



**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
Washington, DC 20416**

AUDIT REPORT
Issue Date: February 11, 2005
Report Number: 5-11

TO: Allegra McCullough
Associate Deputy Administrator for
General Contracting and Business Development

Darryl Hairston
Assistant Administrator for Administration
Office of Procurement and Grants Management

FROM: Robert G. Seabrooks
Assistant Inspector General for Auditing

SUBJECT: Review of a Cooperative Agreement to HP Small Business Foundation

Attached is a copy of the subject audit report. The report contains two findings and two recommendations. Your response is synopsised in the report and included in its entirety at Appendix B.

The findings in this report are the conclusions of the Office of Inspector General's Auditing Division. The recommendations in this report are subject to review and implementation of corrective action by your office in accordance with the existing Agency procedures for audit follow-up and resolution. Please provide your management decision for each recommendation to our office within 30 days from the date of this report using the attached SBA Form 1824, Recommendation and Action Sheet.

If you have any questions about the issues contained in the report, please contact Garry Duncan, Director, Credit Programs Group, at (202) 205-[FOIA Ex. 2].

Attachments

**REVIEW OF
A COOPERATIVE AGREEMENT TO
HP SMALL BUSINESS FOUNDATION
AUDIT REPORT NO. 5-11
Washington, DC**

FEBRUARY 11, 2005

The findings in this report are the conclusion of the OIG's Auditing Division based on testing of SBA operations. The finding and recommendations are subject to review, management decision, and corrective action in accordance with existing Agency procedures for follow-up and resolution. This report may contain proprietary information subject to the provisions of 18 USC 1905 and must not be released to the public or another agency without permission of the Office of Inspector General.

**COOPERATIVE AGREEMENT TO
HP SMALL BUSINESS FOUNDATION
Washington, DC**

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SUMMARY

The audit was accomplished to determine if the HP Small Business Foundation (recipient) was in compliance with specific financial management requirements of Office of Management and Budget (OMB) Circular A-110 and if costs incurred by the recipient through July 31, 2004, were allowable, allocable, and supported.

The audit disclosed that the recipient did not have an appropriate financial management system for tracking costs in compliance with OMB Circular A-110 and amounts claimed were not allowable, allocable and supported in accordance with OMB Circular A-122 requirements. As a result, the following problems were identified:

- The recipient submitted approximately \$1.1 million of costs which were either incurred prior to the subject cooperative agreement, not properly supported or lacked approval by the Small Business Administration (SBA).
- Contracting actions were not supported by written agreements with third parties and were not properly approved.
- Written procedures for screening and allocating costs and administering the cooperative agreement were inadequate.
- Costs were misclassified.
- The recipient did not certify the accounting system was adequate for government grants/cooperative agreements.
- Billings were not addressed to the recipient.
- The recipient may have subgranted the project to a third party in violation of the cooperative agreement.

We recommend that the Associate Deputy Administrator for Government Contracting and Business Development require the recipient to develop a financial management system that meets the requirements of OMB Circulars A-110 and A-122. Specifically, the recipient should:

- Establish detailed written procedures for identifying, classifying, and eliminating costs that are not allowable, allocable, or supported.
- Develop procedures for contract administration as required by OMB Circulars.
- Request approval and provide copies of contracts or agreements for all contracting actions with third parties.
- Require vendors and subcontractors to bill the recipient for all work performed under the cooperative agreement.

We recommend that the Assistant Administrator for Administration in the Office of Procurement and Grants Management:

- Request a legal opinion as to whether the arrangement between the recipient and SMA Global violated the terms of the cooperative agreement regarding sub granting.

The Office of Government Contacting and Business Development and the Office of Procurement and Grants Management generally concurred with the findings and recommendations.

A. Background

The BusinessLinc Legislation gives SBA the statutory authority to enter into cooperative agreements with any coalition of private or public entities to: (1) expand business to business relationships; and (2) provide businesses with online information and a database of companies that are interested in mentor-protégé programs or community-based, statewide, or local business development programs. To be eligible for an award, a coalition must provide an amount, either in kind or in cash, equal to the grant amount.

