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

MEMORANDUM AUDIT REPORT
Issue Date: March 22, 1999
Report Number: 9-07

TO: Thomas A. Dumaresq, Assistant Administrator for Administration

/s/ Original Signed

FROM: Peter L. McClintock, Assistant Inspector General for Auditing

SUBJECT: Memorandum Audit Report - On-line Women's Business Center (Cooperative Agreement No. [FOIA ex. 2])

We completed an audit of the SBA cooperative agreement that partially funded the On-line Women's Business Center (OWBC) in Dallas, Texas. The OWBC was established in 1996 when SBA's Office of Women's Business Ownership recognized that the Internet could maximize provision of business information and assistance to women business owners. SBA entered into a cooperative agreement with the North Texas Women's Business Development Center to create the OWBC and provide on-line counseling and technical assistance to women interested in starting or expanding businesses. Modification 2 of the cooperative agreement requires that the recipient provide matching funds equal to 50 percent of Federal funds for year 1 and 100 percent for year 2. As of September 9, 1998, the OWBC had received $480,000 in Federal funding and reported matching funds (cash and in-kind) totaling $315,001.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether claimed costs were allowable. Judgmental samples, with emphasis on large dollar amounts, were used to test costs allocated to the first two program years. We reviewed the cooperative agreement, program regulations, accounting records, and cost documentation. We also interviewed North Texas Women's Business Development Center board members, OWBC officials, and SBA officials. The audit was performed in accordance with Government Auditing Standards.

RESULTS OF AUDIT

We identified $3,822 of claimed costs for a computer that were unallowable. Also, OWBC purchased office supplies and airline tickets from companies owned by North Texas Women's Business Development Center board members, creating the appearance of a conflict of interest, and OWBC's record keeping needed improvement. OMB Circular A-122, "Cost Principles for Non-Profit Organizations," and the SBA cooperative agreement provide the principles for determining allowable costs.

FINDING 1: Unallowable Expenditure of Funds

The OWBC inappropriately charged a $3,822 computer to Federal funds. The cooperative agreement prohibited equipment purchases with Federal funds. The OWBC Director at the time believed that $90,000 in supplemental Federal funds for goods and services could be used for the computer. The original award prohibited the purchase of equipment with Federal funds. The revised budget did not change the prohibition and didn't provide for any Federal funding of equipment.

Recommendation

1A. We recommend that the Assistant Administrator for Administration notify the OWBC to reimburse SBA $3,822 for the inappropriate use of Federal funds for the purchase of computer equipment.

OWBC Comments

The OWBC agreed with the finding, but disagreed with the recommendation for two reasons. First, the OWBC believed that they should be granted relief due to the fact that the SBA required performance of work different from that prescribed by the original terms of the agreement. Secondly, the OWBC stated that they received verbal approval from SBA to purchase the computer since the OWBC was maintaining the site on its server. OWBC's response is included as Attachment 1.

Evaluation of OWBC Comments

Although we agree that the responsibility for physical and support maintenance for the site was transferred to the OWBC, the OWBC cannot provide any documentation supporting their position that verbal approval had been obtained. Furthermore, we were unable to find any evidence of SBA officials granting such verbal approval.

FINDING 2: Apparent Conflict of Interest

The OWBC purchased $1,764 of office supplies and $1,462 of airline tickets from companies owned by North Texas Women's Business Development Center board members. OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," states that "all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition." The Circular also states that the recipient shall be alert to organizational conflicts of interest that may restrict or eliminate competition. Although there was an organizational conflict of interest, there was no evidence of unreasonable prices being paid.

Recommendation

2A. We recommend that the Assistant Administrator for Administration notify the OWBC to cease the practice of purchasing goods and services from companies owned by North Texas Women's Business Development Center board members.

OWBC Comments

The OWBC agreed with the finding and recommendation and stated that all future purchases will be in accordance with OMB Circular A-110.

Evaluation of OWBC Comments

The OWBC's proposed action is responsive to our recommendation.

