

**AUDIT OF SBA'S ADMINISTRATION OF ITS  
SPECIAL APPROPRIATION GRANTS**

**AUDIT REPORT NUMBER 5-23**

**SEPTEMBER 21, 2005**

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**U.S. SMALL BUSINESS ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20416**

<b>AUDIT REPORT</b>
<b>Issue Date: September 21, 2005</b>
<b>Number: 5-23</b>

**To:** Darryl Hairston  
Assistant Administrator for Administration

/S/ original signed  
**From:** Robert G. Seabrooks  
Assistant Inspector General for Auditing

**Subject:** SBA's Administration of Its Special Appropriation Grants

OIG completed an audit of the administration of a selected sample of SBA's special appropriation grants. OIG found that the review, monitoring and oversight of the selected grants was ineffective, and as a result, exposed the agency to the risk that government funds entrusted to it may be wasted, mismanaged and misused.

### **BACKGROUND**

If considered a distinct program, SBA's portfolio of special appropriation grants would rank as the Agency's second largest funded non-credit program. For Fiscal Years 2003, 2004 and 2005, SBA special appropriation grants totaled approximately \$58 million (66 grants), \$45 million (73 grants) and \$40 million (91 grants), respectively.<sup>1</sup>

Administration of these grants is currently handled by two divisions within SBA's Office of Administration (OA), the Office of Financial and Administrative Operations (OFAO) and Office of Procurement and Grants Management (OPGM). A realignment of OA in July 2004, created OFAO to manage, among other activities, the operational and fiscal aspects of special appropriation grants. One of the stated roles of OFAO was the "processing of guidance documents including program regulations and standard operating procedures. . . ." Grant recipients receive direct support for processing of invoices and consultation and assistance concerning programmatic and technical matters from OFAO. Additionally, OFAO is responsible for reviewing grantees' financial status reports and programmatic results reports. The OFAO is also to provide management information and status reports to ensure grant funds are used in accordance with the terms of the Notices of Award. In sum, OFAO primarily focuses on the programmatic and technical aspects of the grants, whereas OPGM focuses on the grants'

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<sup>1</sup> Special appropriation grant amounts and number of grants are derived from the FY 2003, FY 2004 and FY 2005 appropriation legislation and therefore, do not reflect subsequent budget rescissions.

financial aspects. Unlike discretionary grants, SBA program offices currently are not involved in the administration of special appropriation grants.

The following table presents a summary of the four-phase process currently followed by OA to administer the Agency’s special appropriation grants: 1) pre-application, 2) pre-award, 3) award, and 4) post-award. The table is OIG’s depiction of the process based on explanations provided in interviews and meetings with current and former OA staff since no written policies or procedures exist to directly reference.

**Summary of Four-Phase Process of Administering Special Appropriation Grants**

<i>Pre-Application</i>	<i>Pre-Award</i>	<i>Award</i>	<i>Post-Award</i>
<p><u>Offices Involved:</u></p> <p>CLA OFAO OPGM</p> <p><u>Actions:</u></p> <ul style="list-style-type: none"> <li>• Initial contact with grantees</li> <li>• Application packages sent out by OFAO</li> </ul>	<p><u>Offices Involved:</u></p> <p>OFAO OPGM OGC</p> <p><u>Actions:</u></p> <ul style="list-style-type: none"> <li>• Receipt of applications by OPGM</li> <li>• Applications reviewed by OPGM and OFAO for completeness.</li> <li>• OGC conducts a legal review of the grant application</li> </ul>	<p><u>Offices Involved:</u></p> <p>OFAO OPGM</p> <p><u>Actions:</u></p> <ul style="list-style-type: none"> <li>• OFAO recommends award of grant</li> <li>• OPGM processes award, including sending award package consisting of: 1) Notice of Award, 2) Circulars and, 3) Forms and instructions to be used by grantee</li> </ul>	<p><u>Offices Involved:</u></p> <p>OFAO OPGM</p> <p><u>Actions:</u></p> <ul style="list-style-type: none"> <li>• OFAO receives reimbursement requests (RR) and performance and financial status reports</li> <li>• OFAO recommends to OPGM to pay RR if complete and if grantee in compliance with terms of award</li> <li>• RR reviewed and paid by OPGM.</li> </ul>

OPGM-Office of Procurement and Grants Management  
OFAO-Office of Financial and Administrative Operations  
OGC-Office of General Counsel

CLA-Congressional and Legislative Affairs  
RR-Reimbursement Request

## OBJECTIVES AND SCOPE

The objectives of the audit were to determine if (1) OA is exercising adequate oversight of its special appropriation grants by following its own policies and procedures, (2) appropriate documentation was provided by the grantees and reviewed by SBA to determine compliance with applicable policies and procedures before grantee costs were reimbursed, and (3) OA is ensuring that the grantees are delivering the services promised in their proposals.

