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AUDIT OF 7(J) MANAGEMENT AND TECHNICAL ASSISTANCE PROGRAM COOPERATIVE AGREEMENT ADMINISTRATION ACTIVITIES

AUDIT REPORT NUMBER 2-33

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U.S. SMALL BUSINESS ADMINISTRATION
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AUDIT REPORT
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To: Fred Armendariz
Associate Deputy Administrator for Government Contracting and Business Development

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Assistant Administrator for Administration

From: Robert G. Seabrooks
Assistant Inspector General for Auditing

Subject: Audit of 7(j) Management and Technical Assistance Program Cooperative Agreement Administration Activities

We completed an audit of the 7(j) Management and Technical Assistance Program cooperative agreement administration activities. The 7(j) program provides management and technical assistance to 8(a) certified firms, small disadvantaged businesses, businesses operating in areas of high unemployment or low income, and firms owned by low income individuals. Section 7(j) of the Small Business Act authorizes SBA to provide management and technical assistance through contracts, grants and cooperative agreements to qualified service providers. Assistance includes specialized training, professional consulting and executive development in the areas of accounting and marketing, advertising, and proposal/bid preparation.

The 7(j) program received a $3.6 million appropriation in both Fiscal Year 2000 (FY 00) and Fiscal Year 2001 (FY 01). SBA provided funding to 17 service providers in FY 00 and 12 service providers in FY 01 for purposes of carrying out the program objectives. Four contract awards were made in response to Requests for Quotation and the other 25 awards were cooperative agreements made in response to unsolicited proposals.

OBJECTIVE AND SCOPE

The audit objective was to determine whether pre and post award processes associated with 7(j) program cooperative agreement awards were carried out in compliance with applicable policies and procedures to ensure the effective use of program funds.

To accomplish the audit objective, we judgmentally selected 17 awards for review, including nine awards made in FY 00 totaling approximately $2.5 million and eight awards made in FY 01 totaling approximately $2.3 million. Each of the awards was made based on an unsolicited proposal submitted for 7(j) consideration. For these awards, we obtained the project files maintained by the Office of Business Development (OBD) and the Office of Procurement and Grants Management (OPGM). We also reviewed the documentation associated with the pre and post award phases of the projects, including planning documentation, proposal reviews, award recommendations, recipient performance and financial reports, and program monitoring documentation. Specific attention was focused on the completeness, timeliness, and accuracy of program documentation, along with the effectiveness of the pre and post award processes.

Interviews were conducted with SBA officials from the Office of General Counsel (OGC), OBD, and OPGM. In addition, we reviewed SBA's internal policies and procedures and Office of Management and Budget (OMB) guidance relating to grants and cooperative agreements. Fieldwork was conducted from January 2002 through June 2002. The audit was conducted in accordance with Government Auditing Standards.

AUDIT RESULTS

We determined that the pre and post award processes associated with 7(j) cooperative agreement awards were not carried out in accordance with applicable policies and procedures or in the most effective manner. Specifically, (1) SBA's reliance on unsolicited proposals hampered its ability to effectively plan, process and approve project awards, (2) documentation associated with proposal and financial reviews was incomplete, (3) award recommendations were not properly supported, (4) legal sufficiency review issues were not resolved prior to award, and (5) program reporting and monitoring was insufficient to ensure program objectives were met. The extent of SBA's failure to follow established policies and procedures indicates a lack of sound program management, a potential material internal control weakness in the program, and abuse of the 7(j) program to award cooperative agreements to specific organizations. If not corrected immediately and the Administrator determines that a material internal control weakness exists in the program, the weakness should be reported to the President of the United States and appropriate Congressional oversight committees with proposed corrective actions in the upcoming annual internal control certification by the Administrator as required by the Federal Manager's Financial Integrity Act (FMFIA).

Finding 1: Reliance on Unsolicited Proposals Hampered SBA's Ability to Effectively Plan, Process and Approve Project Awards

OBD relied on unsolicited proposals in FY 00 and FY 01 for awarding cooperative agreements in order to provide management and technical assistance. As a result, SBA's ability to plan program delivery was limited, time available for application processing was reduced, and conditional award approvals were made. Although unsolicited proposals may be accepted, they should not be the primary vehicle to provide management and technical assistance. An OBD official stated that the use of unsolicited proposals was recently relied on due to reductions in 7(j) program funding and human resources.

