



United States Department of Agriculture
Office of Inspector General





Review of the Rural Business Enterprise Grants Recovery Act Field Confirmations

Audit Report 34703-0001-31

What Were OIG's Objectives

Our overall objectives were to determine if established controls were functioning as intended to ensure grant recipients used funds for authorized purposes, met grant objectives in a timely manner, and provided the required matching funds, where applicable.

What OIG Reviewed

To evaluate RBS's controls, we assessed a random sample of 47 projects from 18 States between March 2011 and May 2012. These grants represented over \$6.8 million of the total \$15.3 million awarded in Recovery Act RBEG projects.

What OIG Recommends

We recommend that RBS provide personnel in charge of overseeing RBEG projects with formal, comprehensive training, and recover RBEG Recovery Act funds for projects that lack sufficient support, were outside the scope of work, or were awarded to grant recipients that did not provide required funds from non-Federal sources.

As the second stage of a multi-phase review of the Recovery Act's funding for the RBEG program, OIG examined whether RBS had appropriate oversight over project compliance.

What OIG Found

As part of the Recovery Act, Congress provided \$20 million for the Rural Business Enterprise Grant (RBEG) program to provide funding to facilitate the development of small and emerging rural businesses. By October 2009, Rural Development had obligated funds for 145 RBEG projects, totaling over \$15.3 million in Recovery Act funding.

Rural Business-Cooperative Service (RBS), an agency under Rural Development, is responsible for ensuring that the selected projects meet program objectives and requirements. We found that RBS was not sufficiently reviewing projects for compliance. Specifically, out of the 47 grants we reviewed, we identified 20 where RBS personnel did not obtain or review required forms, 3 of which either had received prior unspent grants or duplicated prior RBEG projects. Based on our overall sample results, we estimate that 70 grants (49 percent) may have similar issues, with a projected total value of \$4.6 million. RBS officials did not always ensure grant recipients submitted necessary forms and documentation or ensure that recipients spent prior grant and matching funds before receiving funding for another RBEG project. This occurred because RBS staff were not trained adequately on RBEG-specific information. As a result, RBS has disbursed improper payments and inconsistently applied requirements.

The agency generally agreed with four of our five recommendations, but further action from the agency is needed before management decision can be reached on the fifth recommendation.



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: January 24, 2013

AUDIT
NUMBER: 34703-0001-31

TO: Lillian Salerno
Acting Administrator
Business and Cooperative Programs

ATTN: John Dunsmuir
Acting Director
Financial Management Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Rural Business Enterprise Grants Recovery Act Controls Field Confirmations

Attached is a copy of the final report on the subject audit. Your written response to the official draft report, dated December 10, 2012, is attached, with excerpts from your response and the Office of Inspector General's (OIG) position incorporated in the relevant Finding and Recommendation sections of the report.

Based on your response to our official draft report, we accept management decision for Recommendations 1, 2, 3, and 4 of the report. However, we are unable to accept management decision on Recommendation 5. Documentation and/or actions needed to reach management decisions for these recommendations are described in the OIG section of the report.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendation for which management decision has not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Performance and Accountability Report. Please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

Attachments

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Background and Objectives

Background

The Rural Business Enterprise Grant (RBEG) program provides funding for projects that facilitate the development of small and emerging rural businesses.¹ Projects covered include acquiring or developing land, easements, or right of ways; constructing and renovating buildings, plants, machinery, access streets, parking areas, and utilities; capitalizing funds to establish loans for start-up and working capital; providing training, technical assistance, and distance adult learning for job training and placement; and improving rural transportation. Rural Business-Cooperative Service (RBS), an agency under Rural Development (RD), is responsible for establishing agency policy and procedures for the RBEG program and administering it.

With the passage of the American Recovery and Reinvestment Act of 2009 (Recovery Act), Congress provided \$20 million in funding to the RBEG program to support business development in rural areas. Congress emphasized the need for accountability and transparency in expending these funds. Additionally, the Office of Management and Budget (OMB) and the Government Accountability Office (GAO) require oversight steps—including internal and program controls—beyond standard practice, and timely reporting of all spending.^{2,3,4} On July 28, 2009, Rural Development announced that it approved 145 RBEG program projects, totaling over \$15.3 million in Recovery Act funding.⁵ By October 2, 2009, all of the grants had been obligated.

According to Rural Development's Implementation Plan, Rural Development intended to use Recovery Act funding to ensure that Recovery Act RBEG program funds had both short and long-term effects on the economy.⁶ Guidance issued by the Secretary of Agriculture states that agencies shall develop transparent, merit-based criteria that will guide their discretion in committing, obligating, or expending funds under the Recovery Act.⁷ Accordingly, RBEG program funding was contingent upon the grant recipient meeting the conditions of the grant agreement.

We reviewed the Recovery Act RBEG program in three phases. The objectives of Phase I were focused on identifying whether the internal controls over Rural Development's Recovery Act RBEG program were timely and effectively implemented. For Phase II, the objectives were to ensure that program participants met eligibility guidance, that participants complied with program requirements, and that agencies established effective compliance operations. In Phase I, we reviewed the design of grant processing controls over RBEGs, such as application

¹ RBEGs may be made to public bodies, private nonprofit corporations, and Federally-recognized Indian Tribal groups in rural areas.

² OMB, M-09-15 *Updated Implementing Guidance for ARRA of 2009*, April 3, 2009.

³ GAO, *Standards for Internal Control in the Federal Government*, November 1999.

⁴ OMB, A-123 *Management's Responsibility for Internal Control*, December 21, 2004.

⁵ One of these projects was later de-obligated, resulting in a universe of 144 RBEGs for a total of \$15.2 million.

⁶ *American Recovery and Reinvestment Act Implementation Plan*, May 15, 2010.

⁷ *American Recovery and Reinvestment Act Obligation Clearance Memorandum for Heads of Agencies and Principles [sic] Receiving ARRA funding*, March 23, 2009.

processing, recipient eligibility determinations, and recipient reporting and servicing. Although we found that existing controls were not always followed, we did not find any apparent control deficiencies in the design of these controls.

During Phase II, we found that RBS personnel continued to rate Recovery Act RBEG applicants without sufficient evidence, due to insufficient training. Even though RBS held training, not all personnel who performed essential functions within the RBEG program were required to attend. RBS personnel also accepted missing or inadequate reports because they developed their own processes and relied on other criteria, such as applicant narratives, to support priority scores. We concluded that documenting eligibility could help ensure that proposed projects would be able to meet the goals of the Recovery Act to save and create jobs. Due to the timing of disbursement of Recovery Act RBEG funds, we were unable to review RBS' process for handling the distribution of funds for Recovery Act RBEG projects because only 7 percent of the obligated Recovery Act RBEG funds had been disbursed at the time of our audit.

Objectives

The objectives of the field confirmation phase were to determine if established controls were functioning as intended to ensure grant recipients used grant funds for authorized purposes and met objectives of the grant in a timely manner, and, where applicable, if grant recipients provided the required matching funds. For revolving loan funds, we determined if existing controls ensured that third party recipients also met eligibility requirements and properly reported to Recovery.gov.

Section 1: RBEG Compliance Issues

Finding 1: Rural Development Needs to Strengthen Oversight of RBEG Requirements

RBS personnel are responsible for ensuring that grant recipients submit the necessary forms and documentation to report on their projects and support expenditures for reimbursement. They are also required to ensure that recipients are spending any prior grants they may have received, as well as their matching funding, before receiving funding for another RBEG project. However, out of the 47 grants we reviewed, we identified 20 where RBS personnel did not obtain or review required forms, 3 of which either had received prior unspent grants or had duplicated prior RBEG projects. Based on our overall sample results, we estimate that 70 grants (about 49 percent of the universe) may have similar issues, with a projected total value of \$4.6 million.⁸ RBS officials did not always perform these duties because of inadequate instruction and training specific to the RBEG program. As a result, RBS has disbursed improper payments and inconsistently applied requirements. While RBEG is a small program, its mission of stimulating small rural economies is an important one. Though all Recovery Act funding has been obligated, because RBEG is a continuing program, it is crucial that RBS continue to follow these requirements in the future.

RBEG recipients can only use grant funds on activities and costs for which the grant was awarded. According to Rural Development guidance, except for revolving loan funds, Rural Development will disburse RBEG funds on a reimbursement basis.⁹ For grants to provide assistance to third parties through a revolving loan fund, funds are to be disbursed in accordance with the United States Department of Agriculture (USDA)'s Uniform Federal Assistance Regulations.¹⁰ In order for RBS officials to have sufficient oversight on project status, progress, and expenditures, RBEG recipients are required to state overall grant expenditures, the scope of the project's work, how grant funding is being spent, and, if applicable, the project's matching funding status. To do this, recipients submit a variety of forms and documentation, including:

- Documentation of expenditures, such as cancelled checks, paid bills, and contracts;¹¹
- A notification to Rural Development should they decide to change the scope of the project, which must receive Rural Development's prior approval;¹² and
- A "Request for Advance or Reimbursement" (form SF-270), which is submitted, as needed, but never more than once every 30 days.¹³ On this form, recipients must state project expenditures, any matching funds contributions, and total program outlays to date. This document is crucial because it is the only document grant recipients are required to

⁸ We are 95 percent confident that between 20 (actual number observed) and 116 (logical upper bound) grants are non-compliant, based on this set of criteria, and the total value of those grants is between \$2.38 million (actual observed) and \$6.81 million.

