

Evaluation Report

Improvements Needed in the SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center





**U.S. Small Business Administration
Office of Inspector General
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To: Tameka Montgomery, Associate Administrator, Office of Entrepreneurial Development

Carroll A. Thomas, Associate Administrator, Office of Small Business Development Centers

Subject: Review of Small Business Development Centers' Compliance with Grant Fund Matching Requirements

This report presents the results of the first in a series of reviews we plan to conduct on the Small Business Administration's (SBA) Small Business Development Center (SBDC) Program. Our review objective was to determine whether the SBDCs complied with matching requirements for grants funding. We found that the extent to which an SBDC complied with matching fund and other critical grant requirements was impacted by the SBA's internal control structure, which did not detect data integrity issues.

We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Quality Standards for Inspection and Evaluation*. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objective.

We appreciate the courtesies and cooperation of the SBA extended to the staff during this review. Please direct any questions to me at (202) 205-6586 or Riccardo Buglisi, Director, Business Development Programs Group at (202) 205-7489.

/s/
Robert A. Westbrook
Deputy Inspector General

Executive Summary

Improvements Needed in the SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center

Report Number 14-19

What the OIG Reviewed

Small business development centers (SBDCs), or lead centers, are hosted by universities and state economic development agencies and funded, in part, through a partnership with the Small Business Administration (SBA). Lead centers provide aspiring and current small business owners a variety of free business consulting and low-cost training services. For every dollar that lead centers receive from the SBA, the Small Business Act requires the host institutions to provide a matching amount equal to the federally-appropriated amount. These matching funds must be derived from non-federal sources, and be comprised of not less than 50 percent cash and not more than 50 percent of the value of indirect costs and in-kind contributions. The SBDC Program's 63 lead centers collectively received nearly \$111 million in grant funding for fiscal year 2012. Howard University hosted the District of Columbia SBDC (Lead Center).

Our overall objective was to determine whether SBDCs complied with matching requirements for grant funding. This report focuses on the Lead Center at Howard University. To answer our objective, we reviewed a \$625,000 grant awarded to the Lead Center. We also interviewed Howard University personnel, Lead Center personnel, and SBA personnel with functional responsibility for ensuring that the Lead Center adhered to the statutory and regulatory financial requirements of the SBDC Program. Further, we reviewed applicable program laws, regulations, and standard operating procedures, and Office of Management and Budget (OMB) guidance governing the award and administration of grants made to educational institutions and non-profit organizations. Additionally, we reviewed the SBA grant file and analyzed pre-award budgetary data and post-award reports, financial and programmatic data—including financial reports, general ledgers, transaction data, and source documents used to support grant fund expenditures. Finally, we performed site visits at the Lead Center.

What the OIG Found

The Office of Inspector General (OIG) found that the Lead Center did not meet its statutory matching requirement for grant funding. Moreover, the SBA's internal controls did not identify this non-compliance. Specifically, the SBA assessed the financial performance of the Lead Center using an SF-425, *Federal Financial Report* (financial report) that contained improperly computed indirect cost figures, unreasonable cash-match costs, and other financial information that was inaccurate and inconsistent. As a result, the SBA improperly (1) credited the Lead Center with a \$143,811 overmatch of grant funds, (2) credited the Lead Center with \$35,556 to support its match when the costs were unreasonable, and (3) reimbursed the Lead Center \$112,815 for unreasonable and unallowable costs.

OIG Recommendations

The OIG made eight recommendations to improve the SBA's oversight of the financial management of the Lead Center.

Agency Comments

On August 6, 2014, we provided a draft copy of this report to SBA management for comment. On September 15, 2014, SBA management submitted formal comments and concurred with our findings and seven recommendations, and partially concurred with one recommendation.

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Introduction

The Small Business Administration (SBA) Office of Inspector General (OIG) reviewed a \$625,000 grant awarded to the District of Columbia Small Business Development Center (Lead Center) hosted by Howard University. Specifically, we reviewed the grant to determine whether the Lead Center complied with SBA grant fund matching requirements. (See Appendix I for a detailed discussion of our Scope and Methodology.)

Background

The SBDC Program

The SBA is authorized under Section 21 of the Small Business Act to make grants to several types of entities, including public or private institutions of higher education.¹ The purpose of these grants is to assist the institutions in establishing small business development centers (SBDCs) that provide small businesses with many forms of support, including management and technical assistance. Specifically, the SBDCs provide free business consulting and low-cost training services to aspiring entrepreneurs and small businesses, including advice on writing business plans, accessing capital, marketing, and more. There are 63 SBDCs—or lead centers—with over 900 sub-centers throughout the United States and its territories. A lead center coordinates program services offered to small businesses through its network of sub-centers. The lead centers received nearly \$111 million in SBDC grant funding in fiscal year (FY) 2012 and \$105 million in FY 2013. The SBA's FY 2014 budget included \$105 million for SBDC grants.

Funding

The SBDCs are funded, in part, through a partnership between the SBA and lead centers.² Each year, lead centers submit proposals for funding in response to the SBA's program announcement at grants.gov. For every dollar received from the SBA, the Small Business Act requires lead centers to provide a matching amount equal to the federally-appropriated amount.³ These matching funds must be derived from non-federal sources and comprised of not less than 50 percent cash and not more than 50 percent of the value of indirect costs and in-kind contributions.⁴ Matching funds typically come through state legislatures, private sector foundations and grants, chambers of commerce, state-chartered economic development corporations, and public and private universities and community colleges.

Oversight of the SBDC Program

The SBA's Office of Small Business Development Centers (OSBDC), within the Office of Entrepreneurial Development (OED), has primary responsibility for the oversight of SBDCs. It shares this responsibility with the Financial Examination Unit, also within the OED, and district directors and project officers in the Office of Field Operations (OFO). The SBA personnel within the OED and OFO conduct oversight of the SBDC Program and the grant activity of its centers, at SBA headquarters, and at various field office

¹ Since 1990, only institutions of higher education and women's business centers remain eligible host entities. There are 56 college and university-sponsored and 7 state-sponsored SBDCs—41 of these operate on a calendar year and 22 operate on a fiscal year.

² The relationship between the SBA and a lead center is based on their governing agreement (cooperative agreement).

³ *Small Business Act*, Section 21, 4 (A) codified at 15 U.S.C. § 648(a)(4)(A).