SBA negotiated a \$2.24 million cooperative agreement with the recipient on September 17, 2003, to conduct business matchmaking events. The total budget for the agreement consisted of \$1 million in Federal funds and \$1.24 million of Non-Federal matching contributions. The period of performance was September 30, 2003, through September 30, 2004. A no cost extension for one year through September 30, 2005, was granted by the Office of Procurement and Grants Management on September 10, 2004. As of July 31, 2004, the recipient had conducted three matchmaking events and five workshops in six major cities. The recipient reported total project costs of \$1,296,104 as of July 31, 2004, and requested from the SBA reimbursement for costs incurred of \$601,324.

B. Scope and Methodology

The objective of the audit was to determine if: (i) the recipient was in compliance with specific administrative requirements of OMB Circular A-110 regarding maintaining an appropriate financial management system to track costs; and (ii) costs billed to SBA by the recipient through July 31, 2004, were allowable, allocable, and supported.

To address the stated objectives, we reviewed all available accounting records and the SBA grant files in support of the agreement. Additionally, we reviewed invoices submitted for reimbursement by the recipient. Finally, we interviewed the recipient's director, the accountant, and SBA officials involved in administering the cooperative agreement.

Audit fieldwork was performed from September through November 2004. The fieldwork was performed in Glendale, CA, Calabasas, CA, and Washington, DC. The audit was conducted in accordance with generally accepted Government Auditing Standards.

RESULTS OF AUDIT

FINDING 1 The Recipient did not have an Appropriate Internal Financial Management System

The Recipient lacked an internal financial management system that met the standards prescribed by OMB Circular A-110. As a result:

- reimbursement was requested for pre-award (\$168,763) and unsupported (\$214,004) costs,
- contracting actions with third parties were not supported by written agreements or properly approved by SBA (\$992,192),
- written procedures for screening costs and administering the agreement were inadequate,
- costs were misclassified,
- the recipient did not certify that the financial management system was adequate for administering the cooperative agreement, and
- billings from third parties were not addressed to the recipient.

Pre-award and unsupported costs

The recipient's request for reimbursement included \$168,763 of expenses that were incurred before the cooperative agreement was awarded. In addition, there was no support for expenses of \$214,004. We also identified \$992,192 of vendor cost that were not supported by a contract or approved by SBA (See Appendix A for a summary of expenses inappropriately charged to the cooperative agreement).

Pre-award costs were incurred prior to the cooperative agreement performance period. The original project performance period was September 30, 2003, through September 30, 2004. According to the cooperative agreement funds must be used solely to obtain goods and services related to the project. Additionally, OMB Circular A-122 states that costs are allocable to a Federal award if they are incurred specifically for the award. Of the \$168,763 in pre-award costs, the recipient submitted for reimbursement \$58,862 in checks that were for personal services (budget category) expenses incurred on or prior to October 1, 2003. The recipient's contracted employee activity reports also did not reconcile to the checks submitted for payment. We identified a total of 21 vendors with pre-award costs. Because these costs were incurred prior to the start of the performance period and may not have been applicable to the cooperative agreement, these costs were considered unallowable.

Costs were considered unsupported if they lacked an invoice or canceled check. The recipient requested reimbursement for \$214,004 of cost that lacked an invoice or canceled check.

OMB Circular A-122 requires that the recipient provide adequate supporting documentation when reimbursement for expenses incurred on a cooperative agreement is requested. The recipient requested reimbursement for costs that did not have invoices or the invoice provided covered only a portion of the amount requested. Additionally, the recipient requested reimbursement for costs that had no canceled check or the check was less than the requested reimbursement. At a minimum, the recipient should provide the vendor's invoice and canceled checks as proof of payment.

Approval of cost expenditures

OMB Circular A-110 states that certain actions require prior government approval, including plans for contracting with others to perform work covered by an award. The cooperative agreement stated that all contracts, other than those submitted as part of the proposal required the written approval of SBA. Copies of all contracts for services furnished by contractors should be provided to SBA officials and maintained in the grant file. Contractual costs not authorized by SBA were deemed unsupported.