⁹ RD Instruction 1942-G, Attachment I, Section A.II (I).

¹⁰ RD Instruction 1942-G, Attachment I, Section A.II (I)(4).

¹¹ 7 Code of Federal Regulations (CFR) 3015.61(g).

¹² 7 CFR 3015.113 and RD Instruction 1942-G, Attachment 1, Section A.II (L).

¹³ RD Instruction 1942-G, Attachment 1, Section A.I (1).

submit to Rural Development for reimbursement that has the recipient's signature verifying the accuracy of the submitted information.

RBS officials are not only responsible for ensuring that recipients submit the necessary forms and supporting documentation, but also that projects meet RBEG program requirements and that funding is appropriately disbursed for suitable projects. For example, when approving RBEG applications, with the exception of sequential grants, RBS officials need to ensure that the purpose and scope of work does not duplicate project work that has already received funding.¹⁴ In cases where sequential grants are allowed for the same purpose, recipients need to fully expend funds from the initial grant before RBS can give the recipient another grant. RBS officials also need to ensure that recipients are expending their matching funding consistent with RBEG policies before disbursing RBEG funds.¹⁵ Reviewing forms and supporting documentation provides RBS with necessary oversight in order to monitor RBEG project expenditures and ensure that funds are being put to their intended use. Additionally, RBS' oversight, prior to obligating or disbursing funds, is critical in order to ensure that the selected projects appropriately meet their intended purposes.

However, we found that RBS personnel did not always check or require that recipients submit documentation necessary to ensure that funds went to those best able to meet the goals of the Recovery Act. Specifically, when looking at Recovery Act RBEGs, we found that, first, RBS personnel did not require recipients to submit necessary forms and supporting documentation before they disbursed funds, which led to them sometimes disbursing funds for ineligible purposes. Second, RBS personnel did not require recipients to submit the SF-270 for reimbursement, which grant recipients submit to certify expenditures and verify that the documentation provided is true and accurate. Finally, RBS personnel approved grants for duplicate or similar purposes (see Exhibit C). This occurred because RBS personnel were not adequately instructed or trained specifically on the RBEG program.

Supporting Documentation for Reimbursement

RBS personnel need to obtain and review supporting documentation for expenditures in order to ensure that expenses are for eligible purposes established in the scope of the work.¹⁶ However, we found that RBS State and area office personnel did not always require Recovery Act RBEG recipients to provide adequate supporting documentation before releasing funds, or did not always review this documentation when provided. Additionally, RBS officials approved disbursements, even though the recipients revised the project's scope or budget without first obtaining written approval from RBS officials.

¹⁴ RD Instruction 1942-G, Attachment 1, Section B. III (T).

¹⁵ According to RD's national office, States are allowed to create their own policies on how much of the matching funding should be expended prior to receiving disbursement. However, no RBEG office should permit recipients to expend matching funding last.

¹⁶ 7CFR 3015.61(g) requires accounting records to be supported by source documentation.

As a result, nine projects in six States received \$344,000¹⁷ (see Exhibit A), even though they either did not provide supporting documentation for expenditures, or had expenditures outside the scope of work. Specifically, grant recipients for two technical assistance projects received approximately \$75,000 and \$200,000 without providing adequate supporting documentation to ensure funds were used appropriately. Another project received over \$18,000 without supplying adequate supporting documentation.

We found these grant recipients were unmonitored and used funds on ineligible expenses. For example, a grant recipient improperly spent approximately \$15,000 intended for technical assistance to train a consultant.^{18, 19} Because the State office personnel did not require documentation to support expenditures, officials were not aware of these ineligible purchases prior to our audit. In another State, a grant recipient used \$13,325 of RBEG funds intended for a contractor on current employees' salaries and \$2,678 on travel expenses for staff members. Another grant recipient used \$339 of funds for supplies and miscellaneous, unapproved items, instead of on equipment, as proposed.

Rural Development officials have taken steps to resolve instances where funds were shifted outside the scope or budget and to recover funds that were expended for ineligible purposes. Supporting documentation is necessary to ensure that funding is used as intended. Because RBS personnel did not sufficiently check or require submitted documentation, they provided nearly \$344,000 in questionable disbursements. Based on our sample results, we project that 55 grants (38 percent of the universe) had expenditures of about \$1.4 million that were either outside of the scope or unsupported.²⁰

Forms for Reimbursement: SF-270

Like supporting documentation, the Request for Advance or Reimbursement form, which recipients must submit in order to be reimbursed, is a crucial tool in order to track the progress and expenditures of a project. It is the only document in which the recipient certifies the accuracy of the information and truthfulness of their expenditures. Additionally, it is the only place that matching funds are recorded and tracked. We found 9 of the 47 grants we sampled where RBS State and area office personnel did not require recipients to submit the required SF-270 when requesting reimbursement. Of these nine grants, officials in three States allowed recipients to submit reimbursement requests more frequently than allowed under the once per 30 day requirement. Based on our sample results, we estimate 18 grants (about 13 percent of the universe) may have similar

¹⁷ This figure is obtained by adding recommendations 1 and 2 together (\$326,639+\$17,309) and rounding to the nearest thousand.

¹⁸ For a complete listing of expenditures, see Exhibit C.

¹⁹ The proposal and budget the grant recipient submitted requested funding to provide technical assistance for the development of small and emerging businesses. The documentation did not include a request for funds to provide training for a consultant. If "training consultant" was requested in the proposal and budget, it would have been approved as an eligible expense.

²⁰ We observed 9 instances of this condition, totaling about \$344,000 in expenditures, that were either outside the scope of work or unsupported. We are 95 percent confident that between 9 (actual number observed) and 105 grants (about 73 percent of the universe) were non-compliant for the same reason and the total value of those grants is between \$344,000 (actual observed) and \$2.9 million.

SF-270 issues.²¹

Specifically, we noted that the files on four grant recipients had missing SF-270s. In addition, for two other projects, RBS officials did not require grant recipients to submit the required SF-270 at all. Instead, one State allowed the grant recipient to submit cancelled checks and invoices. RBS officials then kept track of expenditures through a separate accounting system and not the SF-270.²² In the other State, RBS officials used a spreadsheet to track the expenditures, instead of the SF-270. In the future, they have agreed to track expenditures using both the spreadsheet and the SF-270.

We also found that RBS officials allowed three recipients to submit reimbursement requests more frequently than allowed under the once per 30 day requirement—one recipient violated this requirement four times. Because RBS personnel have not always sufficiently reviewed documentation to verify that expenditures are valid, RBS risks disbursing improper payments.

The SF-270 is a valuable resource to monitor how funds are spent. It is also the only method for tracking a recipient's matching funding from non-Federal sources, where applicable. The funding for these 9 projects totaled \$1,007,305 (see Exhibit A). We do not recommend recovery of these funds because State personnel were able to eventually track these funds and verify that the funds were used for eligible and appropriate purposes. However, we remain concerned that without consistent enforcement of regulations, Rural Development may be vulnerable to disbursing funds inappropriately.

Projects with Prior or Matching Funding

One of RBS' primary responsibilities when reviewing applications is to ensure that RBEG funding is granted for unique projects that do not duplicate past efforts. Additionally, it is important to ensure that RBEG recipients meet matching requirements, in conjunction with RBEG funding. However, we found that RBS personnel in area offices did not perform the necessary checks to ensure that applicants did not already have funding for similar purposes, or that they had a history of appropriately expending funding.

RBS officials accepted applications for three Recovery Act projects from grant recipients that already had existing, unused RBEG funding.²³ At the time of our audit, approximately 2 years after the funds had been obligated, these three grant recipients with Recovery Act grant awards, totaling almost \$1 million²⁴ (see Exhibit A), still had not initiated project activities on prior RBEG projects, totaling almost \$900,000.

In one State, two Recovery Act RBEG projects received revolving loan fund awards,

²¹ We are 95 percent confident that between 9 (actual number observed) and 29 grants (about 20 percent of the universe) had SF-270 issues. Because the statistical lower bound of the 95 percent confidence level was lower than the actual number observed, we are reporting the actual observation as the lower bound.

²² The alternate accounting system did not have the capability to track matching funds.

