

Audit of SBA's Cooperative Agreement With Arsenal Business and Technology Partnership's Veterans Business Outreach Center

REPORT NUMBER 20-09 | March 24, 2020





EXECUTIVE SUMMARY

Report
No. 20-09

March 24,
2020

AUDIT OF SBA'S COOPERATIVE AGREEMENT WITH ARSENAL BUSINESS TECHNOLOGY PARTNERSHIP'S VETERANS BUSINESS OUTREACH CENTER

What OIG Reviewed

The Small Business Administration's (SBA's) Veterans Business Outreach Center (VBOC) program provides entrepreneurial development services to transitioning service members, veterans, guardsmen, reservists, and military spouses interested in starting or growing a small business. SBA's Office of Veterans Business Development (OVBD) administers the program through cooperative agreements awarded to a nationwide network of VBOCs.

In 2016, SBA awarded Arsenal Business and Technology Partnership (Arsenal) a cooperative agreement for \$180,000 to perform veterans outreach initiatives in New York and New Jersey. The following year, SBA extended Arsenal's cooperative agreement and awarded \$250,000 to continue its support of the VBOC program. Subsequently, in 2018, SBA awarded Arsenal another cooperative agreement for \$300,000 for the initial year, with options to extend performance for four additional years. The 2018 cooperative agreement also expanded the coverage area to include Puerto Rico.

Our objectives were to determine whether SBA (1) awarded Arsenal's 2016 and 2018 cooperative agreements in accordance with applicable federal laws, regulations, and other guidance, and (2) ensured that Arsenal complied with the 2018 cooperative agreement financial and performance requirements.

To answer our objectives, we reviewed policies and procedures SBA used to select Arsenal as the 2016 and 2018 cooperative agreement recipient. We also conducted a site visit to Arsenal in Watervliet, NY, interviewed its personnel, and obtained supporting documentation. Additionally, we interviewed personnel and obtained documentation from the Office of Grants Management and the program office.

What OIG Found

SBA officials did not maintain required pre-award documentation to justify their decision in awarding the 2016 and 2018 cooperative agreements to Arsenal. In addition, SBA did not

adhere to its policy for selecting a Technical Evaluation Panel member who participated in evaluating proposals for the 2016 funding opportunity announcement.

Also, program officials did not ensure that Arsenal met its performance requirements and did not enforce the reporting requirements. Consequently, SBA undermined the transparency of the award to Arsenal. Further, SBA reimbursed Arsenal \$300,000 in federal funds for the 2018 cooperative agreement and exercised the first option year of the agreement, despite the VBOC not having achieved its intended impact. Lastly, program officials did not ensure that Arsenal complied with the required budget transfer limitations. As a result, program officials did not detect \$10,168 of unallowable costs.

OIG Recommendations

We made nine recommendations to improve SBA's oversight and management of Arsenal's cooperative agreement.

Agency Response

SBA management agreed with all nine recommendations. Management's planned actions resolved six recommendations. Management plans to review quarterly reports and reimbursement requests to ensure VBOCs are meeting performance goals and that payment is consistent with actual performance and activities. Additionally, SBA management plans to review the unallowable expenditures, track reimbursement requests, and review financial examination report findings and recommendations and provide guidance on implementing financial examination recommendations. While SBA concurred with recommendations 1, 2, and 3, the proposed actions did not fully address the recommendations and remain unresolved. In accordance with our audit follow-up policy, we will attempt to reach agreement with SBA management on the three unresolved recommendations. If not, we will notify the audit follow-up official of the disputed issues.



Office of Inspector General U.S. Small Business Administration

Final Report Transmittal
Report Number: 20-09

DATE: March 24, 2020

TO: Jovita Carranza
Administrator

FROM: Hannibal "Mike" Ware
Inspector General

A handwritten signature in black ink, appearing to be "H. Ware", written over a light blue circular stamp.

SUBJECT: Audit of SBA's Cooperative Agreement With Arsenal Business and Technology Partnership's Veterans Business Outreach Center

This report presents the results of our audit of SBA's Cooperative Agreement with Arsenal Business and Technology Partnership's Veterans Business Outreach Center. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on the draft of this report when preparing the final report. Management agreed to address all nine recommendations identified in the report; however, three recommendations are pending resolution.

We appreciate the courtesies and cooperation extended to us during this audit. If you have any questions, please contact me at (202) 205-6586 or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6616.

cc: William Manger, Chief of Staff and Associate Administrator, Office of Capital Access
Larry Stubblefield, Associate Administrator, Office of Veterans Business Development
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Introduction

In 1999, Congress expanded the Small Business Administration’s (SBA’s) veterans assistance programs to better equip veterans to form and expand small business enterprises. To fulfill this initiative, Congress authorized SBA to establish the Office of Veterans Business Development (OVBD).¹ OVBD designed the Veterans Business Outreach Center (VBOC) program to provide entrepreneurial development services to transitioning service members, veterans, guardsmen, reservists, and military spouses interested in starting or growing a small business. VBOCs collaborate with SBA’s district offices and other resource partners to provide these services, including counseling, technical and financial skills development, comprehensive business assessments, and mentoring services. Further, VBOCs are required to regularly participate in the interagency Transition Assistance Program.² As part of the Transition Assistance Program, OVBD developed the Boots to Business (B2B) program to provide service members interested in exploring business ownership with information to develop business plans and connections to SBA resource partners and start-up capital. Additionally, OVBD developed a Boots to Business Reboot (B2BR) training course to reach service members and their families who were no longer active duty.

