

COMPLIANCE REPORT

SBA CONTROLS OVER FY 2017 AND 2018 CASH CONTRIBUTIONS AND GIFTS





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

Final Compliance Report
Report Number: 18-25

DATE: September 20, 2018

TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware
Inspector General

A handwritten signature in black ink, appearing to be "H. Ware", written over the printed name of the Inspector General.

SUBJECT: SBA Controls Over FY 2017 and 2018 Cash Contributions and Gifts

This compliance report represents the results of our semiannual review of the Small Business Administration (SBA) controls over cash contributions and gifts for fiscal years (FYs) 2017 and 2018.

We previously furnished copies of the draft report and requested written comments on the recommendations. SBA management provided comments via email that were considered in finalizing the report. The report contains two recommendations that SBA agreed to address. Based on management's comments, we consider the recommendations resolved but open pending completion of final actions. Please provide an update regarding your progress in addressing these recommendations within 90 days.

Background

SBA has gift authority under the Consolidated Appropriations Acts of 2017 and 2018 (the Acts) to accept gifts after proper approvals, including a conflict of interest determination by SBA's Office of General Counsel. All gifts must be used in a manner consistent with the Acts and any terms imposed by the donor. The Acts provide that any gift, devise, or bequest of cash accepted by the Administrator shall be held in a separate account, called the Business Assistance Trust (BAT) Fund, and shall be subject to semiannual audits by the Inspector General, who shall report his findings to Congress. Authorized purposes for which gifts may be solicited or accepted include, but are not limited to, gifts in support of cosponsored activities, SBA-sponsored activities, general SBA marketing and outreach activities, and other activities that further the mission of the Agency as determined by the Administrator or designee.

Objective, Scope, and Methodology

Our objective was to determine the adequacy of SBA controls over the solicitation, acceptance, holding, and utilization of cash contributions and gifts in FYs 2017 and 2018. To achieve our objective, we obtained an understanding of laws, regulations, and SBA standard operating procedures (SOPs) regarding its cash contributions and gifts authority. We also interviewed selected SBA officials and examined documentation obtained from officials in various program offices. We utilized data analysis software to assess transactions that posted to the BAT Fund account in FYs 2017 and 2018. We also assessed the Agency's use of cash gifts during FYs 2017 and 2018. We further assessed the status of prior year recommendations. Our review was performed in

accordance with the Council of the Inspectors General on Integrity and Efficiency Standards for Inspection and Evaluation.

Results

Controls Over the Acceptance and Holding of Cash Contributions and Gifts

We found that SBA implemented adequate controls over the acceptance and holding of cash contributions and gifts during FYs 2017 and 2018.¹ Specifically, the Agency accepted \$2,702.00 from six entities that gifted their pro rata share of excess funds remaining at the conclusion of two SBA cosponsored activities.² More specifically, at the conclusion of the Portland District Office’s 2017 Small Business Week activity, the Agency accepted a total of \$1,501.00 from five entities that contributed cash to cosponsor the activity. SBA also accepted \$1,201.00 from an entity that was erroneously refunded \$3,602.00 instead of its \$2,401.00 pro rata share of excess funds that remained after the 2014 Headquarters National Small Business Week activity.³ (See table below.)

| Gifts to the Agency | | | | |
|--|-------------------------------|--|---------------------------------------|------------------------------------|
| SBA Activity | Cosponsor Name | Cash Contributed for Cosponsorships | Pro Rata Share of Excess Funds | Amount Gifted to the Agency |
| Portland District Office 2017 Small Business Week | Columbia State Bank | \$3,000.00 | \$500.00 | \$500.00 |
| | Key Bank | \$3,000.00 | \$500.00 | \$500.00 |
| | Umpqua Bank | \$1,000.00 | \$167.00 | \$167.00 |
| | Albina Community Bank | \$1,000.00 | \$167.00 | \$167.00 |
| | Banner Bank | \$1,000.00 | \$1667.00 | \$167.00 |
| | | | Subtotal | \$1,501.00 |
| Headquarters 2014 National Small Business Week | Access Emanate Communications | \$10,000.00 | \$2,401.00 | \$1,201.00 |
| | | | Total Gifts | \$2,702.00 |