²³ These 3 projects were located in 2 of 18 sample States.

totaling \$600,000, even though they had not disbursed \$400,000 from previous RBEG awards for the same purpose. Additionally, a project located in another State received a Recovery Act RBEG of approximately \$400,000 to help a new business locate in a business park, even though the recipient had not expended funds from a prior RBEG of approximately \$500,000. This grant recipient had not met the reporting requirement for the prior grant and had been cited in the State Internal Review (SIR)²⁵ for failure to provide the requested reports.

Additionally, RBS personnel in a third State did not ensure that a recipient expended matching funds in conjunction with RBEG funding. This recipient received disbursements of approximately \$100,000 and stated he would provide 50 percent in matching funds. However, RBS disbursed the money all at one time, even though that State had a pro-rata policy.²⁶ As of yet, the recipient has not expended its required match. According to the Recovery Act statute, all Recovery Act funds not used must be returned to the Department of the Treasury. To ensure that the RBEG funds given to the grant recipient are utilized as required, we are recommending recovery of the almost \$34,000 (see Exhibit A) provided to the grant recipient in error.

RBS personnel did not perform the necessary checks to safeguard against such errors because of a lack of training on the RBEG program. We have noted in the past that Rural Development has not always offered sufficient training on RBEG program-specific policies in certain areas.²⁷

In some instances, a lack of training resulted in personnel being unfamiliar with RBEG requirements and policies. For example, one area office loan specialist dispersed funds prior to receiving training on how to do so. He stated that because he was new to the position, he did not have the opportunity to look closely at the requirements, which resulted in him disbursing the RBEG funds all at once, even though the grant recipient had pledged a 50 percent match of non-Federal funds.

Additionally, when we spoke to RBS officials in several States, they said that they did not know what documentation was needed to verify expenditures for specific types of grants—such as technical assistance grants. Rural Development national officials agreed that State and area field officials may not always be obtaining adequate documentation to support requests for release of grant funds and agreed that these officials should be provided with training to enable them to properly evaluate requests for fund disbursement. Several State office personnel have already taken corrective actions. For example, during the course of our audit, a grant recipient provided us with a spreadsheet detailing the breakdown of the time spent by the consultant, which

²⁵ SIRs are comprehensive evaluation reviews of the delivery of program and administrative functions in field offices and centralized program functions within a State. The SIR occurs at each field office at least once every 5 years (Section 2006.609, *RD Instruction 2006-M*, May 19, 2004).

²⁶ Pro-rata is defined as a method of assigning an amount to a fraction, according to its share of the whole. The State office's informal policy is for the grant recipient to expend a percentage of its own funds before the RBEG is fully disbursed.

²⁷ Audits 34703-0001-KC, *Controls over Recovery Act Rural Business Enterprise Grants*, March 31, 2010, and 34703-0002-KC, *The Recovery Act-Rural Development's Controls Over Rural Business Enterprise Grants*, September 5, 2012.

supported costs for the technical assistance grant.²⁸ RBS had never received or required this document from the grant recipient because they were unfamiliar with the type of documentation required to support technical assistance grants and did not know it would be available or useful to them. Since our audit, the Rural Development office in this State has used this spreadsheet as an example and has trained its personnel on what type of information to request from grant recipients providing technical assistance.

Additionally, the lack of training on the program has resulted in personnel not performing the necessary checks that would ensure that recipients are meeting these program requirements. For example, though personnel knew that the SF-270 form was required, they accepted a spreadsheet, believing it to be a sufficient substitute. In another instance, RBS personnel did not appropriately review supporting documentation to ensure that expenditures fit the scope of the work. RBS officials in three offices stated they were busy with other programs or that it was an oversight on their part.

RBS personnel have acknowledged that the RBEG program is a small program within RBS. For example, Rural Development's Business and Industry program received over \$930 million for both fiscal years 2009 and 2010, as opposed to the \$39 million received by the RBEG program each year. Many of the same personnel who administer these larger programs are also in charge of administering the RBEG program. Because of this, it does not always receive the necessary attention from Rural Development personnel administering the program, who focus their attention on other, larger programs—several of which accomplish similar purposes.²⁹

We remain concerned that without appropriate training, RBS personnel may continue to make improper payments and select projects which may not be best suited for program purposes. Until Rural Development takes steps to ensure that RBS personnel are aware of RBEG requirements and that State and area offices ensure that they have sufficient and appropriate documentation, the program has a higher risk of funds being unmonitored or inappropriately spent on ineligible items. Because the RBEG program is a continuing program, it is necessary that controls ensuring the proper administration of the program are in place and followed.

Recommendation 1

Recover \$326,639 in RBEG Recovery Act funds that lack sufficient support.

²⁸ This example relates to the \$15,000 technical assistance issue previously discussed within the “supporting documentation” section of the report.

²⁹ RBEG's revolving loan fund and Intermediary Relending Program are both for the purpose of lending funds to alleviate poverty and increase economic activity in rural communities. Many of the other purposes for the RBEG program, such as providing technical assistance, business plans, and working capital, are also functions of the Value-Added Producer Grants, another RD program. RBEGs and Rural Business Opportunity Grants are used to promote economic development in rural communities. Additionally, in its 2012 Annual Report (GAO-12-342SP), the Government Accountability Office identified the RBEG program as a program that overlaps with programs from three other agencies outside of USDA.

Agency Response

Based on RBS' response dated December 10, 2012, the agency recovered \$14,940 and is returning it to the Treasury Department. Recovery of \$18,228 is not possible, as the grant recipient is no longer in business. The remaining grant funds no longer need to be recovered as the respective State Offices provided the necessary documentation to support the disbursement of the funds.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Recover \$17,309 in RBEG Recovery Act disbursement amounts that were outside the scope of work.

Agency Response

RBS' response stated that no recovery of funds is necessary. Documentation was provided to support eligible expenses that were within the scope of work for the \$16,003 of ineligible expenses. An adjustment was made to a new reimbursement request to offset the \$394 ineligible expense. Recovery of \$573 is not possible as the grant recipient is no longer in business; however, the area office was aware of other eligible project costs that were not submitted for reimbursement which could have been substituted. Documentation was provided to show that the scope of work was modified and approved for the \$339 ineligible expense.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Provide all State and area office personnel in charge of overseeing RBEG projects with formal, comprehensive training on what constitutes adequate supporting documentation to validate RBEG recipients' requests for reimbursement, on procedures for obtaining and verifying SF-270s, and on how to ensure that reimbursements for expenditures are for tasks, as defined in the scope of work.

Agency Response

RBS' response stated that, during 2012, the National Office [REDACTED] and the [REDACTED] divisions provided training to all State Office Program Directors and Specialists concerning grant servicing. The training discussed the appropriate documentation, quarterly performance reports, and SF-270s for grants. In addition,

on February 22, 2012, the National Office conducted an RBEG monitoring and servicing webinar which was available nationwide. Documentation, program performance reports, SF-270s and changes in scopes of works were discussed during this webinar.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Provide all RBS personnel with training on the requirements to follow when awarding a sequential grant.

Agency Response

RBS' response stated that there is no requirement in 7 CFR 1942-G that the previous grant funds be expended and therefore the State Offices made correct eligibility determinations according to the regulations. No further training is necessary.

OIG Position

When we initially discussed the issue of sequential grants with RBS national officials, they agreed additional grants should not have been awarded. However, due to the fact that there are no hard requirements in 7 CFR 1942-G that the previous grant funds be expended, we accept management decision for this recommendation.

Recommendation 5

Recover \$33,660 in RBEG Recovery Act disbursements where the grant recipient did not provide the required matching funds from non-Federal sources.

Agency Response

RBS' response stated that they will not request recovery of the \$33,600 and allow the funds to remain in an interest bearing account to be loaned out in the future. The grant recipient informed RBS in a letter that the remaining \$50,000 is in an interest bearing account and they are actively pursuing other viable applications. The State Office will continue to work closely with the grant recipient to ensure that these funds are loaned out in accordance with the scope of work and by September 30, 2013, as stated in letter received from the grant recipient.

OIG Position

We do not accept management decision for this recommendation. Since the grant recipient did not provide its portion of the matching funds as required, we consider this to be an improper payment. In order to reach management decision, the agency needs to provide a copy of the bill

for collection and support that the \$33,600 has been entered as a receivable on the agency's accounting records.

Scope and Methodology

We performed this audit to assess the controls in place to ensure Recovery Act RBEG recipients used grant funds for authorized purposes and met the objectives of the grant in a timely manner, and, where applicable, grant recipients provided the required matching funds. To make our determinations, we performed fieldwork from March 2011 through May 2012 at the Rural Development national office and State and area offices in 18 States. To accomplish our objectives, we statistically selected 47 projects, out of a universe of 143 projects that received Recovery Act RBEG awards, representing \$6,806,085 of the total RBEG awards of \$15,314,425, as of July 28, 2009. To maximize the efficient use of audit resources, we clustered projects by location.