To accomplish the audit objectives, OIG reviewed the grant files maintained by OA for 3 of the largest dollar amount grants from Fiscal Year 2003. OIG also conducted interviews with the Associate Administrator for Administration and officials from OPGM. The three grants reviewed totaled approximately \$8.2 million. OIG reviewed reimbursement claims totaling approximately \$5.3 million. OIG limited its review to 3 grants because the preliminary stages of the review revealed numerous and wide-ranging management and administrative issues for the three grants.

Grantee	Grant Amount	Project and Budget Period	Amount of Reimbursements Reviewed by OIG
[FOIA Ex. 4]	\$1,987,000.00	7/1/03-6/30/05 (including modification)	\$1,434,888.49
[FOIA Ex. 4]	\$3,104,687.50	6/25/03-5/24/08 (including modification)	\$3,104,687.50
[FOIA Ex. 4]	\$3,154,362.50	6/1/03-5/31/05	\$795,493.30
<b>Total Amount</b>	<b>\$8,246,050.00</b>		<b>\$5,335,069.29</b>

It is important to note, that the pre-application, application, award and some of the post-award administration and management activities of the three FY 2003 grants OIG audited were conducted prior to the creation of OFAO in July 2004, when management and administration of special appropriation grants was conducted solely by the Office of Procurement and Grants Management.

Field work was performed in Washington, DC from October 2004 through April 2005. The audit was conducted in accordance with Government Auditing Standards.

## AUDIT RESULTS

OIG determined that OA did not exercise adequate oversight of the three grants OIG reviewed. OIG determined that grantee claimed costs and reimbursements by OA were not compliant with applicable policies and procedures. OA approved and paid grantee reimbursement requests without requiring evidence that expenditures were allocable, allowable and reasonable. OA did not require documentation from the grantees that clearly identified key personnel before awarding the grant. Additionally, because OA did not enforce the financial and performance reporting requirements of the grants, we were unable to determine if the grantees were delivering the services promised in their proposals. Finally, OA did not have formal written procedures that guide the review, monitoring and oversight of its sizable portfolio of special appropriation grants. As demonstrated by the issues identified in this report, OIG found that grant applications were routinely approved, without adequate review, and reimbursement requests were given minimal scrutiny, if any, before being processed for payment. As a result, the grant administration process was ineffective and exposed SBA to the risk that grant funds were being used for activities other than their intended purpose.

**Finding 1     The Office of Administration does not have formal written procedures that guide the review, monitoring and oversight of its sizable portfolio of special appropriation grants.**

OA did not exercise adequate oversight of the three special appropriation grants OIG reviewed. OIG found that the OA did not have a formal written system or set of policies or procedures guiding the review, monitoring and oversight process for this sizable portfolio of grants. As demonstrated by the problems identified in this report, we found a process in effect where grant applications were routinely approved without adequate review, and reimbursement requests were given minimal scrutiny, if any, before being processed for payment. As a result, SBA did not have adequate controls in place to ensure that Federal funds were being expended for their intended purpose.

In the case of one grantee, the official grant file contained two grant applications. We could not determine, with certainty, which application was ultimately approved. Attached to one of the applications was a memo from the grantee to OA's Grants Management Officer (GMO) and with a hand-written notation, "revised docs," stating that the application was revised to "eliminate all references to: 1) a non-federal portion of the program..., and 2) marketing, public relations, or fundraising activities (as none of the grant will be used toward these activities)." Upon review, however, OIG determined that in addition to eliminating these two references (likely at the suggestion of an OGC legal review), the budget detail worksheet revealed that revisions were also made to personnel salaries and percentages of time that personnel would work on grant activities (i.e., one key staff's salary percentage increased from 47.4 percent to 60.4 percent). The attached memo did not note that revisions were also made to the proposed budget and we did not find documentation in the official grant file that showed these significant budget revisions were reviewed, noted or questioned by OA personnel. Because one set of application documents was marked "revised docs," but consisted of significant budget revisions

for which we did not find evidence of review or approval, we were unable to determine which application of the two was ultimately approved by OA.

In addition, the technical proposal marked “revised docs” did not comply with the requirements of the application instructions. The grantee’s technical proposal largely described the overall mission of the grantee’s institution, but the goals and objectives of its proposed project activities were not clearly presented. Application instructions stated that the technical proposal should “provide a clear and measurable end result to be achieved.” We were not able to determine the “end result” to be achieved by the grantee with the funds for which it applied and ultimately received.

