



September 30, 2004

MEMORANDUM FOR: FEDERAL CO-CHAIR
ARC EXECUTIVE DIRECTOR

SUBJECT: OIG Report 04-18 – ARC Grant AL-13495
Auburn University at Montgomery
Alabama Mentoring Entrepreneurial Network

Attached is a copy of the subject report dealing with the Auburn University at Montgomery in Montgomery, Alabama. There is one recommendation and \$128,133 in questioned costs.

The questioned costs are the result of the grantee's inclusion of ineligible participants into the program; unauthorized changes in the scope of work; unauthorized use of ARC funds; and internal control issues.

The grantee stated that they have revised their policies and procedures. Follow-up and oversight by ARC should result in the resolution of many of the issues raised in the report. This report will remain open pending receipt of your management response.

Please contact me if you have any questions on this issue.

A handwritten signature in black ink, appearing to read "C/H Jennings", followed by a long horizontal line and a circular flourish.

Clifford H. Jennings
Inspector General

Attachment

cc: Director, Program Operations Division
Alabama State Alternate
Alabama State ARC Program Manager

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ACRONYMS AND GLOSSARY

ACRONYMS

ARC	Appalachian Regional Commission
OIG	Office of Inspector General
AU	Auburn University
AUM	Auburn University at Montgomery
G&A	Gorman & Associates
TANF	Temporary Assistance for Needy Families (Welfare)

GLOSSARY

Questioned Costs

The term "questioned costs" is defined as a cost that is questioned because of: (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation, i.e. "unsupported cost" or (3) a finding that expenditure of funds for the intended purpose is unnecessary or unreasonable. The term "disallowed cost" is defined as a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

EXECUTIVE SUMMARY

BACKGROUND

ARC Grant AL-13495 was awarded on March 29, 2000, to Auburn University-Montgomery (AUM), to provide funds for a project designed to facilitate "welfare to entrepreneurial work" for at least 15 women from the three Appalachian Distressed counties in Alabama: Hale, Macon and Pickens. The women were to be identified for inclusion in this project through the Departments of Human Resources in the three Appalachian counties. The project was to focus on providing mentoring for women moving from welfare to work by mentors who were themselves owners/operators of small businesses.

These women were to be partnered with 15 successful women from Appalachian Alabama, and would meet "one-on-one" to address issues such as entrepreneurial development, child care options, social and professional etiquette, transportation, housing, money management, parenting, etc. This "one-on-one" mentoring would occur as needed by the women, and the group would come together once monthly for training and follow-up.

The total project cost was estimated at \$177,870. The ARC grant was for \$142,370 (80 percent), for the complete and satisfactory performance of the grant agreement, as determined by ARC; and the grantee was to pay or cause to be paid the non-Federal matching contribution of \$35,500 (20 percent), as approved by ARC.

The draft report was sent to AUM on July 23, 2004, and a response was received from AUM on August 20, 2004. This final report contains the original areas of concern, the grantee's response and the auditor's comments.

RESULTS

Claimed costs were not fully supported by the grantee's accounting records and deficiencies were noted as to the allowability of the expenses and the adequacy of the documentation for the expenditures we reviewed, including the matching costs claimed.

Mason and Hale Counties' participants were not welfare women (Exhibit 1). Two of the participants in Pickens county were on welfare, but were overwhelmed with personal problems and a low level of education, thus not making them good candidates for this program. The ARC coordinator was not informed that the participants were mainly professional working women with college degrees. A total of 13 women participated.

AUM solicited and received the ARC grant. Although Gorman and Associates G&A) wrote the grant for AUM and was to perform some of the tasks in carrying out the grant, AUM was responsible for maintaining oversight and responsibility for the grant.

When a university solicits and accepts a grant, it adds credence to a project and an assumption that internal controls are in place; thereby federal agencies are more confident that a project will be completed as stated in the proposal and more likely to award the grant based on this confidence. It is imperative that universities maintain this standard and not pass responsibility on to a subcontractor without oversight. This was not a pass-thru block grant.

G&A was paid \$109,640 in advance before classes or any mentoring was started. G&A spent funds without approval from ARC. AUM did not provide proper oversight of the grant funds or program. Within the Alabama Mentoring Entrepreneurial Network (AMEN) program, neither the One-On-One Mentoring nor the Networking materialized. Gorman and Associates diverted ARC funds budgeted for the One-on-One Mentoring to other G&A expenses and payroll.

The goals of the grant were not met. Because the participants were ineligible for the program, all funds are questioned. We question \$128,133 ^{1/} paid thus far.

1/ The \$122,590 quoted in the draft report was incorrectly taken from the grantee's cost reimbursement form. The \$128,133 is from actual ARC drawdowns to AUM.

PURPOSE - SCOPE - BACKGROUND

PURPOSE

The purposes of our review were to determine (1) the allowability of the costs claimed under the ARC grant, (2) if the grant objectives were met, and (3) the current status of the project.

SCOPE

Our review included procedures to review costs incurred and claimed for reimbursement under the grant, as well as costs claimed as matching funds. The period of performance for the grant was November 1, 1999, to September 30, 2000, with requests for three extensions to December 31, 2001. We reviewed the grantee's reports, examined records, and held discussions with grantee officials in Montgomery, Alabama, on February 26 and 27, 2002, and throughout the following months.

As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreement, Office of Management and Budget (OMB) Circulars A-21 and A-110, and the ARC Code. Audit work was performed in accordance with Government Auditing Standards.

BACKGROUND

ARC Grant AL-13495 was awarded on March 29, 2000, to Auburn University-Montgomery, to provide funds for a project designed to facilitate "welfare to entrepreneurial work" for at least 15 women from the three Appalachian distressed counties in Alabama: Hale, Macon and Pickens. These women were to be partnered with 15 successful women from Appalachian Alabama, and would meet "one-on-one" to address issues such as entrepreneurial development, child care options, social and professional etiquette, transportation, housing, money management, parenting, etc. This "one-on-one" mentoring would occur as needed by the women, and the group would come together once monthly for training and follow-up.

The total project cost was estimated at \$177,870. The ARC grant was for \$142,370 (80 percent), for the complete and satisfactory performance of the grant agreement, as determined by ARC, and the grantee was to pay or cause to be paid the non-Federal matching contribution of \$35,500 (20 percent), as approved by ARC.

RESULTS

The grant was signed in May, 2000; by the end of 2000, AUM stated that the 15 one-on-one mentors would have to be dropped because they weren't able to recruit volunteers for the task. The program would then have three core mentors, each serving a county, with two overall mentors, one from AUM and one from Gorman and Associates.

About the same time, it was concluded by Gorman and Associates that they were not able to recruit the 15 welfare women to participate in the program. Pickens county was able to recruit two on welfare and one not on welfare for their program. The other two counties, Hale and Macon, had all applicants that were not on welfare, all were professional working women, mainly with the county government and had college degrees, two with masters degrees. A total of 13 women participated.

Although the program dynamics changed completely, no change in the scope or expenses was documented or the grant amended. The amount of funds remained the same as though they were all welfare women, needing the extra services. The ARC Project Director was not made aware that the participants were not welfare women.

During this same period, Gorman and Associates were involved in another ARC grant that also included one-on-one mentors as stated in their proposal. G&A was not able to recruit those mentors either, nor did they inform ARC as such. (See OIG audit report No. 03-16)

FINDING 1 - INELIGIBLE PARTICIPANTS

Mason and Hale Counties' participants were not welfare women (Exhibit 1). Two of the participants in Pickens county were on welfare, but were overwhelmed with personal problems and a low level of education, thus not making them good candidates for this program. The ARC coordinator was not informed that the participants were mainly professional working women with college degrees. At least two have a masters degree. AUM's listing of participants, dated January 2001, was submitted incomplete (Exhibit 2), the rest of the participants are college educated. One participant had applied to be a mentor but was accepted as a participant. She worked in a supervisory position with the Department of Human Resources and was well qualified to be a mentor.

Because all participants were ineligible for this program, all funds are questioned. We question \$128,133 paid thus far.

GRANTEE'S RESPONSE

The proposal for this grant indicated that the second objective is:

To identify and enroll at least 15 Appalachian Alabama women moving from welfare to work interested in entrepreneurial development through the Departments of Human Resources in the 3 Appalachian counties by the end of the first quarter.

This objective was not met in its entirety. AUM attempted to work with the Departments of Human Resources to identify participants. Additionally, AUM and Gorman and Associates staff distributed and displayed flyers, contacted local libraries, met with governmental entities, and conducted other activities in an attempt to locate women on welfare. Ms. Graves reports that the Departments of Human Resources were not responsive or helpful. According to Ms. Graves, some of the individuals they did identify, "could not afford not to work," in order to start a new business. Instead, they were just trying to find a job. Information from Ms. Graves describing project activities in October 2000 stated, "Unfortunately, there has been a lack of interest demonstrated by the representatives from the three County Departments of Human Resources (DHR) offices. Meetings have been scheduled and cancelled due to what appears to be a lack of interest by DHR. So we are going forward with other sources and will identify these participants and bring them into the program very soon."

