

SBA

SOP 90 10 6

Audit Program

Office of the Inspector General

U.S. Small Business Administration



SMALL BUSINESS ADMINISTRATION
STANDARD OPERATING PROCEDURE
National

SUBJECT:	S.O.P.		REV
	SECTION	NO.	
Audit Program	90	10	6

INTRODUCTION

1. Purpose. To establish procedures for carrying out audit responsibilities within the SBA.
2. Personnel Concerned. All non-Office of Inspector General SBA employees.
3. Authority. Inspector General Act of 1978 (5 U.S.C. App. 3), as amended.
4. SOPs Canceled. SOP 90 10 5 (dated January 16, 1998).
5. Originator. Auditing Division, Office of Inspector General.

AUTHORIZED BY:		EFFECTIVE DATE
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Inspector General		PAGE
		1

SBA Form 989 (5-90) Ref: SOP 00 23

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Chapter 1

General Overview of the Auditing Division

1. What Does the Auditing Division Do?

The Auditing Division of the Office of Inspector General (OIG) methodically conducts audits and reviews of internal SBA operations, entities and persons participating in SBA programs, and companies and other entities contracting with, or receiving grants from the SBA. The Auditing Division has the authority to audit any SBA program, functional activity, monetary transaction, program participant, grantee, or contractor doing business with the SBA. Audits promote the economical, efficient and effective operation of SBA programs and give SBA managers an objective assessment of how well their offices are carrying out programs and supporting operations. Audits are also intended to prevent and detect fraud and abuse in SBA programs and operations.

2. Under What Authority and Standards Does the Auditing Division Conduct Audits?

- a. Inspector General Act of 1978, Public Law 95-452, as amended, 5 U.S.C. App. 3.
- b. Government Auditing Standards issued by the Comptroller General of the United States (Yellow Book).
- c. Single Audit Act of 1984, 31 U.S.C. §7501 et seq., as amended (Single Audit Act).
- d. Generally Accepted Government Auditing Standards (GAGAS).

3. Who is Involved in the Audit Process and What are Their Responsibilities?

- a. Inspector General and Deputy Inspector General - Provide policy direction for all audits of SBA programs and operations.
- b. Assistant Inspector General for Auditing - Provides general management direction for audits, approves audit plans and issues audit reports.
- c. Group Directors - Manage and provide program planning and general direction for the audits conducted by their staffs.
- d. Audit Managers - Plan, schedule, review the detailed audit work, evaluate management's response to audit findings and supervise auditors.
- e. Auditors and Analysts - Conduct audits by following an audit plan that has been approved by the Assistant Inspector General for Auditing.

- f. Contractors, Non Federal and Other Government Auditors - The OIG may use public accounting firms or other Government auditors (e.g., the Defense Contract Audit Agency) to perform any audits for which the OIG is responsible. Public accounting firms may also conduct audits of SBA grants and financial assistance provided to State and local governments, nonprofit organizations, and related entities required under the Single Audit Act. The OIG shall ensure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General.

For determining when it is appropriate to use a non-federal auditor, the OIG has adopted the guidelines set forth in Office of Management and Budget Circular A-133 and the Single Audit Act.

Chapter 2

What Kinds of Audits Does the Auditing Division Conduct?

1. What are Internal Audits and Attestation Engagements?

- a. Internal Audits - These are audits of SBA functions and operations.
 - (1) Financial Statements Audits - Annually, the auditors determine whether the SBA's financial statements present fairly in all material respects the Agency's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles (GAAP).
 - (2) Performance Audits - The auditors provide information to (a) improve program operations; (b) facilitate decision-making by parties with responsibility to oversee or initiate corrective action; and (c) improve public accountability. Performance audits cover a wide variety of objectives including assessment of program effectiveness and results; economy and efficiency; internal controls; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.
- b. Attestation Engagements - The auditors may examine, review, or perform procedures agreed-upon by the auditors and the auditee on a subject matter and report on the results (see Government Auditing Standards, Ch. 2.07). Possible subjects include:
 - (1) Internal control over financial reporting;
 - (2) Compliance with specified laws, regulations, rules, contracts or grants;
 - (3) Reliability of performance measures; and/or
 - (4) Allowability and reasonableness of proposed contract amounts.

2. What are External Audits of Contracts, Grants, or Cooperative Agreements?

These are audits of participants in SBA programs, contractors doing business with the SBA, grant recipients, SBA cosponsors, and other parties outside of the SBA.