Reliance on Unsolicited Proposals Limited Planning Activities

SBA's reliance on unsolicited proposals was ineffective because it limited SBA's ability to: (1) ensure proposals submitted covered all 7(j) program areas, (2) define the scope, objectives, goals, and methodologies included in proposals, (3) predict the number of proposals that would be received, and (4) establish evaluation criteria and a deadline for proposal submissions.

OBD's 7(j) unsolicited proposal guidelines state that an unsolicited proposal is a written submission to SBA for the purpose of obtaining funding to provide management and technical assistance to eligible participants. An unsolicited proposal is not submitted in response to a Government solicitation and cannot be an advance proposal for a known Agency requirement. Therefore, OBD cannot ensure unsolicited proposals will fill the needs of all program areas.

OBD's 7(j) unsolicited proposal guidelines also state that an unsolicited proposal must be independently originated and developed by the offeror and prepared without Government supervision, endorsement, direction, or direct involvement. Therefore, OBD cannot define the scope, objectives, goals and methodologies for unsolicited proposals.

Other factors limit the effectiveness of this method for program delivery. Because unsolicited proposals are not submitted in response to a competitive solicitation, OBD did not establish proposal evaluation criteria and a deadline for proposal submission. Accordingly, the number of proposals received and SBA's ability to effectively accomplish program objectives may have been limited.

Unsolicited Proposals Impacted the Time Available for Processing

Unsolicited proposals were often received by SBA near fiscal year end, resulting in reduced timeframes for application review and processing. OBD's 7(j) unsolicited proposal guidelines state that the general timeframe to complete a cost proposal evaluation is 90 days. Additionally, SBA's Standard Operating Procedure (SOP) 00 11 1, *Small Purchases, Contracts, Grants and Cooperative Agreements,* states that applications are usually due 120 days prior to the proposed beginning date of the budget period and that program officials should submit funding packages to OPGM 90 days before approved projects are to begin.

We found that actual processing timeframes were less than those recommended by SBA. Specifically, 12 of the 17 reviewed applications were dated less than 90 days before the fiscal year end. As a result, OBD provided funding packages to OPGM for award processing during the last two weeks of the fiscal year. Ten of the 17 funding packages reviewed were submitted to OPGM on September 15 or later. Further, 11 of the 17 awards were issued on September 30. As a result, awards with incomplete documentation were conditionally approved (see below). An OBD official stated there were no submission deadlines for 7(j) applications and proposals were considered for funding as long as there was sufficient time to review and process the awards.

Unsolicited Proposals Contributed to Conditional Approvals of Awards

Proposal reviews were not always completed in accordance with OBD's internal guidelines, resulting in awards with incomplete documentation being conditionally approved. OBD's 7(j) unsolicited proposal guidelines state that an unsolicited proposal must include all required information or will be returned to the offeror with a brief letter of explanation requesting additional information or clarifications. However, 10 of the 17 awards reviewed were issued pending the receipt of additional documentation and resolution of problem areas, including

- submission of an acceptable budget,
- documentation of project milestones,
- definition of eligibility requirements for project participants,
- explanation of the limited number of businesses to be assisted,
- explanation of the use of funding toward the achievement of the program objective, and
- answers to questions relating to project outcomes.

In memorandums dated September 15, 2000, and September 21, 2001, from the Associate Administrator for Business Development to the Director of OPGM, OBD acknowledged that conditional approvals resulted from late submissions of unsolicited proposals. The memorandums categorized three unsolicited proposals as "very brief" and "requiring additional information" and stated that due to the limited time available and the prior history of receiving requested information from the awardee, the Notice of Awards (NOA) should be issued with detailed lists of advance understandings. Additionally, the memorandums stated that many of the items listed were addressed in prior year NOAs but the issues were not enforced and the awardee received funds anyway. As a result of one recipient being required to answer advanced understandings, two projects were delayed and periods of performance had to be extended a full year.

Recommendations:

We recommend that the Associate Deputy Administrator for Government Contracting and Business Development ensure:

1A. Cooperative agreements and grants are solicited to allow for proper planning for program delivery, timely processing of applications, and awards without conditions.

1B. An internal cut-off date is established for the receipt of unsolicited proposals that will allow for effective processing of applications in accordance with SBA's general guidelines.