To accomplish our overall objectives, we tested and assessed the existing controls intended to ensure that reimbursements made to RBEG recipients from grant funds were for authorized expenses. We performed the following procedures:

- interviewed national office personnel to determine if any changes to the RBEG Implementation Plan for Recovery Act grants had been made;
- reviewed RBEG files at State and area offices to confirm that program controls were in place and functioning as intended to ensure grant recipients met all requirements for disbursement of grant funds;
- identified and reviewed Rural Development published guidance, instructions, administrative notices, and regulations that detail the controls and procedures over the RBEG program;
- reviewed and made site visits to Rural Development State and area offices and recipients for a randomly selected sample of 47 projects in 18 States;
- obtained and reviewed documents, such as OMB guidance, to gain an understanding of the provisions and requirements related to Rural Development's RBEG program.

During this audit, we did not review, analyze, or verify information in the agency's Guaranteed Loan System database and make no representation of the adequacy of the system or the information generated by it.

We conducted this performance 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

CFR.....	Code of Federal Regulations
GAO.....	Government Accountability Office
OIG.....	Office of Inspector General
OMB.....	Office of Management and Budget
PPS.....	Probability Proportional to Size
RBEG.....	Rural Business Enterprise Grant
RBS.....	Rural Business-Cooperative Service
RD.....	Rural Development
Recovery Act.....	The American Recovery and Reinvestment Act of 2009
SIR.....	State Internal Review
USDA.....	United States Department of Agriculture

Exhibit A – Summary of Monetary Results

The table below represents the monetary amounts identified in the findings and our recommendations related to recovery.

Finding Number	Recommendation Number	Description	Amount	Monetary Results ³⁰
1	1	No supporting documentation. ³¹	\$326,639	Unsupported Costs, Recovery Recommended
1	2	Outside scope of work.	\$17,309	Questioned Costs, Recovery Recommended
1	3	SF-270: Missing or none used.	\$3,467,048 ³²	Questioned Costs, No Recovery
1	4	Prior RBEGs.	\$999,999 ³³	Questioned Costs, No Recovery
1	5	Matching funds commitments.	\$33,660	Questioned Costs, Recovery Recommended
Total			\$4,844,655	

³⁰ We identified two projects with multiple issues, and those projects are included in only one monetary result category.

³¹ Where supporting documentation could not be reconciled to the expenditures, the entire amount of the grant was recommended for recovery.

³² We estimate that \$3.8 million is at risk based on grants that had no supporting documentation, were out of the scope of work, or had an SF-270 issue. We are 95 percent confident that between \$1.6 million and \$6.02 million is at risk based on the same criteria. The amounts expected to be recovered are subtracted from the total \$3.8 million (\$3,810,996 – 326,639 – 17,309 = \$3,467,048). The actual amount observed in error is \$1,007,305.

³³ We estimate that \$1,033,659 (actual amount observed) is at risk based on grants that did not have adequate matching funds or grants with prior unspent funds. The amount expected to be recovered is subtracted from the total \$1,033,659 (\$1,033,659 – 33,660 = \$999,999).

Exhibit B – Sampling Methodology for Rural Development Recovery Act RBEG Projects for Phase IIa

Objective

This sample was designed to examine Rural Business Enterprise Grant (RBEG) program projects and their associated loans, contracts, grants, and agreements, using Recovery Act funds. The sample selection methodology included geographic clustering of projects and cluster selection probabilities proportional to the total award value of each cluster. The design allowed projection of compliance-related attributes for individual projects awarded rural business enterprise grants.

Audit Universe

Our universe for this audit was the list of 143 RBEG projects funded under the Recovery Act as of July 28, 2009.³⁴

Sample Design

After considering the audit resources required for various design alternatives, the audit team and the statistician chose a design option that used clustering of projects and probability proportional to size (PPS) with replacement. The total value of all projects in the cluster was the measure of size. That design is described here.

The audit team identified the locations for each of the projects and used that information to group the projects into geographically-similar locations (clusters) wherever possible. For the 143 RBEG projects in the audit universe, the clustering resulted in a universe of 102 locations, 14 of which included more than one project and 88 that were single projects.

For each of the 102 locations, the probability of being selected in the sample was proportional to the dollar amount for all projects in the location, compared to the total of the amounts for all projects; this is the PPS component of the sample selection.

Additionally, the “with replacement” aspect means that a single cluster can be selected more than one time, increasing efficiency in audit execution. Because of these repeats, we achieved a sample size of 26 clusters, with only 20 locations, as indicated in the summary table below. The table also includes the associated universe and sample numbers of projects.

	Universe	Sample Size, Unique Locations	Sample Size, PPS with Replacement
Locations	102	20	26
Projects (Grantees)	143	47	59

³⁴ The original list contained 145 projects; 2 were de-obligated prior to initiation of audit work.

Results

Inadequate Supporting Documentation

Based on our sample results, we estimate that 55 projects with expenditures of about \$1.4 million received awards without adequate supporting documentation. In our sample of 47 projects, we found 9 projects, totaling about 344,000 in expenditures, that had no adequate support. We found 38 projects with adequate support, meaning that the maximum number without support, in the universe of 143 projects, was 105 projects. In this case, the actual observations constrain the limits of the calculated confidence interval; therefore, we are reporting the actual values as the limiting values: between 9 and 105 projects received awards without adequate supporting documentation. These results are shown in the table below, which includes the percentage values relative to the universe of 143 projects.

Inadequate Supporting Documentation			
Measure	Estimate	Lower limit, based on actual observations	Upper limit of a 95 percent confidence interval
Number with inadequate supporting documentation	55	9	105*
Percent with inadequate supporting documentation, in universe of 143 projects	38.5 percent	6.3 percent	73.4 percent
Estimated amount of questioned funds	\$1,409,079.26	\$343,887.00**	\$2,866,917.97

*Documentation was adequate for 38 of the sampled projects.

** Lower limit shown is the actual amount found. The calculated statistical lower bound is (-\$48,759.45).

SF-270 Issues

Based on our sample results, we estimate 18 project awards involved problems with the SF-270. In our sample of 47 projects, we found 9 projects with such problems. Our actual observation of 9 projects exceeded the calculated lower limit; therefore, we are reporting that at least 9 projects had SF-270 issues. The upper limit of the 95 percent confidence interval is that there were 29 projects with SF-270 issues. These results are shown in the table below, which includes the percentage values relative to the universe of 143 projects.

SF-270 Issues			
Measure	Estimate	Lower limit, based on actual observations	Upper limit of a 95 percent confidence interval
Number of projects with SF-270 Issues	18	9	29
Percent with SF-270 issues, in universe of 143 projects	12.6 percent	6.3 percent	20.3 percent

No Supporting Documentation, Out of Scope, or an Issue with SF-270

Based on our sample results, we estimate that 62 projects, with expenditures of about \$3.8 million, received awards without adequate supporting documentation, were out of scope, or had an issue with SF-270. In our sample of 47 projects, we found 16 projects, totaling about \$1.35 million in expenditures, with no supporting documentation, were out of scope, or had an issue with SF-270. We found 31 projects that were compliant based on this set of criteria, meaning that the maximum number without support, in the universe of 143 projects, was 112 projects. In this case, the actual observations constrain the limits of the calculated confidence interval; therefore, we are reporting the actual values as the limiting values: between 16 and 112 projects. These results are shown in the table below, which includes the percentage values relative to the universe of 143 projects.

No Supporting Documentation, Out of Scope, or an Issue with SF-270			
Measure	Estimate	Lower limit, based on actual observations	Upper limit of a 95 percent confidence interval
Number of projects with no supporting documentation, out of scope, or an issue with SF-270	62	16	112*
Percent with an exception in at least one of four criteria audited, in universe of 143 projects	43 percent	11 percent	78 percent
Estimated amount of questioned funds based on this set of criteria	\$3,810,996.01	\$1,597,443.07	\$6,024,548.95

*31 of the sampled projects were compliant based on this set of criteria.

No Adequate Matching Funds or Grants with Prior Unspent Funds

Based on our sample results, we estimate that 8 projects with inadequate matching funds or grants with prior unspent funds received awards. In our sample of 47 projects, we found 4 projects, totaling about \$1.03 million in expenditures, with no adequate matching funds or grants with prior unspent funds. We are 95 percent confident that between 4 and 20 projects with the same issues received funds. These results are shown in the table below, which includes the percentage values relative to the universe of 143 projects.

No Adequate Matching Funds or Grants with Prior Unspent Funds			
Measure	Estimate	Lower limit, based on actual observations	Upper limit of a 95 percent confidence interval
Number of projects with no adequate matching funds or grants with prior unspent funds	8	4	20
Percent with an exception in at least one of four criteria audited, in universe of 143 projects	6 percent	3 percent	14 percent

Exception to at Least One of the Four Criteria Audited

In addition to the criteria for which results are shown above, two other criteria revealed additional exceptions. One project had an exception for failure to provide required matching funds and three projects had unused funds from prior rural business enterprise grants. This “overall” measure combines these four exceptions with the exceptions related to the documentation and SF-270 criteria.