OVBD administers its programs through cooperative agreements awarded to a nationwide network of VBOCs. OVBD collaborates with the Office of Grants Management (OGM) to announce funding opportunities, award cooperative agreements, and oversee the cooperative agreement recipients. As shown in table 1, the number of VBOCs and the federal dollars awarded increased from 2016 to 2018.

Table 1. VBOC Funding 2016–2018

Year	Number of VBOCs	Total VBOC Funding Amount Per Year	Average Funding Amount Per VBOC
2016	20	\$5,695,000	\$284,750
2017	20	\$5,790,000	\$289,500
2018	22	\$6,645,000	\$302,045

Source: OIG analysis based on OVBD’s VBOC funding spreadsheet and Program Funding Recommendation Memorandum

During 2016, the State University of New York at Albany, which had been the VBOC serving New York and New Jersey, ended its cooperative agreement with SBA. As a result, SBA issued a funding opportunity for organizations to compete to provide VBOC services in New York and New Jersey. SBA received two applications and ultimately awarded a cooperative agreement to Arsenal Business and Technology Partnership (Arsenal) for \$180,000 to perform SBA’s veterans outreach initiatives in the region. In 2017, SBA extended Arsenal’s cooperative agreement by exercising an option year that awarded \$250,000 to continue its support of the VBOC program. SBA announced a funding opportunity to recompile all the cooperative agreements for the 2018 VBOC program. SBA received three applications to serve as the VBOC for this coverage area, which had expanded to include New York, New Jersey, and Puerto Rico. SBA ultimately awarded Arsenal another cooperative agreement for \$300,000 for the first year, with options to continue service for an additional 4 years, depending upon the continuity of the program, availability of funds, and performance.

¹ Public Law 106-50, Veterans Entrepreneurship and Small Business Development Act of 1999 (August 1999).

² Public Law 110-186, Military Reservist and Veteran Small Business Reauthorization and Opportunity Act of 2008 (February 2008).

We initiated this audit of Arsenal in response to complaints forwarded to the Inspector General through congressional stakeholders that align with our work in a top management challenge area, pertaining to SBA's grant management oversight.

Prior Audit Work

In 2016, we reported that SBA had no documentation delineating or rationalizing its final selection of Syracuse University.³ As a result, SBA compromised the integrity of its B2B grant award selection process on a \$3 million B2B grant to Syracuse University and could not demonstrate that it made a merit-based selection in awarding the grant. The audit report included four recommendations to improve SBA's oversight of grants management, including issuing an updated grants management standard operating procedure. SBA implemented all four recommendations.

In 2018, we reported that SBA made improvements to the B2B program but could make further improvements to better reach the target population and increase participation in the program.⁴ Specifically, SBA did not meet its established performance goals for the number of participants or the graduation rate. We also reported that SBA did not ensure that recipients measured and reported performance outcomes. Further, we found that one recipient did not report its B2B program costs separately in its annual budget and financial reporting. We made seven recommendations to enhance the overall management and effectiveness of the B2B program. SBA implemented all seven recommendations.

In 2019, we identified systematic issues with SBA's financial and performance oversight across its multiple grant programs.⁵ Specifically, SBA's process to monitor how grant recipients spent federal funds and to assess performance of its grant programs was ineffective. We found that SBA's decentralized grants management function inhibited agencywide improvements to its grants management process. As a result, SBA's grant programs are at risk of funds not being used for their intended purpose and of not achieving program goals and objectives. The audit report included four recommendations to enhance SBA's management and oversight of its grant programs. SBA implemented three of the recommendations and have planned actions that should resolve the remaining recommendation. This recommendation will be closed when SBA provides evidence of implementing the actions.

Objectives

The audit objectives were to determine whether SBA (1) awarded Arsenal's 2016 and 2018 cooperative agreements in accordance with applicable federal laws, regulations, and other guidance, and (2) ensured that Arsenal complied with the 2018 cooperative agreement financial and performance requirements.

³ SBA OIG Report 16-12, The Small Business Administration's Boots to Business Grant Award (March 28, 2016).

⁴ SBA OIG Report 18-20, The Small Business Administration's Boots to Business Program (July 19, 2018).

⁵ SBA OIG Report 19-02, Consolidated Findings of Office of Inspector General Reports on SBA's Grant Programs Fiscal Years 2014–2018 (November 8, 2018).