We questioned \$992,192 of contractual costs which were not approved by SBA. The recipient requested reimbursement for cost related to 63 vendors without contracts or prior SBA approval. To illustrate, the recipient identified 53 vendors in the contractual budget category of the cooperative agreement. We did not find any written contracts or approvals for these vendors. Also, the recipient's project director stated that the eight employees identified under personal services were all contractual, and again there were no contracts or approvals for these individuals.

Inadequate written procedures for screening costs and contract administration of the cooperative agreement

The recipient's written procedures for screening costs were inadequate. Their operational and financial guidelines for screening costs contained the single statement: *"all personnel providing services for this Cooperative Agreement have acknowledged that all performance standards, guidelines, rules and regulations set forth in applicable OMB booklets apply to all personnel providing services pursuant to this Cooperative Agreement"*.

OMB Circular A-110 requires that a recipients' financial management system provide written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions for the award. The written procedures provided by the recipient lacked both adequate detail and guidance to individuals (employees) performing under the government award.

The recipient's written procedures for contract administration were also inadequate. Both the cooperative agreement and OMB Circulars required a system for contract administration be maintained to ensure that contractors perform in accordance with the terms, conditions, and specifications of the contracts. Their written procedures only requested that the vendor accept all terms and conditions set forth by the SBA and the U.S. Government.

Cost were misclassified

The recipient did not properly classify incurred costs under the appropriate approved budget category (i.e., food and meeting room cost classified as travel cost). Twelve transactions included costs that appeared to be misclassified by budget category. To explain, each budget category has an approved amount which should not be exceeded. If the recipient incurred expenses in excess of the budgeted amount, these costs would be unallowable without a preapproved modification to the agreement.

Accounting System Certification

The cooperative agreement required the recipient to certify that its accounting system met OMB requirements. While the certification letter stated that an internal accounting system existed, it did not certify that the system met OMB Circular A-110 requirements. Since the recipient did not state that the system met the standards of the OMB Circular, SBA should have determined whether the recipient's accounting system was adequate for administering the cooperative agreement.

Billings addressed to SMA Global

The majority of invoices submitted for payment to SBA were addressed to SMA Global not the recipient. Since SMA Global is an active company, any billings to them must be carefully evaluated to determine if the service or product was provided to SMA Global or to the recipient. To illustrate, SMA Global had two purchase orders with SBA in September 2003. Consequently, some of the preaward costs mentioned above may relate to services or products provided to SMA Global under their purchase orders and not costs related to the recipient's cooperative agreement.

Recommendation

We recommend that the Associate Deputy Administrator for Government Contracting and Business Development require the recipient take the following action:

- 1.A. Develop a financial management system that meets the requirements of OMB Circulars

A-110 and A-122. The recipient should:

- Establish detailed written procedures for identifying, classifying, and eliminating costs that are not allowable, allocable, or reasonable.
- Develop procedures for contract administration with third parties as required by OMB Circulars.
- Request approval and provide copies of contracts/agreements for all contracting actions.
- Require vendors/subcontractors to bill the recipient for all work performed under the cooperative agreement.

FINDING 2 The Recipient may have Sub-granted the Project in Violation of the Terms of the Cooperative Agreement.

The recipient may have entered into an arrangement that had the effect of sub-granting the project to a third party for-profit company in violation of the cooperative agreement terms. The cooperative agreement states the project is not to be sub-granted. The recipient appears to be a shell organization--run by a project director hired by the organization that created the foundation and executed by contracted employees. As a result, there is a question as to whether the HP Foundation cooperative agreement is run and controlled by SMA Global.

According to OMB Circular A-110, the recipient is an organization receiving financial assistance directly from a Federal awarding agency to carry out a project or program. OMB Circular A-133 defines a sub-recipient (sub-grantee), as non-Federal entities that expend Federal awards received from a pass-through entity to carry out a Federal program. The circular further identifies the activities executed by a sub-recipient of a Federal award. Activities include:

- (1) determination of who is eligible to receive Federal financial assistance;
- (2) measuring performance against whether the objectives of the Federal program are met;
- (3) responsibility for programmatic decision making; and
- (4) responsibility for adherence to applicable Federal program compliance requirements.