Furthermore, the Notice of Award and subsequent modification showed approval for a 5-year project and budget period. The technical proposal, however, was not clear in justifying or articulating this timeframe. The proposed budget, clearly not in accordance with the Notice of Award, appeared to be a 1-year budget in which the totality of grant funds (\$3,104,687.50) was planned to be expended. After a review of the reimbursement requests in OPGM’s files, however, OIG found that the grantee expended the totality of grant funds by March 31, 2004, approximately 9 months after the effective start date of the project and budget period and more than four years before the project and budget period end dates, leading us to question the rationale for the 5-year budget and project period approved by OA. It is not at all clear why, how, or on what basis a 5-year budget and project period was approved by OA.

In fact, the Notice of Award was modified (effective December 23, 2003) to revise the start date of the project and budget period to June 25, 2003. The date of the modification appeared to be the first time a budget for this grant was approved given that box 12 of the original Notice of Award, signed and dated September 30, 2003, was blank<sup>2</sup>. A hand-written note on a memo dated December 12, 2003, from one OA staff member to an OA grants management specialist read: “No approved budget on file. Budget must be approved prior to forwarding pmt.” This notation, coupled with the grant modification that seemingly approved a budget for the grant, leads OIG to question whether grant funds expended prior to December 23, 2003 (amounting to at least \$2,028,381.00), were allowable.

Our review of OPGM’s file of another grant provided further evidence of the lenient review applied to the applications for special appropriation grants. In this file, we found a standard Memorandum of Negotiation and Cost/Price Analysis worksheet<sup>3</sup> that was not completed or signed by the Grants Management Officer (GMO). A completed and signed cost/price analysis worksheet would certify that a competent budget analysis was conducted. Because the worksheet was not signed and was incomplete, we concluded that a cost/price analysis of this grantee’s proposed budget was not done. When we raised this issue at a meeting attended by some of OA’s senior management, the Director of OPGM stated that our conclusion

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<sup>2</sup> Box 12 of the Notice of Award attests to the budget amounts by category approved by OA.

<sup>3</sup> The purpose of the cost/price analysis is to determine the extent that the applicant understands the financial aspects of the project and to assess the applicant’s ability to perform grant activities with the requested funding level. The review includes: (1) obtaining cost breakdowns; (2) verifying cost data; (3) evaluating cost elements; (4) examining cost data to determine necessity, reasonableness, allowability, and appropriateness of proposed costs; and (5) determining if costs are presented in sufficient detail.

was erroneous. She told us that we should not come to such a conclusion based only on an incomplete form. She stated that sometimes the GMO will examine the technical proposal and budget, make written notes on those documents and perhaps contact the grantee to discuss any issues that arise. She added that the cost/price analysis form was not completed in all cases and that the incomplete form in this case, for this grantee, was acceptable to her. The Assistant Administrator (AA) for Administration and Deputy Assistant Deputy Administrator for Management and Administration questioned the value and usefulness of a form that was not required to be completed or signed. We reviewed the grantee's technical proposal and budget for written notes that would show the GMO conducted a cost/price analysis of the grantee's budget (a level of review acceptable to the OPGM Director), but we did not find such evidence.

Clear policies and procedures will ensure that all special appropriation grants, no matter their size or purpose, will be administered and monitored consistently and with a coherent set of standards. Such policies and procedures are needed because special appropriation grants (some of which include development of historical and tourism facilities) involve the financing of facilities or programs outside the expected expertise of SBA officials and may be awarded to organizations with no previous government grant experience.

OA's effective standard operating procedures, SOP 00 11 1, Small Purchases, Contracts, Grants and Cooperative Agreements, are outdated (issued in February 1985) and state that they apply only to SBA's discretionary grants program. In March 2004, the OIG recommended in our Audit of SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders (report number 4-16), that the Associate Deputy Administrator for Management and Administration issue draft SOP 00 11 2, the update to SOP 00 11 1, as soon as possible. To date, this has not been done. Also, updating of SBA's directives is one of the Agency's management challenges identified by the OIG.

### **Recommendations:**

OIG recommends that the Assistant Administrator for Administration:

- 1A. Develop policies and procedures to guide the review, monitoring and oversight process of the Agency's growing portfolio of special appropriation grants for inclusion in the forthcoming SOP 00 11 2 and ensure that adequate resources are deployed to implement the new policies and ensure they are followed.
- 1B. Immediately develop and implement procedures to guide the review, monitoring and oversight process of the Agency's current portfolio of special appropriation grants until SOP 00 11 2 is issued.

**Finding 2      OA approved grantee reimbursement requests without requiring evidence that expenditures were allocable, allowable and reasonable.**

Although the issues described and outlined below pertain to one of the three grants OIG reviewed, they are illustrative of the issues found in all three grants. OA approved 14 reimbursement requests on one grant totaling \$1,434,888.49 without ensuring that claimed costs complied with applicable OMB Circulars and Notice of Award requirements. OA did not sufficiently monitor grant project activities or enforce the administrative requirements on the grantee in its 14 reimbursement requests by ensuring that all costs were properly supported, allocable and allowable prior to approving the reimbursement requests. As a result, there is no assurance that Federal funds were used for their intended purpose.

