



U.S. SMALL BUSINESS ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL  
Washington, DC 20416

<b>AUDIT REPORT</b>
<b>Issue Date: January 6, 2005</b>
<b>Report Number: 05-08</b>

TO: Sharon Gurley  
Director, Office of Procurement & Grants Management

FROM: Robert Seabrooks  
Assistant Inspector General for Auditing

SUBJECT: Single Audit of the [FOIA ex. 4]

We identified that a single audit report has been processed by the Federal Audit Clearinghouse (FAC) from receipt of the [FOIA ex. 4] for the year ended fiscal year 2003. The audit was prepared by Secret & Shield, A.C. Certified Public Accountants.

We are attaching excerpts from the subject audit report pertaining to findings and recommendations for your action in accordance with SOP 20 35, "Audit Follow up System". The auditee has included a corrective action plan. A determination should be made by your office that all deficiencies have been corrected. This determination should be in writing, and along with other appropriate documentation, should be available for review by appropriate officials.

Under SOP 20-35, you have a maximum of 80 calendar days from the date of this memorandum to decide on the actions that the agency proposes to take on each audit finding and recommendation and complete the Recommendation Action Sheet (SBA Form 1824) with your management decision. The Office of Inspector General must concur with your management decision before it may be issued as a final determination and is implemented. The SOP prescribes procedures for handling any disagreements this office may have with the proposed management decision.

Also please provide a copy to us when the audit determination letter is sent to the auditee and include the above audit report number for all correspondence relating to this audit.

### Summary of Finding and Questioned Cost

As described in finding number 2003-3, 2003-4, and 2003-6 in the accompanying excerpt of the schedule of findings and questioned costs, [FOIA ex. 4] did not comply with compliance requirements regarding disbursements documentation, budget overruns, property records management, requirements for prior approval or asset purchases in excess of \$5,000 and timely reporting that are applicable to [FOIA ex. 4]

Audit Finding Number	Questioned Costs	OIG Recommendation Nr.
2003-3	\$47,806.00	05-01
2003-4	\$120,000.00	05-02
2003-6	\$10,400.00	05-03
Total Questioned Costs	\$178,206.00	

#### Finding 2003-3

During compliance testing of disbursements, auditors noted eleven items that grantees could not provide adequate supporting documentation and questioned cost of \$47,806.49. ( See Exhibit A)

Action Taken – Grantee stated that the necessary procedures for documenting and filing of financial information have been initiated.

OIG Recommendation 05-01

We recommend that the Director of Procurement and Grant Management (OPGM) to request the grantee to provide supporting documentation for the \$47,806.49 questioned costs or obtain a refund of the unsupported costs.

#### Finding 2003-04

Grantee exceeded the budgeted amount by \$120,000.

Action Taken – Grantee stated that steps have been initiated to see that all correspondence is filed in a secure location so that compliance with grant reporting requirements can be documented.

OIG Recommendation 05-02

We recommend that the Director of Procurement and Grant Management (OPGM) to require the grantee to provide justification for the \$120,000 amounts that exceeded the budget and/or obtain a refund.

**Finding 2003-06**

[FOIA ex. 4] purchased computer equipment for \$10,400 without prior SBA approval.

Action Taken – Grantee stated internal controls have been initiated to facilitate timely filings of all grant reporting requirements.

**OIG Recommendation 05-03**

We recommend that the Director of Procurement and Grant Management (OPGM) to determine if [FOIA ex. 4] purchase of computer equipment for the sum of \$10,400 was reasonable and allowable or obtain a refund of the unapproved costs for computer equipment.

Drafted By: James E. Foreman

Date: January 4, 2005

CLEARED BY:

[FOIA ex. 6]

~~Jeff Brindle, Director of IT & FM Group~~

1/8/05  
Date

Bcc:

Chron File  
James E. Foreman  
Jeff Brindle  
Darryl Hairston  
IG

**Exhibit A**

[FOIA ex. 4]  
 Disbursements without adequate documentation  
 FYE June 30, 2003

