

**Testimony of
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Committee on Small Business and Entrepreneurship
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Chairman Kerry, Ranking Member Snowe and Members of the Committee,

I am pleased to be here today to discuss the Small Business Administration's (SBA) grant program for Women's Business Centers (WBC). Under this program, eligible organizations can obtain Federal grants to create and operate centers that provide training and counseling services to women who own businesses or who are contemplating business ownership. SBA awards two types of grants to WBCs—new grants that are competitively awarded annually and funded for up to 5 years, and sustainability grants, which provide funding for another 5-year period. Because these grants provide an important source of funding for the centers, a steady stream of grant funding is needed to keep them in operation. However, WBCs have voiced significant concerns about delays in grant payments made by SBA.

My testimony today is based on work we recently completed, at this Committee's request, on the timeliness of SBA grant disbursements. I will address the extent of payment delays, their causes, and possible solutions; as well as share our observations about opportunities to streamline the grant award process.

Widespread Delays Occurred in the Disbursement of FY 2005 and FY 2006 Grants

We found that SBA was consistently late in disbursing grant funds, and that the percentage of late payments in Fiscal Year (FY) 2006 had increased from the previous year. In FY 2006, SBA disbursed over 500 payments to WBCs for both new and sustainability grants, but only 25 percent of these payments were made within the Office of Management and Budget's goal of 30 days. The remaining 75 percent were disbursed from 30 to 353 days following the receipt of payment requests. By comparison, 40 percent of grant payments made in FY 2005 were on time.

While fewer delays occurred in FY 2005, two WBCs had to wait 340 days for payment. These delays caused WBCs to lay off staff, abandon vendors, and curtail operations to stay in business. They also had to seek funding elsewhere, such as from

parent organizations and bank lines of credit, while attempting to resolve matters with SBA.

Payment Delays Were Largely Attributable to the Lack of Coordination and Communication between SBA's Program and Grants Offices

We identified four major reasons for late payments, most of which were a consequence of poor coordination and communication between the two SBA offices that process payment requests—the Office of Women's Business Ownership (the program office) and the Division of Procurement and Grants Management (the grants office). The program office performs an initial review of the payment request and the grants office provides the final approval to draw down awarded funds.

The inability of these offices to work in an integrated fashion, combined with other flaws in the payment process, caused paperwork to be rejected or lost. WBCs also did not always follow Agency guidance in completing their requests. While not all of the delays were SBA's responsibility, we noted that the underlying reasons were largely associated with the following issues:

- The Agency's interpretation of the payment requirements frequently changed throughout the fiscal year without being properly communicated to WBCs.
- Payment requests were rejected before both offices had performed a complete review of the submission, causing WBCs to submit their paperwork multiple times, and triggering restarts of the Agency's payment approval process. This created opportunities for the paperwork to get lost in transit. Payment rejections also caused cascading delays in the approval of subsequent payment requests.
- When payment requests were rejected, the entire original package, and corrected versions were mailed back and forth between SBA and the WBCs instead of only correcting the document(s) affected. SBA also held up the entire payment regardless of the size of the error.
- The Agency lacked an integrated tracking mechanism to identify when the payment request was received, where it was in the review process, and whether a disbursement had been made within OMB's 30-day requirement.

The Agency's Interpretation of the Payment Requirements Frequently Changed after Grant Award

Delays occurred in grant disbursements because SBA's interpretation of the payment requirements frequently changed throughout the year. The program and grants offices differed in their understanding of the information that WBCs had to submit to get paid, and frequently provided WBCs with inaccurate information. For example, one WBC submitted a payment request three separate times in response to conflicting instruction from the two SBA offices about how to report the cost of staff salary, resulting in a 4-week delay in receiving payment. Another WBC had to wait 300 days to get paid until the program and grants offices resolved their differences over, among other things, whether the original reports from audits of the WBC or copies were needed to process the payment. The two offices also did not collaborate fully in the development of payment requirements described in program handbooks that are distributed to WBCs during mandatory training.

After the handbooks were distributed and the WBCs had completed training, the program and grants offices frequently introduced new requirements for payment requests and did not properly communicate these changes to the WBCs. For example, one WBC had to re-submit its payment request because its paperwork did not adhere to revised requirements for itemizing travel expense details, which had not been communicated in time for the submittal to be corrected.

We also noted that in reviewing payment requests, the two offices used separate checklists, each addressing different aspects of the payment requirements as they pertained to their areas of responsibility. Because the program office performed the initial review of payment requests to ensure completeness, the program office needed to know what information the grants office considered in its review as well as any changes that were made in grant requirements.

To ensure a common interpretation of the program requirements and their effective communication to WBCs, we believe the program and grants offices should enter into a Memorandum of Understanding (MOU) documenting the Agency's interpretation of the payment requirements and establishing a process for updating and communicating any changes in requirements to WBCs. Alternatively, if an acceptable agreement is not possible, SBA should consider placing grant specialists within the program office or outsourcing the grants payment function. Finally, SBA's program and grants offices should use a single consolidated checklist to perform reviews of payment requests.

Rejection of Payment Requests Frequently Occurred Before Both the Program and Grant Offices Completed Their Reviews, Creating Multiple Restarts

The misunderstanding between the program and grants offices on appropriate requirements for payment requests, combined with the ability of either office to reject the requests, resulted in the denial of payment before both offices had completed their reviews. The payment approval cycle allows a request to be rejected initially by the program office and returned for correction to the WBC before being reviewed by the grants office. Requests can also be approved by the program office and subsequently rejected by the grants office for return to the WBC.