We also found that SBA officials properly vetted and determined that no business relationship existed that would cause a conflict of interest between the Agency and the cosponsors for the Portland District Office activity.⁴ The cosponsors’ intent was for the cash gifts to be used for future Small Business Week activities. All of the cash gifts in the above table were deposited, held in the BAT Fund account, and made available to the Portland District Office and the Office of Communications and Public Liaison for expenditure. We further noted that the Agency took action to resolve three prior year recommendations.

¹ The Agency did not solicit any cash gifts during our period of review.

² SOP 90 75 4, Outreach Activities, stipulates that cosponsors may request a refund, request the fiscal agent retain funds in an SBA account for future, recurring activities, or gift their pro rata share of excess funds that remain at the conclusion of a cosponsored activity.

³ OIG reported this condition in Report 16-21, SBA’s FY 2015 and 2016 Cash Gifts (August 23, 2016).

⁴ Vetting refers to the process of gathering information about a potential cosponsor in order for the general counsel or designee to make a conflict of interest determination.

Controls Over the Utilization of Cash Contributions and Gifts

While we determined that the Agency had adequate controls over the acceptance and holding of cash contributions and gifts in FYs 2017 and 2018, improvement is needed in its controls over the utilization of gift funds in accordance with SBA regulations and policies.

Unlike annual appropriations, gift funds do not expire and can be used in the year they are received, as well as in subsequent years. While these funds carry over from year to year, each office must make a request to the Denver Finance Center to have the funds restored to its individual office BAT Fund account after the close of each fiscal year. The Agency's budget office provides allotments of gift funds to the program offices. SBA program offices must have records sufficient to justify their carryover balances in order to receive the proper budgetary allotment at the beginning of the new fiscal year. To do so, SOP 90 53, Gifts to the Agency, stipulates that SBA's Originating Office must keep a cumulative log recording the amount of a cash gift, the donor, intent of the donor, and the SBA official(s) approval and acceptance of the gift on behalf of the Agency. The Originating Office must also maintain a spreadsheet in Excel or similar application to track BAT Fund expenditures for each donation. The spreadsheets provide a simple audit trail, which is necessary to match the balance in SBA's accounting system for a particular organization code and fund.

SBA program offices utilized cash in the BAT Fund account totaling \$41,602.00 in FY 2017, and \$105,533.00 in FY 2018 (through May 1, 2018), to support the Agency's mission and outreach activities.⁵ (See page 6 for a description of the expenditures, listed by SBA program office.) However, we were unable to discern whether these gift funds were spent in accordance with the donor's intended use because SBA program offices did not adequately maintain required spreadsheets to reconcile BAT Fund donations (e.g., gift funds) and expenditures. For six program offices that utilized gift funds during our scope period, we requested the mechanism they used to track the expenditures for each donation. Based on our review of the tracking mechanisms that we received, the Portland and Massachusetts District Offices provided an accounting of gift funds and expenditures. However, the Georgia District Office, and the Offices of Communications and Public Liaison, Strategic Alliances, and Women's Business Ownership were not responsive to our request because they did not maintain and have not been properly trained to track gift funds. In addition, program office management has not implemented controls to ensure that gift funds are properly tracked. As a result, there is no assurance that gift funds expended during the scope of our review were always used as intended by the donor.

As of May 2018, a funds availability report shows a \$366,459.00 balance in the BAT Fund. Of that amount, \$2,800.00 is allocated to the South Florida District Office, and the remaining \$363,659.00 is unallocated to SBA program offices but is available to them for expenditure. Most of the balance has carried over from prior fiscal years, so the risk of SBA not utilizing gift funds as intended increases over time. This is a repeat finding from a recent Office of Inspector General report.⁶ While the Agency issued Information Notice 4000-17050, Use of Cash Gifts and BATF, on February 14, 2018, in response to the prior year's recommendation, this condition continues to be a weakness in internal controls.