At some point, Gorman and Associates evidently determined that the lack of success in identifying "welfare to work" women to participate in the project would require them to instead seek out women participants who were each needing entrepreneurial training and interested in starting her own business. Both Ms. Graves (personal conversation) and Ms. Gorman (e-mail communication dated 8-20-02, see Attachment A) have indicated that this matter was discussed with Ray Daffner, ARC coordinator for this project.

Various status reports included attachments with information about participants including educational status and, we believe, place of employment for those who were employed. Since this information was available in the status reports and Ms. Gorman and Ms. Graves had numerous conversations about the project with the ARC coordinator, it is difficult to believe that this issue was not discussed. If the project was allowed to continue and payment was issued after receipt of these reports, we can only believe that this was either not an issue or that it was a resolved issue.

The statement that the two TANF women were "overwhelmed with personal problems and a low level of education, thus not making them good candidates for this program" (pg. 2, Draft Report), is judgmental. First, we are not certain of the source of this information. Regardless, these women obviously met the set criteria and were interested in starting their own business. Many women on welfare - particularly those with responsibilities of maintaining a household and children - experience personal problems. This should not have disqualified them from participation.

We do not question the statement that the grant should have been amended based on the change in scope. However, based on the fact that the consulting organization AUM paid to carry out the grant work was run by a person who was extremely knowledgeable in the arena of economic

development, was purportedly well-versed in ARC grant guidelines, had a very good reputation and past work history, and had much more experience than any individual in the AUM unit awarded the grant (including the project manager for economic development hired during the term of the grant), we relied on her to ensure that appropriate procedures were followed.

We believe that (1) the intentions of those individuals involved from AUM were very good, (2) AUM individuals, in no way, sought to purposefully do less than the grant required, (3) we submitted reports documenting the project actions as reported by the consultant, and (4) the project truly assisted the participants. As such, disallowing the entire amount paid so far, seems inappropriate.

AUDITOR'S COMMENTS

Letters from the Department of Human Resources from Hale, Macon and Pickens county, were supposedly received by Gorman & Associates and made part of the proposal. The verbatim letters stated their future cooperation in helping with selecting participants and offered assistance in child care (the letters were not verified by ARC). AUM did inform ARC of the lack of assistance from Hale and Macom county when assistance was requested. We are also aware of the effort Ms. Graves put forth in distributing flyers and posters in an attempt to find participants. Although Ms. Graves stated that AUM was going forward with "other sources," that was not interpreted as non-welfare participants.

The reports prepared by Gorman & Associates never directly addressed the fact that the participants were not welfare women. The reports misled by omission, leaving the assumption that they were as stated in the objectives. The status attachments on the participants did show education on some (those omitted mainly had college degrees) but employer and job title were not listed (see Attachment 2). Several of the participants were actually employed by the Department of Human Resources in management positions.

Documentation shows Ms. Graves continuously attempted to get additional information, requested by the ARC Coordinator, from Ms. Gorman but was given misleading answers and excuses for delays in responding.

In August 2002, we requested copies of documentation between AUM-G&A-ARC stating the ARC Coordinator was aware of and agreed to the acceptance of non-welfare participants. Ms. Gorman's e-mail, dated August 20, 2002, to Ms. Graves, does not validate that any such conversation actually took place with Mr. Daffner. The e-mail states that Ms. Gorman could not find any such confirmation.

The ARC Coordinator stated that in the Fall of 2000, there was conversation with the grantee and the subcontractor (AUM) related to the difficulty of finding TANF recipients to participate in the program. He indicated that low-income women who were not TANF could be considered eligible participants for the program. He stated that they never discussed the involvement of college educated and employed women in the AMEN program and there were no

subsequent conversations with the grantee on the subject, he considered the matter to be resolved.

Correspondence dated after the program began, referred to TANF or welfare women in the program, giving the illusion that there was no change. None of the reports stated directly the number of participants on or not on welfare.

- The Final Report (page 3), received January 31, 2002, for the period May 2000 through December 2001, Objective Two states: to enroll 15 women moving from **welfare-to-work**. The report then lists 16 women initially enrolled in the program. No explanation or additional information is offered. A reasonable person would interpret this as directly stating that all the women were on welfare.
- The Final Report states that Objective Three, to identify 15 women mentors to partner with the **welfare-to-work participants** (page 4) was eliminated. No such statement was made referring to the elimination or change pertaining to the welfare women participants, but refers again to welfare women.
- The Progress Report for the period August 2000 through April 2001, states Objective Two: to enroll 15 women moving from **welfare to work**. This activity is marked in capital letters COMPLETED. No explanation or additional information is offered. This is directly stating that all the women were on welfare, as any reasonable person would interpret.
- An "Addendum" to the above progress report was submitted later in a different format. A close comparison of the two reports disclosed that any reference to welfare women was omitted, without any explanation. There was no reference to draw one's attention to the fact that the program scope was completely changed.
- The Final Program Evaluation Report by Ms. Burkhalter, states again that Objective Two was to enroll 15 women moving from **welfare to work** (page 5). The report explained the change in mentors but did not address the change in participants, as if there was no change.
- The core mentors attended the June 2001 Third National Conference on Women. The presentation by Ms. Graves and Ms. Gorman on the AMEN program stated several times it was helping women move specifically from **welfare to work**.
- The evaluator stated that she thought the participants were **welfare women**, and that Ms. Gorman did not tell her otherwise.

TANF participants were to be reviewed as to their ability to undertake such a program. There was a "criteria" that had to be met. A review of the notes of the Pickens county mentor showed the personal problems of the two TANF participants as overwhelming. She usually ended up with trying to help with

their personal problems. Life circumstances vary greatly for those under TANF, which is why criteria of their ability would be necessary.

FINDING 2 - FINANCIAL REVIEW

During our visit, we reviewed the grantee's accounting records, including invoices and supporting documentation for the grant costs charged to the project.

The grantee's final reimbursement request, dated September 10, 2001, claimed total costs of \$175,624, which included ARC grant costs of \$131,712 (75 percent); and matching costs of \$43,912 (25 percent), this would leave a deobligation of \$10,658. Total funds paid to AUM thus far are \$128,133. The grantee's last reimbursement request of \$9,122 was put on hold pending further review of grant funds and program results and the grant remains open.

Claimed costs were not fully supported by the grantee's accounting records and deficiencies were noted as to the allowability of the expenses and the adequacy of the documentation for the expenditures we reviewed, including the matching costs claimed. The Grant Agreement states that ARC would pay for:

"actual, reasonable, and eligible project costs." (Part I, Paragraph 4)

Gorman & Associates and Letta Gorman, LLC had been paid a total of \$109,640 as of January 1, 2001 (Exhibit 3), and has billed for another \$9,122. The program work completed by that time was the recruitment of three mentors and participants. The meetings had not started until February 2001. This was in noncompliance of the terms of the grant. The proposed budget was as follows:

	<u>ARC</u>	<u>Match</u>
Personnel	\$ 8,630	
Benefits	2,157	
Travel	7,000	
Equipment	9,000	
Contractual - G&A *	100,140	\$35,500
Supplies	1,500	
Other	<u>1,000</u>	
	\$129,427	
Indirect Costs	<u>12,943</u>	
Total	\$142,370	

* Contractual included:

Training for Participants	\$ 4,020
Small Business Set-up	15,000
Core mentors	40,320
One-on-one mentors	37,800
Evaluation	<u>3,000</u>
	\$100,140

Other than the personnel and benefits expenses (for AUM staff), all other funds were expensed by Gorman and Associates, without prior approval from ARC.

We requested a listing of actual expenses charged by G&A, the listing sent was not detailed (Exhibit 4). A more specific list was requested and received from G&A (Exhibit 5).

Below is a listing of actual claimed expenses submitted by G&A:

3 Core Mentors	\$32,006	included travel and supplies
Mia Gilbert	7,365	not authorized 1/
Brandon Callis	814	not authorized 1/
O'Mally	1,692	not authorized 1/
Phone (cell/office)	3,494	not authorized
Evaluation	3,336	\$3,000 authorized
Travel, meals, child care	2,034	for participants
Sonja Buckner	7,580	not authorized 2/
Chris Callis	6,970	not authorized
Postage/Printing	2,386	
Supplies	539	
Computers - rebuilt	7,021	proposal stated new computers
Travel	215	
Advertising	696	
Staff: Joe	8,630	not authorized 3/
Ann	6,859	not authorized
Bruce	3,574	not authorized
Chris G	1,764	not authorized
Lindsay A.	2,461	not authorized
Amex Charges	3,619	not authorized
	<u>103,055</u>	
Letta Gorman, legal fees	<u>15,000</u>	evaluation stated this was match
	<u>\$118,055</u>	

Not Authorized = not authorized by ARC or terms of the grant. Funds earmarked for the one-on-one mentoring services were diverted to pay for these subcontractors when the additional mentoring was dropped. The grant scope was not amended to include this change and the ARC Coordinator was not made aware of this significant change.