Because payment requests can be rejected at any stage of the review cycle, applications were returned to WBCs more than once. For example, the program office noted an error in a payment request made by one WBC and advised the WBC that a correction was needed. After the correction was made, the grants office rejected the request. Consequently, the payment review process does not operate as a continuum the way it should, but rather as two distinct processes.

Paperwork rejections also caused a cascading delay in the approval of subsequent payment requests. SBA requires that each new request for payment include information on prior grant payments. If a payment has not been received on a prior submittal, the WBC will not have the information it needs to process its current request.

We believe that payment requests should undergo a complete review by both the program and grants offices. Both offices should agree on whether a request is defective before returning the rejected request to the WBCs for correction. This would ensure that the request is returned only once to the WBC to reduce the constant shuffling of the paperwork between the two SBA offices as well as between SBA and the WBCs.

Payment Requests Were Returned and Resubmitted through the Mail When Corrections Were Needed and SBA Held up the Entire Payment Regardless of the Size of the Error

Payment requests were rejected when calculations were incorrect, the billing was determined improper, or the WBC failed to provide the appropriate supporting documentation. When this occurred, original paperwork and corrected versions were mailed back and forth between SBA and the WBCs as original signatures were required to process the payments. This generated delays in approving requests for payment, and increased the chances of paperwork becoming lost in transit between SBA and the WBCs.

SBA also returned the entire payment request to the WBC no matter how small the error. For example, the program office approved a payment request for one WBC, and the grants office rejected it over a \$30 expense charged to the wrong line item. SBA held up the entire payment due to this error when it could have awarded all funds but the \$30 in question.

Automating the pay request forms and application process, as has been done for other SBA grant programs, would help prevent errors and omissions, expedite the filing of payment requests, and prevent requests from being lost in the mail. The electronic forms for payment requests could be posted on the SBA grants office website, and filled out online, with original signatures mailed to SBA. The on-line application could be programmed to check for mathematical errors, and prevent the user from proceeding until all required fields are completed.

SBA Lacks an Effective Tracking System for Monitoring the Status of Pay Requests

SBA also did not have an effective tracking mechanism to identify when a pay request was received, where it was in the process, or whether the request was processed timely. The program and grants offices each established tracking logs to document when requests were received by their offices. However, because the logs were separate, SBA could not capture the complete movement of the pay request through the full review and approval cycle. For example, when the grants office rejected a request and returned it to the program office, the program office did not always communicate back to the grants office acknowledging that it had received the request. Also, neither office was aware that a pay request was overdue for approval.

Even an approved payment request was difficult to track because SBA assigned a tracking number that did not reference or identify the WBC's payment request. Without a link to the payment request, WBCs could not determine with confidence which request had been disbursed. Consequently, WBCs had to make repeated phone calls to different officials and were referred back and forth from one office to the other to determine the status of their payments. Some WBCs told us they hired accountants to figure out which pay request belonged to which invoice.

Establishing a centralized and automated pay request tracking log and/or automating the payment request process would allow SBA to better monitor where payment requests are in the approval process so that it can manage the timeliness of its payment reviews and better respond to WBC inquiries about the status of pay requests. Finally, automating the process can help alleviate staff workload by simplifying submittal receipt and tracking, and promoting better consistency in the documentation.

SBA Delays Announcement of the Grant Opportunity Until Funds Are Appropriated

In addition to areas needing improvement in SBA's payment process, we noted that opportunities exist to streamline the grant award process to enable WBCs to apply for funding earlier in the year. For example, we observed a fiscal-year interval between Congressional appropriations and grant awards. SBA generally delays posting of the grant opportunity until after it receives its appropriations. The appropriations legislation instructs SBA how much funding will be available for both types of grants as well as the percentage of that funding to be apportioned for sustainability grants.

We noted that the grant announcement is largely boilerplate and the appropriated funding levels and sustainability formulas are not required information needed to announce the grant opportunity. In fact, in FY 2007, SBA was able to complete the process within 7 months of receiving its appropriations. Therefore, we believe SBA can and should announce the grant opportunity earlier in the fiscal year to expedite the grant award.

SBA's program office, grants office, and counsel also conduct lengthy and sequential reviews of each year's appropriation language to determine if program requirements have changed. These reviews generally take up to 3 months as one office has to complete its review before the next office's review can begin. Once the legislative review is completed, the program office takes about 1 month to develop the announcement, and then submits it for review by the grants office and legal counsel. These reviews take another month, after which the announcement is posted, normally in March of the following year, for 30 days. We believe SBA can reduce the amount of time it takes to review the appropriations legislation and grant announcement if the various SBA offices performed concurrent reviews.

Grant Awards for Returning WBCs Seeking Option Year Funding Are Processed at the Same Time as New Applicants

Returning WBCs that were previously approved for a regular or sustainability grant do not compete for subsequent year funding. Yet, SBA reviews their applications at the same time as new entrants. Placing all returning grantees on the same evaluation schedule as new entrants requires the expenditure of substantial resources, for example, to evaluate potentially over 100 proposals every year, and unnecessarily delays returning grantees from requesting payment earlier in the year.

Because SBA needs to only verify that the WBC is performing in accordance with its pre-approved plan (approved during the initial award), it could announce grant awards once it has its appropriation much earlier in the year. Grantees could then seek payment after receiving its grant award.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions at this time.