Specifically, our audit showed the following conditions existed which indicate possible sub-granting of the cooperative agreement:

- The former Associate Deputy Administrator of the Office of Government Contracting and Business Development stated in a May 21, 2003, (prior to award of the agreement) e-mail “*HP has hired a contractor named SMA Global to*

manage the project. SMA Global has in-turn hired several companies as subcontractors to work on the project at their direction”.

- The original Grant Officer Technical Representative expressed concerns that the project was being sub-granted in an October 22, 2003 e-mail where she stated “ *I still have concerns about what percentage of the cooperative agreement is being ‘subcontracted’ to SMA Global, and to what extent HP Foundation, as the agreement recipient, is actually overseeing/providing direction for this cooperative agreement”.*
- The President/CEO of SMA Global was hired by Hewlett Packard to manage the cooperative agreement as project director. While his name is listed on the cooperative agreement as the project director, he is not paid with funds from the agreement, as included in the approved budget. Hewlett Packard pays the project director’s salary.
- There is no formal agreement in the grant file between the recipient and SMA Global to manage the cooperative agreement.
- The recipient does not have nor has it ever had employees. The project director contracts employees in order to execute the cooperative agreement.
- Most of HP Foundation’s contracted employees are the same individuals identified as contractors on SMA Global’s website. Some of the individuals are also affiliated with Worldbridge, a subsidiary of SMA Global. Consequently, the recipient contractors are the same pool of individuals affiliated with SMA Global.
- Outside vendors were contracted to execute functions required by the agreement.
- The recipient is physically located and operates in office space within SMA Global, the project director’s company facility.

Recommendation

We recommend that the Assistant Administrator for Administration in the Office of Procurement and Grants Management take the following action:

- 2.A. Request a legal opinion as to whether the arrangement between the recipient and SMA Global violated the terms of the cooperative agreement regarding sub-granting or awarding the cooperative agreement to a sub recipient. The opinion should address whether the activities by the recipient were conducted at arm’s length given the nature of related party affiliation of the principal entities administering the project. The organization (the

recipient) accepting the award has the obligation to honor the terms and conditions of the cooperative agreement and comply with applicable OMB Circulars.

Management Comments

The Office of Government Contacting and Business Development (GCBD) concurred with the findings and recommendations.

The Office of Procurement and Grants Management (OPGM) stated that they generally concur with the findings in the report with minor exceptions. Specifically, OPGM stated that the report should identify the Federal share of the costs questioned. The response indicated the OIG inaccurately stated facts and incorrectly applied grants law as it relates to pre-award costs. OPGM stated that OMB Circular A-110 authorizes Federal awarding agencies to waive cost-related and administrative prior written approvals. This Circular is incorporated into the cooperative agreement by the terms of the Notice of Award. They also added that SBA has a practice of permitting recipients to be reimbursed without advance approval for pre-award cost.

OPGM officials further stated the report should be amended to state that the requirement for certification of the accounting system was included in the terms and conditions of the cooperative agreement. The report also should note that OPGM notified the recipient that the proper certification had not been provided and was required. In addition, the report should note that it was concerns regarding the accounting system that led to the request for audit and that the recipient has subsequently provided proper certification.

OPGM concurred with the OIG's request to have a legal opinion as to whether the recipient may have sub-granted the project in violation of the terms of the cooperative agreement.

OIG Evaluation of Management Comments

GCBD's Management comments to the findings and recommendations are responsive.

OPGM stated that the report should identify the Federal share of the costs questioned. The OIG report stated that the requested reimbursement of \$1.1 million for cost were either incurred prior to the cooperative agreement, not properly supported or lacked approval by the SBA. We did not specifically identify the Federal share of the cost questioned because all cost submitted for reimbursement under this cooperative are required to be allowable per the terms and conditions of the cooperative agreement. In addition, the recipient's accounting system was not in compliance with Federal requirements and information on the Federal and non Federal share was not clearly identified in the available records for the cooperative agreement.