Finding 1: SBA Undermined Award Transparency to Arsenal by Not Following Its Grants Management Policy

SBA officials did not maintain required pre-award documentation to justify their decision in awarding the 2016 and 2018 cooperative agreements to Arsenal. In addition, SBA did not adhere to its policy for selecting a Technical Evaluation Panel (TEP) member who evaluated proposals for the 2016 funding opportunity announcement. These issues occurred because SBA officials did not fully adhere to the established review and selection processes. As a result, SBA could not demonstrate that it objectively awarded Arsenal's cooperative agreement.

SBA Did Not Maintain Pre-Award Documentation

In its grants management policy, SBA established internal guidance, policies, and procedures for grants management and program office officials to follow when reviewing applications and selecting awardees for merit-based awards as required by federal regulations.⁶ These procedures required SBA officials to check for completeness of the applicant packages, conduct risk assessments, oversee the TEP merit review process, and recommend funding amounts for the selected recipients to SBA's Administrator for approval.

While there was evidence that SBA officials followed some of the review and selection processes, we found that SBA officials did not maintain required pre-award documentation to justify that the 2016 and 2018 cooperative agreements to Arsenal were fairly and impartially awarded. Further, officials from OGM and OVBD maintained required pre-award documentation in separate files. For the 2016 award, OGM officials did not maintain the application checklist and risk assessment of the applicant. SBA's grants management procedures require that these documents be made part of the official grant file.

For the 2018 award, SBA officials did not maintain conflict of interest forms for three of the five TEP members and individual proposal review documentation for four of the five TEP members. The grants management procedures require that all TEP members certify that they do not have a conflict of interest before they serve on the TEP to minimize risks that the application reviews were unduly influenced. While the grants management policy does not explicitly require retention of the conflict of interest forms in the official grant file, not maintaining these forms limits OGM's ability to effectively oversee the merit-based review process.

Because SBA officials did not maintain the required pre-award documentation, they could not demonstrate that they ensured basic applicant eligibility, reviewed the risks posed by applicants, mitigated conflicts of interest, or appropriately evaluated each application against the established criteria. Consequently, SBA undermined the transparency of the award to Arsenal.

In a previous report, OIG identified issues with OGM and OVBD officials providing effective oversight over the 2014 grant award to Syracuse University to develop materials for the B2B program. We recommended that SBA update its grants management procedures to require that a written record of all data used, discussions held, and decisions made on grant applications is maintained in the official grant file and readily available for examination. In July 2016, SBA issued revised grants management procedures that required SBA officials to include pre-award documents in the official grant file. Despite the revised procedures, the 2018 grant file was still missing key

⁶ 2 CFR § 200.204.

pre-award documentation. Furthermore, in September 2019, SBA updated the grants management procedures and included a consolidated list of the types of supporting documentation to be maintained in the official grant file. The procedures also required that each award contain signed copies of the applications and documentation related to the review and approval of the applications, an evaluation of the applicant's financial management system, and an assessment of financial and technical performance. These revised procedures should resolve issues identified with maintaining pre-award documentation. To further improve the Agency's procedures, in this report, we recommended that officials improve quality controls over maintaining documentation.

SBA Did Not Adhere to Its Policy for Selecting Technical Evaluation Panel Members

SBA officials did not follow the established grants management procedures for selecting TEP members. According to the policy, TEP members perform the technical evaluation of grant application packages and can be SBA employees, contractors, employees of other federal agencies, or other subject matter experts. Further, the grants management policy specifies that program officials with oversight responsibility of any applicant during the grant lifecycle should not serve on the TEP, except for when staffing limitations exist. In these instances, the policy requires that SBA officials must separate the program officials' oversight duties from the activities performed as a TEP member to the greatest extent possible.

We determined that SBA officials did not adhere to the policy for selecting the 2016 TEP members. Despite not having a staffing limitation within the program office, a program official responsible for overseeing the cooperative agreements for the VBOC program served as a TEP member evaluating proposals for the 2016 funding announcement. In addition, SBA officials did not separate the program official's oversight duties from his TEP duties. Program officials told us that the 2016 grants management policy had been recently issued at the time of the TEP selection so they may not have been fully aware of all of the requirements. However, in the memorandum to SBA's Administrator requesting approval for the award to Arsenal, program officials stated that they followed the 2016 grants management policy. Further, the program official told us that OGM officials advised that he could serve as a TEP member since he had prior experience with the program, but did not provide documentation to support this decision. Although the grants management policy required that SBA officials separate program officials' oversight duties from TEP duties, it does not explicitly state how to implement safeguards to mitigate an appearance of impartiality. SBA officials did not separate the program official's oversight duties from his TEP duties. Allowing program officials with oversight responsibility to participate in the TEP merit review process without appropriate safeguards exposes SBA to perceived occurrences of impropriety, which can jeopardize the objective review of applications and soundness of funding recommendations.

Recommendations

We recommend the Administrator require the Executive Director, Office of Executive Management, Installations, and Support Services to:

1. Implement procedures to include a quality control checklist to ensure that all documentation related to the award of the cooperative agreement is maintained in the official grant file.
2. Implement controls to ensure that grants management officials effectively oversee that agency officials select technical evaluation panel members in accordance with grants management policy.