1/ Computer assistance, listed as match in proposal

2/ Ms. Buckner was to provide participants with Next Level training. Originally budgeted at \$1,500 then raised to \$4,200. We could not verify details of her involvement. She also provided booklets and CDs, which would already be available at the University. The Entrepreneurial University offers a business course for \$150 (Exhibit 6). The \$7,580 was not in the proposed budget.

3/ AUM and Mr. Joe Veres stated that he did not work on the AMEN grant.

Although G&A were involved with several grants at this time, they did not keep a separate ledger for each account, causing expenses and receivables to be commingled. G&A consider their Professional Services Agreements (PSA) (Exhibit 7) as fixed price contracts, and not needing accountability. It was difficult to match expense with a particular program benefit, as there was no chart of accounts.

On August 15, 2001, and again on October 30, 2001, the ARC Coordinator asked AUM (via email) "how will the dropping of the one-on-one mentors affect the budget, does it need to be revised?" Ms. Graves asked Ms. Gorman the question and Ms. Gorman stated that the budget doesn't need revision because that part was subcontracted to her. Ms. Gorman decided that even though the scope was completely changed with a large portion of the stated work eliminated, it would not affect the amount of funds she had received from AUM (Exhibit 3). No response on the budget was noted from AUM.

For a subcontractor to be paid all funds in advance, with no stated details or documentation required of results, ignores all principles of sound business.

AUM's Financial Procedures:

The policies and procedures are in place for internal control over the University's assets. As an extension of Auburn University, AUM was obligated to follow AU's financial procedures. We were told by AUM's accounting department that AUM did not have any restrictions for fixed price Personal Services Agreements (PSA). The following restrictions are part of Auburn University's financial procedures for PSAs:

- "A Professional Services Contract may not be used with anyone who is a current University employee, a retired/former AU employee, or with anyone who will become an AU employee in the foreseeable future.
- It is very important that all fixed-price contracts be clearly identified as such in the written agreement.
- In cases where the intended cost of the service is projected to exceed \$7500 in one fiscal year, a more detailed/comprehensive contract may be appropriate. If the contract exceeds \$10,000, Vice Presidential approval is required."

AUM subcontracted to Gorman and Associates. Ms. Gorman was a former employee of Auburn University. The PSA did not specify that it was a fixed price contract. Vice Presidential approval was not obtained for agreements over \$10,000 for Gorman and Associates, even though G&A had approximately two million in grants with AUM (Exhibit 8).

GRANTEE'S RESPONSE

As stated in the Draft Report (pg. 3), the proposed budget included a line item for contractual expense at \$100,140. The agreement between Gorman and Associates and AUM began 1 June 2000. Gorman and Associates was paid to manage the grant and meet the proposal guidelines. While, after the fact, it is clear that it was not wise to pay Gorman and Associates so early into the project, Gorman and Associates staff reported that work was being accomplished.

Additionally, we had no reason to believe that Gorman and Associates would not perform the work as outlined in the proposal and according to ARC guidelines because she was the experienced expert, members of AUM have known her and of her reputation for good work for years, and it appeared that she was doing what could be done on the project at the time.

We cannot justify the expenditure of Gorman and Associates for items indicated as "not authorized" in the Draft Report. The professional service agreements between Gorman and Associates and AUM were relatively vague and more global with respect to requirements. The very nature of that agreement - the fact that the person is a contract worker and not an employee - lends itself to less detail. Admittedly, we inappropriately placed total faith in Gorman and Associates to carry out the work described in the agreements between Gorman and Associates and AUM in accordance with the proposal (with which Gorman and Associates was extremely familiar as Ms. Gorman was the one who wrote it) and ARC guidelines. The agreements required payment at specific time periods during the agreement period, which AUM honored. In turn, we expected Gorman and Associates to carry out its responsibilities accordingly, which Gorman and Associates staff reported that they did in the progress reports they generated for ARC on AUM's behalf. Unfortunately, that was not the case. Gorman and Associates did not fulfill its agreement with AUM. Looking back on this experience and a number of similar experiences that happened during this same time frame, it seems unwise that we put total trust in Gorman and Associates to carry out this work. However, based on the reputation and prior work experience in this area, we never expected anything less than that which was required by and outlined in the proposal.

Regarding the expenditure of \$7,021 for computers, the Draft Report indicates that these were "rebuilt" computers. We do not see the word "rebuilt" used to refer to these computers in the attachments to the Draft Report. (Perhaps this information came directly from Gorman and Associates personnel.) Ms. Graves indicated that, to her knowledge, the computers were new, and that she saw the new computer boxes in Gorman and Associates offices at the time that they were to be distributed.

The legal services ("Letta Gorman, legal fees") provided by Ms. Gorman for \$15,000 were for Small Business Set-up as identified as a part of the Contractual agreement and listed as a line item in the proposed budget. The evaluation report (Attachment B, pg. 11) indicates that Ms. Gorman "provided services to legally establish participants businesses at no cost to the AMEN Program." Ms. Gorman was paid to conduct Small Business Set-up, but also provided legal services above and beyond those covered by the \$15,000. In fact, looking at the description of legal services provided (Attachment C), the total billable hours at Ms. Gorman's rate totaled

nearly \$22,000. Only \$15,000 was actually billed and charged to the grant. Regardless, legal services were not a required match, based on the budget detail provided in the proposal. With respect to the comment that Ms. Buckner, "provided booklets and CDs, which would already be available at the University," Ms. Graves indicated that this is not accurate. While the materials provided by Ms. Buckner may be similar to those offered through the Entrepreneurial University (as she wrote these also), Ms. Graves indicated that the materials Ms. Buckner provided for grant participants were modified to specifically fit their situation and location. For example, they identified local resources available in each of these counties.

We agree that, from the description identified in ARC audits, it appears that Gorman and Associate's co-mingling of various accounts made for a financial situation difficult to interpret. We don't believe that to be reflective of sound financial practice. However, as Gorman and Associates was a contractor, we had no control over the organization's personal financial management practices

AUM's Financial Procedures:

AUM uses Auburn University Financial Policies and Procedures as guidelines for processing financial documents. Certain policies and procedures may be modified to reflect the needs of AUM. In fact, AUM is not, as stated in the Draft Report (pg. 5), "obligated to follow AU's financial procedures." All professional services agreements are reviewed by AUM's Business Services Office personnel in accordance with AUM policies and IRS guidelines (Attachment D). The fact that Letta Gorman is a former Auburn University employee does not impact the terms of any agreement because AUM did not enter into this agreement with Letta Gorman, but rather Gorman and Associates, LLC.

Regarding the Auburn University requirement for Vice Presidential approval of agreements over \$10,000, during the period of this grant, this was not a requirement on the AUM campus. Since that time, this policy has been put into place. Today, all professional services agreements in an amount of more than \$10,000 must receive approval of the Vice Chancellor of Financial and Administrative Services.

AUDITOR'S COMMENTS

We understand the fact that AUM relied too heavily on G&A's previous reputation and close relationship. AUM appears to have taken steps to ensure that controls are in place and this situation should be avoided in the future.

A large amount of funds were claimed to have been spent for equipment and technical services for web sites and networking that did not materialize and was not even feasible in that geographical area. We were told by participants and Ms. Gorman that the computers were rebuilt, bought over the internet through Gateway. Funds for computers were in the budget. The technical services for set-up and web design was to be provided as a match.

The \$7,580 for Ms. Buckner was not authorized. An e-mail from Ms. Graves to Ms. Gorman, dated January 15, 2002 (after the grant expired) was requesting the CDs and brochures prepared by Ms. Buckner. These should have been distributed while the program was active. The three booklets had the name of each county on the front page and a paragraph pertaining to that county. The

20-page booklet contained basic business information, and listed several sponsors on the back. No detail of the \$7,580 was provided.

See Finding 5 concerning the legal services.

AUM gave complete control to Gorman and Associates, without any oversight, to spend ARC funds however Ms. Gorman deemed. Because AUM considered this a pass-thru grant to G&A, along with other grants awarded thru AUM to G&A, AUM was unaware how funds were being spent. Therefore, it is difficult for AUM to justify claimed costs. AUM awarded two million in state and federal grants to G&A without requiring G&A to have a financial allocation method in place.