OPGM stated that the OIG misstated facts and incorrectly applied grants law. The OIG does not agree that it has misstated facts or incorrectly applied grants law. We do agree that the cooperative agreement incorporates provisions of OMB Circular A-110 and under A-110 the SBA can waive the pre-approval of costs incurred prior to the award. However, there was no evidence that a waiver was used and the circumstances in this instance are complicated by the existence of other SBA agreements which provided funds for similar activities immediately prior to the effective date of the cooperative agreement. Accordingly, the provision of Circular A-110 paragraph 25 (e) (1) does not fully address the condition where costs incurred prior to the effective date of the cooperative agreement may have applied to another government program or agreement. Notwithstanding the OPGM practice to permit pre-award costs incurred within 90 days of the effective date of the award under this provision of Circular A-110, an analysis of specific costs is needed in this instance to ensure costs are proper and are not charged to more than one Federal agreement or program.

OMB Circular A-122 requires that costs are allocable to an award if they are incurred specifically for that award. It further states that costs may not be shifted to other Federal awards to overcome funding deficiencies. The cooperative agreement also requires that the recipient not use award funds in such a way as to duplicate any existing SBA program or SBA funded efforts. SMA Global, the company managing HPSBF, had two purchase orders with SBA during the month of September 2003. SMA Global was also the Business Matchmaking authorized representative of Hewlett Packard under a co-sponsorship agreement which was terminated as of September 30, 2003. The performance period of the HPSBF cooperative agreement began September 30, 2003.

In addition, during the audit exit conference, the HPSBF project director and CEO of SMA Global, stated that he was told by SBA officials that he could include costs incurred under the aforementioned co-sponsorship in his request for reimbursement for the cooperative agreement. Our discussions with OPGM and review of the grant file did not disclose any documented approval allowing HPSBF to charge cost from the co-sponsorship agreement to the current cooperative agreement. Accordingly, in order to determine if the costs submitted for reimbursement were related to the cooperative agreement, HPSBF must provide the SBA with the necessary information to make a determination as to which agreement or contract benefited from the pre-award costs submitted for reimbursement.

In response to OPGM's statement regarding the HPSBF certification letter, the report already includes a statement that the cooperative agreement required the recipient to certify that its accounting system met OMB requirements and accordingly we have not made a change to the report. Lastly, OPGM states that the report should indicate that it notified HPSBF to provide a proper certification and HPSBF has now provided the proper certification. The OIG has not received a copy of the notification or the proper certification and has not audited any information that would substantiate this assertion.

OPGM concurred with the OIG's request to have a legal opinion regarding the sub-granting issue.

Audit Summary of Expenses Inappropriately Charged to the Cooperative Agreement

Vendor #	Amt Billed to Cooperative Agreement	Questioned Cost	Unallowable or Unallocable Cost ¹		
			Preaward Cost	Inadequate Support	No Contract or Approval
CONTRACTUAL					
1	\$6,250.00	\$6,250.00	\$6,250.00	\$6,250.00	\$6,250.00
2	\$26,053.37	\$26,053.37		\$26,053.37	\$26,053.37
3	\$61,356.50	\$61,356.50			\$61,356.50
4	\$10,315.47	\$10,315.47			\$10,315.47
5	\$12,234.42	\$12,234.42			\$12,234.42
6	\$15,528.13	\$15,528.13			\$15,528.13
7	\$1,895.00	\$1,895.00			\$1,895.00
8	\$6,006.06	\$6,006.06			\$6,006.06
9	\$2,000.00	\$2,000.00			\$2,000.00
10	\$201,288.29	\$17,588.33	\$5,000.00	\$17,588.33	
11	\$455.00	\$455.00			\$455.00
12	\$53,622.91	\$53,622.91		\$34,741.00	\$53,622.91
13	\$15,000.00	\$15,000.00	\$15,000.00		\$15,000.00
14	\$53,671.03	\$53,671.03		\$6,497.66	\$53,671.03
15	\$15,500.00	\$15,500.00			\$15,500.00
16	\$858.50	\$858.50			\$858.50
17	\$34,438.00	\$34,438.00	\$14,326.00		\$34,438.00
18	\$1,800.00	\$1,800.00	\$1,800.00		\$1,800.00
19	\$72,854.62	\$72,854.62	\$21,400.00		\$72,854.62
20	\$12,575.34	\$12,575.34	\$8,225.34		\$12,575.34
21	\$958.01	\$958.01			\$958.01
22	\$19,065.71	\$19,065.71			\$19,065.71
23	\$3,000.00	\$3,000.00			\$3,000.00
24	\$1,722.36	\$1,722.36	\$1,722.36		\$1,722.36
55	\$3,172.32	\$3,172.32		\$3,172.32	\$3,172.32
56	\$16,572.22	\$16,572.22			\$16,572.22
57	\$22,480.49	\$22,480.49			\$22,480.49
58	\$200.00	\$200.00			\$200.00
59	\$200.00	\$200.00			\$200.00

