

**AUDIT OF EXPENSES FOR MEALS AND REFRESHMENTS
INCURRED BY THE LATINO COALITION FOUNDATION
ON SBA 7(J) COOPERATIVE AGREEMENT SBAHQ-02-J-0021**

AUDIT REPORT NUMBER 4-31

JULY 19, 2004

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**U.S. Small Business Administration
Office of Inspector General
Washington, DC 20416**

AUDIT REPORT
Issue Date: July 19, 2004
Number: 4-31

TO: Darryl K. Hairston
Assistant Administrator for Administration

FROM: Robert G. Seabrooks [FOIA Ex. 6]
Assistant Inspector General for Auditing

SUBJECT: Audit of Expenses for Meals and Refreshments Incurred by the Latino Coalition Foundation on SBA 7(j) Cooperative Agreement SBAHQ-02-J-0021

The Office of Inspector General (OIG) audited certain expenditures incurred by the Latino Coalition Foundation, a SBA 7(j) cooperative agreement recipient, to determine if any Federal rules or regulations were violated. We found \$1,001.80 in unallowable costs spent on alcoholic beverage service at a welcome reception. We also found that improvements are needed when awarding and administering 7(j) cooperative agreements.

BACKGROUND

In FY 2002, SBA awarded a \$250,000 cooperative agreement to the Latino Coalition Foundation (SBAHQ-02-J-0021), which included a three-day training conference in Washington, D.C. in February 2003. The Latino Coalition Foundation was reimbursed for \$141,382.49 in conference related expenditures determined by SBA to be allowable for the event, which offered management and technical assistance to minority small business owners. Of that amount, \$37,636.93 was spent on meals and refreshments for a welcome reception, two working breakfasts, two working luncheons, and a reception and policy dinner.

The 7(j) program office is responsible for entering into cooperative agreements with service providers for specialized assistance to eligible small businesses. The Office of Procurement and Grants Management in the Office of Administration is responsible for enforcing the terms and conditions of the cooperative agreement.

OBJECTIVE, SCOPE AND METHODOLOGY

The OIG conducted an audit of limited scope to determine if certain expenditures for meals and refreshments violated any Federal rules or regulations. We interviewed SBA officials, reviewed the relevant SOP and OMB Circular, examined SBA documents related to the cooperative agreement award, as well as materials provided by the hotel that hosted the conference and the caterer for one of the events where meals and refreshments were served.

Our audit did not cover cooperative agreement administration activities, except those activities related to meals and refreshments expenses, or the Latino Coalition Foundation's performance with other terms and conditions of the cooperative agreement. On September 30, 2002, we issued Audit Report No. 2-33, *Audit of 7(j) Management and Technical Assistance Program Cooperative Agreement Administrative Activities*, which identified several weaknesses in 7(j) cooperative agreement administration. SBA officials may not have taken into account the recommendations from our prior report when awarding this cooperative agreement to the Latino Coalition Foundation.

We performed fieldwork from March to May, 2004 in Washington, D.C. The audit was conducted in accordance with Government Auditing Standards.

AUDIT RESULTS

Finding 1: Unallowable Costs

Based on documents provided to the OIG by a hotel banquet manager, the Latino Coalition Foundation inappropriately spent \$1,001.80 in cooperative agreement funds on alcoholic beverage service for a welcome reception held February 24, 2003 at the Capital Hilton. The costs incurred were for a wine and beer bar, plus related bartender, service, and tax charges. According to OMB Circular A-122, *Cost Principals for Non-Profit Organizations*, costs of alcoholic beverages are unallowable. The hotel banquet event orders, which give a detailed record of the quantities and costs of food and beverage items served, were not provided to SBA officials when payment was requested by the Latino Coalition Foundation. Instead, those officials relied on various hotel receipts, which did not provide sufficient details of costs for what was actually procured.

RECOMMENDATION

- 1A. We recommend that the Assistant Administrator for Administration obtain reimbursement from the Latino Coalition Foundation for \$1,001.80 in unallowable costs spent on alcoholic beverage service for a welcome reception held February 24, 2003 at the Capital Hilton.