3. Revise the grants management policy to require that agency officials establish safeguards, to include separation of duties, when officials with oversight responsibility of any applicant during the grant lifecycle are required to serve on the Technical Evaluation Panel and maintain documentation in the official grant file.

Finding 2: SBA Did Not Ensure Arsenal Achieved Its Intended Impact

SBA program officials did not ensure that Arsenal fully complied with the cooperative agreement performance requirements. Specifically, Arsenal only participated in 65 percent of the scheduled B2B classes, and therefore did not meet the requirement to participate in all B2B classes. Additionally, SBA did not ensure that Arsenal met its proposed goals for counseling hours or B2BR classes. These conditions occurred because SBA officials did not enforce the performance reporting requirements. As a result, SBA reimbursed Arsenal \$300,000 in federal funds for the 2018 cooperative agreement and exercised the first option year of the agreement, despite the VBOC not having achieved its intended impact.

SBA Did Not Ensure Arsenal Complied With Performance Requirements

SBA program officials developed cooperative agreement terms and conditions that required Arsenal to participate in all B2B classes within the designated coverage area. However, program officials did not enforce this requirement. We found Arsenal only participated in 13 of the 20, or 65 percent, of the B2B classes. In its collaboration with SBA district office officials, Arsenal provided reasons for not participating in some of the classes. However, there was no evidence that Arsenal provided this information to OVBD program officials. Further, program officials were not aware that Arsenal did not participate in seven of the B2B classes. While the cooperative agreement terms and conditions allow Arsenal to change its previously approved activities with prior SBA approval, Arsenal did not request changes.

SBA program officials also did not ensure that Arsenal met its proposed goals for the number of counseling hours or B2BR classes. In its technical proposal for the 2018 funding announcement, Arsenal projected it would complete 1,000 counseling hours and conduct 22 B2BR classes. During 2018, Arsenal completed 400 counseling hours, or 40 percent of the proposed goal, and 20 B2BR classes, or 91 percent of the proposed goal. While program officials monitored these performance measures, they did not hold Arsenal accountable for not explaining why Arsenal did not meet the proposed goals. Program officials told us that the only mandated goal for Arsenal was to participate in all B2B classes. While participating in the B2B classes was critical to the VBOC program mission, the funding opportunity also required recipients to provide counseling and technical assistance to veterans and their families.

When cooperative agreement recipients fail to meet expected performance goals, federal regulations provide for agencies to impose additional specific award conditions, such as additional project monitoring, requiring the recipient to obtain technical or management assistance, or establishing additional prior approvals, among others.⁷ OVBD did not implement any additional oversight for Arsenal despite the less-than-expected achievements.

SBA Did Not Enforce Performance Reporting Requirements

Program officials did not ensure that Arsenal submitted the required comparison between proposed goals and actual accomplishments. Further, they did not enforce the requirement for Arsenal to provide explanations for why it did not participate in all the scheduled B2B classes and did not meet its proposed goals. Program officials told us they review the quarterly reports and use Neoserra, the VBOC performance management database, to track and pull performance reports in

⁷ 2 CFR § 200.207.

real time. However, there was no evidence that program officials monitored Arsenal's achievements in comparison to its goals. Without quarterly comparisons of actual performance results against established goals, program officials cannot effectively evaluate whether Arsenal is on target to meet its goals and measure program success.⁸

In a previous OIG report, we identified similar issues and recommended that program officials develop and implement policies and procedures to ensure that recipients provide complete quarterly performance reports.⁹ Program officials had developed a quarterly report and feedback template to improve the review of the quarterly performance reports. However, program officials told us that due to staffing changes, planning for the VBOC training conference, and implementing a pilot veteran training program, they did not implement the template. Program officials plan to implement the template in February 2020.

Recommendations

We recommend the Administrator require the Associate Administrator of the Office of Veterans Business Development to:

4. Require Arsenal to establish quarterly goals for its performance measures, enforce cooperative agreement terms and conditions requirement to provide justification for not achieving quarterly goals and propose corrective actions, and implement the quarterly report and feedback template prior to exercising the next cooperative agreement option year.
5. Reconcile actual performance results with proposed goals on a quarterly basis, document the reconciliation, provide feedback to Arsenal using the quarterly report and feedback template, and maintain the documentation as part of the official cooperative agreement file.
6. Require program officials to enforce the cooperative agreement terms and conditions to withhold reimbursements if Arsenal does not provide justifications and corrective action when it does not achieve its quarterly goals.

⁸ GAO-14-704G, Standards for Internal Control in the Federal Government (September 2014).

⁹ SBA OIG Report 18-20, The Small Business Administration's Boots to Business Program (July 19, 2018).

Finding 3: SBA’s Inaction Puts Program Funds at Risk of Being Misused

SBA program officials did not ensure that Arsenal complied with the terms and conditions of the cooperative agreement for reporting expenditures that exceeded budgeted cost categories. Additionally, SBA officials did not ensure that Arsenal implemented recommendations from SBA’s financial examination of Arsenal’s 2016 expenses. SBA officials did not adequately review quarterly financial reports and did not establish procedures for ensuring that cooperative agreement recipients implement corrective actions to resolve recommendations made in SBA’s financial examination. As a result of not adequately reviewing the quarterly financial reports, program officials did not detect \$10,168 of unallowable costs for unapproved budget transfers. (See appendix II for a schedule of our questioned costs.) Additionally, without enforcing the financial examination recommendations, the program is at risk of funds being misused.