Based on our sample results, we estimate 70 projects, with expenditures of about \$4.6 million, involved problems with one or more of the four criteria. In our sample of 47 projects, we found 20 projects with at least one exception. We found 27 projects with no exceptions, meaning that the maximum number with one or more exceptions, in the universe of 143 projects, was 116 projects. In this case, the actual observations constrain the limits of the calculated confidence interval; therefore, we are reporting the actual values as the limiting values: from 20 to 116 projects contained at an exception to at least one criterion. These results are shown in the table below, which includes the percentage values relative to the universe of 143 projects.

Overall – Exception to at Least One Criterion of the Four Criteria Audited			
Measure	Estimate	Lower limit, based on actual observations	Upper limit of a 95 percent confidence interval
Overall estimate	70	20	116
Percent with an exception in at least one of four criteria audited, in universe of 143 projects	49 percent	14 percent	81.1 percent
Estimated amount of questioned funds based on this overall set of criteria	\$4,595,885.24	\$2,382,115.15	\$6,809,655.33

Exhibit C – Listing of Projects by State and Recovery Recommendations

The table below lists States and the number of projects in each State that were identified in the finding. The dollar amounts questioned for each project and the recovery recommendations are identified as well as the projects without monetary problems.

State	Project	No Issues	Unsupported Costs, Recovery Recommended	Questioned Costs, Recovery Recommended	Questioned Costs, No Recovery	Questioned Costs, No Recovery	Questioned Costs, Recovery Recommended
Georgia	1				\$56,000.00		
Georgia	2	X					
Georgia	3				\$99,999.00		
Georgia	4				\$99,999.00		
Georgia	5				\$99,352.00		
Georgia	6	X					
Georgia	7		\$18,418.73				
Georgia	8	X					
Georgia	9	X					
Georgia	10	X					
Georgia	11	X					
New Mexico	1	X					
New Mexico	2	X					
Oklahoma	1					\$399,999.00	
Oklahoma	2				\$99,750.00		
Oklahoma	3	X					
South Dakota	1	X					
South Dakota	2	X					
South Dakota	3	X					
South Dakota	4	X					
South Dakota	5		\$18,288.00				
South Dakota	6		\$14,940.80				

State	Project	No Issues	Unsupported Costs, Recovery Recommended	Questioned Costs, Recovery Recommended	Questioned Costs, No Recovery	Questioned Costs, No Recovery	Questioned Costs, Recovery Recommended
Kentucky	1	X					
Maine	1			\$16,003.00			
Maine	2				\$253,000.00		
Maine	3	X					
Tennessee	1			\$393.97	\$199,605.03		
Minnesota	1	X					
Iowa	1	X					
Iowa	2						\$33,660.00
South Carolina	1		\$75,000.00				
South Carolina	2		\$199,991.00		\$0.00		
South Carolina	3			\$572.90			
Illinois	1	X					
Delaware	1	X					
Maryland	1	X					
Missouri	1			\$339.05			
Virginia	1	X					
Virginia	2				\$99,600.00		
Virginia	3	X					
Virginia	4	X					
Ohio	1	X					
Nevada	1	X					
Texas	1	X					
Texas	2					\$300,000.00	
Texas	3					\$300,000.00	
Texas	4	X					
Totals ³⁵			\$326,638.53	\$17,308.92	\$1,007,305.03	\$999,999.00	\$33,660.00

³⁵ In Exhibit A, these figures have been rounded to the nearest dollar amount.

**USDA'S
RURAL DEVELOPMENT'S
RESPONSE TO AUDIT REPORT**



United States Department of Agriculture
Rural Development

December 11, 2012

SUBJECT: Official Draft Response - Rural Business
Enterprise Grants Recovery Act Controls (Audit
No. 34703-001-31)

TO: Gil Harden
Assistant Inspector General
for Audit

Attached for your review is the response from the Administrator of Rural Business-Cooperative Service to the subject official draft.

If you have any questions, please contact Debby Shore of my staff at 202-692-0191.

/s/ John L. Dunsmuir

JOHN L. DUNSMUIR
Acting Director
Financial Management Division

1400 Independence Ave, S.W. • Washington, DC 20250-0700
Web: <http://www.rurdev.usda.gov>

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Washington, DC 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).



United States Department of Agriculture
Rural Development

December 10, 2012

TO: John L. Dunsmuir
Acting Director
Financial Management Division

From: Lillian E. Salerno \s\ Lillian Salerno
Acting Administrator
Rural Business-Cooperative Service

SUBJECT: Rural Business Enterprise Grants Recovery Act Controls,
Audit 34703-0001-31

This memorandum is to present the Agency's responses to the recommendations of the subject audit. Please use Office of Inspector General (OIG) Exhibit C - Listing of Projects by State and Recovery Recommendations as a reference guide.

Recommendation 1

Recover \$326,639 in Rural Business Enterprise Grant (RBEG) Recovery Act funds that lack sufficient support.

Recommendation 1.1

Unsupported Costs, Recovery Recommended - \$18,418.73 from the City of Shellman (Georgia) – The grant recipient initially submitted a request for reimbursement for \$99,850.40 with supporting documentation for expenditures in the amount of \$81,431.67. Rural Development personnel did not verify the supporting document and instead reimbursed the grant recipient for the requested amount. This resulted in an overpayment of \$18,418.73. According to the grant recipient, it was an error on their part and they did not know why the area office had reimbursed them for the full amount of \$99,850.40. The grant recipient has already provided a list of additional expenditures with supporting documentation to cover the disputed amount, so no further recovery is necessary. ***In order to achieve management decision, Rural Business and Cooperative Service (RBS) needs to provide us with details regarding recovery of the questioned costs for this project and documentation of \$18,418.73 in eligible expenses, or other corrective action taken.***

Agency Response

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No further recovery is necessary. The Georgia State Office has provided the National Office with copies of additional receipts which add up to more than the amount in question and therefore, no recovery is necessary. We have attached the backup documentation to our response.

Recommendation 1.2

Unsupported Costs – Recovery Recommended - \$18,228.00 from Whetstone Valley Business Opportunities (South Dakota) – This was a technical assistance project. When requesting release of grant funds, the grant recipient did not provide any supporting documentation to show how the grant funds were used, or what was accomplished using the grant funds. Additional documentation provided to OIG during fieldwork did not fully verify the grant funds were used appropriately, or that the funds were used to meet the project objectives. The project has since disbanded, and we would agree that recovery is unlikely. To address this issue, the [REDACTED] provided additional training for all South Dakota RBS specialists on what information to obtain from any future RBEG projects that involve technical assistance. ***In order to achieve management decision, RBS needs to provide us with details of their management decision and supporting evidence regarding recovery or waiver of the questioned costs for this project, or other corrective action taken.***

Agency Response

Further recovery of funds is not possible. Based on National Office communications with the South Dakota State Office, the Whetstone Valley Business Opportunities grantee is no longer in business, and the organization has disbanded. Consequently, Rural Development will not be able to recover the amount in question. However, the [REDACTED] has provided specific training to the field specialist in regards to the required documentation and matching to the scope of work, as well as quarterly reports so that no further payments for technical assistance grants will be made without total verification of funds spent and reasons for the reimbursements.

Recommendation 1.3

Unsupported Costs – Recovery Recommended - \$14,940.80 from National Enterprise Development Center (South Dakota) – This was a technical assistance project. The grant recipient submitted an RBEG “information sheet” with their initial request and the specialist approved the reimbursement request based on these documents. During our visit with the grant recipient, he provided spreadsheets detailing how the Recovery Act RBEG funds were used. OIG provided the [REDACTED] with copies of the spreadsheets and [REDACTED] found several ineligible items, initiated corrective actions, and recovered the funds. The [REDACTED] provided additional training to all [REDACTED] staff and used this experience as an example at a training meeting for other State program directors. ***In order to achieve management decision, RBS needs to provide documentary confirmation that the unsupported costs were recovered.***

Agency Response

The South Dakota State Office has recovered the amount in question and the funds have been returned to the Finance Office to be returned to the Treasury Department.

In addition, the [REDACTED] has provided specific training to the field specialist in regards to the required documentation and matching to the scope of work, as well as quarterly reports so that no further payments for technical assistance grants will be made without total verification of funds spent and reasons for the reimbursements.