FINDING 3 - MENTORING

The proposal stated there would be 15 one-on-one mentors recruited from the business community to give each participant individualized attention. If these women were on welfare, the assumption was that they would need intense mentoring to include: child care options, education and training, social and professional etiquette, transportation, housing, credit, money management, parenting and other life issues. Also, three core mentors would meet with the whole group monthly to oversee all activities.

Although the one-on-one mentoring was dropped from the program and the majority of the participants were not on welfare and in need of extensive social services, but working college-educated women, the budget remained the same.

The proposed and actual budget for the mentoring services consisted of:

	<u>Proposal</u>	<u>Actual</u>	<u>Difference</u>
Core Mentors	\$40,320	\$32,006	(\$ 8,314)
One-on-one mentors	<u>37,800</u>	<u>0</u>	<u>(37,800)</u>
Total	\$78,120	\$32,006	(\$46,114)

The total amount spent for the Core Mentors in the three counties consisted of:

<u>County</u>	<u>Amount</u>	<u>Welfare</u>	<u>Working</u>
Pickens	\$ 5,684	2	1
Hale	15,124	0	4
Macon	<u>11,198</u>	<u>0</u>	<u>6</u>
	\$32,006	2	11

The additional \$46,114 budgeted for mentoring was spent for other unauthorized subcontractors' services, mainly within G&A.

Some of the participants were under the impression that they were going to be given financial assistance to start a business. One participant owned a beauty salon and wanted funds to remodel and expand.

The mentors provided their own learning materials and agenda. One mentor stated that she used "The Idiot's Guide to Starting Your Own Business." Auburn University nor Gorman and Associates provided a syllabus for training to ensure that all participants were on the same track of learning. Throughout the year of meetings, emphasis was placed on each participant completing a business plan (Exhibit 9) and applying for an Employee's Identification Number (EIN), even though none actually created a new business or were near the possibility of starting a business.

The core mentors were not competitively bid as required by the ARC Coordinator. In a March 13, 2000 e-mail, Mr. John Veres cited the reason for a delay was "reducing compensation for Core Mentors necessitated some negotiation." The Core Mentors stated there was no negotiations, they were told they would be paid \$35 an hour and they accepted. The proposal originally stated \$60 an hour for the core mentors.

GRANTEE'S RESPONSE

As explained in the status reports, Gorman and Associates personnel and Ms. Graves of AUM had difficulty identifying women who owned their own business in the three participating counties. The more they became involved in the grant project and the longer they searched for mentors, the more apparent it became that the environment in these counties was not conducive to facilitating women owned businesses. In the absence of one-on-one mentors, the core mentors decided to take a greater role in mentoring the individual participants.

Regarding the comment that the participants were "under the impression that they were going to be given financial assistance to start a business," Ms. Graves indicated that it was never the case that she or anyone in her presence led a participant to believe that she would be given financial assistance. Ms. Graves indicated that the participants were instructed that they would learn about resources for identifying potential financial resources. Speaking to participants after the fact about their expectation, may not be the most accurate reflection of what they were told. Individuals who participate in a program and do not succeed may be more likely to blame the program instead of themselves.

It is accurate that mentors provided their own learning materials and agenda. According to Ms. Graves, the mentors knew what they were supposed to cover as communicated to them through Gorman and Associates personnel and Ms. Graves. While they were responsible for identifying their own materials, Ms. Graves sent them materials for their use and made suggestions about sources of other materials. She reviewed many of the materials that the other mentors used. She indicated that the materials were "wonderful materials." As many people have different styles of leadership and management and different strategies for success and because mentoring is a personal, individualistic type of activity, it makes sense that the mentors would have the freedom to choose and/or develop their own materials. The Draft Report indicates that one of the mentors used "The Idiot's Guide to Starting Your Own Business" (pg. 6). This is correct. This is reported to be a good source of information, relevant to the topic and stated in a very basic manner - perfect for those novices who are not particularly business savvy.

Yes, as stated in the Draft Report (pg. 6) emphasis was placed on each participant completing a business plan and applying for an Employee's Identification Number. These are first steps in starting a business. While they may not seem particularly difficult or challenging to some people, they are important steps and they can be quite intimidating or challenging. While neither AUM nor Gorman and Associates staff could make anyone actually start a business, they could ensure that the participants completed the various stages necessary to start their own business.

No one from AUM can recall ever reading or being told that the core mentors should be competitively bid. Regarding Dr. Veres' 13 March 2000 e-mail about the reduction in compensation for the core mentors, Dr. Veres was provided this information by Gorman and Associates staff.

AUDITOR'S COMMENTS

The three mentors were experienced and capable of teaching the basic entrepreneurial course. They each acted independently with little or no oversight. Each provided their own material.

Our concern is that with the participants not being TANF and the dropping of the 15 one-on-one mentoring, the whole dynamics of the program had changed. The additional \$46,114 budgeted for mentoring was not authorized to be used for any other purpose. We have not seen any documentation that G&A discussed with AUM the reallocation of funds. From August to October 2001, the ARC Coordinator and Ms. Graves questioned G&A about amending the budget to reflect the change in mentoring.

The statement that Mr. John Veres quoted Ms. Gorman as stating there was some negotiating with the mentors to get their fee down, was misinformation from Ms. Gorman to explain a delay in responding. There was several references in the grant file to competitively bid for the mentor positions.

FINDING 4 – COMPUTERS

AUM stated that new computers with access to the internet were to be bought for the participants. A website was to be created for each of the participant's proposed business. The proposal stated that the creation of the website would be part of the match. Internet access is expensive in the three counties because they have to use a long distance line, and the participants did not want to pay that high cost. Access for the counties should have been established prior to submitting the proposal, as some distressed areas are known to not have reliable computer access. Those women working had access to the internet at their office. The participants stated that the computers were refurbished and were frequently breaking down. G&A claimed \$7,020 to purchase these rebuilt computers.

On February 27, 2002 (two months after the expiration of the grant), the ARC Coordinator stated that he could not access the web sites stated in the final report. A March 22, 2002, e-mail from AUM to ARC stated that all the bugs were worked out and the sites will be accessible. The OIG Auditor attempted to

access the sites on May 22, 2002, but could not. Apparently this important objective was not accomplished. This was supposed to be a large part of the match for G&A.

The participants and mentors stated that a couple of people helped with computer set-up and questions, but they had never heard of the rest of the names billed.

GRANTEE'S RESPONSE

It is our understanding that new computers were purchased for this project. Ms. Graves personally saw the new computer boxes at Gorman and Associates during the time the computers were to be delivered. If rebuilt computers were provided instead, this was done without our knowledge. However, we wonder what information, other than a participant's comment, led to the understanding that the computers were "rebuilt" as stated in the Draft Report (pg. 7). The fact that a computer frequently breaks down does not indicate that it is a rebuilt computer.

The websites identified in the final report were, indeed accessible. When the ARC Coordinator received the report, he indicated that he was having problems accessing the site. The problem was corrected and he was able to access the site according to Ms. Graves.

The fact the participants and mentors indicated that they had not heard of several of the names listed as individuals for whose work Gorman and Associates billed for computer work is not all that surprising. It is not necessary to work directly with a client to perform computer work. Much of this work can be done via the internet, setting up computers prior to delivery, etc

AUDITOR'S COMMENTS

Funds were not authorized for the various computer technicians. The websites and claimed networking was not available. See comments on page 10.

FINDING 5 - LEGAL SERVICES

Letta Gorman, Esquire, had a separate agreement, dated June 6, 2000, with AUM to provide legal services to AMEN participants, which included setting up sole proprietorships, partnerships, limited liability companies and corporations (Exhibit 10). Invoices from Letta Gorman, Esquire, to AUM stated "for services rendered" with no detail (Exhibit 11). AUM paid three such invoices of \$5,000 each, totaling \$15,000, the last on January 3, 2001, almost one year before such services were performed. Requests for specifics resulted in two different listings from Letta Gorman, Esquire. (Exhibit 12 and 13)

Considering that none of the participants were in a position to start a business without financial backing, the necessity of an EIN number and paperwork for profit and nonprofit organizations was unnecessary and overpriced. An EIN consist of filling out an application and mailing, which the women were capable of doing themselves. G&A's definition of a business created was an EIN and profit or non-profit paperwork filled out, not a functioning working business. The businesses listed as "created" by G&A, were fabricated by participants as models if they could start a business.

The program evaluation erroneously stated that the legal services were performed at no cost to the program.

GRANTEE'S RESPONSE

We do not agree that the legal services were of no value to the participants. The business set-up services provided were important initial steps in establishing a business. The ultimate value of the time and money spent depends on the motivation and success of new business owners, something not directly under the grant's control.