<b>Check Date</b>	<b>Check Number</b>	<b>Payee</b>	<b>Amount</b>	<b>Explanation</b>
8/26/02	1944	Miners and Merchants Bank	11,306.70	No documentation located except cancelled check.
8/16/02	458	Richter's Maplehouse	1,284.80	No general ledger account listed.
6/30/03	1000	Pictorial histories	302.45	No purchase order.
12/6/02	246	Nashville Wraps	109.92	No purchase order.
11/6/02	134	Labyrinth Art Class	435.00	No general ledger account listed.
10/10/02	1989	Postmaster	500.00	No documentation located except cancelled check.
11/6/02	127	Pamela Grandstaff	119.35	No documentation located except cancelled check.
12/6/02	243	Country living	30,000.00	No documentation located except cancelled check.
01/17/03	611	Elkins Distributing Company	27.56	No documentation located except cancelled check.
03/18/03	786	Blackwater Bikes	21.19	No documentation located except cancelled check.
06/06/03	910	Mountain State Blue Cross	3,699.52	No documentation located except cancelled check.
		<b>Total Question Costs</b>	<b>\$47,806.49</b>	

Source: Data provided by Secret & Shields, A.C. Certified Public Accountants

[FOIA ex. 4]  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
YEAR ENDED JUNE 30, 2003

Attachment 1

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of [FOIA ex. 4]
2. One reportable condition disclosed during the audit of the financial statements is reported in the Schedule of Findings and Questioned Cost and it is reported as a material weakness.
3. There were instances of noncompliance material to the financial statements of [FOIA ex. 4] which are required to be reported in accordance with Government Auditing Standards that were disclosed during the audit.
4. One reportable condition in internal control over major federal award programs disclosed during the audit is reported in the Schedule of Findings and Questioned Cost. This condition is reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for [FOIA ex. 4] expresses a qualified opinion on the major federal program.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as major program was US Small Business Administration CFDA 59.00.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. [FOIA ex. 4] did not qualify as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

2003-1 General

Condition: We noted the following matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants.

Criteria: One person performed most of the accounting and financial duties. As a result, many of those aspects of internal accounting control which rely upon an adequate segregation of duties were, for all practical purposes, missing in the [FOIA ex. 4] programs. However, due to the limited number of employees, complete segregation of duties is not feasible.

[FOIA ex. 4]  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
YEAR ENDED JUNE 30, 2003

Effect: A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amount that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. This lack of segregation of duties could also adversely affect the Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Cause: The above situation resulted from the [FOIA ex. 4] limited number of employees responsible for internal accounting control.

Recommendation: We recognize that the [FOIA ex. 4] is not large enough to make the employment of additional persons for the purpose of segregating duties practicable from a financial standpoint, but we are required, under our professional responsibilities, to call the situation to the [FOIA ex. 4] attention.

FINDINGS AND QUESTIONED COST – MAJOR FEDERAL AWARDS AUDIT

Small Business Administration  
Program CFDA No: 59.000

2003-2 General – All Federal Programs

Condition: We noted the following matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants.

Criteria: One person performed most of the accounting and financial duties. As a result, many of those aspects of internal accounting control which rely upon an adequate segregation of duties were, for all practical purposes, missing in the [FOIA ex. 4] programs. However, due to the limited number of employees, complete segregation of duties is not feasible.

Effect: A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amount that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. This lack of segregation of duties could also adversely affect the Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Cause: The above situation resulted from the [FOIA ex. 4] limited number of employees responsible for internal accounting control.

[FOIA ex. 4]  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
YEAR ENDED JUNE 30, 2003

Recommendation: We recognize that the [FOIA ex. 4] is not large enough to make the employment of additional persons for the purpose of segregating duties practicable from a financial standpoint, but we are required, under our professional responsibilities, to call the situation to the [FOIA ex. 4] attention.

Small Business Administration  
Program CFDA No: 59.000

2003-3 Federal Awards No: [FOIA ex. 2, 4] – Year ended September 24, 2003

Condition: During compliance testing of disbursements, we noted that seven disbursements had no documentation except cancelled checks. We also noted that two disbursements had no purchase orders and two disbursements were not assigned general ledger account numbers.

Cause: Possible cause may be the recent turnover of management and supervisors in charge of accounting records and the fact that some of the disbursements were controlled at another location.

Criteria: SBA 2002 grant, Section 29, II, P (1), requires the Recipient to maintain complete and accurate records including supporting documentation to support and facilitate any thorough financial and/or program audit.

Effect: An audit of this award could result in the disallowance of the cost and the establishment of a debt due to the government.

Recommendation: We recommend [FOIA ex. 4] follow prescribed procedures for documenting and filing of financial information.