Payments under the grant should be made as outlined in Section 22 of the attachment to OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations. The Notice of Award specifies that in order to receive payment, the grantee must submit SF-270, “Request for Advance or Reimbursement” and must attach to the SF-270 a “Detailed Expenditures Worksheet.” OMB Circular A-21, Cost Principles for Educational Institutions, specifies that the accounting practices of colleges and universities must support the accumulation of costs as required by the cost principles and must provide for adequate documentation to support costs. OA approved and reimbursed grantee costs in the following cost categories: personal services, fringe benefits, travel, supplies, contractual, “other,” and indirect costs.

**Personal Services**

OA approved a total of \$411,490.88 for the grantee in 13 of 14 reimbursement requests for personal services without ensuring the costs were supported by sufficient documentation or that the costs complied with applicable policies and requirements. In six cases, OA reimbursed the grantee for personal services without any supporting documentation justifying the amounts on the SF-270s. In 3 of these 6 cases, documentation for six individuals listed on the reimbursement requests, including resumes, was not found showing that these six individuals were approved by OA to work on project activities and thus charge their personal services to the grant. In the remaining requests, computer printouts were attached to the requests, seemingly to support the grantee’s personnel costs, but it was not clear how the information on the printouts supported or justified the amounts listed on the SF-270s. Two of these remaining requests also listed individuals for whom documentation was not found showing that the individuals were approved by OA to work on project activities.

OA did not enforce the requirement on the grantee, detailed in the application and Notice of Award, that it provide resumes and position descriptions for all key personnel providing services with grant funds. This requirement was clearly detailed in the “Checklist for Completing Your Application for Federal Assistance and Other Required Documents” as part of the application package sent to special appropriation grant applicants. If a position was vacant, which often occurs when prospective grantees withhold hiring personnel until grant funds are secured, only a position description must be provided. In their Technical Proposal, the grantee identified 11 key personnel. In the official grant file maintained by OPGM, however, the auditor



found only two resumes for key personnel. Resumes for the other key personnel listed in the Technical Proposal were not included with the grantee's application or otherwise found in the official grant file.

Although the requirements pertaining to submission of resumes and position descriptions for key personnel were clear, what was not clear was how OA determined "key personnel." Grantee confusion was evident regarding whom or what positions to identify as key in its submission of the budget detail worksheet and technical proposal, documents that make up in part its application. Whereas the budget detail worksheet listed six key personnel positions, the technical proposal listed eleven key positions. Neither in SBA's application instructions nor in the Notice of Award was "key personnel" defined. We raised this issue at a meeting with OA officials. The Director of OPGM was unable to define key personnel or provide us with specific criteria with which to identify as key positions providing services on a federally funded grant. The Director stated that while all positions need not be considered "key," she was able to make a determination whether a position should be considered key or not based on a simple review of a position description. We pointed out that different people would very likely reach different conclusions regarding what constitutes a "key" position, without criteria or guidance on which to base a decision. We also noted the inherent risk to the Agency of applying inconsistent standards regarding documentation to require and collect of grantees and the certain confusion that would likely result from a requirement that was not enforced at all.

The Notice of Award instructed grantees to detail their costs, including personal services, on the detailed expenditures worksheet, a supplement to SF-270. Instructions on the worksheet directed the grantee to provide names of all employees, provide their position titles and show the annual salary rate and the percentage of time devoted to the project for the time covered by the request. The detailed expenditures worksheet also had explicit instructions for the personal services page of the worksheet, in which examples were provided for properly documenting personal services costs.

Section 25(c) of the attachment to OMB Circular A-110 lists actions that require prior approval, including changes in key personnel specified in the application. Additionally, the Notice of Award stipulated that SBA reserved the right to approve or disapprove the employment of key professional-level employees of the recipient in the management of operations of the funded project. The Notice of Award also stated that the recipient must submit resumes for consent prior to the employment of the candidate, if such information was not included in the application when the award was made. Resumes must contain sufficient detail to reveal the experience, education of the candidate and how the candidate will meet other qualifications required of the position.

OA should develop guidelines or provide criteria that will assist grant applicants and SBA staff alike to identify the grant personnel to be considered key. Furthermore, OA should carefully review grant applications for properly identified key personnel and closely monitor grant activities to ensure that changes to key personnel are not made without OA consultation and approval.