As stated above, the legal services ("Letta Gorman, legal fees") provided by Ms. Gorman for \$15,000 were for Small Business Set-up (identified as a part of the Contractual agreement and listed as a line item in the proposed budget). Ms. Gorman was paid to conduct Small Business Set-up, but also provided legal services above and beyond those covered by the \$15,000. In fact, looking at the description of legal services provided (Attachment C), the total billable hours at Ms. Gorman's rate totaled nearly \$22,000. Only \$15,000 was actually billed and charged to the grant.

It is a judgment call to say that "none of the participants were in a position to start a business" and that "the necessity of an EIN number and paperwork for profit and nonprofit organizations was unnecessary and overpriced" (pg. 8, Draft Report). Part of starting a business is obtaining an EIN and completing the required paperwork. This is a necessity before conducting business operations. It is not directly related to the business' financial backing. Thus, it should not be considered "unnecessary." The fee charged by Ms. Gorman was \$120 per hour, certainly not an unreasonable rate when compared to rates charged by most attorneys today.

The businesses listed by Gorman and Associates were, to our knowledge, actual businesses, not "fabricated by participants as models if they could start a business" (pg. 8, Draft Report). They were established as businesses based on the paperwork completed. It was up to the participants to apply the information they acquired from the project to make their business a healthy functioning business. Clearly, it may have been too optimistic for some, but the target population for the effort was by design unlikely to obtain employment and/or likely to be underemployed. In fact, the previously noted criticism that all participants were not TANF recipients is essentially a criticism that our consultants allowed the participation of individuals who were more likely to succeed than the target population identified in our proposal. ARC approved a grant application designed to target high-risk participants, and now castigates AUM for working with that high risk group.

AUDITOR'S COMMENTS

AUM did not work with "that high risk group" (welfare women) the majority of participants were college educated and working for the county in management positions. Your consultant (G&A) did allow individuals who were more likely to succeed than the target population (this is called "creaming"), and it was not the population as stated in Ms. Gorman's proposal.

It was not a "judgment call" that the participants were not in a position to start a business because we asked them during the interviews, wherein the

participants stated that they did not have the funds to start a business. The Pickens county mentor stated that her participants were overwhelmed with personal problems and debt to consider starting a business. The participants did learn about starting a small business and may use that information in the future.

It is highly unlikely that those participants learning the same at the Entrepreneurial University for \$150 were also required to get an EIN number and file legal papers for \$1,000 each before acquiring the ability to start their business.

Considering the various statements of "misinformation" from Ms. Gorman, it is difficult to understand that AUM would consider a bill for \$22,000 with such little detail. We stand by our conclusion that the \$15,000 to file legal papers at this time was premature even though it was a line item in the budget, a certain amount of reasonableness should prevail.

FINDING 6 - PROGRAM REVIEW

AUM was not able to recruit 15 welfare women to participate in the program. Pickens county recruited two welfare women, but with low education and extreme personal problems, therefore not good candidates for this program. By September 2000, the requirement was changed to any female living in the stated counties who had an interest in starting a business, regardless of financial position or social need. A poster was distributed throughout the three counties, it originally stated that the program was for women on welfare (Exhibit 14). In September 2000, the welfare requirement was eliminated.

Also, there were no volunteers for the one-on-one mentoring; this type of recruitment is known to be very difficult. These two objectives, upon which the grant was based, should have been thoroughly researched with known possible commitments, prior to submitting the proposal.

The Director of AUM stated in a July 20, 1999, letter to ARC, that the AMEN program "is modeled after a very successful Entrepreneurial University at the Montgomery Area Center." The statement was used to add validity to such a program as AMEN. The University offers a course on small business topics for \$150, with mentoring available within the business community. There were no other similarities as to the intense one-on-one mentoring for "social" skills or catering to welfare women as required in the proposal. The women from Hale or Macon county were more than qualified to take the Entrepreneurial University course.

The Core Mentors attended the Third National Conference on Women in Orlando, Florida, on June 20, 2001. Each gave a presentation promoting the AMEN program. The material used centered on helping women move specifically from welfare to work (Exhibit 15); even though the welfare qualification was dropped by September 2000, for this program. The need to sustain the program with participants becoming mentors to other women was also a stated objective.

The proposal stated the following objectives would be met:

<u>Proposal</u>	<u>Actual</u>	<u>Outcome</u>
<u>Objective 1</u> Establish a 4 member core team	Created a 5 member core team: 1 for each county and 2 from grantee	Accomplished
<u>Objective 2</u> Identify and enroll 15 women moving from welfare to work interested in starting a business	Of the 13 participants, 11 were working, mainly with the county governments, 2 on welfare and 1 not stated.	Not accomplished
<u>Objective 3</u> To identify and train 15 mentors for 1 on 1 with the welfare participants	Unable to recruit 15 mentors for 1 on 1, dropped early in program.	Not accomplished
<u>Objective 4</u> Operate program w/ 1 on 1: entrepreneurial training, Child care options, education and training, social/profess etiquette, housing, credit, parenting	The majority of the women were professionals and college educated and not in need of the social services.	Not accomplished to the degree as stated in the proposal.
<u>Objective 5</u> Reach and teach other women. (included participants mentoring other welfare women to spread program to other counties)	Participants stopped when grant expired.	Not accomplished
<u>Objective 6</u> Document and evaluate the outcomes of program, Including acquisition of housing, credit, financial help, transportation	Number of businesses actually started and outcomes not stated.	Not accomplished

The proposal also stated under Benefit and Performance Measures, "The current and future economic value of this program can be measured by the following indicators:

- A. Number of start-up women businesses
- B. Number of jobs created
- C. Establish and empower core team and pool of mentors.
- D. Enroll, train, mentor, and move 15 ARC TANF (welfare) women into employment.
- E. Sustained program (spread program throughout ARC counties)"

Other than the recruitment of three mentors (empower is not defined, appears they were already "empowered") for the grant period, none of the performance measures above were accomplished.

GRANTEE'S RESPONSE

The AMEN program was modeled after the Montgomery Area Center for Entrepreneurial Development's Entrepreneurial University. Both programs had the same central goal in mind: Giving individuals the knowledge necessary to determine whether they can and want to start their own business, and, if so, teaching them what they need to know to start their own business. Neither program was designed to start the business for you or to make you be successful. Certainly the AMEN program necessitated additional training not provided by the Entrepreneurial University based on the population from which the participants were to be chosen. It is a judgment call as to whether the Hale and Macon county participants were "more than qualified to take the Entrepreneurial University course" (pg. 8, Draft Report). There are no specific requirements listed to take this course. However, not all persons who take this course are successful. Nor do all participants actually start their own business.

Regarding the objectives listed on page 9 of the Draft Report, the information presented under the "Outcome" column for Objective 4 is not correct. Ms. Graves reported that participants received training on professional etiquette, maintaining good credit, and finding housing/buildings for their business. As many of the participants were older and/or not mothers of young children, the necessity for child care options and training on parenting was not deemed necessary.

With respect to Objective 5 on the same page, participants could not be forced to start their own business. It was only reasonable that the grant would provide for them the information necessary to make an informed decision about doing so. Many people who want to own their own business decide not to do so once they learn what it takes. Others cannot afford to go without steady income (or give up searching for steady income) while starting a business. Many who choose to start their own business give up or simply don't succeed. The AMEN project provided participants with the information needed to get started.

AUDITOR'S COMMENTS

We agree that most people taking this type of course are mainly interested in gathering information to make a decision and that most do not start a business. This course did just that. The difference in this particular course was the population to be served, women on welfare, and the intense one-on-one mentoring; therefore requiring additional funding for one-on-one mentoring.

The goals of the grant were not met.

FINDING 7 - LACK OF OVERSIGHT

AUM solicited and received the ARC grant. Although Gorman and Associates wrote the grant and was to perform certain tasks in carrying out the grant, AUM was to maintain oversight and responsibility for the grant. When a University solicits and accepts a grant, it adds validity to a project and an assumption that internal controls are in place. Agencies are therefore more confident that a project will be completed as stated. It is imperative that universities maintain this higher standard and not pass responsibility on to a subcontractor without oversight.

OMB Circular A-110 Subpart C, Post-Award Requirements, Reports and Records, .51 Monitoring and reporting program performance, paragraph (a) states in part:

"Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award."

AUM was responsible for closely reviewing progress and final reports ensuring the reports stated definite facts, figures and dates goals were accomplished within the reports, not repeat the social background for the area as stated in the proposal. In other words, comparing objectives and goals of the proposal to work actually performed and accomplished within the specified period.

When a grantee pays a subcontractor to prepare a proposal package for soliciting a grant project, the grantee is responsible for all the contents to be accurate. AUM did not fulfill their responsibility in administering this grant.

