



BLACK UNITED FUND OF TENNESSEE/ MINORITY ENTERPRISE DEVELOPMENT CORPORATION

Investigative Report
September 6, 2016

Justin P. Wilson, Comptroller





STATE OF TENNESSEE

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September 6, 2016

Jeffrey T. Higgs, Board Chairman
Members of the Board of Directors
Minority Enterprise Development Corporation
1109 Mississippi Blvd.
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Ladies and Gentlemen:

We performed an investigation of selected records of the Black United Fund of Tennessee (BUF) and the Minority Enterprise Development Corporation (MEDC) for the period July 1, 2012, through June 30, 2014. BUF and MEDC are nonprofit organizations located in Memphis, Tennessee, that received a nonrecurring reimbursement grant and direct appropriations from the State of Tennessee. During the period under examination, the two organizations shared the same executive director and board of directors. Our investigation revealed the following deficiencies:

- The Minority Enterprise Development Corporation had questionable disbursements totaling \$64,276.32.
- The board of directors did not provide adequate oversight of the Minority Enterprise Development Corporation's operations.

The findings and recommendations, as a result of our investigation, are presented in this report. We attempted multiple times to have management review these findings and recommendations to provide an opportunity for their response; however, management chose not to meet with investigators. Also, these findings and recommendations have been reviewed with the district attorney general for the Thirtieth Judicial District.

BACKGROUND

In fiscal year 2014, the Tennessee Department of Economic and Community Development (TNECD) had oversight authority over a \$75,000 nonrecurring grant to the Black United Fund of Tennessee (BUF). During the grant period, TNECD provided BUF with multiple opportunities for both its executive director and its board of directors to file appropriate supporting documentation so TNECD could issue payments. However, BUF reports were filed late, provided duplicate information, and were incomplete. Upon further review,

TNECD found that the supporting documentation supplied by BUF indicated a comingling of funds with the Minority Enterprise Development Corporation (MEDC) in both income and expenditure items. Meanwhile MEDC had a pending payment from its annual TNECD recurring direct appropriation of \$100,000. TNECD put payments to BUF and MEDC on hold until the fiscal situation could be evaluated. The responses and actions taken by the executive director and the board regarding these issues were inadequate. Additionally, TNECD received complaints from BUF subcontractors regarding nonpayment for services. TNECD's concerns led it to contact our office for guidance regarding the shared executive director and board, the comingling of funds, undisclosed related-party transactions, and other questions related to both BUF and MEDC.

The Black United Fund was established in 1994 and supports a variety of programs and organizations providing vital services in the black community. These programs include projects dedicated to improving education, arts and culture, economic development, health and human services, and youth development.

The Minority Enterprise Development Corporation (MEDC) is a nonprofit organization located in Memphis, Tennessee, and provides business consulting and technical assistance to women, veterans, and small and minority-owned businesses. MEDC's services are directed toward new and existing businesses whose owners are committed to making an impact through job creation, revenue growth, profitability, and community involvement.

Due to having a shared executive director and board of directors, and other discrepancies found with BUF's nonrecurring grant, TNECD expressed concerns about the unmonitored direct appropriations MEDC received. Therefore, we focused our investigative work on MEDC's direct appropriations for the period July 1, 2012, through June 30, 2014, since it was not monitored like the reimbursement grant BUF received. The executive director resigned on May 1, 2015.

INVESTIGATIVE FINDING AND RECOMMENDATION

FINDING 1 THE MINORITY ENTERPRISE DEVELOPMENT CORPORATION HAD QUESTIONABLE DISBURSEMENTS TOTALING \$64,276.32

We reviewed MEDC's accounting records, bank statements, and supporting documentation for disbursements totaling \$198,404.95 for the period July 1, 2012, through June 30, 2014, and noted at least \$64,276.32 in questionable disbursements as noted below:

- A. MEDC issued three checks totaling \$3,173.96 directly to the executive director without sufficient supporting documentation. These checks were purportedly for reimbursement of business expenses; however, without sufficient documentation we could not determine the propriety of these checks.

- B. MEDC issued numerous checks totaling \$47,499 to individuals working as interns in the program; however, these checks had insufficient documentation to support the payments. The documentation that was provided did not include proper signatures

of the executive director as evidence of approval of the payments and/or the signature of the intern verifying time worked.

- C. MEDC issued three checks totaling \$6,000 to the Black United Fund without adequate supporting documentation. These payments were purportedly for rent; however, during the period, we noted rent payments were paid directly to the landlord. Therefore, we question the propriety of these disbursements.
- D. MEDC issued two checks totaling \$800 for housekeeping, trash disposal, and lawn care without adequate supporting documentation. We were advised by the executive director that her son received these checks for the above-noted services.
- E. MEDC issued one check for \$253.36 to Memphis Light, Gas, and Water; however, there was insufficient documentation found to support this payment.
- F. MEDC issued four checks totaling \$6,550 for accounting/audit fees with insufficient documentation.

The table below summarizes the above-noted questionable disbursements for the period under examination:

Part	Questionable Disbursements
A.	\$ 3,173.96
B.	47,499.00
C.	6,000.00
D.	800.00
E.	253.36
F.	6,550.00
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Total	<u>\$ 64,276.32</u>

RECOMMENDATION

All disbursements should have sufficient supporting documentation. State officials should determine if these disbursements were proper and should take steps to recover any improper disbursement of funds.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCY

FINDING 2

THE BOARD OF DIRECTORS DID NOT PROVIDE ADEQUATE OVERSIGHT OF THE MINORITY ENTERPRISE DEVELOPMENT CORPORATION'S OPERATIONS

The investigative audit revealed that the Minority Enterprise Development Corporation (MEDC) had internal control and compliance deficiencies as noted below. These deficiencies can be attributed to a lack of oversight by the board of directors and the inadequate maintenance of accounting records.

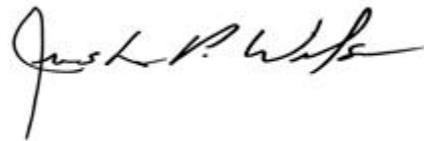
- A. The board of directors did not maintain minutes of its board meetings; therefore, any discussions of the organization's operations were not documented.
- B. The board of directors did not establish policies and/or procedures for the organization's overall operations.
- C. State funds were commingled between MEDC and the Black United Fund. Commingling of funds may not allow for the proper segregation and accounting of each organizations' funds.

RECOMMENDATION

The board of directors should provide proper oversight of MEDC's operations and the establishment of adequate internal controls to ensure MEDC complies with applicable laws, rules, and regulations. Minutes of board meetings should be on file to clearly and adequately document the business conducted by the board. The board of directors should refer to the *Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee* manual to help establish MEDC's policies and procedures. MEDC and BUF should not comingle funds to ensure a proper segregation and accounting for each organization.

If you have any questions concerning the above, please contact this office.

Sincerely,



Justin P. Wilson
Comptroller of the Treasury

JPW/kbh