



STATE OF ARKANSAS
Department of Finance
and Administration

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March 9, 2015

Dr. Charisse Childers, Director
 Arkansas Department of Career Education
 Three Capitol Mall
 Little Rock, AR 72201

Dear Dr. Childers:

On December 3, 2014, we received an anonymous allegation that Mr. Bill Walker, former director of the Department of Career Education, referred four family members for small business grants, ordered the Arkansas Rehabilitation Services (ARS) staff to make them eligible, and ordered the cases expedited. The complainant also alleged the grants were awarded for the purpose of participating in Slinx, a business interest of Mr. Walker.

Purpose of the Grant Program

The Rehabilitation Act of 1973 requires state rehabilitation agencies to provide a coordinated set of activities designed to help persons with physical or mental impairments prepare for and achieve gainful employment. One of the activities provided in Arkansas is the ARS Self-Employment/Small Business Program (Program), which is designed to assist clients to achieve an employment outcome through self-employment or small business operation. The Program guidelines effective July 1, 2011 require clients to provide 10% of the start-up capitalization, which can be from the following sources: personal investments; microloans; commercial and consumer loans; family loans; forgivable loans; equity grants; equipment; or inventory critical to the business operation.

Client Eligibility

Mr. Walker referred his relatives for ARS vocational rehabilitation services, who were identified by ARS employees in interviews as his sister and cousins. Based upon our review of the case files for all four clients, each client was fully processed by a Counselor, Psychological Examiner, and the Medical Doctor. Three of the clients met the requirements for the Program and were given grants totaling \$18,324 in October 2014. Due to medical reasons, cousin #3 was deemed ineligible by one of the Counselors. Mr. Walker's sister had previously used ARS services. The grant amounts for each relative is as follows:

Grant Details	Relationship to Mr. Walker			
	Sister	Cousin #1	Cousin #2	Cousin #3
Business start up - Slinx	\$ 4,434	\$ 4,434	\$ 4,434	\$ -
Training - VettJett	\$ 1,295	\$ 1,295	\$ 1,295	\$ -
Computer & Printer	\$ 327	\$ 327	\$ 483	\$ -
Total Grant	\$ 6,056	\$ 6,056	\$ 6,212	\$ -

Based upon our review of the Program requirements and the client case file, we conclude that these clients are medically eligible for ARS services and participation in the Program. However, the Program business plan presented for each client did not include the required 10% client participation, but required ARS to fund the entire amount of start-up costs. During our interview with the Small Business Consultant, we were informed that he routinely waives the client participation for various reasons. The Program guidelines state that exceptions can be granted, and reads as follows:

Exceptions

If the Consultant/Panel determines that there are circumstances in a client's case that warrant consideration for an exception to the financial participation policy, a full explanation with justification should be presented to the District Manager for review and decision by the Chief of Field Services and/or ARS Commissioner.

Approval

Final Approval will be determined by the Chief of Field Services or the Commissioner, as outlined in the Financial Participation Requirement above, after positive recommendation of the Self-Employment Panel.

During the interview with the Small Business Consultant, he stated he did not document the reason for waiving the client participation. The Chief of Field Services stated that there was no justification documentation submitted for an exception approval from the Small Business Program regarding the three clients in question. Therefore, it is our opinion that Program guidelines were not followed since the Small Business Consultant made the sole decision to waive client participation requirements. Because proper approval to waive client participation requirements was not obtained, it is our opinion that none of these clients should have been approved for the Program grant.

Expedited Processing

ARS Program guidelines identified in 34 CFR 361.42 requires "This verification must be made within a reasonable period of time that enables the State unit to determine the applicant's eligibility for vocational rehabilitation services within 60 days of the individual submitting an application for services."

The three family members who received grants were processed in 56, 57, and 64 days. These time frames, coupled with our review of the case files that did not reveal process steps being skipped or altered, does not substantiate the claim that the cases were purposely expedited.

Appropriateness of Grants

Mr. Walker's sister and two cousins were awarded grants totaling \$18,324 to start a pyramid-structured business (5linx). 5linx is an American multi-level marketing company headquartered in Rochester, New York, and offers various utility and telecommunication services, health insurance, nutritional supplements, and business services. The \$13,302 paid to 5linx for the three clients was for setting up the clients to sell the nutrition products. Interviews revealed that Mr. Walker is also a representative with 5linx and has promoted the business to other employees. We contacted 5linx to confirm Mr. Walker's association and any related company records; however, we were informed that the information could only be released through a subpoena. Also, included in the grant were funds for business development and motivational training by VettJett, a company owned by a representative of

Slinx. VettJett is scheduled to offer training for two of the clients on Saturday, March 7, 2015. Slinx and VettJett had not been used by the Program for any previous clients. It should also be noted that the invoices by which Slinx and VettJett were paid do not appear to be official business invoices with letterhead and/or logos.

In addition, the Slinx and VettJett warrants for one client, issued on November 2, 2014, have not cleared the Treasury as of January 22, 2015. Representatives from both companies indicated that they had not received any paperwork for the client. This same client has not picked up the computer and printer purchased by ARS with the grant funds.

Based upon our review of client case files, none of the clients have started their business as of the last week in January 2015.

Conclusion

Based upon our determination that the three clients associated with the allegation were not eligible for the Program due to their business plan not including the required client participation, we recommend that the Slinx and VettJett warrants still outstanding be cancelled. In addition, we recommend that Program guidelines related to client participation waivers be followed in the future.


The Program guidelines do not disallow clients from participating in pyramid-structured business opportunities. However, because of the risk involved in these types of activities, we recommend that ARS consider updating program guidelines to include additional oversight, additional client participation and/or disallowing these types of grants in the future.

Arkansas State Law §21-8-304 (a) states: "No public servant shall use or attempt to use his or her official position to secure special privileges or exemptions for himself or herself or his or her spouse, child, parents, or other persons standing in the first degree of relationship, or for those with whom he or she has a substantial financial relationship that are not available to others except as may be otherwise provided by law."

During the course of our review, we contacted Slinx in an effort to determine if Mr. Walker received residual income on the initial investment and/or if his relatives were signed up in his network so that he will receive recurring residual income on their sales and future business development. However, Slinx would not answer our questions without a subpoena. Therefore, any determination as to whether state statute has been violated will require a formal investigation by the Arkansas Division of Legislative Audit and/or the Arkansas State Police.

We would request that you review our administrative recommendations included in this letter and respond to us by March 18, 2015 of any actions taken by ARS.

Sincerely,


Ricky Quattlebaum, CPA, CIA
DFA Internal Audit Administrator

cc: Mr. Larry Walther, Director, Department of Finance & Administration
Mr. Tim Leathers, Deputy Director, Department of Finance & Administration
Mr. Paul Louthian, Office of Accounting Administrator, Department of Finance & Administration
Mr. Alan McClain, Commissioner, Arkansas Rehabilitation Services
Mr. Roger Norman, Legislative Auditor, AR Division of Legislative Audit
Colonel Bill Bryant, Director, AR State Police