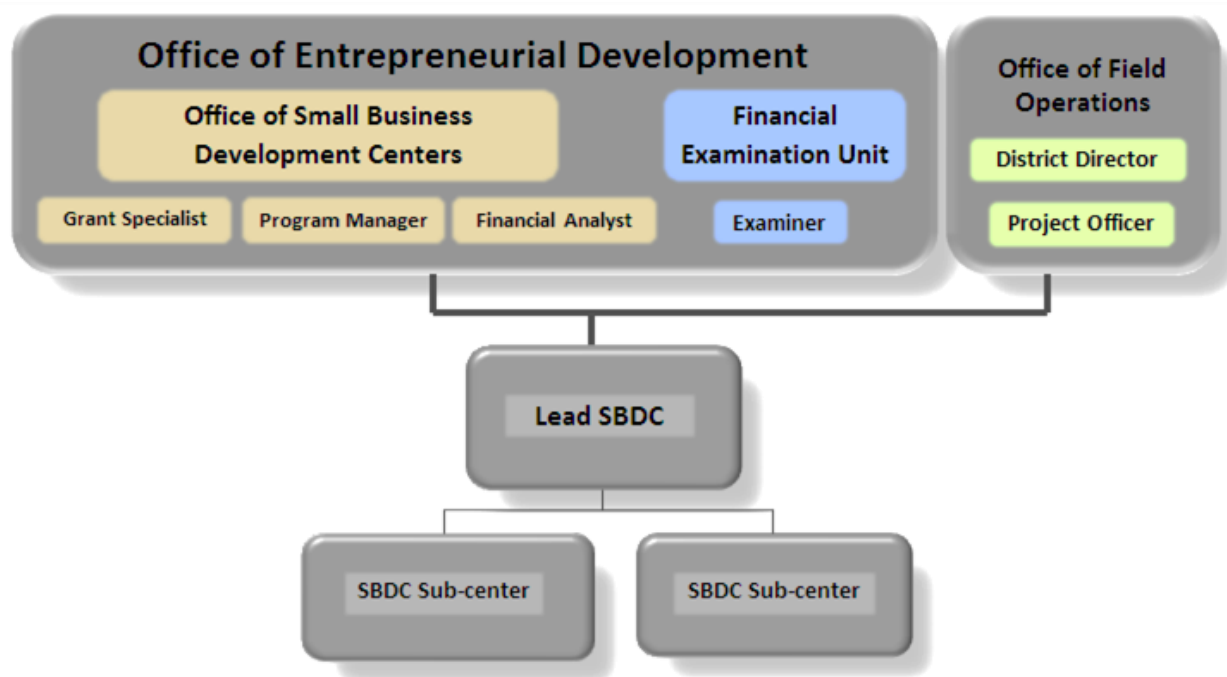
⁴ According to OMB Circular A-21, *Cost Principles for Educational Institutions*, "indirect costs" mean any costs not directly identified with a single, final cost objective. Indirect costs are calculated based on modified total direct costs, consisting of all salaries and wages, fringe benefits, materials, supplies, services, travel, and sub-grants and subcontracts up to the first \$25,000 of each sub-grant or subcontract, using pre-approved rates established in indirect cost rate agreements. In-kind contributions mean the value of non-cash contributions provided by non-federal third parties.

locations. From the OSBDC, for example, an assigned program manager reviews the lead center application for completeness and sufficiency. After this review, the file is transferred to a grants management specialist who performs a fiscal budget review, prepares a cost/price analysis, and generates a notice of award (cooperative agreement).⁵

Once a cooperative agreement has been prepared, the grants management specialist forwards the grant file to a financial program analyst who reviews the file for completeness and compares the amount of the award to the SBA's funding formula. The financial program analyst then sends a package to the Associate Administrator of the OSBDC for approval, authorizing the grants management specialist to sign the cooperative agreement and obligate grant funding. Once a grant is awarded, the financial program analyst processes requests made by lead centers to draw down grant funds.

OED personnel perform legally-mandated biennial programmatic and financial reviews of SBDCs.⁶ Program managers perform programmatic reviews to ensure effective and efficient use of federal funds and program compliance. Likewise, financial examiners perform financial reviews to ensure that: (1) financial management data reported was accurate; (2) costs incurred and claimed for reimbursement were allowable and allocable; and (3) financial management complied with applicable laws and regulations, policies, and operating procedures. Additionally, district directors and project officers within the OFO have collateral duties that support the oversight of SBDCs.⁷ (See Figure 1 for a visual overview of this oversight structure and the SBDC network that is the subject of our review.)

Figure 1 The SBA's Oversight of Small Business Development Centers



⁵ A “cooperative agreement” means an agreement in which the Federal Government provides funding authorized by public statute where the Government plays a substantial role in assisting the funding recipient in carrying out the activity contemplated by the award.

⁶ *Small Business Act*, Section 21.

⁷ The project officers, along with the district directors and regional administrators, are responsible for negotiating the annual cooperative agreement. Project officers’ collateral duties also include conducting annual site visits of lead centers and sub-centers. These visits should include a review of key elements such as use of funds, sources of matching funds, and overall program compliance.

The Lead Center

Since 1979, Howard University has hosted a Lead Center in the District of Columbia. The Lead Center is under the management of a director who has authority to make expenditures and manage program activities in accordance with a budget that is approved by the SBA. In addition to the Lead Center, for calendar year (CY) 2012, the District of Columbia's SBDC network included two sub-centers: the Anacostia Economic Development Center (Sub-Center A) and the District of Columbia Chamber of Commerce (Sub-Center B).⁸ In February 2012, the SBA awarded a \$625,000 grant to the Lead Center in support of an approved budget, totaling \$1,386,134 for CY 2012. The budget allocation of the combined federal and non-federal funding is provided in Table 1. The Lead Center's indirect costs were established through an agreement it reached with the Department of Health and Human Services (HHS) in November 2009.⁹

Table 1 Recipient's CY 2012 Approved Budget by Cost Category

Category	Amount
Salaries	\$699,573
Fringe Benefits	\$180,776
Travel Expenses	\$12,618
Indirect Costs	\$321,087
Consultants	\$9,250
Supplies	\$15,024
Other	\$147,806
TOTAL	\$1,386,134

Source: Generated by the OIG based on CY 2012 cooperative agreement.

In April 2012, the Lead Center entered into sub-agreements with Sub-Center A and Sub-Center B. The sub-agreements provided funding totaling \$100,000 to Sub-Center A and \$98,509 to Sub-Center B. Sub-center funding was to be paid from the Lead Center's \$625,000 grant award. The matching requirements in the sub-agreements were consistent with those in the cooperative agreement between the SBA and the Lead Center. In August 2013, the SBA's Financial Examination Unit conducted a Level II review of the Lead Center's CY 2012 SBDC network activity.¹⁰ The examination resulted in no findings.

Review of Internal Controls

The SBA's Standard Operating Procedure (SOP) 00 02, *Internal Control Systems*, provides guidance on the implementation and maintenance of effective systems of internal control, as required by the Office of Management and Budget (OMB).¹¹ According to the OMB, agencies are responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

During our review, we examined internal control activities and processes that the SBA used to oversee the financial management of the Lead Center. The SBA was responsible for ensuring that the Lead Center maintained and reported financial information that accurately depicted whether grant funds were being used in a prudent manner. We found weaknesses in the design and implementation of the

⁸ These sub-centers are non-profit organizations.

⁹ *Indirect Cost Rate Agreement*, dated November 30, 2009, negotiated between Howard University and HHS. The OMB established the "cognizant agency" concept, under which a single agency represents all others in dealing with grantees in common areas. The cognizant agency reviews and approves grantees' indirect cost rates. In this case, the cognizant agency was HHS.

¹⁰ The Financial Examination Unit has three levels of examinations: Level I: Self-certify yearly based on risk assessment, Level II: Desk Review based on risk assessment, and Level III: On-site Review every six years.

¹¹ OMB Circular A-123, *Management's Responsibility for Internal Control*, 2004.

processes that should have accomplished this control objective. For example, the SBA has two existing SOPs to administer the SBDC Program: SOP 60 15, *Small Business Development Centers* (last updated in September 1983), and SOP 60 16, *SBDC Program Policy Guidelines* (last updated in August 1985). As these SOPs are 31 and 29 years old, respectively, they do not address numerous subsequent changes made by Congress to Section 21 of the Small Business Act, and subsequent changes in OMB guidelines on grant administration. In addition, the SOPs do not address revisions to SBA regulations for the SBDC Program in 13 CFR Part 130, *Small Business Development Centers*.

Furthermore, SBA personnel advised that they did not refer to these SOPs because they were outdated. The absence of any reasonably current internal control directives undermines the OMB's goal of establishing controls to ensure effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Additionally, the SBA did not enforce quarterly submissions for payment by the Lead Center.¹² Had the SBA enforced this requirement, it may have been in a better position to identify inconsistent and inaccurate financial information in a timely manner.