1C. Proposals that do not meet OBD's 7(j) unsolicited proposal guidelines are handled according to SBA's requirements.

Finding 2: The Proposal and Financial Review Processes Were Incomplete

Proposal reviews, financial management system reviews, cost analyses and budget reviews were not always documented in accordance with SBA's internal guidance. Accordingly, there was no assurance that proposals met applicable requirements and that awards were made to applicants best capable of delivering services to meet 7(j) program goals. There also was no assurance that the proposed project costs were both reasonable and allowable and that the applicants' financial management systems were sufficient to manage the projects and safeguard entrusted funds.

Documentation of Proposal Reviews was Limited

Proposal reviews were not always adequately documented. As a result, there was no assurance that proposals met program goals, complied with applicable requirements, and were submitted by applicants capable of achieving proposed objectives. SOP 00 11 1 provides requirements for the completion of an unsolicited proposal review and requires evaluators to consider the following factors, including

- unique, innovative, and meritorious methods, approaches or ideas;
- overall scientific, technical, or socioeconomic merits;
- contribution to SBA's mission;
- capabilities, related experiences, facilities and techniques of offerors, and any unique combinations of these factors; and
- qualifications, capabilities, and experience of key personnel.

OBD developed a 7(j) evaluation form to assure all required proposal elements were considered, however, 15 of the 17 reviewed project files did not contain a completed evaluation form. Program officials stated that the form was not always completed for applicants with prior program experience. As a result, proposals that did not meet SBA's requirements and applicants with histories of compliance related problems were awarded program funding. An OBD official stated that the evaluation process was improved for FY 02 as evaluation forms were completed for all FY 02 proposals.

Documentation of Financial Management System Reviews, Cost Analyses and Budget Reviews Was Limited

SBA's requirements for financial management system reviews, cost analyses and budget reviews were not always followed. These reviews are necessary to ensure applicants have the capability to administer federal funds and that proposed costs are necessary, reasonable, allowable and appropriate.

In evaluating the applicants' financial management systems, SOP 00 11 1 requires grants personnel to ascertain through an informal, or formal review if necessary, that the grantee is capable of managing the project and safeguarding entrusted funds. For all 17 of the projects reviewed, there was no documentation that financial management system reviews were completed in accordance with SOP 00 11 1.

SOP 00 11 1 also requires documentation of completed cost analyses and budget reviews to assure proposed cost elements are reasonable, allowable and appropriate and that significant aspects of the proposed budget have been considered. Five of the 17 reviewed files contained no documentation that a cost analysis and budget review was completed. Additionally, for two of the 12 reviewed files that did contain a cost analysis and budget review certifying all costs as fair, reasonable and adequate for the work proposed, the recipients were later required to provide items such as narrative details for budget items, explanations regarding the percentage of time for personnel associated with the program and clarifications regarding limited usage of program funds for the proposed objective.

As a result of the above, there was no assurance that (1) applicants' financial management systems were capable of managing the project and safeguarding entrusted funds, and (2) proposed costs were reasonable and allowable prior to award approval.

Recommendations:

2A. We recommend that the Associate Deputy Administrator for Government Contracting and Business Development ensure proposal reviews are documented in accordance with SBA's internal guidance.

2B. We recommend that the Assistant Administrator for Administration ensure required financial management system reviews, cost analyses and budget reviews are completed and documented in accordance with SOP 00 11 1.

Finding 3: Award Recommendations did not Meet Requirements

Award recommendations were made in response to unsolicited proposals that did not meet SBA's internal guidance and were not supported by noncompetitive selection justifications.

Award Recommendations Were Made In Response to Invalid Proposals

Award recommendations were made in response to unsolicited proposals that did not meet SBA's internal guidance. OBD's 7(j) unsolicited proposal guidelines state that an unsolicited proposal is a written submission to SBA for the purpose of obtaining funding to provide innovative or unique methods of management and technical assistance to strengthen the business development skills of the 7(j) eligible population. For seven of the nine FY 00 proposals reviewed, documentation showed that the applicants had received prior awards. In addition, for all eight of the FY 01 proposals reviewed, documentation showed that the applicants also received funding in FY 00.