We recommend that AUM ensure policies for oversight on consultants are in place and followed.

GRANTEE'S RESPONSE

As has unfortunately been true for other grant projects completed during the same period, it is obvious, after the fact, that AUM put too much faith in the capabilities of Gorman and Associates. As mentioned previously in this response, Letta Gorman of Gorman and Associates has extensive experience working on grant projects. She has, in fact, worked in the area of grants for more than 25 years, much of that time for Auburn University in the Economic Development Institute. She has a very successful record in the area of the development and management of grants. AUM did not pass this work off to someone without a history and

knowledge in this area. Clearly, in hindsight, our trust was misplaced. Like the previous grant audit, to which is referred in the Draft Report, we had absolutely no idea that some activities had not been performed or had been altered, because Gorman and Associates, as the subcontractor, reported otherwise.

The Center for Business no longer has a working relationship with Gorman and Associates and has no current agreements with the organization, nor do we plan to ever enter into another agreement with Gorman and Associates. While Ms. Graves, AUM project manager, performed a considerable amount of work on this project, she entered the project after it had begun. She was new to AUM and very inexperienced in grants compared to Ms. Gorman. Instead, AUM relied upon (and entered into a financial agreement with) Gorman and Associates to manage the grant, complete all reporting requirements, recruit participants and mentors, and perform the majority of the activities listed in the grant proposal.

AUDITOR'S COMMENTS

Ms. Gorman's prior experience was working under the auspice of Auburn University and not as a private contractor. Contracting out the administration of the grant does not excuse AUM from responsibility of oversight for the grant.

AUM should have been aware of the grant requirements. The Memorandum of Understanding for ARC Projects, signed by Mr. John Veres on 10/18/99, states:

"Changes in Scope:

It is understood that a change-in-scope may not be implemented without prior written approval from the ARC ...a change in scope is any major change to the project design, ...the number of/or type of customers served..."

Our comments remain the same.

FINDING 8 - INACCURATE REPORTING

The progress reports and the final report contained inaccurate and misleading information. It appears that Gorman and Associates wrote both the progress and final reports and AUM was to review the reports. AUM did not verify the information contained therein. The reports were evasive to the facts and duplicative of the proposal wording but in the past tense as if the task had been successfully completed. No number of outcomes were cited.

For example, the Final Report (Exhibit 16):

- Page 2, lists websites that are not available, as discussed earlier in this report under Computers (page 13). These websites were to allow the extensive networking stated through out the reports and evaluation.
- Page 3, states "Objective Two: To identify and enroll at least 15 Appalachian Alabama women moving from **welfare-to-work** interested in entrepreneurial development ..." The report then lists 16 women in three counties. The report omits the fact that these are

- professional college educated working women, and only two are on welfare.
- Page 4, Objective four was to address the "social" needs, but does not state help given for housing, money management, parenting type issues. The report should have provided the information that the participants in Hale and Macom did not need these social services.
 - Page 5, again speaks of the computers and websites that did not materialize. The first paragraph states that "technical assistance was provided...by one the participants who completed the ARC MCSE training and certification, Mia Gilbert. This person did not complete and was not certified in the MCSE training. Nor did ARC authorize payment of \$7,364 to Ms. Gilbert. Also, the last paragraph states that a list of the businesses created follows. The businesses are created on paper only as explained on page 10 under Legal Services.

Progress reports were similar in their evasiveness of facts, for example: Progress report thru June 30, 2001 stated (page 2) that the guidebooks and CDs have been developed for the participants. In actuality, the guidebooks and CDs were not ready until after January 2002. They did not state the change in scope or the need for additional subcontractors within G&A. The racial and cultural make up of the mentors is repeated throughout.

There were two Evaluation Reports by Bettye Burkhalter, Ph.D. One is a presentation on the basic challenges for women entrepreneurs given July 13, 2001. The last paragraph of the evaluation states "The purpose of the AMEN Evaluation Seminar was achieved: to affirm that the AMEN Leadership Team is focused on the same goals ... to move from **welfare into the world of work.**" As stated previously, this requirement was dropped from this program in September 2000, but is not addressed in this evaluation. The Core Mentors were capable of giving this basic presentation.

The Final Program Evaluation Report (Exhibit 17) gives several pages of national and state statistics on women owned businesses and then states the objectives of the grant. The report then states "a qualitative analysis was conducted by the evaluator of the overall AMEN Program. Qualitative data, in the form of words rather than in the form of numbers, are a source of well-grounded explanations of processes occurring in the local context. The qualitative approach allowed the five mentors and the evaluator to go beyond proposed objectives and expectations of the funded AMEN Program." (page 5) Therefore, the report is lacking in facts and numbers.

The report states that the legal services of Letta Gorman was performed at no cost to the AMEN Program (pg. 11). In fact Ms. Gorman charged and was paid \$15,000 in advance for legal services. The report also describes various network levels, which did not materialize. The report again states (pg. 14) that one participant received their Microsoft Certified Systems Engineer (MCSE), but that person did not.

The Evaluator stated that she was given some information from Ms. Gorman to write the report and that Ms. Gorman edited the report. The evaluation was not an objective report with stated outcomes. The need for such reports of the

program was not apparent other than an attempt to add validity to the program.

We recommend that AUM ensure all reports are reflective of actual work achieved according to their submitted proposal for any future grants.

GRANTEE'S RESPONSE

Gorman and Associates was given the responsibility of grant management to include reporting requirements. All reports were produced by Gorman and Associates. It was certainly not the intention of AUM to submit reports that were anything other than completely accurate. The information contained in the reports paralleled the information Gorman and Associates was sharing with AUM. While it may seem that AUM did not verify the information presented in the reports, it was verified by the information Gorman and Associates provided and the information we saw (e.g., new computer boxes). As Gorman and Associates was being paid to manage the grants, and AUM had no reason to doubt the accuracy of the information Gorman and Associates personnel had reported, we did not give the oversight required to monitor every action and verify every statement. It was our error for failing to check behind Gorman and Associates to verify the accuracy of the work reported and to be certain that all reporting requirements had been met. Had this been an organization with which we were not familiar or individuals with whom we had not previously worked, we would have done so. As we previously stated, we relied on the good reputation and history of Letta Gorman and did not comprehensively check the work of Gorman and Associates for completeness and accuracy.

Regarding the lack of sufficient detail in the progress reports, it would have been helpful had we known that more detail was needed. Unless the ARC coordinator spoke directly to Ms. Gorman and she just failed to follow his suggestion, we are not aware that the ARC coordinator is unsatisfied with our reports. In fact, his 1 March 2002 e-mail to Ms. Graves (see Attachment E) would suggest that he was pleased with the information received. Any request for additional information was met in a timely manner. On the few occasions the ARC coordinator had questions, AUM promptly provided a response in writing and/or discussed the issue with him during telephone conversations. Other than these few requests, we are not aware that the coordinator needed additional information. Had we been aware of this, it could have been corrected.

AUDITOR'S COMMENTS

Documentation in the grant files show continuous e-mails from the ARC Coordinator to AUM and Ms. Graves to G&A, requesting more specific details, such as: the names of the participants attending the meetings, what was discussed, dates and time, types of business, etc. An e-mail, dated October 2001, the ARC Coordinator noted to the State Liaison concern over the grantee's ability to provide sufficient documentation. These were red flags that should have been noted by AUM, ARC and the State Liaison.

GRANTEE'S RESPONSE

Conclusions

As is true of another ARC grant project completed during this same time period, the idea for this grant was a great one. It was perhaps unrealistically optimistic in hindsight - but not so much so that ARC personnel awarding the grant believed it to be unachievable. Despite the fact that the AUM project manager was very involved in the project and the ARC coordinator communicated with AUM and ARC on several occasions and appeared to be very pleased with the outcome (see Attachment E), the project result was still not what was expected. We do not know the reason for the problems related to the responsibilities not accomplished by Gorman and Associates. Unfortunately, we are in a position in which communication with Gorman and Associates is not advisable. We shall not enter into any other agreements with Gorman and Associates and regret our experiences working on various projects with this organization. Unfortunately, much of that work occurred at the same time. We did not realize the extent of problems until the projects were over.