Recommendation 1.4

Unsupported Costs – Recovery Recommended - \$75,000.00 from Salkehatchie Arts (South Carolina) – Documentation stated the project was, “*An economic and community development project using arts and tourism to increase economic development. Supports for a retail center providing a retail outlet for artists from the 5 county USC Salkehatchie regions.*” The project description stated the funds are for management and technical assistance. This project uses the same personnel for technical assistance as the Western Carolina Higher Education Commission (WHCEC) project. The recipient did not provide detailed supporting documentation with their requests for reimbursement. Based on our review of additional information subsequently provided by the recipient, we found that funds were used for the salaries of the [REDACTED] for the affiliated retail art outlet and [REDACTED]. Because of the lack of supporting documentation showing details of the technical assistance provided by Salkehatchie Arts, we concluded the Recovery Act RBEG funds were not spent for eligible Recovery Act purposes. ***In order to achieve management decision, RBS needs to provide us with details of their management decision and supporting evidence regarding recovery of the questioned costs for this project. We also need to receive written evidence from RBS that the State and area office personnel responsible for servicing this grant recipient have been trained on the supporting documentation needed before additional RBEG funds are provided.***

Agency Response

No further recovery of funds is necessary. RBEG funds were used in accordance with the scope of work for RBEG eligible purposes. None of the \$75,000 in RBEG grant funds was used to pay Salkehatchie Leadership Institute (SLI) staff for their technical assistance that was provided to this project, but were considered in-kind contributions to the project. Based on the discussion between the National Office and the State Office personnel concerning the funds that have been disbursed for these projects, the State Office can provide electronic files which contain the necessary documentation, receipts and quarterly reports for the disbursement of these funds.

While the Salkehatchie Art Center (SAC) and WCHCEC projects are both technical assistance projects the management of the projects are not commingled. SAC and the \$75,000 ARRA RBEG Salkehatchie Arts project is a completely separate non-profit entity that deals specifically with the SAC retail store facility. This non-profit established this retail store facility under its non-profit umbrella. According to the scope of work, grant funds were used to pay the salaries of the [REDACTED] and two [REDACTED] and for supplies, operational and marketing expenses of the SAC. These employees provided direct technical assistance to the 70-90 artists/craftspeople who displayed their products for sale at the SAC. Also stated above, no grant

funds from the \$75,000 RBEG were used to pay any salaries of the WCHEC/SLI staff as their technical assistance to project was donated as “in-kind” services only.

The technical assistance provided by WCHEC/SLI staff to SAC consisted of providing global overall technical assistance for the initial establishment and location of the SAC. In addition, the WCHEC/SLI project provides the global marketing/tourism efforts for the Salkehatchie Lures and Salkehatchie Stew projects provided under the scope of work from the \$199,991 ARRA RBEG. The WCHEC/SLI project covers the entire Salkehatchie Region and by doing so, indirectly benefits the SAC project by bringing more tourists into the area to review the SAC’s artist work.

The National Office [REDACTED] and [REDACTED] provided specific training concerning grant servicing to the South Carolina State Office. The South Carolina State Office plans to provide similar training to the Area Specialist within the fiscal year as time and budget permits.

Recommendation 1.5

Unsupported Costs – Recovery Recommended - \$199,991.00 from WCHEC/South Carolina – As stated above, management of this project is commingled with Salkehatchie Arts and is also a technical assistance project. The recipient’s requests for reimbursement did not provide full details of how the grant funds were used or evidence that the activities completed met the grant objectives. Instead, the recipient submitted only brief spreadsheets using the project budget categories. We could only verify that Recovery Act RBEG funds were used primarily to pay the salaries of the WCHEC [REDACTED]. WCHEC officials provided no verification that their time charged to the Recovery Act RBEG project was spent directly on activities shown in the project’s scope of work. ***In order to achieve management decision, RBS needs to provide us with details of their management decision and supporting evidence regarding recovery of the questioned costs for this project. In addition, we need to receive evidence RBS State and area office personnel responsible for servicing this grant recipient received additional training on the supporting evidence they need to obtain before they provide RBEG recipients with additional funds.***

Agency Response

No further recovery of funds is necessary. RBEG funds were used in accordance with the scope of work for RBEG eligible purposes.

Per information taken from application received from WCHEC on this \$199,991 American Recovery and Reinvestment Act (ARRA) RBEG grant:

The WCHEC is the fiscal agent of the University of South Carolina (USC) Salkehatchie Campus and they are the entity that has the authorization to apply for and receive RBEG grant funds. USC Salkehatchie Leadership Institute falls under this non-profit umbrella. WCHEC was awarded the \$199,991 ARRA RBEG Grant for the USC SLI project. The application is for funding for the second year of Salkehatchie Lures and Salkehatchie Stew projects, economic

development and tourism efforts ongoing in the Salkehatchie region of South Carolina. Salkehatchie Lures is tourism development, small business assistance, and a marketing program that is implementing the recommendations of the Salkehatchie Region Tourism Study performed by the International Tourism Research Institute at the University of South Carolina and funded by a Rural Business Opportunity Grant through U.S. Department of Agriculture Rural Development. Salkehatchie Stew is a comprehensive tourism product that will be a focal point of the Lures efforts. Both projects are the result of community input and creative planning for the Salkehatchie Region. The current phase of the Lures project is focusing on general Lures web site development, development of a golf package for the region, creation of an Ambassadors Tour that includes the Topper archaeological site, two historic churches/cemeteries, a hunting lodge, two local plantations, a historical library building, the Rivers Bride Revolutionary War site, and the Salkehatchie Arts Center. Salkehatchie Stew is a storytelling initiative that has been under development in the community for several years. It is one of the primary products developed through Salkehatchie Lures. SLI is working with the well-known Swamp Gravy folk life play organization in Colquitt, GA as well as the International Storytelling Center in Jonesborough, TN to replicate the successes of those projects in the Salkehatchie Region. As planned, Salkehatchie Stew will use stories gathered from local communities to create theatrical productions in two local communities. Other communities have elected to host storytelling festivals that combine local stories with performances by well-know international storytellers. Both the performance-based model and the festival model will bring in outside tourists and regional traffic as they will also benefit from linkage to the SC Heritage Corridor. The budget includes only technical assistance funds which will be used to pay salaries/fringe, travel, consultants, supplies/equipment, and marketing. Project also includes a match of \$421,645 (in-kind and cash). SLI staff working on project includes [REDACTED]. Objectives included: continue implementation of a master plan for tourism marketing and development in the Salkehatchie Region; improve the business and economic climate in the Salkehatchie Region; and increase interaction among citizens of diverse background.

The quarterly reports provided on this project (especially the final report), document that technical assistance activities/events the SLI staff were involved in:

1. Continued to investigate the overall global potential tourism in the region.
2. Launched web platform and PR for Salkehatchie Region (including Facebook) and arranged and held press tours for travel writers in five counties which increased tourist traffic by 10 percent. Planned and held 6 productions of Salkehatchie Stew performances in Allendale/Hampton counties. Planned and held two-day storytelling festival in Bamberg County.
3. Planned and held Garden Tours in Bamberg, Colleton and Barnwell counties.
4. Held SBA workshop with 42 participants and planning additional small business workshops.
5. Held regular regional meetings with Salkehatchie Arts Board, SLI county and advisory boards to coordinate technical assistance activities.
6. Tourism development efforts included numerous volunteers from diverse backgrounds from the 5-county area.

7. SLI staff also provided assistance to the Phase I Carolina Theatre project in Allendale, SC.
8. They worked with Brunson museum board to further develop its museum and the Town of Allendale to develop University Mile.
9. They have also worked with the Savannah River Challenge, a fishing tournament, and co-sponsored the Savannah River Challenge event with Savannah River Keepers – another tourist attraction for the region.

The National Office [REDACTED] and [REDACTED] provided specific training concerning grant servicing to the South Carolina State Office. The South Carolina State Office plans to provide similar training to the Area Specialist within the fiscal year as time and budget permits.

OIG Position

Recommendation 2

Recover \$17,309 in RBEG Recovery Act disbursement amounts that were outside the scope of work.

Recommendation 2.1

\$16,003.00 - Northern Forest Canoe Trail, Inc. (Maine) – The grant recipient used \$13,325 of Recovery Act RBEG funds intended for a contractor on current employees' salaries. They also used \$2,678 on travel expenses for staff members even though their scope of work (SOW) stated that RBEG funds would not be used on travel expenses. The grant was not fully disbursed; therefore, Rural Development was able to allow the grant recipient to substitute other eligible expenses that were within the SOW for the ineligible expenses. The [REDACTED] [REDACTED] stated [REDACTED] has already taken all applicable steps to address the recovery of these funds. *In order to achieve management decision, RBS needs to provide documentary confirmation that the questioned costs were recovered.*

Agency Response

No recovery of funds is necessary. Based on emails and attached information provided by the Maine State Office, the grant recipient substituted other eligible expenses that were within the scope of work for the \$13,325 of ineligible expenses. Additionally, the attached documentation demonstrates that the Federal funds were spent for appropriate budgeted Federal items and that an additional \$20,000 of cost which is \$5,000 more than what was shown on the budget were covered by the applicant. All travel expenses were paid for using applicant contribution which were part of the original scope of work. The Maine State Office staff understands that grantees must submit requests for changes in their scope of work and the request need to be approved by an Agency approving official. Additionally, the Maine State Office has provided evidence that they also informed the applicant that in the future any deviations from the scope of work must be approved prior to expenditure of funds.