	Number	Dollars
Population Size	1329	\$ 1,569,014
Items Tested	50	111,534
Items Not in Compliance	11	47,195
<hr/>		
Questioned cost:		\$ <u>47,195</u>

Small Business Administration  
Program CFDA No: 59.000

2003-4 Federal Awards No: [FOIA ex. 2, 4] – Year ended September 24, 2003

Condition: During our testing of performance reports, we noted one instance where actual expenditures materially exceeded the budgeted amount: Specifically, advertising expenditures (actual - \$220,000, budget - \$100,000). We were unable to document an explanation for this cost overrun on the performance report.

[FOIA ex. 4]  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
YEAR ENDED JUNE 30, 2003

Cause: As of the date of this report, information on these variances had not been made available to us.

Criteria: The SBA 2002 grant requires in Section 29, II, R 3(d) that an explanation of cost overruns by object cost category be submitted in addition to any required financial reports.

Effect: An audit of this award could result in the disallowance of the cost and the establishment of a debt due to the government.

Recommendation: We suggest that all records be kept of all correspondence between the grant administrators and the [FOIA ex. 4] staff so compliance with grant requirements can be documented. We also suggest that a periodic review of these expenditures be documented.

Small Business Administration  
Program CFDA No: 59.000

2003-5 Federal Awards No: [FOIA ex. 2, 4] – Year ended September 24, 2003

Condition: During the course of our audit, we were unable to locate property records that complied with requirements of OMB Cir.A-110.34.

Cause: No formal accounting policies requiring property record management in accordance with OMB requirements exist at the time of this report.

Criteria: OMB Cir.A-110.34, (f)(1)(i) requires a description, manufacturer's serial number, model, acquisition date, information on federal participation, location of equipment and unit acquisition cost.

Effect: An audit of this award could result in the disallowance of the cost and the establishment of a debt due to the government.

Recommendation: We suggest that proper record keeping be emphasized in all future transactions. We would also recommend that formal policies be adopted by management to reduce these risks in the future.

Small Business Administration  
Program CFDA No: 59.000

2003-6 Federal Awards No: [FOIA ex. 2, 4] - Year ended September 24, 2003

Condition: During our testing of grant disbursements we noted the [FOIA ex. 4] purchase of the \$10,400 computer server and back-up had not received prior SBA approval.

Cause: No formal accounting policies requiring property record management in accordance with OMB requirements exist at the time of this report

[FOIA ex. 4]  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
YEAR ENDED JUNE 30, 2003

Criteria: SBA Grant, Section 29, II, E (4) requires notification 30 days in advance for all equipment purchases in excess of \$5,000.

Effect: An audit of this award could result in the disallowance of the cost and the establishment of a debt due to the government.

Recommendation: We suggest that staff members be familiar with major grant provisions and monitoring controls be implemented to see that these provisions are followed.

Small Business Administration  
Program CFDA No: 59.000

2003-7 Federal Awards No: [FOIA ex. 2, 4] – Year ended September 24, 2003

Condition: During our testing of grant reporting requirements, we noted that the final (fourth quarter) report was not timely filed with SBA.

Cause: We were unable to obtain a satisfactory explanation for the untimely filing of this report.

Criteria: SBA 2002 Grant, Section 29, II, S (3) requires the submission of Form 269 (Financial Status Report) and Form 272 (Federal Cash Transaction Report) 90 days after the end of each 12-month budget period.

Effect: SBA 2002 Grant, Section 29, II, R (1) states that the SBA may withhold or delay requested payments if reports are not received or are deemed inadequate.

Recommendation: We suggest that policies and procedures be implemented to facilitate timely filings of all grant reporting requirements.

CORRECTIVE ACTION PLAN

March 15, 2004

Department of Commerce  
Small Business Administration

[FOIA ex. 4] respectively submits the following corrective action plan for the year ended June 30, 2003.

Independent public accounting firm:

SECRET & SHIELDS, A.C.  
333 West Main Street  
Clarksburg, West Virginia 26301-2947

Audit Period – Year Ended June 30, 2003

The findings from the year ended June, 30, 2003 schedule of findings and questioned cost are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

2003-1- General

Condition: We noted the following matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. One person performed most of the accounting and financial duties. As a result, many of those aspects of internal accounting control which rely upon an adequate segregation of duties were, for all practical purposes, missing in the [FOIA ex. 4] programs.

Recommendation: Segregation of duties is normally difficult to accomplish within a small organization and due to the limited number of employees, complete segregation of duties is not feasible, but management should be ever mindful of areas that can easily be improved.