Consequently, inaccurate and unreliable financial information were not detected by SBA's internal control system. We believe the SBA's inability to detect, reject, and correct inaccurate information and the Lead Center's challenges in providing reliable financial information are testaments to the data integrity and deficient internal control issues identified throughout this report.

Cumulatively, the weaknesses we identified impacted the SBA's ability to detect regulatory violations and other non-compliance issues concerning the \$625,000 grant award. Given the absence of current operating procedures and weaknesses in SBDC Program processes, we believe the remaining \$100 million awarded to the other 62 lead centers may be at risk of similar oversight concerns. If implemented, our recommendations will improve the SBA's oversight of the financial management of the Lead Center and the SBDC Program as a whole.

Results

The Lead Center did not meet its statutory matching requirement for grant funding. Moreover, the SBA's internal controls did not identify this non-compliance. The SBA assessed the financial performance of the Lead Center using data that contained errors, inconsistencies, and inaccuracies. Specifically, the SBA relied on a SF-425, *Federal Financial Report* (financial report) submitted by the Lead Center that contained indirect cost figures that were improperly computed, sub-center cash-match costs that were unreasonable based on OMB cost principles, and other required financial information that was inaccurate and inconsistent. (See Appendix II for a definition of "reasonable costs.") These conditions occurred because internal controls that should have enabled the SBA to detect such errors, inconsistencies, and inaccuracies in the financial cost data were either missing or not implemented properly. As a result, the SBA improperly (1) credited the Lead Center with a \$143,811 overmatch of grant funds, (2) credited the Lead Center with \$35,556 to support its match when the costs were unreasonable, and (3) reimbursed the Lead Center \$112,815 for unreasonable and unallowable costs. In addition, the Lead Center's grant file contains erroneous and uncorrected conclusions about the Lead Center's financial performance for CY 2012.

¹² The Lead Center made two requests for payment in CY 2012 using the Standard Form 270, *Request for Advance and Reimbursement*.

Finding 1: The SBA’s Internal Control Structure Did Not Detect Inaccurate and Inconsistent Financial Information Reported by the Lead Center

The Lead Center Improperly Computed and Significantly Overstated Indirect Costs

The SBA did not detect that the Lead Center calculated its indirect costs in a manner that was inconsistent with the requirements of OMB Circular A-21.¹³ According to the circular, sub-grant or subcontract costs in excess of the first \$25,000 should be excluded from the calculation of indirect costs. This requirement was stressed in the Lead Center’s indirect cost rate agreement with HHS. However, our analysis showed that the Lead Center’s indirect cost computation included 100 percent of the cost incurred by its two sub-centers, totaling \$197,243.¹⁴ Therefore, a total of \$147,243 was improperly included in the calculation of indirect costs, contributing to an overmatch of the Lead Center’s required contribution of \$601,508.¹⁵ In addition, the SBA accepted a 48 percent “on-campus” rate that the Lead Center used to compute its indirect costs. According to the Lead Center’s indirect cost rate agreement, the Lead Center should have used a 26 percent “off-campus” rate for the entire project because more than 50 percent of the work was performed off campus.

We analyzed the Lead Center’s CY 2012 performance results for its SBDC network, including individual impact reports for each sub-center, and the network as a whole.¹⁶ The results of our analysis, as shown in Table 2, determined that more than 50 percent of the client and event activity reported was conducted by the Lead Center’s two sub-centers, which were located off campus. As such, the Lead Center should have applied the “off-campus” rate of 26 percent to the entire project.

Table 2 Lead Center’s Network Performance Results CY 2012 (includes Sub-Centers)

Performance Metric	Network Total	Sub-Centers’ Share of Network Total (percent)
Client Count	552	76
Counseling Hours	3,113	69
Hours per Client	17.52	58
Clients w/5+ Contact Hours	111	74
Clients w/5+ (Contact Hours + Prep Hours)	203	68
Event Count	61	59
Attendees	1,039	60

Source: Generated by the OIG based on data from the Lead Center’s CY 2012 End of Year Report.

As a result of using the “on-campus” rate, the Lead Center overstated its indirect costs. In Table 3, we recalculated the Lead Center’s indirect costs using the 26 percent “off-campus” rate. We also excluded \$147,243 of excess sub-center costs from the original direct cost base of \$577,013.¹⁷ Our calculations showed that by using the 48 percent rate, the Lead Center overstated its indirect costs by \$165,226.

¹³ The OMB has codified Circular A-21 at 2 C.F.R. Part 220, and the Notice of Award to Howard University stated it was subject to this section of OMB regulations.

¹⁴ Sub-Center A’s costs totaled \$100,000 and Sub-Center B’s costs totaled \$97,243.

¹⁵ A level of matching contributions that exceeds the amount required.

¹⁶ District of Columbia, *SBDC Network CY 2012 End of Year Report*, March 30, 2013.

¹⁷ The base for calculating indirect costs is the modified total direct cost, consisting of all salaries and wages, fringe benefits, materials, supplies, services, travel, and sub-grants and subcontracts up to the first \$25,000 of each sub-grant or subcontract.

Table 3 Recalculation of Indirect Costs

	Lead Center Claimed @ 48%	Recalculation @26%	Overstated Indirect Costs
Modified Total Direct Costs	\$577,013	\$577,013	
Excess Sub-Center Costs		\$147,243	
Adjusted Modified Total Direct Costs	\$577,013	\$429,770	
Total Indirect Costs	\$276,966	\$111,740	
Indirect Costs Claimed*	\$27,366	\$27,366	
Waived Indirect Costs**	A \$249,600	B \$84,374	A-B \$165,226

Source: Generated by the OIG using financial data obtained from the Lead Center's grant file.

*The SBA agreed to reimburse the Lead Center up to \$30,000 of its indirect cost.

**The difference between total indirect costs and the SBA share of indirect costs. The Lead Center applied this amount toward its federal matching requirement.

The overstated indirect costs of \$165,226 resulted in an overmatch of \$143,811 of the Lead Center's required \$601,508 non-federal matching contribution. However, our analysis determined that the Lead Center undermatched its required non-federal matching contribution by \$21,415. (See Appendix III for details about the Lead Center's matching requirements.)

The true extent to which the Lead Center overmatched its required contribution was critical because excess funds, or overmatch, could have been redirected toward other grant activities. According to the cooperative agreement, overmatch funds may be used:

- As a match against additional federal funding within the same budget period,
- To offset confirmed audit disallowances applicable to the budget period in which the overmatch was expended, or
- To match unexpended federal funds approved for carryover from the same budget period into the next budget period.

Overmatch accrued over the past two years can also be used to offset disallowances in the current year.

Because the Lead Center improperly calculated its indirect costs for CY 2011 and most likely improperly calculated it for CY 2010, indirect costs for those years need to be re-examined for the impact on the Lead Center's matching fund requirement.

Furthermore, based on the cooperative agreement for CY 2013, the Lead Center computed its indirect costs in the same manner as CY 2012 and therefore, those costs were also overstated. However, the SBA may not detect this overstatement because the Agency relies on financial reviews that occur every 2 years and cover only the most recent year. Therefore, during the next review in 2015, the Financial Examination Unit will assess CY 2014 and not CY 2013.¹⁸

The Lead Center's Financial Report Contained Overstated Indirect Costs

During our review, a Lead Center representative told us that in its financial report for CY 2012—submitted to the SBA in March 2013—the indirect cost amount of \$359,072 was incorrect and should have been \$249,600.¹⁹ In July 2013, a grants management specialist, while reconciling the financial

¹⁸ The Lead Center's most recent examination was conducted during August 2013 and covered CY 2012. *Financial Examination of the District of Columbia Small Business Development Center, Report No. 13-08, December 2, 2013.*

¹⁹ We used the \$249,600 in our calculations of indirect costs instead of the incorrect amount of \$359,072 that is in the Lead Center's financial report currently in the Agency's file for the Lead Center.

report to the SBA's accounting system, identified that the indirect costs exceeded the SBA's approved amount, but took no further action. The SBA's Financial Examination Unit subsequently completed an evaluation in August 2013 and issued a report in December 2013, which noted the \$109,472 discrepancy in the reported indirect costs but did not make a recommendation for corrective action. As of the date of this report, this inaccuracy has not been corrected in the Lead Center's financial report, which may allow the Lead Center to use this amount to offset future disallowed costs.