FINDING 3: Record Keeping Needs Improvement

The OWBC did not have time and attendance records for a former director and an administrative assistant to substantiate the percentage of effort expended on the project. Also, the OWBC did not always document the purpose of trips taken. OMB Circular A-122 requires costs to be adequately documented. The cooperative agreement requires time and attendance records for salaried employees to be maintained in sufficient detail to create a clear audit trail and to substantiate the percentage of effort expended in support of the project objectives. A former director stated that she believed the director's position was "exempt" from the requirement of time and attendance records. The director's position was salaried and, therefore, was not "exempt."

Recommendation

3A. We recommend that the Assistant Administrator for Administration notify the OWBC to clearly document the purpose of future travel and to maintain appropriate time and attendance records for all employees.

OWBC Comments

The OWBC agreed with the finding and recommendation and stated that all travel will be documented and daily time sheets will be maintained for all positions.

Evaluation of OWBC Comments

The OWBC's proposed action is responsive to our recommendation.

SBA MANAGEMENT'S RESPONSE

The Director of the Office of Procurement and Grants Management verbally concurred with all findings and agreed to implement the recommendations.

* * *

The findings included in this report are the conclusion of the Auditing Division based upon the auditors' testing of the auditee's operations. **The findings and recommendations are subject to review and implementation of corrective action by your office following existing Agency procedures for audit follow-up and resolution.**

Please provide us your management decisions for the recommendations within 80 days. Record your management decision on the attached SBA Form 1824, "Recommendation Action Sheet" and show either your proposed corrective action and target date for completion, or an explanation of your disagreement with our recommendations.

This report may contain proprietary information subject to the provisions of 18 USC 1905. Do not release to the public or another agency without permission of the Office of Inspector General.

Should you or your staff have any questions, please contact Victor R. Ruiz, Director, Headquarters Operations at (202) 205-[FOIA ex. 2]

Attachments

Online Women's Business Center
1420 West Mockingbird Lane, Suite 270
Dallas, Texas 75247
Phone: 214/[illegible] Fax: 214/[illegible]
URL: www.onlinewbc.org
Email: virtual@onramp.net

March 9, 1999

To: **Jason Cassidy**
Headquarters Operations

From: Kathy J. Durivage, Executive Director
North Texas Women's Business Development Center
Online Women's Business Center

Subject: **Audit of the Online Women's Business Center**
(Cooperative Agreement No. [FOIA ex. 2] **)**

The Board of Directors and the Executive Director for the Online Women's Business Center are grateful for the professionalism and the courtesy extended them by the audit team during this audit. While this was a difficult time for all involved in the operation of the Online Site, the resulting lessons learned by site personnel is priceless.

This organization agrees with the three audit findings in the subject draft report. The findings are factual and are thus indisputable. We respectfully request certain consideration of the recommendations, based on the enclosed discussion and documentation, prior making final recommendations. Additional information is also included to provide supplemental documentation to support the unallowable expenditure and unsupported costs.

For ease of reference, each finding is addressed on a separate sheet of paper and referenced as an attachment to this letter. Request you consider the rationale and documentation sufficient in answer to the audit findings. Should our response not be detailed to satisfy the draft audit report, please contact the undersigned for additional information.

This response is being sent two days ahead of the requested date in order to allow time for additional information, if required by the audit team. Again, thank you for all the consideration for our organization during the audit.

[FOIA ex. 6]

Kathy J. Durivage
Executive Director

FINDING: The OWBC inappropriately charged a $3,822 computer to Federal funds.

BASIS: There are two significance points for considering this cost allowable under the cooperative agreement. One, under the Constructive Change Clause, the SBA should grant the grantee relief due to the fact that the SBA required performance of work different from that prescribed by the original terms of the agreement. A constructive change is anything that creates a change in a contract that is not of official nature. It may be oral, written, or simply an omission on the part of the contracting officer. It can also be an act or action of someone else that is subsequently condoned by the contracting. Second, the Online center received verbal approval from the SBA office to purchase the computer since the Online Center was maintaining the site on its server. While written approval documents cannot be located, detailed accounts of the verbal approval have been verified. A copy of the GOTRs letter is attached (attachment 1) for your review.