¹ Cost may have been questioned for any and/or all of the aforementioned reasons. Specifically, a particular invoice may include pre-award costs, unsupported costs, and/or costs that did not include a contract or contract approval. As result, costs associated with a particular invoice may be included in each category. For instance, vendor number one had pre-ward cost, unsupported costs, and was missing a contract and contract approval. Therefore, we included the \$6,250 amount under pre-award costs, unsupported costs, and no contract or contract approval.

Audit Summary of Expenses Inappropriately Charged to the Cooperative Agreement

Vendor #	Amt Billed to Cooperative Agreement	Questioned Cost	Unallowable or Unallocable Cost ¹		
			Preaward Cost	Inadequate Support	No Contract or Approval
CONTRACTUAL (Cont.)					
60	\$300.00	\$300.00			\$300.00
61	\$300.00	\$300.00			\$300.00
62	\$300.00	\$300.00			\$300.00
63	\$300.00	\$300.00			\$300.00
64	\$300.00	\$300.00			\$300.00
65	\$548.00	\$548.00			\$548.00
66	\$900.00	\$900.00			\$900.00
67	\$1,000.00	\$1,000.00			\$1,000.00
68	\$1,200.00	\$1,200.00			\$1,200.00
69	\$2,968.00	\$2,968.00		\$2,968.00	\$2,968.00
70	\$2,364.05	\$2,364.05			\$2,364.05
71	\$1,100.00	\$1,100.00		\$500.00	\$1,100.00
72	\$2,676.23	\$2,676.23		\$2,168.28	\$2,676.23
73	\$10,624.50	\$10,624.50		\$10,624.50	\$10,624.50
74	\$3,232.78	\$3,232.78			\$3,232.78
75	\$10,000.00	\$10,000.00			\$10,000.00
76	\$1,500.00	\$1,500.00		\$1,500.00	\$1,500.00
77	\$1,904.00	\$1,904.00		\$1,904.00	\$1,904.00
78	\$1,441.96	\$1,441.96		\$1,441.96	\$1,441.96
79	\$774.20	\$774.20		\$774.20	\$774.20
80	\$16,275.20	\$16,275.20		\$16,275.20	\$16,275.20
81	\$1,500.00	\$1,500.00		\$1,500.00	\$1,500.00
82	\$825.00	\$825.00		\$825.00	\$825.00
83	\$4,000.00	\$4,000.00		\$4,000.00	\$4,000.00
TOTAL CONTRACTUAL	\$737,407.67	\$553,707.71	\$73,723.70	\$138,783.82	\$536,119.38