The SBA's Internal Controls Did Not Ensure Accuracy of Lead Center's Indirect Costs

The SBA's internal controls did not prevent the Lead Center from including sub-center costs—in excess of \$25,000—in its indirect cost calculation or detect when excessive costs had been included in the calculation. Further, these controls did not ensure the Lead Center used the appropriate indirect cost category or properly characterized the SBDC activity as “on-campus” or “off-campus.” (See Appendix IV for a detailed discussion of the indirect cost categories used by the Lead Center.)

The SBA used several checklists—pre- and post-grant award—to ensure compliance with requirements pertaining to indirect costs such as:

- proposal review,
- cost/price analysis, and
- financial examination.

Each of these checklists contained basic questions about whether the Lead Center had an established rate agreement and if the agreed-upon rate was used. For the most part, SBA personnel answered these questions correctly. However, for questions regarding whether the Lead Center calculated indirect costs accurately, we found that SBA personnel either did not perform the step or answered incorrectly. In one example, the project officer did not understand how to complete sections of the proposal review checklist related to indirect costs. When answering the question “Are all the figures in the proposal properly calculated?” the project officer annotated, “Don't know how to do this.” Additionally, the project officer placed question marks next to other items addressing the indirect cost rate agreement. In a second example, the grants management specialist noted that indirect costs had been calculated in accordance with the rate agreement when answering the question in the cost/price analysis checklist. However, we found the indirect costs were not calculated accurately. Finally, while the financial examination checklist contained questions to assess the methodology used by the Lead Center to compute its indirect costs, SBA personnel could not find the actual checklist that the financial examiner used to complete the financial review.²⁰ However, the SBA did not report any findings because of the financial review. Based upon these control weaknesses, the SBA missed opportunities to ensure that the Lead Center reported indirect costs accurately.

The Lead Center's Cash Match Was Supported by Unreasonable Sub-Center Costs

The SBA did not detect that the Lead Center's financial report contained unreasonable sub-center costs because the Agency's oversight did not sufficiently address sub-center costs.

Questioned Costs of \$27,726 Due to Unreasonable Rent and Utilities Costs

The Lead Center reported a cash match of \$474,714 to the SBA in its financial report. The cash match included \$169,437 for Sub-Center A, a non-profit organization. We examined underlying source data and found that the \$169,437 included \$54,120 classified as “other.” We further found that within these costs classified as “other,” Sub-Center A unreasonably allocated

²⁰ The SBA's records management policy in SOP 00 41 requires the SBDC Program Office to maintain such records for six years and three months.

100 percent of its rent (\$47,094) and 100 percent of its utilities (\$8,358) to the SBDC project. In assessing the reasonableness of the rent and utilities we considered several factors, as detailed in Appendix V.

Specifically, the Lead Center provided us with a space allocation plan for Sub-Center A that allocated 50 percent of the rental space to the SBDC project. We questioned \$27,726 (50 percent) of the \$55,452 in rent and utilities costs that the Lead Center claimed as cash match for Sub-Center A because SBDC activity was conducted from the shared space. The SBA may have identified this issue if the grants management specialist's cost/price analysis checklist required the specialist to address the square footage of rental space or the percentage of use in the areas designated during the pre-award phase of the grant process.

Questioned Costs of \$90,515 Due to Unreasonable Consulting Fees

Sub-Center B employed the owner of a firm participating in the SBA's 8(a) Business Development (8(a) BD) Program as its full-time SBDC director.²¹ The SBA's regulations require disadvantaged managers of 8(a) Business Development participating firms to obtain written approval from the SBA prior to engaging in outside employment.²² Specifically, the Lead Center provided Sub-Center B grant funds totaling \$60,080 to finance the director's employment. The sub-center paid the owner of the 8(a) BD firm \$20,080 under a consulting agreement with a rate of \$28.85 an hour for the first five months of employment, and the remaining \$40,000 through payroll for the period May 2012 through December 2012. In addition, Sub-Center B paid the 8(a) BD firm owner \$7,830 from non-federal funds to support the Lead Center's cash match. The OMB's Circular A-122 requires consideration be given to restraints or requirements imposed by federal laws and regulations in determining the reasonableness of a given cost. Because the SBA did not approve any consulting costs for Sub-Center B and the employment arrangement violated a requirement of the 8(a) BD Program, we questioned the reasonableness of the associated \$67,910 in consulting costs.

After the consulting agreement with the 8(a) BD firm owner expired, Sub-Center B executed another consulting agreement with a second individual in June 2012. Our review of invoices showed that Sub-Center B paid the consultant \$32,478 for a total of 690 hours. However, for 480.25 of the 690 hours, the consultant was paid \$22,605 based on invoices that did not contain the corresponding days the consultant worked. We questioned the \$22,605 that the sub-center paid in consulting fees because the costs were not reasonable, based on OMB A-122, since the days worked were needed to verify the propriety of the payments.

The SBA may have detected the inconsistency in approved consulting costs if the Agency's oversight included a review of sub-agreements, or required disclosure of sub-agreement provisions that were not consistent with those that the Agency negotiated and approved in the cooperative agreement. Appendix VI contains details about the sub-agreement that the Lead Center executed with Sub-Center B that was not consistent with the budgetary provisions that the SBA approved for the sub-center in the cooperative agreement.

²¹ The 8(a) BD Program was created to assist small, disadvantaged businesses compete in the American economy through business development. One of the ways that the SBA ensures business development is to require owners to devote their full time to their businesses.

²² SBA regulations require disadvantaged managers of 8(a) BD participating firms to obtain written approval from the SBA prior to engaging in outside employment. The file for the 8(a) BD firm did not contain an authorization where the SBA would normally have that document.

Questioned Costs of \$30,130 Due to Consulting Services Reported as “Supplies”

We identified additional errors, inaccuracies, and inconsistencies in the financial report and supporting schedules that the Lead Center submitted, which went undetected by the SBA. OMB Circular A-110, Section 21, *Standards in Financial Management Systems*, requires accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program. This circular further stressed that records must identify adequately the source and application of funds for federally-sponsored activities.²³

The Lead Center reported consulting and other contractual business arrangements as “supplies.” In particular, the Lead Center reported that for CY 2012, it incurred costs for supplies totaling \$61,770 with federal funds. Because the SBA only approved federal funds of \$2,964 to purchase Lead Center supplies, we examined this budgetary line item and found that many of the transactions were misclassified when reported to the SBA. For example, for two payments made in January 2013, the Lead Center paid a former employee a management consultant fee of \$1,800 per month based on a \$3,600 consulting agreement.²⁴ The Lead Center recorded this transaction in its general ledger system as consulting, but reported it to the SBA as supplies.

In another example, the Lead Center reported \$16,730 paid to an individual for providing business counseling and other services to small businesses as supplies. In yet another example, the Lead Center reported \$9,800 paid to an information technology business for computer services as supplies. Therefore, we questioned and considered the consulting and contractual costs that totaled \$30,130 to be unreasonable.