SBA Did Not Adequately Review Arsenal’s Quarterly Financial Reports

While Arsenal’s total reimbursed expenses did not exceed the budgeted amount of \$300,000, we found that Arsenal’s actual expenditures exceeded the budgeted amount for three of the eight cost categories. In total, Arsenal reallocated more than \$40,000 between cost categories without SBA’s approval. The cooperative agreement terms and conditions authorized Arsenal to transfer up to 10 percent, or \$30,000, between cost categories without obtaining prior approval. Arsenal exceeded the maximum allowed by \$10,168 (see table 2).

Table 2. Arsenal’s Budget Reallocation by Cost Category

Budget Category	Increase	Decrease
Personal Services		\$27,601
Fringe Benefits		\$4,840
Travel		\$5,429
Equipment	No Change	No Change
Supplies	\$9,183	
Contractual	\$18,471	
Other	\$12,514	
Indirect Cost		\$2,298
Total	\$40,168	\$40,168

Source: OIG analysis based on Arsenal’s Notice of Award and quarterly financial reports

The 2018 cooperative agreement terms and conditions required Arsenal to provide quarterly reports that included detailed information regarding actual expenses and a narrative explanation each time actual expenses exceeded the budgeted amounts for a given cost category. Arsenal’s quarterly financial reports did not include a comparison of actual expenses to budgeted amounts, nor did they include explanations for exceeding the cost category budgeted amounts. We believe SBA program officials missed the opportunity to identify excess budgeted amounts because they did not enforce the financial reporting requirements or adequately review financial reports. Program officials told us that since Arsenal was allowed to transfer 10 percent of award funds between cost categories, there was no overspending. According to program officials, they reviewed all reimbursement requests for accuracy and alignment with the approved budget but did not demonstrate that they had actually conducted such reviews.

SBA Did Not Enforce Financial Examination Review Recommendations

SBA conducted a financial examination of Arsenal’s operations for the 2016 cooperative agreement

year. The examiner found that Arsenal used federal funds for unallowable alcoholic beverages and did not have written procedures or processes for the VBOC program. The examiner made nine recommendations to improve Arsenal's overall internal controls for the VBOC program. To address four of the recommendations, Arsenal created an internal control manual to communicate the VBOC program's fiscal and administrative policies and procedures. However, there was no evidence to support that the remaining five recommendations were implemented. Arsenal's Director told us she contacted SBA for advice on how to submit the payment for the unallowable expenditures but did not receive a definitive answer. An OVBD program official told us the Grants Officer Technical Representative and the Program Director are responsible for reviewing the financial examination report and providing feedback to the financial examination team and to following up with Arsenal. However, prior to our audit, there was no evidence to support that program officials took action to ensure that Arsenal implemented the financial examination recommendations. In addition, program officials did not have written procedures for this process. Program officials plan to resolve the recommendations by April 2020.

Recommendations

We recommend the Administrator require the Associate Administrator for the Office of the Veterans Business Development to:

7. Review the expenditures for the \$10,168 transfer of funds to ensure these costs are allowable and document the rationale for approving the transfer.
8. Develop a tracking mechanism to monitor Arsenal's cumulative reallocation of funds to ensure it does not exceed the allowable amount and enforce that Arsenal comply with the terms and conditions for reporting expenditures that exceed their budgeted cost categories.
9. Implement procedures to ensure program officials enforce financial examination results.

Analysis of Agency Response

SBA management provided formal comments that are included in their entirety in Appendix III. SBA management concurred with all nine recommendations and its proposed corrective actions resolve six of the recommendations. We did not reach resolution on recommendations 1, 2, and 3. While SBA concurred with the three recommendations, the proposed actions did not fully address the recommendations. In accordance with our audit follow-up policy, we will attempt to reach agreement with SBA management on the unresolved recommendations within 60 days after the date of this final report. If we do not reach agreement, the OIG will notify the audit follow-up official of the disputed issues.

Summary of Actions Necessary to Close the Recommendations

The following provides a status of the recommendations and the actions necessary to close them.