DISCUSSION: The original solicitation, the technical proposal in response to that solicitation, the award notification, subsequent modification and letter communications, firmly document that the original intent of the SBA was to maintain the site on an internal SBA computer server. The original proposal and supporting budget were submitted and accepted by the SBA with the constant intention of SBA maintaining the site on its server. Documentation and communication, as well as budget expenditures, clearly outline the fact that the SBA could not and did not have the ability to maintain the Online site on its internal server. Regardless of this change in the SBA's position on this contract issue, the SBA transferred the responsibility for the physical maintenance as well as the support maintenance for this aspect of the contract award. In fact, the Online site has performed this function for the past twenty nine months without proper compensation. The SBA's technical support for Online site has been distant, also not in accordance with the original agreement. Both of these actions caused increased cost to the Online Site.

RECOMMENDATION FROM THE ONLINE SITE: Recommend that the recommendation be revised to notify the OWBC to :

1A. Recommend that the SBA instruct the contracting officer to ratify the action of the Online site to allow for the computer purchase for the purpose of maintaining the internet site. Upon ratification of the computer purchase, this act will then become appropriate. In addition, at paragraph 15, OMB Circular 122, the definition of equipment was changed from $500.00 to $5,000.00. With this definition covering grants of this type, relief may be granted to both parties. Ratification of a grantee's prior action is permissible if the contracting officer considers the action appropriate based on the circumstances at the time of the original action.

MAR 03 '97 12:28PM SBA ·'80 Attachment 1 P.1

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

fax copy
rec'd
3/3/97

MEMORANDUM

DATE: February 3, 1997

TO: Liz Klimbach
Chairperson, N. Texas Women's Business Development Center

FROM: Harriet Fredman
GOTR

RE: Additional $90,000 Funding to the On-line Women's Business Center

Hello, Liz and Board Members. Carolyn O'Brien and Robin Diamond were most impressed with the outstanding work being done by the On-line Women's Business Center when they visited last month. They brought back great information and a couple of questions that you and the Board Members had about the project. One of the questions was the names of the sites awarded funding under the Internet Representative Program Announcements. I faxed that information to Becky Grimmer.

The second question was about the $90,000.00 the Office of Women's Business Ownership (OWBO) added to the On-line Women's Business Center at the end of fiscal year 1996. I hope the information below will help clarify.

Two things happened close to the end of fiscal year 1996:

One: After discussions with Diane Gannon of SBA's Office of Information Resource Management (OIRM), the Texas WBDC On-line Team felt that OIRM did not have the computer capability in place to perform the necessary functions for the On-line site. The Texas WBDC team found an organization that could perform those necessary functions at a cost of $30,000.00.

Two: The Office of Women's Business Ownership (OWBO) had an additional $90,000.00 in the Demonstration Budget because of failure of time to put out an open bid for a contractor to assist this office with the On-line Women's Business Center.

It was concluded that the easiest way to assist the Texas On-line Team was to give them the $90,000.00, of which $30,000.00 could be used to fund an organization to perform the necessary computer functions for the site. The additional money could be used, as necessary, for the creation of the site.

However, you are not compelled to use the money. You have two options:

One: If you do not raise the match for the $90,000.00 in the program year and have not yet completed your goals for the program, you can request a no-cost extension to use this money for an additional 3 or 6 or 9-12 months to complete the project.

Two: If you have completed the project and do not need the additional money, you do not need to use it and it will go back to the government.

One of the reasons we did this is because we did not know what the status of fiscal year 1997 monies would be. This was a way to make certain that the site had the funding for the necessary computer functions which SBA did not have.

I hope this has answered any questions you have and I wish you great success with this exciting program.

cc: Sherrye Henry
Billie Bryant
Doris Thomas
Susie Marshall

Apparent Conflict of Interest Finding

2A. The Online Women's Center agrees with the finding and recommendation. All future purchases will be in accordance with OMB Circular A-110.

Record Keeping Needs Improvement

3A. The Online Women's Center agrees with the finding and recommendation. All positions of the Online Center require a daily time sheet and are maintained on file. Additionally, all travel is documented and maintained on file.