The cooperative agreement required the Lead Center to include a variance report with explanations for differences between budget and actual costs in its final annual performance report. However, the Lead Center did not comply with this requirement when it submitted the report to the SBA in March 2013. Further, an OSBDC official explained that this non-compliance was less of a concern because during the year-end reconciliation of the financial report, the grants management specialist—through other means—was able to determine that the Lead Center’s actual costs did not exceed its approved budget. We believe this rationale indicates that the OSBDC may need to re-examine the risk-based purpose of requiring lead centers to submit variance reports.

Furthermore, in August 2013, the financial examiner requested and received a variance report from the Lead Center as part of the financial examination for CY 2012. In this variance report, the Lead Center represented that the SBDC network’s actual consulting cost for CY 2012 totaled \$239,853 compared to the \$9,250 approved by the SBA. According to the financial examiner, the Lead Center’s justification for the significant increase was that consultants replaced personnel, which the financial examiner found satisfactory. Although there was a correlation between using personnel and consultants, the Lead Center’s personnel costs did not decrease by \$239,853. In addition, we do not believe that a decrease in personnel costs justifies such a drastic increase in consulting costs. For example, a decrease in personnel could be due to an increase in the use of technology-based counseling and training. In addition, increased technology could account for the fact that the Lead Center provided 3,162 hours of counseling, which was 1,438 hours less in counseling than the goal of 4,600 hours that the budget was

²³ As required by 2 CFR Part 215, codifying OMB Circular A-110, *Uniform administrative requirements for grants and agreements with institutions of higher education, hospitals, and other non-profit organizations*.

²⁴ The former employee was the Director, Training and Communications, from January through May 2012.

intended to support. Also, the Lead Center did not report any consulting costs to the OSBDC in its financial report in March 2013, compared to the \$239,853 in the variance report submitted to the financial examiner in August 2013. (See summary of all questioned costs in Appendix VII.)

Conclusion

In 2012, the Lead Center was responsible for administering grant funds totaling \$625,000 in a network that included two sub-centers. The SBA had certain controls and processes in place to promote the integrity of the SBDC Program and the financial information that supported its effectiveness. Nevertheless, the SBA's standard operating procedures were outdated and its internal control system did not prevent, detect, or correct flaws and weaknesses in the Lead Center's financial management and reporting. Therefore, those charged with oversight of the SBDC Program and responsible for administering more than \$100 million in grant funds annually could use the results of our review to re-examine and improve existing processes. We understand that the SBA is taking steps to update its policies and procedures for the SBDC Program, and to ensure that the Lead Center properly computes indirect costs for its future program years. However, improvements are still needed in the SBA's oversight of the financial management of the Lead Center. Those improvements should reasonably ensure that the Lead Center accurately reports financial information; incurs and claims reimbursement for allowable and allocable costs; and complies with applicable laws, regulations, policies, and procedures.

Recommendations

The OIG recommends that the Associate Administrator of the Office of Small Business Development Centers:

1. Update SOPs 60 15 and 60 16 to address subsequent statutory and regulatory changes, and to establish adequate controls to ensure effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.
2. Implement controls to ensure lead centers use the appropriate indirect cost rate and category when computing indirect costs.
3. Implement controls to ensure that lead centers exclude excess sub-recipient costs when computing indirect costs.
4. Require the Howard University Lead Center to develop and implement a plan that outlines how it will strengthen its internal controls to ensure that accurate financial information is generated and transmitted to the SBA.
5. Enforce the requirement for the Lead Center to submit SF 270, *Request for Advance and Reimbursement*, on a quarterly basis, as required by the cooperative agreement.
6. Review sub-agreements made between lead centers and sub-centers to ensure consistency with cooperative agreements between the SBA and lead centers.
7. Enforce the requirement for the Lead Center to submit variance reports with its *Final Annual Performance Report*.
8. Require the Lead Center to submit a revised SF-425, *Federal Financial Report* for CY 2012 to correct the \$109,472 discrepancy.

Agency Comments and OIG Response

On August 6, 2014, we provided a draft copy of this report to SBA management for comment. On September 15, 2014, management submitted formal comments, which are included in their entirety in

Appendix VIII. Management concurred with our findings and seven recommendations, and partially concurred with one recommendation. A summary of management's comments and our response follows.

Recommendation 1 - Update SOPs 60 15 and 60 16 to address subsequent statutory and regulatory changes, and to establish adequate controls to ensure effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

Management Comments

SBA management agreed with this recommendation. Management stated that they are now in the process of issuing new regulations from which a new SOP will be drafted and executed.

OIG Response

Management's comments were responsive to our recommendation. We consider this recommendation resolved but open, pending completion of final action.

Recommendation 2 - Implement controls to ensure lead centers use the appropriate indirect cost rate and category when computing indirect costs.

Management Comments

SBA management agreed with this recommendation. Management stated that it will ensure that proper guidance is provided to all SBDCs through training before the issuance of the 2015 Notice of Awards regarding this matter. In addition, new language will be highlighted throughout all future program announcements, inserted in the revised regulations for the program and also emphasized in the new SOP.

OIG Response

Management's comments were responsive to our recommendation. We consider this recommendation resolved but open, pending completion of final action.

Recommendation 3 - Implement controls to ensure that lead centers exclude excess sub-recipient costs when computing indirect costs.

Management Comments

SBA management agreed with this recommendation. Management stated that the OSBDC and Financial Examination Unit (FEU) will comply with this recommendation by training the SBDCs, as well as provide clarification in all future documents. The OSBDC will include the clarification in the annual program announcement, the 2015 Notice of Award, new regulations, upcoming SOP, and any other guidance. The FEU will change their process and checklist to comply with this recommendation as well.

OIG Response

Management's comments were responsive to our recommendation. We consider this recommendation resolved but open, pending completion of final action.

Recommendation 4 - Require the Howard University Lead Center to develop and implement a plan that outlines how it will strengthen its internal controls to ensure that accurate financial information is generated and transmitted to the SBA.

Management Comments

SBA management agreed with this recommendation. Management stated that it will ensure the Howard University Lead Center (DC SBDC) develops and implements a plan to provide SBA with accurate financial information by strengthening its internal controls. The DC SBDC's 2015 Proposal has addressed this issue and until proven to the satisfaction of the OSBDC, their 2015 Notice of Award will contain this action as a condition for continued funding.

OIG Response

Management's comments were responsive to our recommendation. We consider this recommendation resolved but open, pending completion of final action.

Recommendation 5 - Enforce the requirement for the Lead Center to submit SF 270, Request for Advance and Reimbursement, on a quarterly basis, as required by the cooperative agreement.

Management Comments

SBA management agreed with this recommendation. Management stated that the requirement to submit the SF 270 will be clearly stated in the 2015 Notice of Award and future program announcements. Compliance will be tracked and checked by the OSBDC financial team, which will enforce this provision by withholding future funds for any SBDCs that are not in compliance with their notice of award.

OIG Response

Management's comments were responsive to our recommendation. We consider this recommendation resolved but open, pending completion of final action.

Recommendation 6 - Review sub-agreements made between lead centers and sub-centers to ensure consistency with cooperative agreements between the SBA and lead centers.

Management Comments

SBA management partially agreed with this recommendation. Management stated that, based on an analysis of the resources required, implementing this recommendation would be cost-prohibitive. Instead, SBA proposes to strengthen its review processes of host grantee awards to strictly adhere to guidelines provided by OMB, including the new OMB super grants circular that takes effect on December 26, 2014. Consequently, the SBA will require grantee legal representatives certify that host grantee financial guidelines flow down to sub-awards.

OIG Response

Management's proposed alternative action meets the intent of our recommendation. We consider this recommendation resolved but open, pending completion of final action.