## **Fringe Benefits**

For this same grant, OA approved fringe benefit reimbursement totaling \$96,397.91 without ensuring the costs were supported by proper documentation or complied with applicable policies and requirements. On five reimbursement requests, the fringe benefits costs were not supported by any cost details. The SF 270s only showed a total amount for fringe benefit costs. On other reimbursement requests, in which total amounts for fringe benefit costs were listed, the grantee attached computer printouts listing charges for various items, but it was not clear what some of these items were, whether they applied to fringe benefits costs in all cases, or applied to other cost categories. OA should have insisted fringe benefits cost details were explicit and clear, given that two different fringe benefit rates (shown in the grantee's approved budget) were to be applied to its personnel based on the nature of the employees' activities as either faculty or staff.

The SF-270 and supplemental detailed expenditures worksheet directed grantees to list all fringe benefits specific to the period covered by the reimbursement request. It stated that fringe benefits should be based on actual known costs or an established formula. Additionally, the SF-270 and supplemental detailed expenditures worksheet stated that fringe benefits are for the personnel listed in the personnel services category of the reimbursement request and only for the percentage of time devoted to the project. In the case of this grantee, the approved budget showed that the fringe benefits rate was 22 percent for faculty and 35 percent for staff.

## **Travel**

OA approved travel costs reported on reimbursement requests of this same grantee totaling \$200,630.70 without requiring that the grantee provide sufficient documentation to support its claimed costs or to follow instructions on the detailed expenditures worksheet to itemize costs. In two reimbursement requests, travel costs were without any justification or support. In three reimbursement requests, names of individuals were listed with the total amount claimed or the name of an event, seemingly pertaining to the purpose of the travel, but no other cost details were provided. In the remaining reimbursement requests, total amounts claimed for travel were included on the SF-270s and computer printouts were attached to the requests, seemingly to support costs claimed on the SF-270s, but it was not clear from the printouts how they supported the travel claimed or other costs claimed on the SF-270s. Furthermore, the auditor found no evidence in the grant file that the grantee's lack of, or unclear, documentation supporting travel costs were questioned by OA staff, or that additional information was requested to justify the costs.

The Notice of Award stated that travel costs would be made based on incurred cost and that all travel should be in accordance with OMB Circular A-21. Additionally, instructions on the detailed expenditures worksheet of SF-270 instructed the grantee to itemize travel expenses of project personnel by purpose, show the basis of computation (e.g. six people to 3-day training at \$x lodging, \$x subsistence) and to identify the location of travel.

## **Equipment**

OA approved reimbursement requests in which the grantee claimed \$11,407.91 in equipment costs. Equipment purchases, however, were not included in the grantee's approved budget. Moreover, the auditor did not find evidence that a request was submitted by the grantee or approval provided for a budget revision which would provide for a transfer of funds between cost categories as required by OMB Circular A-110. The Notice of Award stated that reimbursement would be made based on the recipient's bona fide requirements and as approved by the GMO in accordance with the approved budget. The auditor did not find evidence that OA staff questioned any of the claimed cost for equipment before making the reimbursements.

## **Supplies**

OA approved reimbursement requests in which the grantee claimed a total of \$23,999.25 in supply costs. In each of the requests, supply costs did not comply with SBA documentation requirements. One request included a total amount only, without any supporting documentation. Two requests listed items that did not appear in the approved budget for this particular cost category. Another reimbursement request included an item that did not link to the approved budget. The remaining reimbursement requests included a dollar amount only, without justification or support, and listed items including "postage, copying and printing" that could not be linked to the approved budget. Computer printouts were attached to the reimbursement requests, but it was not clear if they were intended as support for this cost category. The auditor did not find evidence that OA staff questioned any of the claimed costs before making the reimbursements.

As with all other reimbursable costs, the Notice of Award stated that reimbursement would be made based on the recipient's bona fide requirements and as approved by the Grants Management Officer (OPGM) in accordance with the approved budget and project milestones. Additionally, the SF-270 and the detailed expenditures worksheet instructed the grantee, when requesting reimbursement for supplies costs, to list items by type (office supplies, postage, training materials, copying paper, and expendable items costing less than \$5,000) and to show the basis for computation.

## **Contractual**

OA approved reimbursing the grantee contractual costs of \$140,708.44 without requiring it to comply with applicable OMB Circulars or Notice of Award requirements. Copies of contracts and subcontract agreements were not found in OPGM's official grant file, nor was evidence found that OA contacted the grantee to obtain these required documents after the Notice of Award was issued. Additionally, OA did not require the grantee to properly document its contractual costs of \$140,708.44 before making the reimbursements. In all reimbursement requests in which the grantee claimed contractual costs, OA accepted no further justification than a dollar amount for the grantee's purported contractual costs.

