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

AUDIT MEMORANDUM
Issue Date: August 24, 1999
Report Number: 9-18

TO: Thomas A. Dumaresq
Associate Administrator for Administration

FROM: John E. Dye
Acting Assistant Inspector General for Auditing

SUBJECT: Enhancements Needed in the Administration of Special Appropriation Grants

During our audit of the special appropriation grant (the Grant) awarded to Giving of Self Partnership, Inc. (GOSP), we identified areas where SBA's Office of Procurement and Grants Management (OPGM) could improve its administration of special appropriation grants. This memorandum reports our findings and recommendations.

BACKGROUND

Public Law 103-317, dated August 26, 1994, authorized $1 million for "a grant for a Small Business Development Institute in North Philadelphia, Pennsylvania, for a facility to assist and train minority small businesses." On February 23, 1995, SBA awarded GOSP a $1,000,000 grant (No. SB-BD-95-017) to construct this Small Business Development Institute.

The Grant was authorized by a special appropriation from Congress which was not included in the President's budget request for the SBA. Unlike traditional SBA grants, which are awarded through SBA program offices and include program guidelines, there are no Agency guidelines covering special appropriation grants. In fiscal year 1999, Congress authorized SBA to administer 15 of these special appropriation grants, totaling $18,800,000.

RESULTS

OPGM did not require GOSP to allocate costs in accordance with the relative benefits received, resulting in GOSP charging 41 percent of the building project's total cost to the Grant while specifically allotting only 13 percent of the space in the new building to the Grant's purpose. Also, OPGM's policy of reimbursing up to the approved dollar amount of actual expenses on the reimbursement requests, rather than the percentage allocable to the Grant, resulted in the Grant paying for non-Grant related expenses that provided no benefit to the Grant. Lastly, OPGM did not confirm that grant recipients complied with critical grant requirements. In our audit of GOSP, we found that the Grant's purpose was potentially jeopardized because GOSP did not comply with three critical grant requirements.

Finding A: Cost Allocation

OPGM did not require GOSP to allocate costs in accordance with the relative benefits received. GOSP submitted a $2,460,788 budget proposal to SBA to build a Small Business Development Institute, which was actually a multi-purpose community center that included a small business development center (SBDC), along with day care, senior citizen, medical, and children and youth centers. OPGM approved GOSP's budget whereby the Grant was to pay $699,212 (32 percent) of the $2,160,000 in construction costs, and $300,788 (100 percent) of the operating costs during pre-construction and construction. The SBDC, which was allotted approximately 13 percent of the building's floor space, was the only portion of the building specifically dedicated to the Grant's purpose, i.e., "a facility to assist and train minority small businesses." The SBA's share of funding, however, represented 41 percent of the project cost.

OMB Circular A-122, Attachment A, ¶4.a. states that a cost is allocable to a particular cost objective, such as a grant, in accordance with the relative benefits received. Since the Grant provided $1 million for "a facility to assist and train minority small businesses," and GOSP proposed to build a $2,460,788 multi-purpose community center, only costs which benefit the portion of the building dedicated to the Grant's purpose were allocable to the Grant. Likewise, the operating expenses incurred to bring the project to completion should have been allocated based on the relative benefits received.

According to the Assistant Administrator for Administration, special appropriation grants like this one do not have clear guidelines, and as such, he believed that it was unclear to OPGM what SBA should be requiring when awarding them. Specifically, in this instance, the $1 million grant was based on the following limited statement contained in an Appropriations Act:

> a grant for a Small Business Development Institute in North Philadelphia, Pennsylvania, for a facility to assist and train minority small businesses.

Recommendation

A01. We recommend that the Director, OPGM, work with the Office of General Counsel to develop and implement standards that ensure that costs are properly allocated on special appropriation grants.

Finding B: **Inappropriate Disbursements**

SBA reimbursed GOSP for expenses that were not allocable to the Grant. The Grant stipulated that the Executive Director's salary and fringe benefits would be paid on a reimbursable basis, for 60 percent of these expenses, up to $50,000. SBA, however, approved and reimbursed GOSP's individual reimbursement requests for 100 percent of this individual's salary and fringe benefits. An OPGM official stated that they approve payments on each line item up to the total budgeted amount rather than apply the approved allocable percentage to a line item. OPGM's practice of paying the full amount of actual expenses up to the maximum dollar amount, rather than the allocable and reimbursable amount, resulted in the payment of 100 percent of this individual's salaries and fringe benefits for the time periods in which GOSP requested reimbursement.

Recommendation

B01. We recommend that the Director, OPGM, implement instructions which prevent OPGM from reimbursing funds in excess of grant provisions.

Finding C: **Confirming Critical Grant Requirements**

There were three critical grant requirements, which SBA did not confirm, that had the potential to jeopardize the Grant.

- GOSP did not hold title to the real property where the Grant funds were used to reconstruct and add on to a building. The Notice of Award requires title to real property to vest in the recipient. Three and one half years after the grant was awarded, there was no indication that the Church that owned the property intended to transfer title to GOSP. Without title, GOSP could not control the use and disposition of the building, and the building's owner could evict GOSP at any time.

- Surety bonds were not obtained for GOSP's estimated $1.8 million construction project. Surety bonds ensure the completion of construction projects by requiring surety companies to pay for any uncompleted work or unpaid invoices should contractors default. OMB Circular A-110 §48 requires bid guaranty, performance bond, and payment bond on construction projects over $100,000, unless the Federal awarding agency accepts the bonding policy and requirements of the recipient and makes a determination that the Federal Government's interest is adequately protected. Since SBA did not make a determination about the Federal Government's interest, the general contractor should have obtained bonding. Lack of bonding left the Federal interest in the property unprotected.

- GOSP signed a $1.8 million fixed price contract with the general contractor without soliciting and receiving competitive bids. OMB Circular A-110, §43 requires all procurement transactions to be conducted in a manner to provide, to the maximum extent practical, open and free competition. Without bids from other potential general contractors, GOSP could not determine if the executed contract was the most advantageous in terms of price and quality. If GOSP followed competitive bidding procedures, it potentially could have decreased the total project cost and thus reduced its funding needs. GOSP had difficulty raising sufficient funds for the project and was still approximately $50,000 short at the conclusion of our audit.

According to OMB Circular A-123:

> The proper stewardship of Federal resources is a fundamental responsibility of agency managers and staff. Federal employees must ensure that government resources are used efficiently and effectively to achieve intended program results. Resources must be used consistent with agency mission, in compliance with law and regulation, and with minimal potential for waste, fraud, and mismanagement.

In order to ensure that a grant achieves its intended results, the OIG believes it is imperative for OPGM to ensure that Grant requirements, which could negatively impact those results, are fully complied with.

Recommendation

C01: We recommend that the Director, OPGM, establish instructions directing OPGM employees to:

1. Identify those requirements that could negatively impact each grant achieving its intended results,

2. Highlight these identified requirements in the Notice of Award, and

3. Require grantees to submit documentation evidencing compliance with these highlighted requirements.

* * * * *

OPGM agreed with the audit recommendations in a letter dated August 19, 1999 and intends to implement them, but has also asked OGC to review the recommendations. This is responsive to our recommendations.

This report may contain proprietary information subject to the provisions of 18 USC 1905. It must not be released to the public or another agency without permission of the Office of Inspector General.

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

Please provide us your management decisions 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 an explanation of your disagreement with our recommendations.

Should you or your staff have any questions, please contact Victor Ruiz, Director of Business Development Group at (202) 205-7204.

APPENDIX A

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