Recommendation 7 - Enforce the requirement for the Lead Center to submit variance reports with its final annual performance report.

Management Comments

SBA management partially agreed with this recommendation. Management stated that, based on an analysis of the resources required, implementing this recommendation would be cost-prohibitive. Instead, the SBA proposed to use a new variance reporting tool that will alert grantees, grants specialists, and financial examiners when there are actual expenditures that are not consistent with budgeted expenditures.

OIG Response

Management's comments were partially responsive to our recommendation. The SBA's alternative proposed action did not indicate whether the Agency would enforce its existing requirement for the submission of variance reports, with the final annual performance reports, in accordance with the terms and conditions of grant recipients' cooperative agreements. The SBA has a responsibility to enforce the requirements that it puts in place to ensure effective and efficient operations and the integrity of its grant programs. Based on subsequent discussions, management agreed to fully implement the recommendation. We consider this recommendation resolved but open, pending completion of final action.

Recommendation 8 - Require the Lead Center to submit a revised SF-425, *Federal Financial Report* for CY 2012 to correct \$109,472 discrepancy.

Management Comments

SBA management agreed with this recommendation. Management stated that the DC SBDC will be required to provide a revised, accurate, and complete SF 425 for CY 2012 before any future funding will be disbursed to the DC SBDC.

OIG Response

Management's comments were responsive to our recommendation. We consider this recommendation resolved but open, pending completion of final action.

Appendix I: Scope and Methodology

We reviewed a \$625,000 grant awarded to the District of Columbia Small Business Development Center at Howard University. Specifically, we reviewed the grant to determine whether the Lead Center complied with SBA grant fund matching requirements.

To answer our objective, we interviewed Howard University personnel, Lead Center personnel, and SBA personnel with functional responsibility for ensuring that the Lead Center adhered to the statutory and regulatory financial requirements of the SBDC Program. We reviewed applicable program laws, regulations, standard operation procedures, and OMB guidance governing the award and administration of grants made to educational institutions and non-profit organizations. We also reviewed the SBA grant file and analyzed pre-award budgetary data and post-award reports and financial and programmatic data, including financial reports, general ledgers, transaction data, and source documents supporting grant fund expenditures. Additionally, we performed site visits at the Lead Center.

Our review focused on the SBA's oversight of the Lead Center's financial management. Accordingly, we concentrated our efforts on the offices and individuals that had functional responsibility for ensuring the Lead Center adhered to the statutory and regulatory financial requirements of the grant. We selected the CY 2012 grant award because it represented the most recent year for which all activity had been concluded and reconciled by the SBA at the time of our review.

We conducted this review from October 2013 to April 2014 in Washington, DC, and in accordance with the *Quality Standards for Inspection and Evaluation* prescribed by the Council of the Inspectors General on Integrity and Efficiency. These standards require that we adequately plan reviews; present factual data accurately, fairly, and objectively; and that we present findings, conclusions, and recommendations in a persuasive manner.

Use of Computer-Processed Data

Our audit involved the assessment of computer-processed data that supported the financial activity of the Lead Center, as reported to the SBA in a final SF-425, *Federal Financial Report*. In examining the underlying data that supported the financial report, we identified data integrity issues. Those issues include data that was inaccurate, erroneous, and inconsistent. We did not rely on the data. Instead, the data integrity issues that we identified are the subject of this report.

Prior Coverage

Certified Public Accountant Firm

PricewaterhouseCoopers, LLP. *The Howard University, Financial Statements and Schedule of Expenditures of Federal Awards and Reports. In accordance with OMB Circular A-133 Thereon. For the year ended June 30, 2012.*

The CPA firm noted:

For ... Small Business Administration 59.037 the University has a matching requirement with the sponsor. Documentation for how the University complies with this matching requirement is not maintained. During our audit the University was able to recalculate and demonstrate they had met the matching requirement.

The CPA firm recommended that the Lead Center “ensure that the matching requirements are calculated, and documentation maintained on an annual basis.”

The SBA OIG has not conducted work in this audit area since 2005.

Nature of Limited or Omitted Information

No information was omitted due to confidentiality or sensitivity, nor were there limitations to information on this audit.

Appendix II: Definition of Reasonable Costs

As described in the report, the SBA assessed the financial performance of the Lead Center using data that contained errors, inconsistencies, and inaccuracies. Specifically, the SBA relied on sub-center cash-match costs that were unreasonable, based on OMB cost principles.

According to OMB Circular, A-122, *Cost Principles for Non-Profit Organizations*, “all cost reimbursement sub-awards (sub-grants, subcontracts, etc.) are subject to those federal cost principles applicable to the particular organization concerned. Thus, if a sub-award is to a non-profit organization this Circular shall apply.” The OMB Circular, A-122 further states that:

a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof, which receive the preponderance of their support from awards made by federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award;
- b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arm’s-length bargaining, Federal and State laws and regulations, and terms and conditions of the award;
- c. Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government; and
- d. Significant deviations from the established practices of the organization which may unjustifiably increase the award costs.

This circular also maintained that costs must be accorded consistent treatment as a condition of allowability.

According to OMB Circular, A-21, *Cost Principles for Educational Institutions*:

A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are: (a) whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement; (b) the restraints or requirements imposed by such factors as arm's-length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions; (c) whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Federal Government, and the public at large; and, (d) the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.

Appendix III: Impact of Overstated Indirect Costs on the Lead Center's Matching Requirement

The Lead Center's SBA funds for CY 2012 included \$601,508 (to be matched), and program income of \$2,871 for a total of \$604,379. The table below shows the impact of the Lead Center's overstated indirect costs on its matching requirement.

Table 4 Impact of Overstated Indirect Costs on Lead Center's Matching Requirement

Disbursement/Action	Lead Center Match Before OIG Analysis	Lead Center Match After OIG Analysis
SBA Federal Funds	\$601,508	\$601,508
Program Income	\$2,871	\$2,871
Total Federal Funds	\$604,379	\$604,379
Lead Center Matching Funds		
Cash	\$474,714	\$474,714
In-Kind	\$ 21,005	\$ 21,005
Waived Indirect Costs	\$249,600	\$ 84,374
Total Match	\$745,319	\$580,093
Required Match	\$601,508	\$601,508
Over/Under Match	\$143,811	(\$21,415)

Source: Generated by the OIG based on OMB Circular A-21, using the Lead Center's SF-425, *Federal Financial Report*.

Note: The grant required a cash match of no less than 50 percent—which for this grant equaled \$300,754 or more—and the other 50 percent be comprised of in-kind contributions and indirect costs—which for this grant equaled \$300,754 or less.

Appendix IV: Indirect Cost Categories Used by the Lead Center

The Lead Center used an “organized research” rate of 48 percent for computing the indirect costs of its SBDC activities. Based on OMB Circular A-21, SBDC activities fall under “other sponsored activities.” However, the Lead Center’s rate agreement did not include an “other sponsored activities” category. Furthermore, the SBA did not detect that the Lead Center treated its SBDC activity as “organized research” instead of “other sponsored activity.”

Although required by OMB Circular A-21, the Lead Center did not propose or negotiate a rate for the “other sponsored activities” category when arriving at the cost rates in its indirect cost rate agreement. According to OMB, “other sponsored activities” refers to programs and projects financed by federal and non-federal agencies and organizations that involve the performance of work other than instruction and organized research. Examples of such programs and projects are health service projects and community service programs. Conversely,

Organized Research means all research and development activities of an institution that are separately budgeted and accounted for and ...includes activities involving the training of individuals in research techniques (commonly called research training) where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function.