1. **Unresolved.** SBA management concurred with our recommendation, stating the revised grants management policy included the recommended procedures.¹⁰ Specifically, management referenced requirements for the program office to provide an application checklist, used as the quality control checklist, itemizing the required documents in the grant application submission. Management also referenced requirements for the completed application checklist review to be maintained as part of the official Federal assistance file. While management asserted that it had completed the corrective action, its response did not specify the system of controls it plans to use to monitor that pre-award documents are maintained in the official Federal assistance file. This recommendation can be closed once management provides evidence of a quality control checklist or other control mechanism to monitor that pre-award documents are maintained in the official Federal assistance file.
2. **Unresolved.** SBA management concurred with our recommendation, stating that the revised grants management policy ensured oversight and compliance of the technical and evaluation process by requiring OGM to participate in the TEP merit review process for grants it directly manages. SBA management asserted that it had completed the corrective action. OIG agrees that the revised procedures provide more substantial guidance on selecting TEP members and require OGM officials to oversee the TEP process, however, it does not contain procedures on how OGM plans to monitor whether these procedures are working as intended. This recommendation can be closed once management provides evidence of how it plans to monitor or oversee that agency officials adhere to the policy on selecting technical evaluation panel members.
3. **Unresolved.** SBA management concurred with our recommendation, stating the revised grants management policy identifies separation of duties as it relates to the TEP. SBA management's response did not address the recommendation. The revised grants management policy includes similar language as the prior policy. Specifically, the procedures do not provide clear guidance to establish proper safeguards, to include separation of duties, when officials with oversight responsibility of any applicant during the grant lifecycle are required to serve on the TEP. OIG maintains its position that grants management officials should establish clear guidance on how to sufficiently separate the duties to safeguard the merit review process. This recommendation can be closed once management provides evidence that it revised the grants management policy to include

¹⁰ SBA revised its grants management Standard Operating Procedure 00 18 01, Federal Assistance Policy Directive, effective September 24, 2019.

specific guidance for separating duties when officials with oversight responsibility are required to serve on a TEP.

4. **Resolved.** SBA management concurred with our recommendation, stating that Arsenal amended its yearly and quarterly goals for the 2020 cooperative agreement period, and it required Arsenal to report its third quarter and year end performance goals. SBA management also stated that the performance reports will include narratives and, if applicable, justifications related to progress made toward proposed goals and corrective actions. Additionally, the VBOC Director will provide timely written feedback on all reports. Management plans to complete final action on this recommendation by September 30, 2020. This recommendation can be closed once management provides evidence of Arsenal's established quarterly goals, demonstrates that it enforced the reporting requirements, and implemented the quarterly report and feedback template.
5. **Resolved.** SBA management concurred with our recommendation and plans to review quarterly reports to ensure VBOCs are meeting their performance goals, and reimbursement requests to ensure payment is consistent with actual performance and activities. SBA management also plans to withhold reimbursements if grant activity and performance are not consistent with grant regulations, activities or projected performance. Management plans to complete final action on this recommendation by September 30, 2020. This recommendation can be closed once management provides evidence that it performed reconciliations between actual performance results and proposed goals, implemented the quarterly report and feedback template, and maintained the reconciliation documentation and quarterly report and feedback templates in the official Federal assistance file.
6. **Resolved.** SBA management concurred with our recommendation and plans to review quarterly reports to ensure VBOCs are meeting performance goals and it will withhold reimbursements if activity and performance are not consistent with grant regulations, activities, and projected performance. Management plans to complete final action on this recommendation by September 30, 2020. This recommendation can be closed once management provides evidence of quarterly report reviews.
7. **Resolved.** SBA management concurred with our recommendation, stating it is currently reviewing the expenditures for the \$10,168 of unapproved budget transfers for allowability, plans to summarize its findings, and issue corrective actions if needed. Management plans to complete final action on this recommendation by September 30, 2020. This recommendation can be closed once management provides evidence of its review, summary of findings, and corrective actions.
8. **Resolved.** SBA management concurred with our recommendation and plans to use a tracking sheet to track reimbursement requests for all VBOCs starting with the 2020 cooperative agreement period. Management plans to complete final action on this recommendation by September 30, 2020. This recommendation can be closed once management provides evidence that it implemented the tracking sheet.
9. **Resolved.** SBA management concurred with the recommendation and plans to review financial examination report findings and recommendations beginning with the 2020 cooperative agreement period. Additionally, management plans to provide guidance on implementing the required recommendations and a timeline for completion with input from OGM and the Office of General Counsel. Management plans to complete final action on this

recommendation by September 30, 2020. This recommendation can be closed once management provides evidence that it issued guidance and implemented procedures to enforce financial examination results.

Appendix I: Objectives, Scope, and Methodology

Our objectives were to determine whether SBA (1) awarded Arsenal's 2016 and 2018 cooperative agreements in accordance with the applicable federal laws, regulations, and other guidance, and (2) ensured that Arsenal complied with the 2018 cooperative agreement financial and performance requirements.

In conducting this audit, we interviewed SBA officials from OGM and OVBD and conducted a site visit to Arsenal in Watervliet, NY. We also reviewed applicable federal laws and regulations and SBA policies and procedures. To determine whether SBA awarded Arsenal's cooperative agreement in accordance with applicable federal laws, regulations, and other guidance, we obtained and reviewed documentation such as the funding opportunities, risk assessments, conflict of interest forms, technical proposals, and TEP evaluation documentation. To determine whether SBA ensured that Arsenal complied with the cooperative agreement performance and financial requirements, we reviewed Arsenal's 2018 cooperative agreement terms and conditions. We reviewed the quarterly performance reports to determine if Arsenal reported the required information. We also reviewed the B2B class schedules and attendance sheets to verify Arsenal's participation. Further, we reviewed performance data such as counseling hours, number of people trained, and B2BR classes held. We compared Arsenal's quarterly financial reports to the budget and selected 84 transactions from the general ledger to determine whether costs were allowable, allocable, and reasonable.