The audit identified similarities among FY 00 and FY 01 projects, such as services to be provided, objectives, methodologies, and overall goals, including the following:

- Small Business Executive Education Programs (SBEEP) course subjects were recurring. For four of the eight reviewed FY 01 proposals reviewed, 95 percent of the SBEEP course subjects were the same in FY 00.
- Three of the eight reviewed FY 01 proposals reviewed described the same services, methodologies, objectives and goals in FY 00.

Given this information, these proposed projects are not innovative or unique methods for accomplishing 7(j) program objectives and therefore, did not meet SBA's requirements for 7(j) unsolicited proposals.

Noncompetitive Selection Justifications were not Documented

7(j) unsolicited proposals recommended for funding were not supported by the required justifications for noncompetitive selections. SOP 00 11 1 requires the technical office sponsoring the unsolicited proposal to support its recommendation with a justification for noncompetitive procurement documenting the facts and circumstances that preclude competition and support the recommended noncompetitive action. SOP 00 11 1 also requires all positive recommendations for unsolicited proposals to be accompanied by SBA Form 1431, Sole Source Procurement Justification.

None of the 17 unsolicited proposals reviewed were supported by the required justifications. As a result, there was no support for the use of noncompetitive actions for providing management and technical assistance.

Recommendations:

We recommend that the Associate Deputy Administrator for Government Contracting and Business Development ensure:

3A. 7(j) unsolicited proposals that do not meet the requirements of SBA's internal guidance are not recommended for program funding.

3B. Recommendations for the funding of unsolicited proposals are supported by the required justifications for noncompetitive procurements.

Finding 4: Legal Sufficiency Review Issues were not Resolved Prior to Award

There was no documentation that SBA resolved issues resulting from legal sufficiency reviews prior to the award of 7(j) cooperative agreements. For the eight FY 01 proposals reviewed, OPGM requested OGC to review the awards for legal sufficiency. Based on OGC's review of the awards, five of the eight awards were conditionally approved and the other three awards were not approved.

Ex. 5

There was no documentation in OPGM's files to show that OPGM addressed the issues raised by OGC prior to issuing all eight of the FY 01 NOAs reviewed on

September 29, 2001 and September 30, 2001. An OGC official informed the auditors that legal sufficiency reviews normally go through a resolution process where OPGM has the opportunity to make changes, provide responses, and return the file to OGC for a subsequent review. The OGC official informed the auditors that there was insufficient time to follow this process for the FY 01 7(j) awards. We found that seven of the eight reviewed FY 01 legal sufficiency reviews were completed the last three days of the fiscal year. The remaining FY 01 legal sufficiency review was not dated.

Additionally, on October 25, 2001, OBD provided OPGM with information regarding the recipients' FY 00 performances, remaining balances and budget periods for OPGM's review and consideration. According to an OPGM official, OBD was provided OGC's legal sufficiency review comments and asked to provide an executive summary as supporting documentation to substantiate the issuance of the awards. The executive summary, however, further supported OGC's [Ex. 5] concerns. The executive summary showed that all eight of the reviewed FY 01 award recipients received FY 00 awards for the same purposes. Additionally, it showed that seven of the eight recipients had unexpended balances on their FY 00 awards at the time the FY 01 awards were issued and two of the seven recipients had unexpended balances on their Fiscal Year 1999 (FY 99) awards as well. For example, one FY 01 recipient was awarded $250,000 in FY 01 and according to the executive summary, at the time the award was made, they had a $238,279 balance on their $250,000 FY 00 award and a $64,377 balance on their FY 99 award. The executive summary also showed that three of the FY 01 recipients had FY 00 award budget periods that were extended into FY 02. Although OBD determined there was a need for the proposed efforts identified in the FY 01 unsolicited proposals, the executive summary did not explain how this determination was made, and in fact, indicated that the [Ex. 5] did exist at the time the FY 01 awards were made. Similar legal sufficiency issues were not noted for the FY 00 awards reviewed.

Recommendations:

4A. We recommend that the Associate Deputy Administrator for Government Contracting and Business Development seek a legal opinion to determine if the FY 01 recipients' past performances, remaining balances, and extended budget periods should have prevented the FY 01 awards. If it is concluded that the awards should not have been made, the appropriate remedies should be determined and taken.