Audit Summary of Expenses Inappropriately Charged to the Cooperative Agreement

Vendor #	Amt Billed to Cooperative Agreement	Questioned Cost	Unallowable or Unallocable Cost ¹		
			Preaward Cost	Inadequate Support	No Contract or Approval
OTHER					
25	\$52,950.00	\$52,950.00			\$52,950.00
26	\$982.25				
27	\$7,700.00	\$7,700.00	\$7,700.00		
28	\$46,179.50	\$46,179.50	\$5,628.75	\$14,605.50	\$46,179.50
29	\$11,104.50	\$5,719.00	\$5,719.00		
30	\$20,000.00	\$20,000.00	\$5,000.00	\$20,000.00	
31	\$5,680.00	\$0.00			
32	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	
33	\$3,679.52	\$0.00			
84	\$4,372.05	\$0.00			
85	\$3,000.00	\$3,000.00		\$3,000.00	
TOTAL OTHER	\$158,147.82	\$138,048.50	\$26,547.75	\$40,105.50	\$99,129.50
PERSONAL SERVICES					
34	\$3,037.50	\$3,037.50	\$3,037.50		\$3,037.50
35	\$21,804.47	\$21,804.47	\$2,000.00		\$21,804.47
36	\$113,500.00	\$113,500.00	\$24,000.00		\$113,500.00
37	\$10,500.00	\$10,500.00	\$10,500.00		\$10,500.00
38	\$16,521.01	\$16,521.01	\$6,324.28		\$16,521.01
39	\$66,000.00	\$66,000.00	\$15,000.00		\$66,000.00
40	\$34,563.46	\$34,563.46			\$34,563.46
86	\$16,857.71	\$16,857.71			\$16,857.71
TOTAL PERSONAL SERVICES	\$282,784.15	\$282,784.15	\$58,861.78		\$282,784.15
SUPPLIES					
41	\$8,675.83				
42	\$2,951.63	\$2,951.63	\$2,951.63		
43	\$11,711.83	\$6,678.38	\$6,678.38		
44	\$4,364.40	\$2,588.73		\$2,588.73	
45	\$1,006.44				
TOTAL SUPPLIES	\$28,710.13	\$12,218.74	\$9,630.01	\$2,588.73	\$0.00

Audit Summary of Expenses Inappropriately Charged to the Cooperative Agreement

Vendor #	Amt Billed to Cooperative Agreement	Questioned Cost	Unallowable or Unallocable Cost ¹		
			Preaward Cost	Inadequate Support	No Contract or Approval
TRAVEL					
46	\$1,762.20				
47	\$345.20	\$345.20		\$345.20	
48	\$497.64	\$497.64		\$497.64	
49	\$711.74	\$711.74		\$711.74	
50	\$336.22				
51	\$28,430.45	\$28,430.45			\$28,430.45
52	\$45,728.14	\$45,728.14		\$19,728.14	\$45,728.14
53	\$3,617.60	\$3,617.60		\$3,617.60	
54	\$7,625.51	\$7,625.51		\$7,625.51	
TOTAL TRAVEL	\$89,054.70	\$86,956.28		\$32,525.83	\$74,158.59
TOTAL BILLED TO AGREEMENT	\$1,296,104.47	\$1,073,715.37	\$168,763.24	\$214,003.88	\$992,191.91



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

Appendix B

MEMORANDUM

DATE: January 21, 2005

TO: Robert G. Seabrooks
Assistant Inspector General for Auditing

FROM: Frank J. Lalumiere [FOIA Ex. 6]
Deputy for Government Contracting and
Business Development

SUBJECT: Draft Audit Report-Review of a Cooperative Agreement to HP Small
Business Foundation

This is in response to your memorandum of December 21, 2004, concerning the draft audit report on the SBA Cooperative Agreement with the HP Foundation.

I have reviewed the report and concur with the findings and recommendations contained therein. A copy of GCBD memorandum dated December 23, 2004, in response to Recommendation 1 contained in the draft report, is attached.

GCBD has also discussed the content of the draft report with Mr. Darryl Hairston, Assistant Administrator for Administration, and concurs with the comments contained in his memorandum to you dated January 21, 2005.

Attachment



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

DEC 23 2004

Mr. Chuck Ashman
Executive Producer
Business Matchmaking
13101 Washington Boulevard
Suite 110
Los Angeles, CA 90066

Dear Mr. Ashman:

Chuck

This is in follow-up to earlier discussions concerning compliance with Government requirements relative to acceptable financial management practices (accounting and billing systems) employed by the HP Small Business Foundation under the Business Matchmaking Cooperative Agreement.