We hope that this response and supporting materials have provided clarification on a number of issues. Based on our experience with this grant and information pointed out in this audit (and the previous ARC audit), we have made several changes in the processes of the Center for Business and AUM. We are outlining these as follows:

- This review identified several weaknesses in the internal control and financial review procedures within AUM. As a result, individuals in this unit have been reprimanded.*
- Specific instruction regarding expected financial review procedures have been reviewed with the financial personnel.*
- The language in the professional services agreements has changed to include much more specific detail regarding the activities performed including in instances where appropriate, activity dates, progress reports, etc.*
- The Center for Business has discontinued any business relationship with Gorman and Associates. We shall not enter into another agreement with the organization.*
- Four Center for Business employees have attended grant courses and/or conferences*
- While the Center for Business has not been awarded another grant since the audit review began, we shall keep all management of future grants within the organization. Ms. Graves left AUM in April 2003. A project manager on staff who is also an attorney has taken on the responsibility for the economic development unit. She and the director have participated in a number of grant training sessions. We now have a much better understanding of the requirements and procedures to be followed. It was never our intention to become an organization that subcontracted the management of all grants out to others.*
- Three Center for Business employees attended a workshop presented by Auburn University on internal controls.*

SUMMARY

AUM's welfare to work program was to help 15 women on welfare start their own business with close one-on-one mentoring. It was anticipated that the welfare women would need intense mentoring with social skills, such as child care, housing, social etiquette, education, etc. AUM had subcontracted to Letta Gorman and Associates to administer the program. AUM was not able to recruit 15 qualifying welfare women or 15 women to serve as one-on-one mentors. AUM continued the program recruiting anyone interested in learning about starting their own business. ARC was informed of the change in mentors but not of the change in participants, which were college educated, professional working women not in need of social skills. They were taught a basic small business course, which was available for \$150 each at the Entrepreneurial University.

Since the main objectives of the grant were eliminated the grant should not have continued. Gorman and Associates had envisioned AMEN being spread throughout the whole of Appalachia and, therefore, did not want to withdraw the grant but continue it under other circumstances.

AUM paid G&A \$109,000 in advance before any classes or mentoring were started. G&A spent certain funds without approval from ARC. AUM did not provide proper oversight of the grant funds or program. Within the Alabama Mentoring Entrepreneurial Network (AMEN) program, neither the One-On-One Mentoring nor the Networking materialized. Gorman and Associates diverted ARC funds budgeted for the One-on-One Mentoring to other G&A expenses and payroll.

The goals of the grant were not met.

RECOMMENDATION

We accept that AUM has taken steps to improve internal controls over subcontractors, updated their financial procedures and included training for personnel involved with grants and contracts.

We question the \$128,133 paid to AUM and recommend that ARC recover the funds.

Listing of OIG's Exhibits

<u>Exhibits</u>	<u>Description</u>
1	Participants per Applications
2	AUM list of participants
3	AUM expenses
4	G & A Budget detail
5	G & A Budget detail (resubmission)
6	Next Level Training website
7	AUM Professional Services Agreement with Gorman & Associates (G&A)
8	AUM Payments disbursed to G&A
9	Mentor's Activity List
10	AUM Professional Services Agreement with Letta Gorman
11	Invoice submitted by Letta Gorman
12	Summary of legal work claimed by Letta Gorman
13	2 nd Legal Status Report
14	Poster distributed advertising program
15	Conference presentation slide "Moving from Welfare to Work"
16	Final Report from Letta Gorman
17	AMEN Final Program Evaluation Report

Participants per Applications

<u>County</u>	<u>Name</u>	<u>Job</u>	<u>Employer</u>	<u>Education</u>	<u>Welfare</u>
Macon	1. Nina Maxwell	Medicaid Specialist	Dept. Human Services	Post-Grad	No
	2. Gwendolyn Moore	Director of Federal Programs	Macon Bd. of Education	Post-Grad	No
	3. Mary Wilson	FSSW	AL DHR	College	No
	4. Gail Sims	Supervisor	Macon DHR	College	No
	5. Mia Gilbert	Payroll Accountant	Macon County Bd.	College	No
	6. Erica Thomas	Nurse	State of AL	College	No
Hale	7. Berndetta Howard	Beautician	Cora's Cut & Curl	College	No
	8. Naomi Long	RN	VA Hospital	College	Disability
	9. Jean Thomas	GED Instructor	Ed. Board	College	No
	10. Jasmine Guy-Moore	Literary Coordinator	Family Resource Ctr.	College	No
Pickens	11. Nezelda Roland	Not Working	N/A	9th grade	Yes
	12. Carol Ellis	Not Working	N/A	11th grade	Yes
	13. Alecia Gandy	Jobs Case Aide - 5 months	DHR	Some College	No

AMEN PARTICIPANTS JANUARY 2001							
NAME	ADDRESS	COUNTY	AGE	RACE	EDUC.	BUSINESS	COMPUTER
1. Skye Thompson	P.O. Box 275 Shorter, AL 36075	Macon	38	W	HS	Horse Motel	Yes
2. Erica Thomas	1923 Rosenwald Heights Tuskegee, AL 36083	Macon	30	AA	College	Dot.com	Yes
3. Jasmine Moore	1208 Baptist Hill Road Greensboro, AL 36744	Hale	45				
4. Nezeid Roland	100 Sandpiper Street Apartment 7B Carrollton, AL 35447	Pickens	23	AA	9th	24 hour child care	No
5. Carol Ellis	194 McCrory Village Dr. Apartment 107 Aliceville, AL 35442	Pickens	26	AA	11th	Catering	No
6. Alesia Gandy	P.O. Box 606 Carrollton, AL 35447	Pickens	35	AA	HS	Consulting	No
7. Shannon Betts	P.O. Box 1325 Reform, AL 35481	Pickens	31	AA	HS		
8. Gail Sidds	67D Rec. Center Road Tuskegee, AL 36083	Macon	46		College		
9. Mia Gilbert	1170 County Road 49 Tuskegee, AL 36083	Macon					
10. Nina Maxwell	1003 Ethel Drive Tuskegee, AL 36088	Macon					
11. Naomi Long	476 Tiger Road Greensboro, AL 36744	Hale					
12. Berndetta Howard	1910 Short Blount Street Tuskegee, AL 36083	Hale					
13. Mary Wilson	1141 County Road 55 Notasulga, AL 36866	Macon					
14. Gwen Moore	729 Marable Drive Tuskegee, AL 36083	Macon					
15. Martha Jean Thomas	12639 County Road 32 Greensboro, AL 36744	Hale					
16. Eva Mae Bryant-Green	17737 Alabama Highway 14 Sawyer, AL 36776	Hale					

Sheet 1

AMEN EXPENSES

AMEN					
#4-28029					
11/1/99 - 9/30/00					
\$ 142,370.00					
DATE					
	SALARIES		Paid		
5/31/01	Graves, Darla	\$	766.70	\$ 8,630.00	
6/30/01	Graves, Darla	\$	766.70	\$ 7,863.30	
7/31/01	Graves, Darla	\$	766.70	\$ 7,096.60	
8/31/01	Graves, Darla	\$	766.68	\$ 6,329.90	
	Transfer		3066.78	\$ 5,563.22	
	BENEFITS				
5/31/01	May	\$	135.89	\$ 2,157.00	
6/30/01	June	\$	135.87	\$ 2,021.11	
7/31/01	July	\$	135.89	\$ 1,885.24	
8/31/01	August	\$	137.96	\$ 1,749.35	
			545.61	\$ 1,611.39	
	MAINTENANCE				
6/15/00	Gorman & Associates	2860	\$ 30,000.00	\$ 118,640.00	VV2023119
6/15/00	Letta Gorman, Esq.	2860	\$ 5,000.00	\$ 88,640.00	VV2023175
7/31/00	Gorman & Associates	2860	\$ 30,000.00	\$ 83,640.00	VV2026165
9/27/00	Gorman & Associates	2860	\$ 21,120.00	\$ 53,640.00	VV2032711
9/29/00	Letta Gorman, Esq.	2860	\$ 5,000.00	\$ 32,520.00	VV2030172
1/3/01	Letta Gorman, Esq.	2860	\$ 5,000.00	\$ 27,520.00	2104965
1/3/01	Gorman & Associates	2860	\$ 13,520.00	\$ 22,520.00	2104963
			10,944.00	\$ 9,000.00	
	INDIRECT:				
			AUM	\$	12,943.00

Source: Tammie Moody, AUM
7/31/02

AMEN

Source: Gorman & Assoc.

Category	ARC	
Personnel		This portion was paid to support Graves' leadership with this program.
	Project Director (Graves)	\$ 8,630.00
Benefits	25%	\$ 2,157.50
Operating	Travel	7000
	Supplies	1500
	Printing	1000
	Training for participants	1500
	Small Business set-up	15000
	Consultants	
	core mentors	40320
	One-on-one mentors	37800
	Evaluation	3000
	Equipment	9000
Total Direct Costs		\$ 125,908
Indirect Costs (10%)		\$ 12,691
Total		\$ 139,598
Total Costs		\$ 139,598

These benefits supported Graves' participation.

This supported Graves' travel to the counties.

This supported Graves' supplies in support of the program.

This paid for the flyers, posters, applications, newsletters, and copying materials.

This covered the training provided by the Montgomery small business incubator.