We conducted this audit from June 2019 to January 2020, in accordance with generally accepted government standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provided a reasonable basis for our findings and conclusions based our audit objectives.

Use of Computer-Processed Data

We relied on computer-processed data provided by SBA officials and Arsenal personnel. Specifically, we obtained pre-award, post-award, performance, and financial data. For the performance data, we compared the data reported in the quarterly reports to data reported in Neoserra, the VBOC performance management database, and source documentation such as attendance sheets and Excel spreadsheets that track counseling hours. While examining information that supported performance reporting, we identified inconsistencies between data contained in Arsenal's Neoserra reports and source documentation. Specifically, the data regarding the number of people trained and number of contracts won did not match. We also found a discrepancy between the number of B2B classes reported in Neoserra and the number of classes reported based on attendance sheets that we reviewed, as well as discrepancies between the B2B and B2BR attendance sheets and the number of class attendees reported in Neoserra. As a result of these discrepancies, we relied on the data provided in the attendance sheets instead of data reported in the quarterly performance reports and Neoserra reports to assess Arsenal's performance.

For the financial examination, we relied on Arsenal's general ledger provided in a Microsoft Excel workbook by Arsenal personnel. We tested the reliability of transaction-level data in the general ledgers by comparing accounting entries in the general ledger to source documents. As a result, we believe the financial information was reliable for purposes of this audit.

Review of Internal Controls

OMB A-123 provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. According to 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.¹¹ During our review of SBA's administration and management of the cooperative agreement with Arsenal, we identified deficiencies in SBA's pre-award procedures and oversight of Arsenal's cooperative agreement performance and financial requirements. Specifically, SBA did not maintain required pre-award documentation to justify their decision in awarding the 2016 and 2018 cooperative agreements to Arsenal. Additionally, program officials did not ensure that Arsenal fully complied with the cooperative agreement performance and financial requirements. We made recommendations in this report to address these deficiencies.

¹¹ OMB Circular A-123, Management's Responsibility for Internal Control (July 15, 2016).

Appendix II: Questioned Costs

Table 3. OIG Schedule of Questioned Costs for the 2018 Cooperative Agreement with Arsenal¹²

Description	Amount	Explanation
Unallowable Expenses	\$10,168	Unapproved Budget Revisions
Total Questioned Costs	\$10,168	

Source: Generated by OIG based on OIG's analysis of Arsenal's 2018 Notice of Award and quarterly financial reports.

¹² Questioned costs are expenditures that are not supported by adequate documentation at the time of the audit or otherwise do not comply with legal, regulatory, or contractual requirements.

SBA

EXECUTIVE DIRECTOR
OFFICE OF EXECUTIVE MANAGEMENT,
INSTALLATIONS AND SUPPORT SERVICES

ASSOCIATE ADMINISTRATOR,
OFFICE OF VETERANS BUSINESS
DEVELOPMENT

RESPONSE TO AUDIT REPORT



March 09, 2020

MEMORANDUM

To: The Honorable Hannibal M. Ware, Office of Inspector General
From: Seán F. Crean, Executive Director, Office of Executive Management, Installations and Support Services
Larry Stubblefield, Associate Administrator, Office of Veteran’s Business Development
Subj: Agency Comments to Draft Report “Audit Of SBA’S Cooperative Agreement With Arsenal Business And Technology Partnership’s Veterans Business Outreach Center” – Project Number 19005

Thank you for the opportunity to respond to the Draft Report “Audit Of SBA’S Cooperative Agreement With Arsenal Business And Technology Partnership’s Veterans Business Outreach Center” (Project Number 19005). The objective of the review was to determine whether SBA (1) awarded Arsenal’s 2016 and 2018 cooperative agreements in accordance with applicable federal laws, regulations, and other guidance, and (2) ensured that Arsenal complied with the 2018 cooperative agreement financial and performance requirements. The respective Offices of Executive Management, Installations and Support Services (OEMISS) and Veterans Business Development (OVBD) concur with the nine (9) OIG recommendations.

Recommendation actions for the Office of Executive Management, Installations and Support Services

Recommendation 1: Implement procedures to include a quality control checklist to ensure that all documentation related to the award of the cooperative agreement is maintained in the official grant file.

Explanation of Proposed Action: Concur. Revised policy with recommended procedures established. Per SOP 00-18-01 Federal Assistance Policy Directive, Section # 9 “Federal Entity Applicant Review Process” the program office shall provide an application checklist, used as the quality control checklist, itemizing the required documents in the grant application submission. Section #9(a)(4) states, once completed, the Application Checklist review will become part of the official Federal assistance file.

Projected Completion Date: Completed.



Recommendation 2: Implement controls to ensure that grants management officials effectively oversee that agency officials select technical evaluation panel members in accordance with grants management policy.