⁵ Of the total \$41,602.00 spent in FY 2017, we tested \$36,149.00 during this evaluation and \$5,453.00 in 2017.

⁶ Report 18-05, SBA's FY 2016 and 2017 Cash Contributions and Gifts (November 20, 2017).

We recommend that the Administrator direct the Associate Administrator for Communications and Public Liaison to:

1. Update the memorandum to SBA program officials that describes the solicitation and acceptance of a cash gift and include instructions to track gift funds in accordance with SOP 90 53, Gifts to the Agency.
2. Work with the Director of the Denver Finance Center to provide guidance to staff in all program offices that have cash held in the BAT Fund account.

Analysis of Agency Response

SBA management provided informal comments that were considered in finalizing the report. SBA management substantially agreed with the recommendations, and its planned actions resolve both recommendations.

Summary of Actions Necessary to Close the Recommendations

The following provides the status of each recommendation and the necessary actions to either resolve or close the recommendation.

1. **Resolved.** The Associate Administrator for Communications and Public Liaison concurred with our recommendation and plans to complete the final action on this recommendation by October 31, 2018. This action can be closed once we receive evidence that the Agency has issued a notice that includes instructions for tracking gift funds in accordance with SOP 90 53, Gifts to the Agency.
2. **Resolved.** The Associate Administrator for Communications and Public Liaison and the Director of the Denver Finance Center concurred with our recommendation and plan to complete the final action on this recommendation by March 31, 2019. This action can be closed once we receive evidence that training was provided to program office staff that have cash held in the BAT Fund account.

Conclusion

The public trusts the Agency to use gift funds to carry out mission-related activities. Therefore, SBA and its officials must implement rigorous controls to record and to keep track of its gift funds. By not effectively implementing adequate policies and procedures to address recording and tracking of gift funds, it is difficult for SBA to identify areas of unnecessary spending or opportunities for greater efficiency when spending gift funds on approved activities.

We appreciate the courtesies and cooperation of the Agency officials during this assignment. If you have any questions concerning this report, please call me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Pradeep Belur, Chief of Staff
Timothy Gribben, Chief Financial Officer and Associate Administrator for Performance
Management
Jim Billimoria, Associate Administrator for Communications and Public Liaison
Christopher Pilkerton, General Counsel
LaNae Twite, Director, Office of Internal Controls
Michael Simmons, Attorney Advisor
Melissa Atwood, Director, Denver Finance Center
Martin Conrey, Attorney Advisor, Legislation and Appropriations

Summary of BAT Fund Expenditures, By SBA Office

| Program Office | Description/Use of Funds | Amount |
|--|---|---------------|
| Office of Women's Business Ownership | 2017 InnovateHER Business Challenge | \$100,000.00 |
| Office of Communications and Public Liaison | Rental space at the Smithsonian Museum for a Small Business Week event | \$30,000.00 |
| | DocuSign Business edition for Small Business Week | \$690.02 |
| | Facebook ad for Small Business Week | \$754.73 |
| | 508-compliant fillable nomination forms for Small Business Week | \$2,500.00 |
| Philadelphia District Office | Reimbursement to donor for a solicited gift that was not properly approved | \$2,945.06 |
| Portland District Office | Rental space at the Arts Museum for Small Business Week luncheon | \$1,291.93 |
| | Rental space for a Small Business Week luncheon | \$1,500.77 |
| Massachusetts District Office | Breakfast, lunch, and snacks for attendees at 504 Micro Lender Roundtable event | \$838.00 |
| | Breakfast foods for attendees at a Business Matchmaker event | \$494.50 |
| | Water, coffee, and Danish for attendees at the 4th Annual Business Matchmaker event | \$532.00 |
| Georgia District Office | Light refreshments for attendees at an Emerging Leaders reception | \$134.72 |
| | Total | \$141,681.73 |