Furthermore, we reviewed the rate agreements for eight additional lead centers. We observed that the rate agreements for these institutions included the “other sponsored activities” category with “off-campus” rates that ranged from 16.6 to 26 percent. Finally, we noted that for one grant program sponsored by HHS, the cognizant agency limited indirect costs to 10 percent of salaries and wages when grant recipients did not appropriately secure a rate for “other sponsored activities.”²⁵

A senior accounting official at the Lead Center could not explain why a rate for “other sponsored activities” was not negotiated in its rate agreement that covered our review period. Further, in December 2012, the Lead Center executed a new agreement that included “other sponsored activities” with an “on-campus” rate of 36 percent and an “off-campus” rate of 26 percent. According to the senior accounting official, the current rate agreement now includes a rate for “other sponsored activities” because other agencies expressed concerns about their grant projects not receiving the proper classification. We brought the indirect cost matter to the attention of the SBA. Since our audit, the SBA has taken steps to ensure the Lead Center properly computes its indirect costs for the SBDC project in the future.

²⁵ Department of Health and Human Services, *Health Resources & Services Administration Emergency Medical Services for Children: Targeted Issues Demonstration Projects, HRSA-13-181: Frequently Asked Questions*, No. 26.

Appendix V: Unreasonable Costs of Sub-Center A

As depicted in the report, we determined that Sub-Center A unreasonably allocated 100 percent of its rent, totaling \$47,094, and 100 percent of its utilities, totaling \$8,358, to the SBDC project. In assessing the reasonableness of the costs for rent and utilities, we considered the following factors:

- Sub-Center A entered into the lease agreement with a related party. In fact, Sub-Center A owned 76 percent of its landlord, Anacostia Gateway, LLC.
- Sub-Center A co-leased the space with its wholly-owned subsidiary, Anacostia Holding Company. According to the sub-center's audited financial statements for CY 2012, the purpose of this subsidiary was to acquire, hold, manage, or control real and personal property, and to sell, convey, or otherwise dispose of such property. The rent was to be split 50/50 between Sub-Center A and the holding company. One hundred percent of Sub-Center A's share of the rent was allocated to the SBDC project.
- Sub-Center A shared the space with five "documented activities" unrelated to the SBDC.
- Sub-Center A received 94 percent of its nearly \$1.7 million grant funding for CY 2012 from federal sources other than the SBA, according to its audited financial statements for CY 2012. The SBA's grant funds, totaling \$100,000, represented only six percent of Sub-Center A's grant funding;
- Sub-Center A reported SBDC project expenses as only 9.6 percent of its total expenses for CY 2012 in its audited financial statements for CY 2012.
- Sub-Center A generated almost \$441,000 in management and consulting fee revenue with the use of the shared space.

Appendix VI: The Lead Center's Sub-Agreement with Sub-Center B

This table highlights the differences between Sub-Center B's budget approved by the SBA in the cooperative agreement to the budget that was approved and developed between Sub-Center B and the Lead Center in the sub-agreement.

Table 5 Sub-Center B's Approved Budgets

Cost Category	Federal Funds	Non-Federal Match	Total SBA Approved	Federal Funds	Non-Federal Match	Total Sub-Agreement
	SBA Approved Prime Agreement 2/17/12	SBA Approved Prime Agreement 2/17/12	Total Approved By SBA	Sub-Agreement 4/24/12	Sub-Agreement 4/24/12	Total Sub-Agreement
Personnel	\$72,780	\$10,230	\$83,010	\$70,959	\$5,833	\$76,792
Fringe	\$14,556	\$2,046	\$16,602		\$15,611	\$15,611
Travel	\$1,200		\$1,200	\$7,050		\$7,050
Supplies	\$500	\$600	\$1,100	\$500	\$300	\$800
Equipment						
Contractual						
Consultants				\$20,000		\$20,000
Other		\$46,594	\$46,594		\$51,142	\$51,142
In-Kind		\$7,882	\$7,882		\$21,495	\$21,495
Total	\$89,036	\$67,352	\$156,388	\$98,509	\$94,381	\$192,890

Source: Generated by the OIG using the Lead Center and Sub-Center B's budgetary information submitted to the SBA and the sub-agreement that the Lead Center executed with Sub-Center B.

In April 2012, two months after the SBA and the Lead Center executed a cooperative agreement for CY 2012, the Lead Center executed a sub-agreement with Sub-Center B. Although the SBA did not approve consulting costs for Sub-Center B, the Lead Center executed a sub-agreement with Sub-Center B that included consulting costs. Therefore, the budgetary provisions in the sub-agreement were not consistent with those approved by the SBA.

Specifically, the SBA approved a budget of \$156,388 for Sub-Center B that did not include consulting fees, while the Lead Center executed a sub-agreement that approved \$20,000 for consulting costs and exceeded the SBA-approved budget by \$36,502. The budget in the sub-agreement totaled \$192,890.

According to a representative of the Lead Center, Sub-Center B submitted a revised budget on January 31, 2012—two weeks before the SBA executed a cooperative agreement with the Lead Center. The representative further stated that, according to the cooperative agreement, the Lead Center did not need prior approval from the SBA to increase the budget of Sub-Center B because the Lead Center was within the allowable 10 percent margin permitted by the cooperative agreement. This explanation did not address our concern because Sub-Center B's budget revision was submitted and approved by the Lead Center prior to execution of the cooperative agreement between the Lead Center and the SBA.

Appendix VII: Questioned Costs

The following table depicts costs incurred with federal and non-federal funds that we questioned. We cannot determine the full impact of the questioned costs identified in our review until the SBA re-examines the Lead Center's indirect costs for CY 2010 and CY 2011.

Table 6 OIG Schedule of Questioned Costs

Type	Amount	Description	Explanation
Indirect Cost Match	\$143,811	Waived Indirect	Recalculated. Originally improperly calculated.
Subtotal	\$143,811		
Cash Match	\$27,726	Other	Unreasonable Rent and Utilities Costs.
Cash Match	\$7,830	Salary	Received in violation of 8(a) BD Program rules.
Subtotal	\$35,556		
Federal Funds	\$22,605	Consulting Fees	Improper support. Not approved by SBA.
Federal Funds	\$40,000	Salary	Received in violation of 8(a) BD Program rules.
Federal Funds	\$20,080	Consulting Fees	Received in violation of 8(a) BD Program rules. Not approved by SBA.
Federal Funds	\$3,600	Consulting Fees	Unreasonable
Federal Funds	\$9,800	Contract Costs	Unreasonable
Federal Funds	\$16,730	Consulting Fees	Unreasonable
Subtotal	\$112,815		
Total Questioned Costs	\$292,182		

Source: Generated by the OIG based on the OIG's analysis of recipient financial information.

Appendix VIII: Agency Comments



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

September 15, 2014

Robert A. Westbrook
Deputy Inspector General for Auditing
U.S. Small Business Administration
409 Third Street, S.W.
Washington, DC 20416

Dear Mr. Westbrook:

This correspondence is the official response of the Office of Entrepreneurial Development Office of Small Business Development Centers to your Draft Report on Improvements Needed in SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center under the scope of Review of the Small Business Development Centers' Compliance with Grant Fund Matching Requirements Audit Project #13020.

We have reviewed the referenced report and its recommendations to the Associate Administrator for Entrepreneurial Development and the Associate Administrator for Small Business Development Centers.

Recommendation No. 1 – Update SOPs 60 15 and 60 16 to address subsequent statutory and regulatory changes, and to establish adequate controls to ensure effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

Response: We agree with the recommendation. OSBDC acknowledges the existing Program SOPs are outdated. OSBDC is now in the 18 month process of issuing new regulations from which a new SOP will be drafted and executed. Because the rule change process will be ongoing for many months, OSBDC will continue to ensure its annual Program Announcement maintains all the pertinent information which will eventually go into a SOP. OSBDC has provided the SBA office responsible for SOPs this same timeframe for issuance of an updated consolidated SOP. The target date for this task is to be completed by March 31, 2016.