Recommendation 2.2

\$393.97 - Wayne County Government (Tennessee) – The Recovery Act RBEG project purpose was “to extend the water lines from the Waynesboro water system to the Wayne County Industrial Park.” However, the grant recipient inadvertently submitted a request for a “turn lane exhibit” for reimbursement. The Recovery Act RBEG project was not complete at the time of our review and the grant recipient stated he had inadvertently submitted the invoice for reimbursement. Both the area office specialist and the grant recipient agreed to correct this on the next reimbursement request. ***In order to achieve management decision, RBS needs to provide us with details of their management decision and supporting evidence regarding recovery of the questioned costs for this project.***

Agency Response

No recovery of funds is necessary. The Tennessee Wayne County Government project indicated that \$393.97 was overpaid. The Tennessee State Office has provided documentation on an SF-270 which was requested a reimbursement of \$4,500, and the State made an adjustment of \$393.97 and reduced the reimbursement to the grantee to \$4,106. This adjustment negates the overpayment of the \$393.97 and the amount remains available for other authorized expense for this project.

Recommendation 2.3

\$572.90 - Colleton Improvement Collaborative (South Carolina) – This project was for technical assistance and teaching new job skills. The grant recipient inadvertently submitted receipts for taxes and tax penalties for reimbursement. This grant was not completed at the time of our review; however, the [REDACTED] of the grant recipient stated the project would be closing due to lack of funds. [REDACTED] stated [REDACTED] would recommend to the project board of directors that the ineligible funds be returned. During our fieldwork, we noted there may be additional eligible project costs that were not submitted for reimbursement or as in-kind matching funds, including labor on behalf of the [REDACTED], which could take the place of the ineligible costs. ***In order to achieve management decision, RBS needs to provide us with their management decision and supporting evidence regarding the recovery of the ineligible expenses or other corrective action taken for this project.***

Agency Response

Further recovery of funds is not possible. South Carolina’s Colleton Improvement Collaborative project inadvertently submitted receipts for taxes and tax penalties in the amount of \$572.90 were reimbursed for these expenses. The Area Office was aware of other eligible project cost that was not submitted for reimbursement, but could have been submitted, the total of these costs is unknown. The organization is no longer in business and additional information is not available nor is recovery possible.

Recommendation 2.4

\$339.05 - Missouri State University (Mountain Grove Campus) – The Recovery Act RBEG project was to construct a demonstration project of new technology for growing fruits and vegetables in a “crop tunnel” and grant funds were to be used for “crop tunnel” equipment. However, the grant recipient included receipts for supplies and miscellaneous items in requests for reimbursement. The loan specialist stated he had not been involved with very many RBEGs and did not realize that he needed to obtain a written request for a change to the SOW before reimbursing the items outside the SOW. Missouri Rural Development State Office personnel stated this situation was corrected. ***In order to achieve management decision, RBS needs to provide us with their management decision and supporting evidence regarding recovery of the questioned costs or other corrective action completed for this project.***

Agency Response

Recovery of funds is not necessary. Missouri State University (Mountain Grove Campus) project submitted receipts for supplies and miscellaneous items in the amount of \$339.05 that were not in the approved original scope of work. However, the funds were reimbursed for supplies and miscellaneous items involved with making the “crop tunnel” equipment operable. This scope of work change would have been approved and expenses authorized upon the request from the grantee.

The documentation submitted by the Missouri State Office indicates that this was a management oversight and that the scope of work was revised and approved. Additionally, this documentation contains an email from the OIG stating that no recovery would be requested. Therefore, since the expenses were utilized to ensure that the approved equipment purchases would operate and the scope of work was modified and approved as well as the documentation from the OIG, no recovery will be requested from this grantee. If the OIG requires a copy of the revised and approved scope of work, we will obtain this from the Missouri State Office.

OIG Position

Recommendation 3

Provide all State and area office personnel in charge of overseeing RBEG projects with formal, comprehensive training on what constitutes adequate supporting documentation to validate RBEG recipients’ requests for reimbursement, on procedures for obtaining and verifying SF-270s, and on how to ensure that reimbursements for expenditures are for tasks, as defined in the scope of work.

Recommendation 3

Each of the listed projects had one or more missing SF-270s, or submitted form SF-270 more frequently than the once per 30 day requirement. However, during our review we were able to track expenditures for each cited project. The critical issue is that the SF-270 is the only document that the recipient signs verifying the accuracy of the information and truthfulness of their expenditures. Because we could verify through records that the funds were spent, we are not requesting recovery. ***In order to achieve management decision for the recommendation,***

we need to receive confirmation that all State and area office personnel in charge of overseeing RBEG projects were provided with formal, comprehensive training on what constitutes adequate supporting documentation to validate RBEG recipients' requests for reimbursement, procedures for obtaining and verifying SF-270s, and how to ensure that reimbursements for expenditures are for tasks as defined in the scope of work.

Agency Response

During the calendar 2012, the National Office [REDACTED] and the [REDACTED] divisions provided training to all State Offices Program Directors and Specialist concerning grant servicing. During this training, the appropriate documentation, quarterly performance reports and SF-270's were discussed. In addition, on February 22, 2012, the National Office conducted an RBEG grant monitoring and servicing webinar which was available nationwide. Documentation, program performance reports, SF-270's and changes in scopes of works were discussed during this webinar.

OIG Position

Recommendation 4

Provide all RBS personnel with training on the requirements to follow when awarding a sequential grant.

Recommendation 4.1

\$399,999.00 - Johnston County Industrial Authority (Oklahoma) – The grant recipient has a prior RBEG for a similar purpose. In June 2007, they received a \$499,999.00 RBEG for the construction of a business facility to allow an existing business to expand. The Recovery Act RBEG is for the construction of an industrial building located in the industrial park. Oklahoma Rural Development State officials said the beneficiary of the Recovery Act RBEG was a related party to the recipient of the 2007 RBEG. No funds had been spent on either project as of December 2011. In addition, the grant recipient had been written up in the State Internal Review for failure to submit the required performance reports or respond to written inquiries regarding the status of the 2007 RBEG project. ***In this case, we need to be informed on the status of the 2007 grant, specifically if Rural Development recovered the funds or if the grant recipient has finally used those funds since they would be expired (5 year limit according to regulations). Also, we need to be informed on the status of the Recovery Act RBEG and whether the Oklahoma Rural Development State and area officials received additional training regarding making eligibility determinations for RBEG applicants with unused funds from prior RBEGs and applicants that did not timely report the status of prior RBEGs.***

Agency Response

Rural Development Instruction 1942-G has no requirements that previously authorized grants be expended prior to approving a new grant for either similar or different purposes to the grantee. The Oklahoma State Office has provided documentation and can be verified through the

Guaranteed Loan System that the Johnston County Industrial Authority's \$499,990 2007 grant has been appropriately expended for the construction of a business facility to allow an existing business to expand. This grant currently has \$6,155.95 remaining to be disbursed on receipt of appropriate receipts and reports expected by the end of November 2012.

The Johnston County Industrial Authority's \$399,999 2009 grant for a similar purpose have been appropriately utilized and disbursed as of October 30, 2012, this grant currently has \$158,533.49 undisbursed and the Oklahoma State Office expects this amount to be appropriately disbursed within the next 90 days. These funds will be fully utilized within the 5 years statute of limitations.

Recommendation 4.2

\$300,000.00 - Hidalgo Economic Development Corporation (Texas) – The grant recipient received a Recovery Act RBEG for use as revolving loan fund. In June 2008, the grant recipient was previously awarded a \$200,000 RBEG for use as a revolving loan fund project, and had not used any of these funds. Because the prior RBEG was not fully expended before the Recovery Act award recipients were selected, the grant recipient was not eligible to receive Recovery Act funds. The grant recipient has since loaned out the funds from both RBEGs; therefore, we are not recommending recovery of the funds. ***In order to achieve management decision, we need to be informed whether the Texas Rural Development State and area officials received additional training regarding making eligibility determinations for RBEG applicants with unused funds from prior RBEGs.***

Agency Response

There is no requirement in 7 CFR 1942-G that the previous grant funds be expended and therefore the Texas State Office made a correct eligibility determination according to the regulations and no further training is necessary.

In June 2008, the Texas Hidalgo Economic Development Corporation (HEDC) was awarded a grant of \$200,000 for revolving loan fund purposes. This grant was awarded based upon loan applications on hand and expected applications to be received. Once the grant was awarded, the loan applicant's financial and economic conditions changed which made it difficult to close these loans. However, other applicants in economically distressed areas of HEDC's service area had been received as well as more were anticipated, therefore, it was determined that the grantee was eligible under the Recovery Act for the additional \$300,000 requested for revolving loan fund purposes. Subsequently, the loan applicant's financial conditions were resolved and this grantee has loaned both the \$200,000 and the \$300,000 grant funds to appropriate applicants.