Based upon the onsite review conducted by the Office of the Inspector General in the September/November timeline, the following actions require your immediate attention:

- (1) Develop and implement a financial management system that meets the requirements of OMB Circulars A-110 and A-122, including:
 - (a) establish detailed, written procedures for identifying, classifying, and eliminating costs that are not allowable, allocable or reasonable.
 - (b) develop and implement procedures for contract administration and management with third parties as required by the above referenced OMB Circulars.
 - (c) Request approval and provide copies of contracts, agreements and subcontracts for all contracting actions undertaken in support of the Cooperative Agreement, and;
 - (d) Require vendors/subcontractors to bill the HP Foundation for all work performed under the Cooperative Agreement.

Your cooperation in complying with the above recommendations is appreciated. Implementation will expedite the review and payment of future invoices. Please advise when the above actions will be completed, as a follow-up review may be necessary.

[

FOIA Ex. 2

]

Sincerely, ↗

FOIA Ex. 6

Frank J. Lalumiere
Deputy ADA/GC&BD

CC: Mr. Darryl Hairston
Ms Sharon Gurley
Mr. Robert Seabrooks
Ms. Sheila Thomas
Mr. David Loines
Mr. Maurice Swinton
Mr. Michael Barrera



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

DATE: January 21, 2005

TO: Robert G. Seabrooks
Assistant Inspector General for Auditing

FROM: Darryl K. Hairston FOIA Ex. 6
Assistant Administrator for Administration

SUBJECT: Draft Audit Report -Review of a Cooperative Agreement to HP Small Business Foundation

I have reviewed the subject draft audit report and, with minor exceptions, generally concur with the noted findings. In this regard, I offer the following comments:

- The draft summary states, "The recipient requested reimbursement of \$1 million for costs which were either incurred prior to the subject cooperative agreement, not properly supported, or lacked approval by the Small Business Administration (SBA)." The statement should be amended to reflect the federal and non-federal share of the requested costs (approximately 45% federal and 55% non-federal);
- The draft report, page 2, states that the auditors "identified a total of 20 vendors with pre-award costs. Because these costs were incurred prior to the start of the performance period and the cooperative agreement does not contain provisions for costs incurred prior to the award, these costs are unallowable." This is an inaccurate statement of the facts and an incorrect application of grants law principles. Under OMB Circular A-110, para. 25(e)(1), "Federal awarding agencies are authorized, at their option, to waive cost-related and administrative prior written approvals... Such waivers may include authorizing recipients to... [i]ncur pre-award costs 90 calendar days prior to award or more than 90 calendar days with the prior approval of the Federal awarding agency." Because the OMB circulars are expressly incorporated into the cooperative agreement by the terms of the Notice of Award, the cooperative agreement does in fact contain provisions for costs incurred prior to the award. It is SBA practice to permit recipients to be reimbursed without advance approval for pre-award costs that were incurred less than 90 days prior to the date of award where such costs would be otherwise allowable. Where pre-award costs are incurred by a recipient more than 90 days prior to the date of award, it is SBA practice to reimburse such costs where the recipient obtained prior approval and where the costs would be otherwise allowable. The draft report should therefore be amended accordingly;
- The draft report, page 4, "Accounting System Certification", indicates that while the accounting system certification letter provided stated that an internal accounting system existed, it did not certify that the system met OMB Circular A-110 requirements. Therefore, the report concludes that SBA should have determined whether the recipient's accounting system was adequate for administering the cooperative agreement purposes. I fully agree with this conclusion. However, the report should be amended to note that the requirement for the certification from the

Robert G. Seabrooks
Assistant Inspector General for Auditing
Page 2

recipient that its accounting system met the requirements of Circular A-110 was included in the terms and conditions of the cooperative agreement. Also, the report should be amended to note that the Office of Procurement and Grants Management did subsequently notify the recipient that the proper certification had not been provided and was required. Next, the report should be further amended to note that it was the concerns related to the adequacy of the recipients accounting system that led to the request for this audit. Finally, the report should note that the recipient has now provided the proper certification; and,

- The draft report, page 4, "Finding 2...", notes that the recipient may have sub-granted the project in violation of the terms of the cooperative agreement and recommends that the Assistant Administrator for Administration request a legal opinion to determine if such a violation has occurred. I fully concur with this recommendation and the opinion has been requested.

I appreciate the assistance your office has provided with this matter and the opportunity to submit comments regarding the draft report.

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