This covered the legal costs, filing fees, consultation, and expenses associated with establishing the participants' businesses and 2 nonprofits.

This covered the core mentors' time, travel, and supplies.

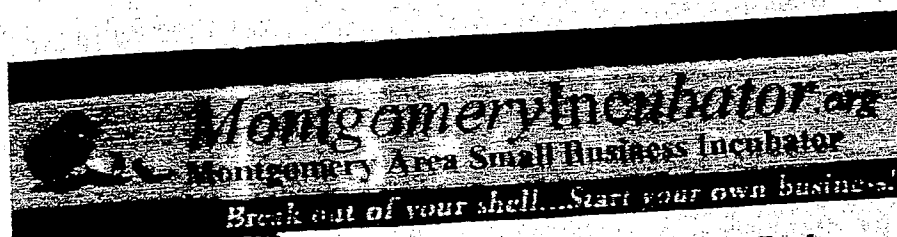
This covered training materials, the development of the CD's and booklets for the computer technical support (Mia), participants' travel to Montgomery, and some G staff time (mentoring).

This covered the evaluation by Dr. Bettye Burkhalter.

This covered the purchase of computers and printers.

Name	Amount	Explanation	
Burkhalter	\$ 3,336.16	Evaluation	
Smith, Shandra	\$ 5,684.03	Mentor - Pickens	
Burchfield, Maylena	\$ 15,124.07	Mentor - Hale	
Helms, Betty	\$ 41,198.43	Mentor - Macon	
Gilbert, Mia	\$ 7,364.68	Computer Consultant	
Buckner, Sonja	\$ 7,580.00	Training - CD's, Booklets	
Callis, Chris	\$ 6,970.25	Business Consultant & Financial Services	
Travel, Meals, Childcare	\$ 2,033.75	For Participants	
Incubator Postage Printing	\$ 305.14	Postage Copying	
Vercelli Printing	\$ 79.06	Copying	
CBED Printing	\$ 915.04	Printing Copying	
Gateway	\$ 7,020.61	Computers Printers	
Digital Color Printing	\$ 1,064.20	Posters Brouchures	
Harbins	\$ 539.39	Supplies	
Advertising	\$ 696.10	Ad's	
Callis, Brandon	\$ 814.03	Computer Consulting	
Postage	\$ 22.73	Correspondence	
Travel T.F.D. Deliver Equip	\$ 215.85	Travel	25%
LDG Cell	\$ 1,200.00		25%
Ann Cell	\$ 450.00		25%
Office Phone	\$ 1,843.84		
Joe	\$ 8,630.00	Set up AMEN, reporting, etc	
Ann	\$ 6,859.00	Admin Program	
Bruce	\$ 3,573.60	Research Compiled County Data	
Chris G.	\$ 1,764.00	Follow up participants	
O'Mally	\$ 1,692.00	Computer consulting	
Lindsay A.	\$ 2,460.80	Set up files, collected data	
AMEX Charges	\$ 3,618.87		
	\$ 103,055.63		

Source: Hoffman & Assoc.



Entrepreneurial University

To fill out Registration Form click [HERE](#).

ENTREPRENEURIAL TRAINING
Affordable entrepreneurial training with real world applications and business plan preparation.

NXLEVEL Entrepreneurial University

NXLevel for Entrepreneurs is a 12 session course designed for would-be entrepreneurs who want to expand their knowledge on how to develop a small business and the skills necessary to make it grow. It's been proven that the entrepreneur who plans is the entrepreneur who succeeds. For this reason, participants develop a comprehensive business plan during the course to act as the road map for future growth. Learn it tonight, use it tomorrow! NxLevel is designed to do just that - help potential and existing entrepreneurs learn the skills needed to create and strengthen successful business ventures. The courses include experienced business educators with prominent business leaders as guest speakers at each class session, networking opportunities with local business leaders and other participants, and one-on-one business counseling & support.

Sessions include:

- Introduction & Overview to Entrepreneurship
- Planning and Research
- Management & Legal Structure
- Marketing Analysis
- Marketing Implementation
- Financial Overview
- Managing Your Money
- Cash Flow Projections
- Understanding Your Financials
- Alternative Sources of Money
- The Deal Making Process
- Your Business Future

Classes are held twice each year, in February and August and all classes are held at the Small Business Incubator, 600 S. Court Street. The cost of the course is \$150, which includes a textbook, workbook and a resource guide. For more information or to enroll, please call Lisa McGinty (334) 240-6865 or Fernecia Hood at 832-4790.

Montgomery Area Center for Economic Development - Small Business Incubator
600 South Court Street | Montgomery, AL 36104
334-832-4790 | 334-240-6869 (Fax)
info@montgomeryincubator.org

NO: 14AUBURN UNIVERSITY MONTGOMERY
PROFESSIONAL SERVICES AGREEMENT

Auburn University Montgomery (AUM) and Gorman & Associates, L.L.C., the Contractor, hereby agree that:

1. The Contractor, acting in support of the ARC AMEN program will provide the following professional service: coordinating the provision of core mentors, one-on-one mentors, and the program evaluation for the ARC AMEN program.
2. The rendering of services will provide: procurement and facilitation of at least three core mentors, 15 one-on-one mentors, and program evaluation in compliance with ARC contract.
3. The Contractor will provide the above service during the following time period: June 1, 2000 through May 31, 2001. AUM reserves the right to specifically authorize all work in writing prior to the service being performed.
4. The Contractor will provide the above service at the following location: Macon, Hale, and Pickens counties.
5. The Contractor will be compensated by AUM for the above services in the amount of \$39,640 (Thirty-nine Thousand, Six Hundred and Forty Dollars).
6. The Contractor will receive compensation for services provided according to the following schedule:

June 1, 2000	\$30,000
January 1, 2001	9,440
7. AUM reserves the right to amend this Agreement with a 10 day written notice to the Contractor. AUM and/or the Contractor reserve the right to cancel this Agreement with a 30 day written notice or at any time by mutual agreement.

This contract has been reviewed and approved as conforming to Auburn University guidelines as outlined in Section 55319 of Financial Policies and Procedures Manual by the undersigned AUM personnel:

Sherrine Jackson
Director

Dane J. Wall
Purchasing Department

June 1, 2000
Date

6-2-00
Date

This contract has been reviewed and accepted by the undersigned Contractor:

Letta D. Gorman
Date: *05/26/00*

EIN: 63-1207403

NO: 14
AUBURN UNIVERSITY MONTGOMERY
PROFESSIONAL SERVICES AGREEMENT
AMENDMENT ONE

Auburn University Montgomery (AUM) and Gorman & Associates, L.L.C., the Contractor, hereby agree to amend their agreement as follows:

Paragraph 3: The Contractor will provide the above service during the following time period: June 1, 2000 through May 31, 2001.

Paragraph 5: The Contractor will be compensated by AUM for the above services in the amount of \$81,120 (Eighty-one Thousand, One Hundred and Twenty Dollars).

Paragraph Six: The Contractor will receive compensation for services provided according to the following schedule:

June 1, 2000	\$30,000
August 1, 2000	\$ 30,000
October 1, 2000	\$ 21,120

This contract amendment has been reviewed and approved as conforming to Auburn University guidelines as outlined in Section 55319 of Financial Policies and Procedures Manual by the undersigned AUM personnel:

Katherine Jackson
Director

Mahe J. Wall
Purchasing Department

July 12, 2000
Date

7-17-00
Date

This contract has been reviewed and accepted by the undersigned Contractor:

Steve Gorman
Date: 7-12-00

EIN: 63-1207403

NO: 14
AUBURN UNIVERSITY MONTGOMERY
PROFESSIONAL SERVICES AGREEMENT
AMENDMENT TWO

Auburn University Montgomery (AUM) and Gorman & Associates, L.L.C., the Contractor, hereby agree to amend their agreement as follows:

Paragraph 3: The Contractor will provide the above service during the following time period: June 1, 2000 through May 31, 2001.

Paragraph 5: The Contractor will be compensated by AUM for the above services in the amount of \$94,640 (Ninety-Four Thousand, Six Hundred and Forty Dollars).

Paragraph Six: The Contractor will receive compensation for services provided according to the following schedule:

June 1, 2000	\$30,000
August 1, 2000	\$30,000
October 1, 2000	\$21,120
January 1, 2001	\$13,520

This contract amendment has been reviewed and approved as conforming to Auburn University guidelines as outlined in Section 55319 of Financial Policies and Procedures Manual by the undersigned AUM personnel:

Katherine L. Jackson
Director

Diane J. Wall
Purchasing Department

November 7, 2000
Date

11-13-00
Date

This contract has been reviewed and accepted by the undersigned Contractor.

Lita Seaman
Date: 11/7/00

EIN: 63-1207403

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