Explanation of Proposed Action: Concur. Revised Policy established. Per SOP 00-18-01 Federal Assistance Policy Directive, Section #9 (g)(2) “Technical Evaluation Panel (TEP) – TEP Membership” The Office of Grants Management shall participate in the TEP merit review process for those grants it directly manages as a non-voting member. This ensures oversight and compliance of the process.

Projected Completion Date: Completed

Recommendation 3: Revise the grants management policy to require that agency officials establish safeguards, to include separation of duties, when officials with oversight responsibility of any applicant during the grant lifecycle are required to serve on the Technical Evaluation Panel and maintain documentation in the official grant file.

Explanation of Proposed Action: Concur. Revised policy established. Per SOP 00-18-01 Federal Assistance Policy Directive, Section #9 (g)(2)(a – e) “Technical Evaluation Panel (TEP) – TEP Membership” identifies separation of duties as it relates to the Technical Evaluation Panel and maintenance of the official grant file.

Projected Completion Date: Completed

Recommendation actions for the Office of Veterans Business Development

Recommendation 4: Require Arsenal to establish quarterly goals for its performance measures, enforce cooperative agreement terms and conditions requirement to provide justification for not achieving quarterly goals and propose corrective actions, and implement the quarterly report and feedback template prior to exercising the next cooperative agreement option year.

Explanation of Proposed Action: Concur. 1) Arsenal has amended their yearly/quarterly goals for the FY20 grant period (May 1, 2020-April 30, 2021). (2) Arsenal will be providing 3rd Quarter (due February 29, 2020) and year end (Due May 30, 2020) updates on their quarterly/yearly goal numbers. Reports will be required to include narratives and/or justifications related to progress made toward proposed goals and corrective actions, if needed. (3) Starting with the FY19 3rd Quarter Reports, the VBOC Director will provide written feedback on all reports within 30 days of the end of the quarterly report due date. Feedback on FY19 1st, 2nd, 3rd Quarter Reports will be completed by March 30, 2020. Feedback Template Provided

Projected Completion Date: September 30, 2020



Recommendation 5: Reconcile actual performance results with proposed goals on a quarterly basis, document the reconciliation, provide feedback to Arsenal using the quarterly report and feedback template, and maintain the documentation as part of the official cooperative agreement file.

Explanation of Proposed Action: Concur. (1) Quarterly reports will be reviewed to ensure VBOCs are meeting their performance goals and reimbursement requests will be reviewed to ensure payment is consistent with actual performance and activities. (2) Reimbursements will be withheld if grant activity and performance are not consistent with grant regulations, activities and/or projected performance.

Projected Completion Date: September 30, 2020

Recommendation 6: Require program officials to enforce the cooperative agreement terms and conditions to withhold reimbursements if Arsenal does not provide justifications and corrective action when it does not achieve its quarterly goals.

Explanation of Proposed Action: Concur. 1) Quarterly reports will be reviewed to ensure VBOCs are meeting their performance goals and reimbursement requests will be reviewed to ensure payment is consistent with actual performance and activities. (2) Reimbursements will be withheld if grant activity and performance are not consistent with grant regulations, activities and/or projected performance.

Projected Completion Date: September 30, 2020

Recommendation 7: Review the expenditures for the \$10,168 transfer of funds to ensure these costs are allowable and document the rationale for approving the transfer.

Explanation of Proposed Action: Concur. (1) Review of the expenditures is in process and will be completed by March 30, 2020. (2) Summary of findings and corrected actions, if needed, will be available by April 6, 2020.

Projected Completion Date: September 30, 2020

Recommendation 8: Develop a tracking mechanism to monitor Arsenal's cumulative reallocation of funds to ensure it does not exceed the allowable amount and enforce that Arsenal comply with the terms and conditions for reporting expenditures that exceed their budgeted cost categories.

Explanation of Proposed Action: Concur. (1) All VBOC funding allocations are reviewed, at a minimum, on a quarterly basis when they submit their quarterly reports. Some VBOCs are



reviewed more frequently if they're on a monthly reimbursement schedule. All reimbursement requests are reviewed and compared to the initial grant year allocation request & budget categories to ensure proper use, movement between budget categories and draw down of funds. (2) The attached tracking sheet will be used to track reimbursement requests for all VBOCs starting May 1, 2020, the beginning of the 2020 grant year.

Projected Completion Date: September 30, 2020

Recommendation 9: Implement procedures to ensure program officials enforce financial examination results.

Explanation of Proposed Action: Concur. (1) Starting May 1, 2020, the beginning of the 2020 VBOC grant year, financial examination report findings & recommendations will be reviewed by the GOTR, VBOC Program Director and briefed to the OVBD AA to ensure recommendations are consistent with federal & SBA grant procedures and process. (2) VBOC Program Director & GOTR will provide guidance on implementing the required recommendations and a timeline for completion. (3) The VBOC Program Director & GOTR will request input and guidance from the Office of Grants Management (OGM) and Office of General Counsel (OGC).

Projected Completion Date: September 30, 2020