As the Notice of Award stated, in accepting grant funds the recipient was to submit to the Grants Management Officer a copy of all contract and subcontract reports. Moreover, the

application for assistance states that in the case of sole source contracts, a justification must be provided for contracts over \$2,500. In completing the SF-270 and the detailed expenditures worksheet, recipients were instructed to provide the company or person name and a description of the product or service provided when claiming contractual costs.

### **“Other” Costs**

The grantee’s approved budget consists of \$241,546.00 in “other” costs. OA approved reimbursing the grantee “other” costs in 14 reimbursement requests totaling \$210,699.64 in which the claimed costs were either without justification, unsupported by documentation, or were inconsistent with the approved budget. One reimbursement request included a total amount only, unsupported by documentation. In five requests, the claimed costs were accompanied by vague descriptions or otherwise unintelligible notations, such as “purchased service internal” or “professional fees.” Three requests consisted of charges for “telephone” when no amount for this item was approved for this budget cost category. The remaining reimbursement requests consisted of charges for “copying” totaling \$6,340.97, even though this item was not part of the approved budget. Despite these issues, the auditor did not find evidence that OA questioned the costs, sought cost details or clarification of vague descriptions from the grantee before making the reimbursements.

OMB Circular A-21 also specifies that a cost is allocable to a particular cost objective (a grant) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if it is necessary to the overall operation of the institution and, in light of the principles provided in the Circular, is deemed to be assignable in part to sponsored projects.

The Notice of Award reminded the grantee that reimbursement would be made based on its requirements and as approved by the Grants Management Officer in accordance with the approved budget. Additionally, the “other” cost category on the detailed expenditures worksheet instructed the recipient to list items by major type and the basis for computation.

### **Indirect Costs**

OA approved reimbursing the grantee \$339,553.76 of indirect costs, the established rate of 31 percent of direct costs. Due to the questionable nature of the totality of direct costs applied to the grant, the OIG was unable to determine if the \$339,553.76 in indirect costs applied to the grant were allocable.

At the time of the award, the grantee had an approved and signed college and universities rate agreement with the US Department of Health and Human Services. The indirect cost rate applicable to the grant was 31 percent of modified direct costs. Modified direct costs consist of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first \$25,000 of each subgrant and subcontract. In reimbursing the grantee for indirect costs, it is not clear that OA ensured that only the first \$25,000 of any subcontract was included in the indirect cost calculation.

OMB Circular A-21 also specifies that a cost is allocable to a particular cost objective (a grant) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if it is necessary to the overall operation of the institution and, in light of the principles provided in the Circular, is deemed to be assignable in part to sponsored projects.

### **Recommendations:**

OIG recommends that the Assistant Administrator for Administration:

- 2A. Obtain documentation from the grantee, per SBA and OMB policies, that shows all costs charged to the grant in the reimbursement requests submitted to SBA are allocable and allowable or recover government funds where the grantee is unable to supply documentation or support showing that grant expenditures are reasonable, allocable and allowable.
- 2B. Include guidelines or criteria that clearly define key personnel in the Agency's grant application instructions, Notice of Award requirements and in the forthcoming SOP 00 11 2.
- 2C. Develop a corrective action plan to prevent similar deficiencies in the future.

### **Finding 3 OA did not enforce the financial and performance reporting requirements of the grants.**

OA did not enforce the terms and conditions of the three grants reviewed by requiring the grantees to submit all of their quarterly performance and financial reports on time and for the correct quarterly reporting periods. Furthermore, OA did not require the grantees to include in their performance reports all of the information required and detailed in the Notice of Award, Section II.R.3, so that it could effectively assess performance.

The Notices of Award clearly outlined the information grantees were required to include in their performance reports:

- Project accomplishments, problems encountered, steps for correcting problems, and recommendations.
- A comparison of actual accomplishments to the estimated milestones established for the reporting period.
- Reasons for slippage in those cases where the milestones were not met, and a plan of action to overcome those slippages.
- Information relating to actual financial expenditures of budget object cost categories versus the estimated budget. Also, include an explanation of any cost overrun, if any, by

budget object cost category. Financial data furnished in this report is from a *manager's standpoint* and is in addition to the information furnished in the Financial Reports.

The following examples of the performance and financial report submissions of one grantee are illustrative of the issues we found in the performance and financial report submissions of the three reviewed grants. The Notice of Award for the grantee instructed the grantee that its performance reports for the first three quarters of each budget period shall be due no later than 30 days after the end of each quarter. The final fourth quarter report was due no later than 90 days after the end of the budget year. It then defines the quarters for the award as follows:

October 1—December 31  
January 1—March 31  
April 1—June 30  
July 1—September 30

The Notice of Award continued that for purposes of the award, the grantee's first quarter would begin on the quarterly start date noted immediately following the start date for the Project Period (as noted in Item 4 of the Notice of Award page, or July 1, 2003). Financial reports were due with the performance reports in accordance with the quarterly calendar described above. Financial reports were due no later than 30 days after the end of each quarterly reporting period.