Action Taken: We concur with the recommendation. This situation dictates that the Board of Directors remains involved in the financial affairs of the [FOIA ex. 4] to provide oversight and independent review functions.

## FINDINGS AND QUESTIONED COST – MAJOR FEDERAL AWARDS AUDIT

Small Business Administration  
Program CFDA No: 59.000

### 2003-2 General – All Federal Programs

Condition: We noted the following matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. One person performed most of the accounting and financial duties. As a result, many of those aspects of internal accounting control which rely upon an adequate segregation of duties were, for all practical purposes, missing in the [FOIA ex. 4] programs.

Recommendation: Segregation of duties is normally difficult to accomplish within a small organization and due to the limited number of employees, complete segregation of duties is not feasible, but management should be ever mindful of areas that can easily be improved.

Action Taken: We concur with the recommendation. This situation dictates that the Board of Directors remains involved in the financial affairs of the [FOIA ex. 4] to provide oversight and independent review functions.

Small Business Administration  
Program CFDA No: 59.000

### 2003-3 Federal Awards No: [FOIA ex. 2, 4] – Year ended September 24, 2003

Condition: During compliance testing of disbursements, we noted that seven disbursements had no documentation except cancelled checks. We also noted that two disbursements had no purchase orders and two disbursements were not assigned general ledger account numbers.

Recommendation: We recommend [FOIA ex. 4] follow prescribed procedures for documenting and filing of financial information.

Action Taken: We concur with the recommendation and have initiated the necessary procedures for documenting and filing of financial information.

Small Business Administration  
Program CFDA No: 59.000

2003-4 Federal Awards No: [FOIA ex. 2, 4] – Year ended September 24, 2003

Condition: During our testing of performance reports, we noted one instance where actual expenditures materially exceeded the budgeted amount: Specifically, advertising expenditures (actual - \$220,000, budget - \$100,000).

Recommendation: We suggest that all records be kept of all correspondence between the grant administrators and the [FOIA ex. 4] staff so compliance with grant requirements can be documented. We also suggest that a periodic review of these expenditures be documented.

Action Taken: We concur with the recommendation and have initiated steps to see that all correspondence is filed in a secure location so that compliance with grant reporting requirements can be documented.

Small Business Administration  
Program CFDA No: 59.000

2003-5 Federal Awards No: [FOIA ex. 2, 4] – Year ended September 24, 2003

Condition: During the course of our audit, we were unable to locate property records that complied with requirements of OMB Cir.A-110.34 which requires a description, manufacturer's serial number, model, acquisition date, information on federal participation, location of equipment and unit acquisition cost.

Recommendation: We suggest that proper record keeping be emphasized in all future transactions. We would also recommend that formal policies be adopted by management to reduce these risks in the future.

Action Taken: We concur with the recommendation and will adopt policies that will require a description, manufacturer's serial number, model, acquisition date, information on federal participation, location of equipment and unit acquisition cost.

Small Business Administration  
Program CFDA No: 59.000

2003-6 Federal Awards No: [FOIA ex. 2, 4] - Year ended September 24, 2003

Condition: During our testing of grant disbursements we noted the [FOIA ex. 4] purchase of the \$10,400 computer server and back-up had not received prior SBA approval. SBA Grant, Section 29, II, E (4) requires notification 30 days in advance for all equipment purchases in excess of \$5,000.

Recommendation: We suggest that staff members be familiar with major grant provisions and monitoring controls be implemented to see that these provisions are followed.

Action Taken: We concur with the recommendation and have initiated a review of grant contracts to establish that we are in compliance with all current reporting requirements.

Small Business Administration  
Program CFDA No: 59.000

2003-7 Federal Awards No: [FOIA ex. 2, 4] - Year ended September 24, 2003

Condition: During our testing of grant reporting requirements, we noted that the final (fourth quarter) report was not timely filed with SBA which requires the submission of Form 269 (Financial Status Report) and Form 272 (Federal Cash Transaction Report) 90 days after the end of each 12-month budget period.

Recommendation: We suggest that policies and procedures be implemented to facilitate timely filings of all grant reporting requirements.

Action Taken: We concur with the recommendation and have initiated internal controls to facilitate timely filings of all grant reporting requirements.

If the Department of Commerce, Small Business Administration has questions regarding this plan, please call [FOIA ex. 4] Director, at 1-877-686-[FOIA ex. 2]

Sincerely,

[FOIA ex. 4]

[FOIA ex. 4, 6]

[FOIA ex. 4] Director