The Auditing Division conducts the following kinds of audits on contracts, grants, and cooperative agreements.

- a. Preaward Audits - The auditors conduct these audits prior to the SBA awarding contracts, grants, or cooperative agreements. Generally, the auditors will consider whether any or all three of the following conditions exist:

- (1) Whether the recipient's accounting system is adequate.
 - (2) Whether the recipient's proposed costs are reasonable.
 - (3) Whether the recipient has the resources to complete the awarded contract or grant.
- b. Incurring Costs Audits - The auditors test the recipient's accounting system to determine its capability of recording and controlling costs, and whether billed costs are properly documented and can be billed to the award. The Auditing Division conducts or contracts out the following four types of incurred costs audits.
- (1) Interim Audits - The auditors conduct this audit while the performance of work is on-going to determine whether billed costs are properly documented and can be billed to the award.
 - (2) Close-Out Audits - The auditors conduct this audit after completion of the performance of work, but prior to the SBA paying the recipient the final bill to determine whether the billed costs are reasonable, properly documented, and billable to the award.
 - (3) Indirect Cost Rates Audits - The auditors determine whether the indirect cost rate is reasonable and accurate.
 - (4) Claims Audits - The auditors conduct these audits when the Government cancels an award prior to its completion or delays the award in some way. The auditors review costs incurred as a basis for an equitable adjustment that the recipient should receive.
- c. Defective Pricing Audits - The auditors determine whether the recipient provided less than complete and accurate pricing data to the Government during price negotiation.
- d. Performance Audits - The auditors evaluate whether the recipient achieves the desired program results; operates in an effective, efficient and economical manner; and/or follows applicable laws, regulations and requirements.

Common sources for the criteria auditors use to assess and evaluate audit subjects include laws, regulations, policies, procedures, and best or standard practices.

3. What are External Audits of Individuals or Entities Participating in an SBA Program?

These are audits, including those carried out under the Single Audit Act, to determine whether SBA program participants:

- a. Present financial information accurately and properly;

- b. Comply with applicable laws, regulations and requirements;
- c. Maintain adequate internal controls;
- d. Safeguard assets;
- e. Achieve the desired program results; and/or
- e. Operate in an effective and economical manner.

4. **Will the Auditing Division Audit an SBA Program that is Being Audited by the Government Accountability Office (GAO)?**

As stated in the in the Inspector General Act § 4(c), the Audit Division shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and insuring effective coordination and cooperation.

Chapter 3

What is Involved in an Audit?

1. What are the Stages of an Audit?

- a. Audit Selection - Each year, the Auditing Division issues a notice requesting all SBA employees to submit audit suggestions for the following fiscal year. Division management officials consider these suggestions in developing the annual audit plan for the Auditing Division. In addition, the need for some audits may arise during the course of the year as a result of an allegation of wrongdoing, a request from a program manager, the Inspector General, SBA Administrator, or other senior policy official, or a contractor's completion of a contract with the SBA. The Auditing Division assesses the suggested audit subjects for risk and selects those that appear to present the greatest risk to the SBA.
- b. Survey - The auditors take a preliminary look at the program, operation or participant. They gather and evaluate information to determine the subject and performance aspects of the audit, and the sources and reliability of information needed to carry out the audit. (Auditors may not need to conduct surveys on standardized audits with pre-approved audit plans, e.g., an audit of a Small Business Development Center.)
- c. Developing the Audit Plan - Upon completing the survey, the auditors determine which area(s) of the program or operations to review and then develop the audit plan, which determines:
 - (1) The specific questions (objectives) the auditors will answer during the audit;
 - (2) The audit steps the auditors will complete to answer these questions; and
 - (3) The activities and time periods the audit will cover (scope).

The Assistant Inspector General for Auditing approves each audit plan prior to initiation of the audit.

- d. Review Phase - The auditors collect, analyze, interpret, and document such information, as necessary, to complete the audit objectives and the specific audit steps in the audit plan to support the audit results.
- e. Report Writing - The auditors write a draft audit report containing the objectives, scope, methodology and audit results which include, audit findings, conclusions and recommendations for correcting the deficiencies, if any, noted in the findings.
- f. Incorporation of Management Comments - Prior to issuing the report, the Auditing Division provides a draft report to the auditee and responsible SBA management officials for review and oral or written comments. Written comments are usually preferred (see Government Auditing Standards, Ch. 5.28). The purpose of sharing the draft is to obtain feedback on the accuracy of the facts presented and whether

management concurs with the recommended actions needed to resolve the findings. The auditors analyze any comments, modifying the report as the OIG deems appropriate. Written comments are generally included as appendices to the report. In the body of the report, the auditors:

- (1) Summarize the comments;
 - (2) Discuss the Auditing Division's response to management's comments; and
 - (3) Discuss what changes, if any, were made to the report.
- g. Report Issuance - The Assistant Inspector General for Auditing signs and distributes the report.
- h. Management Decision and Action After Report Issuance - The SBA program manager to whom the report is addressed is responsible for responding to the report's recommendations and informing the Auditing Division of his/her proposed decision. The management decision is recorded on SBA Form 1824, "Recommendation Action Sheet." (See SOP 20 35, "Audit Follow-up System.") The Auditing Division can either concur or non-concur with the management decision.
- (1) Concur - Both parties indicate concurrence by signing the "Recommendation Action Sheet." The SBA's Office of the Chief Financial Officer tracks, through the Audit Follow-up system, the management decision until final action is completed.
 - (2) Non-concur - The Auditing Division works with the responsible program manager to develop a management decision acceptable to both parties. If the parties cannot agree, the Auditing Division may escalate the decision to progressively higher management levels until a resolution is reached. The Deputy Administrator is the final management level for decision-making, and his/her decision is final (see SOP 20 35). The Inspector General may report any disagreement with a final decision in the OIG's Semiannual Report to Congress.

The Auditing Division tracks the status of management decisions until final actions occur, and reports on this status in the OIG's Semiannual Report to Congress. Agency managers will provide the OIG with the details of the final actions for those recommendations which are designated as significant by the Auditing Division. The Auditing Division will note on the "Recommendation Action Sheet" whether it must review the final action before it is accepted (see SOP 20 35). The Agency reports on the status of final actions in its annual Performance and Accountability Report to Congress.

2. What is an Audit Finding?

In audit reports, the Auditing Division presents results in the form of "findings." Each finding generally contains the following elements:

- a. Condition - What the auditors found.
- b. Criteria - What the condition should be. Ordinarily, these are specified in laws, regulations, or procedures.
- c. Cause - Why the condition is not the same as the criteria (i.e., why the problem occurred or exists).
- d. Effect - The adverse impact that occurs when the condition differs from the criteria.
- e. Recommendation - A way to address the cause so that the condition and the criteria are the same.

If implementation of a recommendation will result in a monetary savings, the finding will include the actual amount to be saved and how the auditors derived this amount.

3. **Who Receives Copies of the Audit Report?**

- a. Initial Distribution Outside the Office of Inspector General.
 - (1) The Administrator and Deputy Administrator receive a copy of the report if the Inspector General determines that the findings are significant.
 - (2) The SBA office(s) that is the subject of the audit or, in the case of external audits, the SBA office(s) having oversight responsibility over the audit subject receives a copy. In this latter case, the SBA office having oversight responsibility shall provide a copy of the audit report to the audited entity, along with the SBA's request for actions by the auditee in response to the report's recommendations.
 - (3) The Office of General Counsel (OGC).
 - (4) The Office of the Chief Financial Officer (OCFO).
 - (5) The GAO.
 - (6) Congressional committees that the Auditing Division has determined have a need to receive the report (Congressional and Legislative Affairs will be notified of all reports forwarded to Congress).
 - (7) Any other Government office that the Auditing Division has determined has a need to receive the report.
 - (8) The public through the OIG's website (subject to review and redaction by the OIG's Counsel Division).
- b. Freedom of Information Act (FOIA) Requests - Anyone may request an audit report under the provisions of the FOIA (5 U.S.C. §552 et seq.). In responding to a FOIA

request, the OIG's Counsel Division, in consultation with the Auditing Division, will determine what information is exempt from disclosure (e.g., information of a competitive business nature or information which, if released, would violate an individual's privacy), and redact it from the copy being released.

c. Other Requests - To the extent authorized by law, the OIG may provide unredacted audit reports in response to requests from the following:

- (1) Congressional committees;
- (2) Law enforcement entities, including other Offices of Inspector General; and/or
- (3) Government offices with a need to know the information contained in the report.