Finding 2: Improvements Needed When Awarding and Administering 7(j) Cooperative Agreements

While reviewing the meals and refreshments expenses, we determined that SBA did not always adequately determine whether expenses were allowable and reasonable. As a result, the expenses SBA paid as described in Finding 1 were not allowable and other expenses do not appear to be reasonable. The cooperative agreement proposal did not contain a breakdown of the \$40,000 budgeted for “meals and refreshments.” A catered “French Service Dinner” held as one of the conference functions on February 25, 2003, highlights the problem of awarding a cooperative agreement with insufficient detail on proposed costs for meals and refreshments.

SBA reimbursed the Latino Coalition Foundation \$14,852 toward the dinner, or approximately \$100 per person based on a billing estimate anticipating 150 guests. It could be argued that a \$100 per person dinner does not meet OMB Circular A-122’s definition of reasonableness and, therefore, should not have been approved. Although a dinner function was shown on the tentative conference agenda included with the cooperative agreement proposal, there was no supporting documentation included with the proposed budget showing such detail as a proposed cost per person. Similarly, there was no supporting documentation included with the proposed budget for the welcome reception noted in Finding 1. If detailed documentation had been provided, the amount budgeted for the reception might have been reduced or eliminated entirely to better meet concerns about reasonableness, since the function was held the night before conference training began.

We also found that documentation was lacking to support and approve the reimbursement request for the meals and refreshments expenses, which was submitted after the conference was held. For example, as noted in Finding 1, hotel banquet event orders, which give a detailed record of the quantities and costs of food and beverage items served, were not provided to SBA officials when payment was requested by the Latino Coalition Foundation. Instead, those officials relied on various hotel receipts, which did not provide sufficient details of costs for what was actually procured. Auditors reviewed the hotel banquet event orders, which clearly showed the procurement of alcoholic beverages, an unallowable cost according to Federal regulations. If more detailed support documentation for the reimbursement request had been provided, such as the banquet event orders, it is likely the mistaken reimbursement for alcoholic beverage service could have been avoided.

OMB Circular A-122 states that costs must be allowable. One of the tests of allowability is that costs be “reasonable,” which is defined in that Circular as costs that do not “...exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.” The guidelines contained in OMB Circular A-122 do not contain the necessary detail so that SBA employees know what budget detail and documentation are necessary to make that determination. Neither does SOP 00 11 1, “Small Purchases, Contracts, Grants, and Cooperative Agreements” provide additional guidance to SBA employees on this issue.

The Grant Management Officer’s Technical Representative (GOTR) for this cooperative agreement said that she had not received any training in reviewing cooperative agreement

proposals, expense reports, or the other responsibilities of a GOTR, but had simply been pulled from her regular responsibilities in the Office of Business Development to work on various 7(j) cooperative agreements. Furthermore, when she sought guidance from others within SBA, such as on the allowability of costs for meals and refreshments, she said the guidance was not provided. The Assistant Administrator for Administration stated that he is planning to provide training for GOTRs.

RECOMMENDATION

- 2A. We recommend that the Assistant Administrator for Administration, in conjunction with the Associate Deputy Administrator for Government Contracting and Business Development, develop and provide grant and cooperative agreement training to all SBA employees involved in the 7(j) grant or cooperative agreement process. The training should include written guidelines as to what budget detail and documentation are necessary to approve proposals and properly process reimbursement requests.

SBA MANAGEMENT'S COMMENTS

The Assistant Administrator for Administration agreed with the report's recommendations, and had no additional comments.

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The recommendations in this audit report are based on the conclusions of the Auditing Division. **The recommendations are subject to review, management decision and action by your office in accordance with existing Agency procedures for audit follow-up and resolution.**

Please provide us your management decision for each recommendation within 30 days. Your management decisions should be recorded on the attached SBA Forms 1824, "Recommendation Action Sheet," and show either your proposed corrective action and target date for completion, or explanation of your disagreement with our recommendations.

Should you or your staff have any questions, please contact Robert G. Hultberg, Director, Business Development Programs Group at (202) 205-[FOIA Ex. 2].

Attachment