4B. We recommend that the Assistant Administrator for Administration ensure legal sufficiency reviews are requested in ample time to allow for an adequate legal review process to be followed.

Finding 5: Project Reporting and Monitoring Require Improvement

OBD did not require performance reports to adhere to NOA specifications and did not effectively document performance reviews. FY 00 NOAs required performance reports to include (1) a comparison of actual accomplishments to estimated milestones for the reporting period, (2) reasons for slippage in cases where milestones were not met and a plan of action to overcome slippage, and (3) a comparison of actual financial expenditures to estimated budget items. Six of the nine FY 00 award recipients reviewed provided performance reports that did not meet these requirements.

For example, one FY 00 award recipient submitted a proposal to provide legal, technological and business development assistance to a minimum of 16 HUB Zone companies by September 30, 2001. The recipient's performance reports dated July 26, 2001, and January 9, 2002, however, stated the recipient was continuing its determination of what assistance was needed, how it would be provided and how success or failure would be tracked. These reports did not provide a comparison of actual accomplishments to estimated milestones or a plan of action to overcome performance deficiencies. Project milestones were not achieved during the planned timeframes and the project period was extended through September 29, 2002.

The monitoring of recipients' progress towards achieving proposed milestones should also be improved. Monitoring is necessary to ensure recipients are meeting the terms and conditions of their awards and that financial documentation is appropriately completed. SOP 00 11 1 describes monitoring responsibilities, including

- monitoring recipients' performance to assure compliance with technical requirements,
- reviewing and approving performance and financial reports, and
- notifying the Grants Management Officer if performance is not proceeding satisfactorily or if problems are anticipated.

Additionally, a copy of the SBA Grant/Cooperative Agreement Monitoring Form was included in a memorandum provided to the Grants Management Officer's Technical Representative for six of the nine FY 00 projects reviewed and provided a method to document reviews of performance reports and financial status reports. The form also contained areas to record findings and recommended actions. Completed forms were not included in any of the reviewed FY 00 files. As a result, there was no information regarding the scope and methodology of the reviews performed and there is no assurance the projects were properly monitored.

We did not review project reporting and monitoring for FY 01 awards because these processes were not yet completed at the time our review began.

Recommendations:

We recommend that the Associate Deputy Administrator for Government Contracting and Business Development ensure:

5A. Performance reports adhere to all Notice of Award requirements.

5B. Reviews of performance and financial reports are conducted and properly documented on SBA Grant/Cooperative Agreement monitoring forms.

Finding 6: Internal Control Weakness Identified for the 7(j) Program

Our assessment of internal control was limited to that applicable to the pre and post award processes associated with 7(j) program cooperative agreement awards. The audit found that SBA did not follow established procedures with regards to these processes. The findings included in this report indicate that there is a potential material internal control weakness in the 7(j) program. SBA's FY 01 FMFIA assurance statement states that SBA's internal control program requires Headquarters managers to submit assertion letters to the Chief Financial Officer (CFO) on the status of their respective organization's internal control. These assertion letters also must discuss corrective actions taken on any weaknesses identified by the Office of Inspector General (OIG). Although the identified weakness existed in FY 01, the CFO reported that there were no serious concerns or issues raised by Headquarters managers for FY 01.

Recommendation:

6A. We recommend that the Associate Deputy Administrator for Government Contracting and Business Development consider reporting the deficiencies related to the 7(j) program identified by the OIG as a material internal control weakness for OBD, or discuss the corrective actions taken to resolve the deficiencies identified by the OIG in his FY 02 assertion letter to the CFO.

Management Comments:

The Associate Deputy Administrator for Government Contracting and Business Development and the Assistant Administrator for Administration were asked to respond to our draft report but did not do so by the requested date. Accordingly, the recommendations in this report will be addressed during the audit follow-up and resolution process.

* * *

The findings included in this report are the conclusions of the Office of Inspector General's Auditing Division. **The findings and recommendations are subject to review, management decision, and corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution.**

Please provide us your management decision for each recommendation within 30 days. Your management decisions should be recorded on the attached SBA Forms 1824, "Recommendation Action Sheet," and show either your proposed corrective action and target date for completion, or explanation of your disagreement with our recommendations.

Should you or your staff have any questions, please contact Robert G. Hultberg, Director, Business Development Programs Group at (202) 205-7577.

Attachment

Attachment

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