The OIG's Counsel Division is consulted prior to the release of unredacted reports to any of these entities.

d. Release of Audit Reports by Report Recipients - Unredacted audit report recipients may not release the report or disclose information contained in the report to any person or entity outside of the SBA without the express written permission of the OIG, with one exception. In the case of external audits, the cognizant SBA office provides the audited entity with a copy of the report. This usually is done in conjunction with a letter from the program office that directs the entity to take corrective action (e.g., directing the participant to repay unallowable costs or to adhere to an SBA requirement).

e. Availability of Final Audit Reports - The OIG is required by the Inspector General Act to make its reports available to the public. The reports may have to be redacted to comply with the FOIA and/or the Privacy Act (5 U.S.C. §552a). The OIG also publishes a Semiannual Report to Congress covering all of its significant activities in the preceding 6 months and a Monthly Update summarizing audit activities of the previous month. Summaries and reports are available at <http://www.sba.gov/IG/igreadingroom.html>.

Chapter 4

What is My Involvement in the Audit Process?

1. Who Can Request an Audit?

Anyone, including parties outside of the SBA, can request an audit. However, this chapter only applies to SBA employees. Therefore, the use of “my,” “I” or “you” refers to SBA employees. The decision to perform an audit is at the sole discretion of the OIG. The OIG does not require a request in order to initiate an audit.

2. When Should I Request an Audit?

a. On contracts, grants, and cooperative agreements (awards) that you administer, you may request the following audits:

- (1) Pre-award;
- (2) Incurred costs; and
- (3) Defective pricing.

Even if you foresee that an outside entity, such as the Defense Contract Audit Agency, may conduct the audit, you must request the Auditing Division to conduct all audits. The Auditing Division has the responsibility for determining whether it or an outside agency will conduct the audit, and the Division makes all audit arrangements.

- b. As to SBA internal operations, you may request an audit at any time, if you believe there is a need for an independent review of your or another SBA office’s operations.
- c. As to program participants, you may request an audit at any time if you believe that a program participant is not complying with financial reporting and/or regulatory requirements or may be engaging in conduct which presents a risk to the SBA.
- d. If you have questions about a potential audit, you may call (202) 205-7203.

3. How Do I Request an Audit?

a. To request an audit, submit a memorandum to the Assistant Inspector General for Auditing with, at a minimum, the following information:

- (1) The type of audit that you are requesting (e.g., a pre-award audit);
- (2) Why you believe the audit should be performed, including a statement identifying the risk to the Agency posed by the auditee’s operations;

- (3) The name and address of the auditee if you are requesting an external audit;
 - (4) Any additional information you believe will be pertinent to the Auditing Division in determining whether the audit should be conducted;
 - (5) Appropriate supporting documentation; and
 - (6) Contact information.
- b. When requesting an audit of a contract, grant, or cooperative agreement (award), you should also include the following with your request:
- (1) Copy of the award agreement or request for proposal;
 - (2) Award number;
 - (3) Award type;
 - (4) Award amount;
 - (5) Performance period;
 - (6) Name of outside procuring activity, if applicable; and
 - (7) Legal sufficiency review obtained prior to award, if one was conducted.

4. Can I Contract for an Audit if the Auditing Division is Unable to Honor my Request for an Audit?

The Inspector General Act (5 U.S.C. App. 3, §2(1)) reserves the audit responsibility for the OIG. You may submit to the OIG a request to contract for a non-OIG contracted audit of an agency program or activity. The OIG will determine whether the contracted audit is appropriate and is responsible for ensuring that any contracted audits satisfy Government Auditing Standards (IG Act §4(b)(1)(C)).

5. What Contact Does the Auditor Have With Auditees and Others During an Audit?

- a. Entrance Conference - Before starting an internal audit, the auditors discuss the audit's purpose, scope, and other pertinent details with the responsible SBA officials. On external audits, the auditors will hold an entrance conference with an official of the audited entity. The auditors may either have an entrance conference with the SBA officials with oversight responsibility for the auditee or notify them by memorandum that an audit will be conducted.
- b. Questions and Requests for Data During the Survey and Review Phases - Auditors obtain information by asking questions, requesting information and discussing issues that arise. Auditees and SBA officials with oversight responsibility for the auditee may

comment on and clarify information that the auditors are gathering and conclusions that they are forming. By authority of the Inspector General Act, the OIG has access to all records, reports, audits, reviews, computerized data (including “read only” electronic access), documents, papers, recommendations, or other material available to the SBA which relate to programs and operations.

