



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

<b>AUDIT REPORT</b>
<b>Issue Date: October 18, 2005</b>
<b>Report Number: 6-03</b>

TO: Darryl Hairston  
Assistant Administrator for Administration  
[FOIA ex. 6]  
FROM: Robert Seabrooks  
Assistant Inspector General for Auditing

SUBJECT: Single Audit of Greenpoint Manufacturing and Design Center, June 1, 2004

We received a copy of the single audit report for Greenpoint Manufacturing and Design Center (GMDC) for the sixteen month period ended December 31, 2003. Based on our initial review, we believe the audit performed by Lutz and Carr Certified Public Accountants (CPA), meets OMB Circular A-133 reporting requirements.

Attached are excerpts from the report pertaining to the CPA's findings and recommendations for your action in accordance with SOP 20 35, "Audit Follow up System." The auditee has provided a corrective action plan in response to a prior year audit finding. However, in light of the CPA's recent finding, we recommend that the Assistant Administrator for Administration take appropriate action in accordance with relevant OMB guidance.

In accordance with SOP 20 35, you have 80 calendar days from the date of this memorandum to decide on what actions the Agency proposes to take to address the audit findings and recommendations. Your proposed actions should be documented on the attached Recommendation Action Sheet (SBA Form 1824) in the management decision section of the form. The Office of Inspector General must concur with your management decision before it may be issued as a final determination and is implemented. Please copy our office when the audit determination letter is sent to the auditee and include the above audit report number for all correspondence relating to this audit.

If a complete copy of the audit report is needed, or if you have any questions, please contact James E. Foreman at (202) 205- [FOIA ex. 2]

Attachments

cc: Jeff Brown, OCFO (w/attachments)

### Summary of Finding and Recommendation

A prior year audit finding (from the single audit report for the year ended August 31, 2002) identified that GMDC did not comply with the requirement of documenting salaries by maintaining personnel activity reports and approved employee salary authorizations. In addition, monthly cash requisitions utilized budgeted, not actual salaries. This finding resulted in the auditors questioning costs of \$331,489.

GMDC provided a corrective action plan stating that it was in the process of designing a system to track grant-related activity by employee. Additionally, GMDC stated that all staff salaries would be authorized by the organization's CEO within 30 days. Further, beginning in September 2002, GMDC would use actual rather than budgeted salaries for all reimbursements. However, a subsequent single audit report (for the period ended December 31, 2003) also identified that GMDC's employees submitted weekly activity reports that were not in compliance with the requirement of documenting salaries by maintaining personnel activity reports. As a result, the auditors questioned costs of \$347,692.

<b>Period Ended</b>	<b>Expenditures</b>	<b>Questioned Costs</b>	<b>Percent</b>
December 31, 2003	\$500,000	\$347,649	70%
August 31, 2002	\$768,649	\$331,489	43%
Total	\$1,268,649	\$679,181	

We believe this shows that GMDC did not fully implement the corrective actions they had planned when the deficiency was first identified in 2002. As a result of the 2002 single audit, we issued report number 04-24, and concurred with management decision's not to take further action since the grant was no longer active and had been officially closed out. However, in light of the CPA's recent finding, we recommend that the Assistant Administrator for Administration take appropriate action in accordance with relevant OMB guidance. In accordance with OMB Circular A-122 cited below, at a minimum, the grantee should be requested to provide proper documentation to support the questioned costs, including signed personnel certifications of time and effort (activity reports), if appropriate or to refund the amounts questioned.

OMB Circular A-110, Section 71, Closeout procedures (g), states that in the event a final audit has not been performed prior to the closeout of an award, the Federal awarding agency shall retain the right to recover an appropriate amount after fully considering the recommendations on disallowed costs resulting from the final audit. With regard to GMDC, a close out audit on the first grant was not performed, and the finding from the most recent single audit justify follow up action on behalf of the Office of Administration to determine if salaries and expenses paid under the grant were valid and in accordance with the grant provisions. In addition, OMB A-122, Attachment B, provides principle to be applied in establishing the allowability of certain items of cost. Specifically, it states in sub paragraph 7 (M), which the distribution of salaries and wages to awards must be supported by personnel activity reports or a substitute system has been approved in writing by the cognizant agency.