Due to OA's lenient enforcement of the terms and conditions of the grants regarding submissions and content of performance and financial reports, it was not possible to reasonably assess the performance of the grantees or if project activities are achieving the goals and objectives as outlined in the grantees' technical proposals.

### **Quarterly Performance and Financial Report #1**

OA accepted first quarter performance and financial reports from one grantee in which it was not possible to reasonably assess the actual first quarter performance of its grant activities.

The first quarterly performance report was submitted January 28, 2004, covering the period April 1, 2003-December 31, 2003, a 9-month period. April 1, 2003-June 30, 2003, a portion of the reporting period, was not part of the official project or budget period, suggesting that the grantee engaged in pre-award activities. The auditor did not find evidence in the official program files that pre-award activities were approved by OA. The first page of the report stated that some pre-award activities took place, notably meetings between the grantee and the Minority Business Development Agency's National Director and his top management team for the purposes of needs assessments, program planning and project initiation.

Confusingly, the grantee's first quarterly financial report included the total outlays for the July 1, 2003-September 30, 2003 period, even though the financial report did not correspond and was not submitted with the concurrent performance report, as required.

Given that OA accepted the report despite the incorrect reporting period, it was not possible to reasonably assess the performance for the actual first quarter of project activities (July 1-September 30) or to determine whether the content of the report includes the information required for the first quarterly period as detailed in the Notice of Award. Furthermore, the auditor did not find evidence in OA's files that either office attempted to contact the grantee to clarify its first quarterly report submission or request that a revised report, for the correct reporting period, be submitted.

### **Quarterly Performance and Financial Report #2**

OA's grant files did not contain the grantee's performance or financial reports for the second quarter of the grant project and budget period as defined in the Notice of Award (October 1, 2003-December 31, 2003). The first performance report submitted, bearing a reported period of April 1, 2003-December 31, 2003, however, appeared to consist of a combined first and second quarter performance report.

The grantee submitted a financial status report on July 29, 2004 for the period "10/01/2003" to "06/30/2003," obviously an incorrect reporting period. Based on the total outlays reported, the financial status report appeared to report the second quarter of the budget and project period.

### **Quarterly Financial Report # 3**

OA accepted a third quarterly performance report that did not include in the report all the information required by the Notice of Award. The report did not include a comparison of actual accomplishments to the estimated milestones established or reasons for slippage in those cases where milestones were not met. Also excluded in the report was information relating to actual financial expenditures of budget object cost categories versus the estimated budget. The auditor did not find evidence in OA's files that either office attempted to contact the grantee to request that it provide in its report all the information required as detailed in the Notice of Award.

The grantee submitted its third quarterly financial status report on November 10, 2004, more than six months past its due date of April 30, 2004.

### **Quarterly Financial Report #4**

OA accepted a fourth quarterly performance report that did not include in the report all the information required by the Notice of Award. The report did not include a comparison of actual accomplishments to estimated milestones or provide reasons for slippage in those cases where milestones were not met, and a plan to overcome them. Furthermore, the report did not include information relating to actual financial expenditures of budget cost categories versus the estimated budget.

The grantee submitted its fourth quarterly financial status report on November 10, 2004, more than 3 months past its due date of July 31, 2004.

## **Recommendations:**

OIG recommends that the Assistant Administrator for Administration:

- 3A. Obtain all performance and financial reports due to the Agency as required by the terms and conditions of the grant, insuring that the reports adhere to and include all the information requirements stipulated in the Notice of Award, Section II.R.3 and Circular A-21 so that OA is able to properly and thoroughly monitor and assess the performance of grant activities.
- 3B. Consider invoking Section I.V. of the Notice of Award giving SBA authority to suspend payment of any and all pending reimbursements requests of the grantee until recommendations 2A and 3A are met.

## **SBA Management's Response and OIG's Evaluation of Management's Response:**

OA's response indicated agreement with Finding 1 as they acknowledged that SOP 00 11 1 is outdated and stated that the SOP should be ready to issue for final clearance by November, 2005. OA's response, however, did not specifically address Findings 2 and 3 or any of the recommendations in the draft report. Therefore, the recommendations will be resolved during the audit resolution process.

OA stated in its response that OPGM previously served as the program office for the special appropriation grants and also performed all post award activities. Further, OA acknowledged that given the workload of OPGM and the growth trend of these grants, it was very clear that the office could not effectively conduct the necessary reviews and oversight of the grants while meeting its other workload demands. Therefore, OFAO was created to serve as the program office for the grants in July 2004. OA stated that under the management of OFAO, substantial improvement has been made in the pre-award and post-award administration of the special appropriation grants.