During the Survey and Review phases, auditors obtain information by gathering the following types of evidence:

- (1) Physical Evidence - The auditors observe people, property, and/or events.
 - (2) Documentary Evidence - The auditors obtain “created information” such as letters, contracts, accounting records, invoices and management performance information.
 - (3) Testimonial Evidence - The results of interviews and relevant oral statements in answers to questions posed by auditors.
 - (4) Analytical Evidence - The auditor computes, compares and analyzes the evidence obtained.
- c. Exit Conference - On internal audits, the Auditing Division holds exit conferences with the auditee and the responsible SBA management official after the auditors complete their field work and obtain sufficient evidence to answer the audit objectives. At these conferences, the auditors discuss preliminary audit findings and recommendations. On external audits, the auditors verify facts gathered and may discuss preliminary audit findings and potential recommendations with the auditee. Preliminary findings and recommendations may change, subject to further analysis.
- d. Comments on Draft Report - The Auditing Division provides the auditee(s) and the responsible SBA official(s) a copy of the draft audit report and requests formal written comments on its accuracy. If the audit is external, the Auditing Division may delete findings and recommendations concerning internal SBA operations that are not relevant to the external auditee from the draft report that it provides to the auditee.

6. What am I Supposed to Do if an Audit Includes My Area(s) of Responsibility?

Cooperate fully with the auditors. By authority of the Inspector General Act, the OIG has access to all records, reports, audits, reviews, computerized data (including “read only” electronic access), documents, papers, recommendations, or other material available to the SBA which relate to programs and operations. If any participant withholds records or documents needed by the auditors, the OIG may issue a subpoena for those records.

7. **How Do I Ensure that the Auditing Division has Access to All Necessary Information?**

SBA program officials must make contractors, program participants, and recipients of awards aware of their responsibility to cooperate with the Auditing Division. You must include the appropriate audit access clause set forth in the Federal Acquisition Regulation in procurement contracts (FAR 52.215-2). All other agreements must contain an audit access clause that states that a recipient's failure or refusal to cooperate in providing access to its books, records, or other relevant documents may be grounds for the SBA terminating the agreement.

8. **What are the Consequences of Not Cooperating or Being Nonresponsive to Requests of Auditors?**

Failing to provide information or providing inaccurate or misleading information is an obstruction of a Federal audit and can lead to criminal prosecution under 18 U.S.C. § 1516 and/or disciplinary action.

Appendix 1

INDEX TO FORMS AND REPORTS

Form

Paragraph

1. SBA Form 1824 (3-04), "Recommendation Action Sheet"

3-1h

Report

Paragraph

1. Draft Audit Report

3-1e & f, 4-5d

2. Audit Report

3-1g

3. Office of Inspector General Semiannual Report to the Congress

3-1h, 3-3e



**RECOMMENDATION ACTION SHEET
SBA/OIG FOLLOWUP SYSTEM**

(See SOP 20 35, "Audit Follow-up System.")

SBA PROGRAM:

REPORT TITLE, NUMBER:

REPORT ISSUE DATE:

RECOMMENDATION NO.

RECOMMENDATION				
Action Office (use SBA 6-digit code)	Management Response Due Date	Amount	Category	
		\$	<input type="checkbox"/> Questioned costs	
Amount unsupported in questioned costs:		\$	<input type="checkbox"/> Funds for better use <input type="checkbox"/> Non-monetary	
MANAGEMENT DECISION				
Management Concurrence (Explanation required below)	Target Date For Final Action	Amount	Category	
<input type="checkbox"/> Agree with recommendation <input type="checkbox"/> Partially agree <input type="checkbox"/> Disagree		\$	<input type="checkbox"/> Questioned costs disallowed <input type="checkbox"/> Agreed to funds for better use <input type="checkbox"/> Non-monetary	
Amount unsupported in costs disallowed:		\$		
<u>Explanation of proposed action(s):</u>				
Originating Official Signature:			Date:	
Approving Official Signature: (required only if partially agree or disagree)			Date:	
OIG Signature:			Date:	
FINAL ACTION				
<input type="checkbox"/> If checked by OIG, the final action for this recommendation must be reviewed by OIG before it is closed in the OCFO tracking data				
Date Final Action Completed	Disallowed Costs		Funds Put to Better Use	
	Recoveries	Write Offs	Implemented	Not Implemented
	\$	\$	\$	\$
<u>Explanation of action(s) completed:</u>				
Originating Official Signature:			Date:	
Approving Official Signature:			Date:	
OIG Signature:			[Does not indicate verification of the action]	Date:
FOR OIG USE ONLY: Management Decision Due Date:				
Performance Goal:		Performance Objective:		Performance Measure(s):

SBA Form 1824 (3/04)