1. Take action in accordance with federal regulations (2 CFR 200.338, Remedies for Noncompliance), to remedy the Women's Business Center, Inc., noncompliance with its two cooperative agreements.
2. Refer the Women's Business Center, Inc., and its personnel to the Suspension and Debarment Official for a present responsibility determination.

¹⁶ C CFR 200.510.

¹⁷ 2 CFR 200.333; 2 CFR 200.430(c); 2 CFR 200.303; 2 CFR 2701.112(a); and Cooperative Agreement Notice of Award Section III.A.

¹⁸ 2 CFR 200.333 and 2 CFR 200.302.

¹⁹ 2 CFR 200.505 and 2 CFR 200.338.

²⁰ We will address any unallowable, unallocable, and unsupported costs as part of our final report on SBA's oversight of the WBC program.

²¹ 2 CFR 200.338.

Actions Required

We appreciate the courtesies and cooperation of the Small Business Administration during this audit. If you have any questions, please contact me at (202) 205-6586 or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6616.

cc: Allen M. Gutierrez, Associate Administrator, Office of Entrepreneurial Development
Seán F. Crean, Executive Director for SBA Executive Management, Installations, and Support Services
Martin Conrey, Attorney Advisor, Legislation and Appropriations
Kyong Chae, Internal Control Analyst, Office of Internal Controls

Analysis of Agency Response

SBA management provided formal comments, which are included in their entirety in attachment 2. SBA management agreed with both recommendations, and its proposed actions resolve the recommendations.

Summary of Actions Needed to Close the Recommendations

The following provides the status for the recommendations and the actions necessary to close them.

- 1. Resolved.** SBA management agreed with our recommendation, stating that it will take action in accordance with federal regulations and the terms and conditions of the cooperative agreement to remedy the Recipient's noncompliance, to include suspension, termination, and debarment. Management plans to complete final action on this recommendation by August 31, 2020.

We inquired about management's extended proposed timeframe to complete the final action. Management provided a detailed justification, stating that the additional time proposed to resolve the findings is to accommodate the Recipient's rights and any additional legal reviews those rights may require. While SBA's planned actions resolve the recommendation, we reiterate that SBA should act expeditiously to remedy the Recipient's noncompliance with federal regulations and the terms and conditions of the cooperative agreement. This recommendation can be closed once management demonstrates that it has completed the remedy actions related to the Recipient's two cooperative agreements.

- 2. Resolved.** SBA management agreed with our recommendation, stating that it will refer the Recipient and its personnel to the Suspension and Debarment Official for a present responsibility determination. Management plans to complete final action on this recommendation by September 30, 2019. This recommendation can be closed once management provides evidence that it has referred the Recipient to the Suspension and Debarment Official for a present responsibility determination.

Objective

The overall objective of our ongoing audit is to determine whether SBA has effective oversight to ensure WBCs complied with cooperative agreement financial requirements. This management advisory only addresses the results of our review of the Women's Business Center, Inc. (Recipient).

Scope and Methodology

SBA awarded WBCs \$16.4 million in cooperative agreements in FY 2018, including two cooperative agreements to the Recipient, each for \$131,250. Our scope of work focused on the Recipient's FY 2018 financial reporting. To answer our objective, we reviewed the Recipient's expenditures from September 29, 2017, to September 30, 2018, and associated reimbursements. We also reviewed the program announcements for FY 2018, technical proposals, and the terms and conditions in the FY 2018 cooperative agreements. Further, we reviewed applicable federal laws, regulations, and SBA's policies and procedures pertaining to the WBC program.

We interviewed SBA personnel from the Office of Entrepreneurial Development, the Office of Women's Business Ownership, the Office of Grants Management, and the Office of Field Operations involved in administering and monitoring the Recipient's cooperative agreements. We also interviewed Recipient officials to gain an understanding of their reporting procedures, accounting practices, and operations. Further, we conducted a site visit to the Recipient's location in Mobile, Alabama.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Use of Computer-Processed Data

We relied on computer-processed data that SBA program officials provided and data retrieved from PRISM. We used that data to determine the universe of cooperative agreements SBA awarded to WBCs in FY 2018. We believe the computer-processed information obtained from SBA is reliable for the purposes of this audit. We did not rely on the computer-processed data the Recipient personnel provided. We attempted to test the reliability of transaction-level data in the Recipient's general ledger by comparing accounting entries in the general ledger to source documents. However, the Recipient denied us access to its databases to test the validity of financial transactions and provided limited documentation via email. Based on the information we received, we were not able to validate the Recipient's expenditures.

While examining information that supported financial reporting, we identified data integrity issues, including data that was inaccurate, erroneous, and inconsistent. Specifically, data contained in the general ledger was not consistent with data in the supporting documentation. Further, our review identified that data in the general ledger was not consistent with the financial reports the Recipient submitted to OWBO. We determined that the financial data reported by the Recipient was not reliable to assess financial compliance.

SBA

ASSOCIATE ADMINISTRATOR,
OFFICE OF ENTREPRENEURIAL DEVELOPMENT

RESPONSE TO MANAGEMENT ADVISORY



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

DATE: September 13, 2019

TO: Hannibal "Mike" Ware
Inspector General

FROM: Allen M. Gutierrez *AMG*
Associate Administrator, Office of Entrepreneurial Development

SUBJECT: Audit of Women's Business Center, Inc., Compliance with Cooperative Agreement Requirements – Agency's Response to Draft Management Advisory

Thank you for the opportunity to respond to the draft advisory memorandum regarding the results of your review of the Women's Business Center, Inc., in Mobile, Alabama (Recipient). My management team and I are cognizant that your review of this Recipient is part of your ongoing audit to determine whether the Agency has effective oversight to ensure Women's Business Centers comply with the Agency's financial requirements found in the cooperative agreements.

Please find our responses below to the two recommendations outlined in the draft advisory memorandum.

Recommendation 1: *Take action in accordance with federal regulations (2 CFR 200.338, Remedies for Noncompliance), to remedy the Women's Business Center, Inc., noncompliance with its two cooperative agreements.*

Explanation of Proposed Action:

Concur. The Agency will act in accordance with 2 CFR 200.338, Remedies for Noncompliance and the Notice of Award. This action includes suspension, termination and debarment.

Projected Completion Date: August 31, 2020

Recommendation 2: *Refer the Women's Business Center, Inc., and its personnel to the Suspension and Debarment Official for a present responsibility determination.*

Explanation of Proposed Action:

Concur. The Agency will refer the Women's Business Center, Inc., and its personnel to the Suspension and Debarment Official for a present responsibility determination.

Projected Completion Date: September 30, 2019