As stated in the report, the OIG acknowledges that the pre-application, application, award and *some* of the post-award administration and management activities of the three FY 2003 grants we audited were conducted prior to the creation of OFAO in July, 2004. As Finding 2 of the report shows, we identified approved grantee reimbursement requests where OA did not require evidence that expenditures were allocable, allowable and reasonable. In fact, some of these approved reimbursement requests were approved after the creation of OFAO. Additionally, we found that OA did not enforce the financial and performance reporting requirements of the grants even after the creation of OFAO. Management's response is included in its entirety as Attachment 1.



\* \* \* \*

The findings included in this report are the conclusions of the Office of Inspector General's Auditing Division. The findings and recommendations are subject to review, management decision, and corrective 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].

Attachments



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

Attachment 1  
Page 1 of 2

**DATE:** September 9, 2005

**TO:** Robert G. Seabrooks  
Assistant Inspector General for Auditing

**FROM:** Darryl K. Hairston  
Assistant Administrator for Administration

**SUBJECT:** Draft Audit Report--SBA's Administration of Special Appropriation Grants

Thank you for the opportunity to provide comments regarding the referenced draft audit report. Based on the report, you indicate that the Office of the Inspector General (OIG) completed an audit of the administration of the SBA's special appropriation grants and found that the review, monitoring, and oversight of the grants selected for the audit were ineffective, and as a result, exposed the agency to the risk that government funds entrusted to it may be wasted, mismanaged and misused.

The report indicates that the grants selected for review were awarded in Fiscal Year 2003. The report appropriately notes that the pre-application, application, award and most of the post-award administration and management activities for these grants were conducted prior to the creation of the Office of Financial and Administrative Operations (OFAO), within the Office of Administration. This is an important note that will be discussed further.

The draft audit report sets forth three (3) findings. They are:

1. The Office of Administration does not have formal written procedures that guide the review, monitoring and oversight of its sizable portfolio of special appropriation grants;
2. The Office of Administration approved grantee reimbursement requests without requiring evidence that expenditures were allocable, allowable and reasonable; and,
3. The Office of Administration did not enforce the financial and performance reporting requirements of the grants.

Special appropriation grants have grown significantly over the past nine (9) years. For fiscal years 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, and 2005, SBA special appropriation grants totaled approximately \$11,000,000.00 (3 grants), \$11,000,000.00 (6 grants), \$18,800,000.00 (15 grants), \$27,749,000.00 (21 grants), \$41,291,000.00 (37 grants), \$30,000,000.00 (41 grants), \$55 million (62 grants), \$45 million (72 grants) and \$40 million (91 grants), respectively. Prior to the creation of OFAO, administration of these grants was the sole responsibility of the Office of Procurement and Grants Management (OPGM). Essentially, OPGM served as the program office for these grants as well as performed all post award activities. Given the workload of OPGM and the growth trend of these grants, it was very clear that the office could not effectively conduct the necessary reviews and oversight of these grants while meeting its other workload demands. Recognizing the increased risk to the Agency and the government, the OFAO was established to, among other activities; serve as the program office for the special appropriation

grants to ensure that these appropriated funds are used in accordance with terms and conditions of the Notice of Award. The creation of OFAO was approved on July 28, 2004 and was formally established with the appointment of its Director in November, 2004.

Under the management of the OFAO, substantial improvement has been made in the pre- and post-award administration of the special appropriation grants. As noted before, a key reason for the creation of this office was the recognition of the cited oversight problems, the associated risk, and the need to implement procedures for consistent and timely enforcement to ensure that government funds are not wasted, mismanaged and/or misused.

The report correctly noted that the Agency's internal procedural guidance, Standard Operating Procedures (SOP) 00 11 1, Small Purchases, Contracts, Grants and Cooperative Agreements, is outdated. With the assistance of an outside contractor, the Office of Administration is in the process of updating this SOP manual and should be prepared to issue it for final clearance by November, 2005. However, the primary sources of governance for pre- and post award administration for all grants are OMB Circulars A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations; OMB Circular A-122, Cost Principles for Non-Profit Organizations; and , OMB Circular A-21, Cost Principles for Educational Institutions. The OFAO, as well as the OPGM, follow these guidelines in carrying out their respective responsibilities, which include initial grant application review and award recommendations; grant award; review of reimbursement requests and payment recommendations; approval of recommended payment requests; post award administrative reviews; and the enforcement of grant award provisions. Consequently, with the issuance of the revised SOP, the Office of Administration will have in place all of the necessary policies, guidelines, and procedures to ensure effective review, monitoring and oversight of all Agency grant programs.

Again, the opportunity to respond to the draft audit report is appreciated

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Darryl K. Haikston  
Assistant Administrator for Administration

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