Recommendation 4.3

\$300,000.00 - Development Corporation of Mercedes (Texas) – The grant recipient received a Recovery Act RBEG for use as a revolving loan fund. In June 2008, they were the recipients of a previous \$200,000 RBEG for use as a revolving loan fund. The grant recipient had not disbursed any of the funds from the 2008 RBEG; therefore, they were not eligible to receive the

Recovery Act RBEG. The grant recipient also received a \$750,000 Intermediary Relending Program award in 2009 (not from Recovery Act funds). The grant recipient has since loaned out the funds from both RBEGs; therefore, we are not recommending recovery of the funds. *In order to achieve management decision, we need to be informed whether the Texas Rural Development State and area officials received additional training regarding making eligibility determinations for RBEG applicants with unused funds from prior RBEGs.*

Agency Response

There is no requirement in 7 CFR 1942-G that the previous grant funds be expended and therefore the Texas State Office made a correct eligibility determination according to the regulations and no further training is necessary.

In June 2008, the Texas Development Corporation of Mercedes was awarded a grant of \$200,000 for revolving loan fund purposes. This grant was awarded based upon loan applications on hand and expected applications to be received. Once the grant was awarded, the loan applicant's financial and economic conditions changed which made it difficult to close these loans. However, other applicants in economically distressed areas of the Development Corporation of Mercedes service area had been received as well as more were anticipated, therefore, it was determined that the grantee was eligible under the Recovery Act for the additional \$300,000 requested for revolving loan fund purposes. Subsequently, the loan applicant's financial conditions were resolved and this grantee has loaned both the \$200,000 and the \$300,000 grant funds to appropriate applicants

OIG Position

Recommendation 5

Recover \$33,660 in RBEG Recovery Act disbursements where the grant recipient did not provide the required matching funds from non-Federal sources.

Recommendation 5

\$33,660.00¹ - Maquoketa Industrial Development Assistance Services (Iowa) – This Recovery Act RBEG was for use as a revolving loan fund. The RBEG was for \$99,000 and the grant recipient agreed to provide \$50,000 in matching funds. The \$99,000 was disbursed in February 2011 to one revolving loan fund applicant but the matching funds were not used. We believe if the grant recipient had been making an effort to re-loan the funds, it would not be an issue. However the grant recipient stated to OIG that they were not actively looking for additional

¹ Most States utilize a pro-rata allocation of RBEG funds and matching funds when disbursing funds. Our computation was as follows

1. $\$50,000 + \$99,000 = \$149,000$.
2. $\$50,000 / \$149,000$ equals to 34 percent.
3. $34 \text{ percent} * \$99,000 = \$33,660$ or the amount we are requesting be returned to Rural Development to be placed in their RBEG account.

recipients. Since this is in direct contrast to the purpose of the grant, corrective action needs to be taken.

In addition, the [REDACTED] stated that their normal policy is to provide only a percentage of the funds requested when matching funds are involved. Therefore, the recipient should have been given only 66 percent of the requested funds since the matching funds of \$50,000 equals 34 percent of the total amount. This would have forced the grant recipient to provide their matching funds. Rural Development national officials agreed with us that their normal policy is either to use a pro-rata calculation or obtain matching funds up front and neither was done in this case.

Our proposed solutions are: 1) close a revolving loan using the entire \$149,000 or 2) return the \$33,660 of matching funds not provided in the first loan. If the funds are not loaned out by September 30, 2013, all unused Recovery Act funds return to the Treasury Department. Our concern is that the funds may be sitting in MIDAS's account at that time and they will be overlooked and not recovered. ***In order to achieve management decision on this project, RBS needs to provide us with the details of their management decision and supporting evidence regarding recovery of the questioned costs or alternative corrective actions completed.***

Agency Response

The Iowa Maquoketa Industrial Development Assistance Services (MIDAS) received a \$99,000 grant and agreed to provide \$50,000 in matching funds for a total revolving fund of \$149,000. An initial loan of \$99,000 was made to one ultimate recipient. Based on a letter provided by the [REDACTED], the remaining \$50,000 is in an interest bearing account and that the City is actively pursuing other viable applications. Based on the [REDACTED] statement that they either require matching funds to be used up front or on a pro-rata basis, Rural Development's position is that the remaining \$50,000 is either all RBEG grant funds or that \$33,600 is Rural Development RBEG grant funds and \$16,400 is the City's matching funds. Since the [REDACTED] has stated in a letter that they are actively pursuing loan applications and the purpose of the rural development enterprise grant is to create and save jobs in rural America, Rural Development's position is that the funds will remain in the interest bearing account and will be loaned out in the near future. Therefore, Rural Development is not going to request \$33,600 recovery amount requested by the Office of the Inspector General. The Iowa State Office will continue to work closely with MIDAS to ensure that these funds are loaned out in accordance with the scope of work and by September 30, 2013, as stated in letter received from the [REDACTED].

Exhibit C – Listing of Projects by State and Recovery Recommendations

The table below lists States and the number of projects in each State that were identified in the finding. The dollar amounts questioned for each project and the recovery recommendations are identified as well as the projects without monetary problems.

State	Project	No Issues	Unsupported Costs, Recovery Recommended	Questioned Costs, Recovery Recommended	Questioned Costs, No Recovery	Questioned Costs, No Recovery	Questioned Costs, Recovery Recommended
Georgia	1				\$56,000.00		
Georgia	2	X					
Georgia	3				\$99,999.00		
Georgia	4				\$99,999.00		
Georgia	5				\$99,352.00		
Georgia	6	X					
Georgia	7		\$18,418.73 (1.1)				
Georgia	8	X					
Georgia	9	X					
Georgia	10	X					
Georgia	11	X					
New Mexico	1	X					
New Mexico	2	X					
Oklahoma	1					\$399,999.00 (4.1)	
Oklahoma	2				\$99,750.00		
Oklahoma	3	X					
South Dakota	1	X					
South Dakota	2	X					
South Dakota	3	X					
South Dakota	4	X					
South Dakota	5		\$18,288.00 (1.2)				
South Dakota	6		\$14,940.80 (1.3)				
Kentucky	1	X					
Maine	1			\$16,003.00 (2.1)			
Maine	2				\$253,000.00		
Maine	3	X					
Tennessee	1			\$393.97 (2.2)	\$199,605.03		
Minnesota	1	X					
Iowa	1	X					
Iowa	2						\$33,660.00 (5)
South	1		\$75,000.00				

State	Project	No Issues	Unsupported Costs, Recovery Recommended	Questioned Costs, Recovery Recommended	Questioned Costs, No Recovery	Questioned Costs, No Recovery	Questioned Costs, Recovery Recommended
Carolina			(1.4)				
South Carolina	2		\$199,991.00 (1.5)		\$0.00		
South Carolina	3			\$572.90 (2.3)			
Illinois	1	X					
Delaware	1	X					
Maryland	1	X					
Missouri	1			\$339.05 (2.4)			
Virginia	1	X					
Virginia	2				\$99,600.00		
Virginia	3	X					
Virginia	4	X					
Ohio	1	X					
Nevada	1	X					
Texas	1	X					
Texas	2					\$300,000.00 (4.2)	
Texas	3					\$300,000.00 (4.3)	
Texas	4	X					
Totals ²			\$326,638.53	\$17,308.92	\$1,007,305.03	\$999,999.00	\$33,660.00

² In Exhibit A, these figures have been rounded to the nearest dollar amount.

The Agency has reissued the RBEG Servicing AN, AN 4610 (1951-E) Rural Business Enterprise Grant Program Servicing Clarifications, dated December 16, 2011. The AN was reissued and updated to clarify the monitoring and reporting requirements for the RBEG program.

The Agency conducted two nation-wide RBEG Servicing training sessions through webinars on February 23, 2012, (The second session was a repeat session of the first session.) All Rural Development field office staff working in the RBEG program were invited to participate. The webinars were recorded and the transcripts and PowerPoint presentations posted to Agency's SharePoint for future reference and access by all field staff.

The Agency conducted 10 regional training sessions in FY 2012. The sessions were attended by all State Office Program Directors and a limited number of Loan Specialists. Training sessions included grant servicing—disbursement, monitoring, and reporting requirements, and the use of the Guaranteed Loan System for tracking and monitoring receipt of quarterly performance and financial reports. The training presentations are posted to the Agency's SharePoint for use for field staff training.

The Agency developed RBEG Servicing—Disbursements and Monitoring Frequently Asked Questions which were last updated and posted to the Agency's SharePoint on June 4, 2012.

The Agency will continue to provide training and guidance on an on-going basis.

If you need further information, please contact Virginia Gilchrist, Oversight Coordination Staff at (202) 690-3805 or via email at Virginia.Gilchrist@wdc.usda.gov.

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