



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

ADVISORY MEMORANDUM REPORT

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TO: Darryl Hairston
Assistant Administrator for Administration

FROM: **/S/ original signed**
Robert Seabrooks
Assistant Inspector General for Auditing

SUBJECT: Review of Indirect Cost Rate of the Walsh Group, P.A.

The OIG conducted a review of the indirect cost rate of the Walsh Group, P.A. (recipient) for calendar year 2003 at the request of the Office of Procurement and Grants Management (OPGM). We found that the recipient's overall indirect costs claimed were reasonable, allocable, and allowable. The recipient had established a system to properly identify the costs of organization-wide indirect cost activities and equitably allocate those costs to SBA and other programs. Accordingly, we conclude that the final indirect cost rate for award year 2003 was acceptable. We also identified two areas that need improvement or changes with respect to recipient not obtaining prior approval for changes to the budget and whether SBA's regulations allow a for-profit entity to have single audits.

BACKGROUND

In accordance with the Drug Free Workplace Act of 1998 (Act), the Small Business Administration (SBA) issued grants to eligible intermediaries for purpose of providing financial and technical assistance to small businesses seeking to establish drug-free workplace program.

The Walsh Group is a for-profit organization in its third option year as a recipient of a grant under the Act. The recipient recently requested the OPGM to approve its final indirect cost rate for calendar year (CY) 2003 at [FOIA ex. 4] and its proposed rate at [FOIA ex. 4] for CY 2004.

For CY 2003, The Walsh Group submitted a proposed final indirect cost rate of [FOIA ex. 4] to be applied to total direct salaries (excluding fringe benefits), as shown below:

Total Actual Indirect Expenses	[FOIA ex. 4]
Unallowable:	
Gifts	[FOIA ex. 4]
Meals	[FOIA ex. 4]
Personal Use of Auto	[FOIA ex. 4]
Net Indirect Pool	[FOIA ex. 4]
Direct Salaries	[FOIA ex. 4]
Proposed Indirect Cost Rate	[FOIA ex. 4] [FOIA ex. 4]

OPGM requested that the OIG perform an audit of the recipient indirect costs prior to approving its final indirect cost rate for CY 2003.

OBJECTIVE

The review objective was to determine if indirect costs claimed for CY 2003 were reasonable, allocable, and allowable in accordance with applicable cost principles. The cost principles set forth in the Federal Acquisition Regulations (FAR) and Code of Federal Regulation (CFR) were used as criteria in evaluating the allowability of costs claimed.

SCOPE AND METHODOLOGY

Since the grant for Fiscal Year (FY) 2002 was awarded on September 17, 2002 at the end of the Federal fiscal year (September 30, 2002), grant activities conducted during the first three quarters of CY 2003 were funded with award year 2002 and the last quarter was with award year 2003 monies. We reviewed CY 2003 indirect costs of [FOIA ex. 4] allocated to the SBA Drug Free program. We examined the general ledger, financial statements, and other supporting documentation including vouchers and invoices. We tested expenditures using judgmental sampling techniques to test individual account transactions.

We obtained an understanding of the internal controls through inquires with appropriate personnel, inspection of relevant documentation, and observation of the recipient's operation.

The review was performed using the Federal contract cost principles set forth in FAR, Part 31. Also, other requirements in the current grant were used as criteria in evaluating the allowability of claimed costs.

We conducted fieldwork from September 15, 2004 to October 5, 2004, at SBA's Headquarter in Washington, DC and the recipient's corporate office located in Bethesda, MD.

SUMMARY OF RESULTS

Overall indirect costs claimed by the recipient were reasonable, allocable, and allowable. The recipient had established a system to properly identify the costs of organization-wide indirect activities and equitably allocate those costs to SBA and other programs. However, we identified that the recipient did not obtain prior approval for budgetary changes exceeding the limitations and the need for changes in SBA regulations relating to imposing the single audit requirement on for-profit entities.

We noted that the recipient made revisions to the budget plan without obtaining prior approval from OPGM. The recipient revised its budget plan for CY 2003 that resulted in incurred Personnel Service costs exceeding the CY 2003 approved grant budget by [FOIA ex. 4] (See Exhibit A). The grant activities conducted during the first three quarters of CY 2003 were funded with FY 2002 and FY 2003 monies. OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements..." states "*recipients are required to request prior approval for budget and program plan revisions.*" *It also states in section .25(a) of circular that through the negotiation process, the grants official is responsible for reviewing the program budget and eliminating unreimbursable costs, deflating unreasonably high cost estimates (e.g., costs for unreasonably high personnel salaries, and trimming any unproductive activities).* Therefore, by the recipient not obtaining prior approval, OPGM was not provided the opportunity to determine the reasonableness of the revision of the recipient's budget plan.

RECOMMENDATION

We recommend that the Director of OPGM direct the recipient to reconcile and manage the expenditures incurred for the grant for each period of the Federal award and obtain prior approval in accordance with OMB Circular A-110 and SBA requirements.

Other Matter

The grant award document directed the recipient to have a single audit performed even though SBA's regulations do not appear to permit such an audit.

The Walsh Group is a for-profit entity that paid to have a single audit performed for its FY 2003 financial reporting activity.

OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit*

Organizations,” (Circular A -133). Subpart B, “*Audits*” required that non Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal funds shall have a single or program-specific audit conducted for that year in accordance with the provision of this part. The Circular states that this part does not apply to for-profit subrecipients. Additionally, SBA’s regulation, 13 CFR 143.26 states ...“private for-profit organizations are not required to have a single audit performed.”

For an earlier award funding period, the recipient was required to have a single audit performed under U. S. Department of Human and Health Services (HHS) regulations that states that a for-profit organization is subject to the audit requirements if, during it fiscal year, it expended \$300,000 or more under HHS awards. HHS regulations essentially incorporate the thresholds and deadlines of Circular A-133. However, the Walsh Group expenditures under HHS award for FY 2003 did not exceed the threshold requiring a Circular A-133 audit.

RECOMMENDATION

We recommend that the Director of OPGM to discontinue the practice of requiring a single audit of the recipient or revise its regulations to permit single audits of for-profit entities.

**Funding for CY 2003
Versus
Actual Expenses for CY 2003**

Cost Elements	Approved Budget for CY 03	Actual Expenses for CY 03	Funding Amount Over or Under (-)	Percentage of Cost Elements Over Budget
Personnel Service	[FOIA ex. 4]			
Fringe Benefits				
Travel				
Supplies				
Contractual				
Other				
Total Direct Cost				
Indirect Cost				
Total Approved Budget				

¹ The approved budget for calendar year 2003 is based on 75 percent of the approved Federal budget for FY 2002 and 25 percent of FY 2003, which include approved carryover for FY 2001 and 2002. The actual expenses for CY 2003 are based on grantee's reconciled submission.