Recommendation No. 2 – Implement controls to ensure Lead Centers use the appropriate indirect cost rate and category when computing indirect costs.

Response: We agree with the recommendation. OSBDC will ensure that proper guidance is provided to all SBDCs through training before the issuance of the 2015 Notice of Awards regarding this matter. In addition, new language will be highlighted throughout all future Program Announcements, inserted in the revised regulations for the Program and also emphasized in the new SOP. The target date for this task is to be completed by March 31, 2015.

Recommendation No. 3 – Implement controls to ensure that Lead Centers exclude excess sub-recipient costs when computing indirect costs.

Response: We agree with the recommendation. This recommendation requires a change in the guidance SBA has followed in computing indirect costs. The attached documents show the previously guidance by which the Program Office and the Financial Examination Unit (FEU) has been operating. It is now understood the OMB Circular has been interpreted differently and both offices will comply with this recommendation by training the SBDCs on the change, including clarification in all future documents, including the annual Program Announcement, the 2015 Notice of Award, new regulations, and upcoming SOP, and any other guidance. The FEU will change their process and checklist to comply with this recommendation as well. The target date for this task is to be completed in two phases. Phase one to be completed by October 1, 2015 includes all but training on new SOPs which will come after the new regulations are in place. It is our intent to have the new regulations promulgated by March 31, 2016. Phase two of the task will then be completed by September 30, 2016.

Recommendation No. 4 – Require Howard University Lead Center to develop and implement a plan that outlines how it will strengthen its internal controls to ensure that accurate financial information is generated and transmitted to the SBA.

Response: We agree with the recommendation. Through this IG action, the DC SBDC is already aware of the need to address this recommendation. However, OSBDC will ensure this is implemented. The DC SBDC's 2015 Proposal has addressed this issue and until proven to the satisfaction of OSBDC, their 2015 Notice of Award will contain this action as a condition for continued funding and must be completed by March 31, 2015.

Recommendation No. 5 – Enforce the requirement for the Lead Center to submit SF 270, Request for Advance and Reimbursement, on a quarterly basis as required by the Cooperative Agreement.

Response: We agree with the recommendation. This will be clearly stated in both the Notice of Award for this coming Program year (2015) as well as throughout any future Program Announcements which are incorporated by reference. Compliance will be tracked and checked

by the OSBDC financial team which will enforce this provision by withholding future funds for any SBDCs that are not in compliance with their Notice of Award. The target date for this task is to be completed by October 1, 2014.

Recommendation No. 6 – Review sub-agreements made between Lead Centers and sub-centers to ensure consistency with Cooperative Agreements between SBA and Lead Centers.

Response: OSBDC partially agrees with this recommendation. Due to the large increase in staff required to comply with this recommendation, we partially agree with the recommendation.

In reviewing what would be required to comply with this recommendation, OSBDC did a sampling of the time and effort it would take to review three grantees with various numbers of sub-awards, from 4 to 36. From our estimate, it would take roughly 6 hours for the Program Manager (PM) to print, collate, review, conduct any follow-up and coordinate with the Grants Management Specialist (GMS) to provide a Programmatic recommendation. For 940 sub-awards, this totals nearly 4000 man hours or more than 5 FTEs. This would translate into at least 20 additional FTE PMs because these reviews are generally conducted within a three month window (June –September) as the proposals are submitted. At the GS-14 level, without benefits, OSBDC estimates this would incur an additional cost of \$2.6M.

Also, from our analysis, it would take the GMSs 8 hours to ensure each of the 940 sub-awards is sound, complies with all federal guidelines and regulations and has legal standing. For this, the GMS would also need to be in regular contact with the Office of General Counsel (OGC). (OGC's time is not included in our estimate.) This would require roughly 7500 additional man hours or nearly 7 FTEs. The same process holds true for the GMSs as for the PMs, meaning the timely reviews of all 940 sub-awards in order to process the Notices of Award would require an additional 28 GMSs. At the GS-14 level, OSBDC estimates this increase in staff without benefits would incur an additional \$3.5M in SBA salaries and expenses.

In addition, for the follow up financial exams of each sub-center, the Financial Examination Unit (FEU) estimates it would cost SBA's contractor \$2,671,460.49 annually to conduct a financial examination at every SBDC center and their respective service center (see attached excel spreadsheet). This amount was derived by utilizing the existing contract costs (option year four) allocated to each SBDC\service center (\$2,024,460.49) and adding estimated travel\per Diem costs (\$647,000). These calculations do not include Women Business Center (WBC) exam costs.

This estimate does not take into account the burden placed on the SBDC to submit all sub-awards to SBA, the possible Paperwork Reduction Act implications from a new requirement to add these documents to the SBDCs' proposals submitted through grants.gov, the increase in size of the office grant file, or the time, effort and additional travel costs incurred by PMs verifying all content on their onsite biennial reviews.

Instead, OSBDC proposes to strengthen its review processes of the host grantee awards, to strictly adhere to the guidelines provided by OMB and require that grantee legal representatives sign to certify that financial guidelines flow down to their sub-awards subject to the new OMB super grants circular taking effect on December 26, 2014. The target date for this task is to be completed in the 2015 Notices of Award which will be issued to the Fiscal Year grants for the performance period beginning October 1, 2014 and January 1, 2015 for Calendar Year grants.

Recommendation No. 7 – Enforce the requirement for the Lead Center to submit variance reports with its Final Annual Performance Report.

Response: We partially agree with the recommendation.

Having the Lead Center submit variance reports with the Final Annual Performance Report would require additional Grants Management staff. OSBDC has done an estimate of the time and effort it would take to reconcile all variances at the end of each SBDC budget period. This estimate is 252 hours or roughly 4 hours per award, including any clarification contact with the grantee. This level of detail will require at least 4 additional Grants Management Specialists (GMS) to implement, as the reconciliation process is extremely time sensitive. OSBDC estimates this would incur an additional \$520,000 in salaries, excluding benefits.

Instead, OSBDC proposes to use a new variance reporting tool that the Financial Examination Unit (FEU) is testing (see attached). The variance reporting tool is a colorful spreadsheet that will alert grantees, grants specialists and financial examiners when there are expenditures that don't match up against budget. A draft model was used earlier this year for the Wisconsin WBCs and is being refined for SBDC use. FEU anticipates a final version of the budget variance report for both WBC and SBDC's by January 2015. OSBDC will include the use of the variance tool as a guideline in Calendar Year 2015 NOAs and requirement for all future NOAs beginning in 2016. The target date for this task is March 31, 2015.

Recommendation No. 8 – Require Lead Center to submit a revised SF 425 Federal Financial Report for CY2012 to correct \$109,472 discrepancy.

Response: We agree with the recommendation. The DC SBDC will be contacted when an official report is delivered with a requirement that until such time as a revised, accurate and complete SF 425 for CY2012 is received to the satisfaction of SBA, the DC SBDC will not receive additional funds. It is our intent to amend the FY 2014 Notice of Award with the requirement that a complete SF425 for CY2012 be delivered before any additional funds are released by October 31, 2014 or within 30 of the Official IG Report if the report is delivered after September 30, 2014.

Thank you for the opportunity to provide our comments regarding this report. Should you have any further questions or concerns, please do not hesitate to contact us directly as 202-205-6439.

Sincerely,

Tameka Montgomery

Associate Administrator for the Office of Entrepreneurial Development

Carroll Thomas

Associate Administrator for the Office of Small Business Development Centers