

**SBA READINESS FOR REVIEWING
RECIPIENT REPORTS ON THE USE OF
RECOVERY ACT FUNDS**

Report Number: ROM 10-01

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**Prepared by the
Office of Inspector General
U. S. Small Business Administration**



**U.S. Small Business Administration
Office Inspector General**

Memorandum

To: Darryl K. Hairston
Associate Administrator for Management and
Administration

Date: October 30, 2009

Eric R. Zarnikow
Associate Administrator for Capital Access

From: Debra S. Ritt /s/
Assistant Inspector General for Auditing

Subject: Final Report on SBA Readiness for Reviewing Recipient Reports on the Use of
Recovery Act Funds, ROM 10-01

This report represents the results of our review of the Agency's plans for ensuring that recipients of American Recovery and Reinvestment Act (Recovery Act) funds submit accurate, complete and timely data on the use of these funds, as required by Section 1512 of the Recovery Act. Office of Management and Budget (OMB) guidance¹ states that starting October 22, 2009, Federal agencies are to perform limited data quality reviews of recipient information and notify the recipients of two key data problems – material omissions and significant reporting errors.

Section 1512 reporting requirements apply only to SBA's contract awards, the Microloan Program, and the 7(a) Broker/Dealer Direct Loan Program. As of September 30, 2009, SBA had issued 15 Recovery Act-related contracts totaling \$5.8 million, and obligated \$15 million in Recovery Act funds for the Microloan Program. SBA expects that intermediaries² may start disbursing the obligated funds to loan and grant recipients starting in November 2009. The Agency has not

¹ OMB Memorandum 09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, June 22, 2009; and OMB's *Interim Guidance on Reviewing Contractor Reports on the Use of Recovery Act Funds in Accordance with Federal Acquisition Regulations Clause 52.204-11*, September 30, 2009.

² Intermediaries are qualified nonprofit community-based lenders who, in turn, provide Microloans of up to \$35,000 to local entrepreneurs and small business owners, in conjunction with technical assistance training.

yet implemented the 7(a) Broker Dealer Direct Loan Program; but is currently working with OMB to develop the regulations for administering this program.

The objective of our review was to determine whether SBA's Office of Management and Administration (M&A) and Office of Capital Access (OCA) had established processes for performing data quality reviews for contract and Microloan recipient data, and for notifying recipients of the need to make appropriate and timely changes. We did not review SBA's plans for reviewing recipient data associated with the 7(a) Broker/Dealer Direct Loan Program as it is uncertain when the program will be implemented.

Using the Data Quality Review Guide provided by the Recovery Accountability and Transparency Board, we reviewed Federal laws and regulations; and obtained an overview of actions taken to date from officials in M&A, OCA, and the Office of the Chief Financial Officer (OCFO). We reviewed the Agency's plans for conducting limited reviews to ensure recipient reports are accurate, complete and timely pursuant to the OMB guidance and discussed these documents with the appropriate program officials. We also reviewed an Agency notice that notified Microloan recipients of the 1512 reporting requirements. However, our review did not include an assessment of the quality of guidance provided in the notice, as an ongoing audit of the Microloan program will address that issue. We conducted our review between September 2009 and October 2009, in accordance with *Government Auditing Standards* prescribed by the Comptroller General of the United States.

We found that M&A and OCA officials have taken steps to ensure that Recovery Act recipients comply with Section 1512 reporting requirements. These steps included: incorporating provisions for recipient reporting requirements in contracts and orders; issuing an information notice that included a section on what Recovery Act contracting officers and grant agreement officers need to know about FederalReporting.gov; and disseminating a procedural notice outlining specific reporting requirements for Microloan fund recipients. The M&A information notice, however, did not adequately define the review process it would use to identify material omissions and/or significant reporting errors in recipient data. Further, while OCA had disseminated guidance on the reporting requirements, it had not yet drafted a policy for reviewing Microloan recipient data. We recommended that SBA issue a procedural notice defining its data quality review process for contract recipient reports and define its process for evaluating the quality of data reported by Microloan intermediaries. Both M&A and OCA concurred with the recommendations; however OCA needs to provide the OIG with a target data for implementing recommendation 2.

BACKGROUND

Section 1512 of the Recovery Act requires recipients of Recovery Act funds to submit a report to the awarding agencies no later than 10 days after the end of each calendar quarter. The quarterly reports are to include: (1) the amount spent on projects or activities; (2) a list of projects or activities funded by name, including a description and completion status; (3) estimates of the number of jobs created and retained by those projects or activities; and (4) details on sub-awards and other payments.

On June 22, 2009, OMB issued Memorandum 09-21, “*Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*.” OMB’s Office of Federal Procurement Policy (OFPP) subsequently issued guidance for contract recipients entitled, *Interim Guidance on Reviewing Contractor Reports on the Use of Recovery Act Funds in Accordance With FAR Clause 52.204-11*, dated September 30, 2009. The OMB guidance requires that prime recipients submit their data to www.FederalReporting.gov, the online portal for collecting all Recovery Act recipient reports. The first report was due by October 10, 2009, with subsequent reports due within 22 to 29 days after the end of each calendar quarter. Federal agencies are required to perform a limited data quality review of the submitted information and notify recipients of the two key data problems – material omissions and significant reporting errors. The detailed recipient reports are to be made available to the public on the Recovery.gov website no later than 30 days following the end of the quarter (e.g., October 30, 2009).

RESULTS

M&A’s Information Notice Lacks Required Details on the Data Quality Review Process

M&A included Federal Acquisition Regulation (FAR) clause 52.204-11 in all contracts awarded with Recovery Act funds, informing contractors of the 1512 reporting requirements. It also issued an Information Notice, *Ensuring Accurate Procurement Data Reporting to the Federal Procurement Data System-Next Generation (FPDS-NG) and Federal Assistance Award Database (FAADS Plus)*, that informed SBA’s procurement and grants workforce about new guidance from OMB regarding the certification of FPDS-NG and FAADSPlus. This notice includes a section entitled what do Recovery Act contracting officers and grant agreement officers need to know about FederalReporting.gov.

The section regarding FederalReporting.gov was intended to convey temporary policy matters that are short in duration because they relate to the Recovery Act, and is not contained in an existing Standard Operating Procedure. However, we

believe that M&A should reissue this section in a Procedural Notice. Further, our review of the Information Notice showed that it lacked sufficient detail to comply with implementing guidance issued by OMB. Specifically, the notice does not define:

- the oversight process that will be deployed to ensure that all prime recipients have filed quarterly reports and that required reviews are conducted of the reported data;
- the steps that will be used to validate recipient reports for compliance, accuracy, and consistency with the award data, and required data elements as prescribed by the “Recipient Reporting Data Model” (OFPP Memo and FAR clause 52.204-11);
- the measures that M&A has in place or will deploy to remediate systemic or chronic reporting problems, such as late reporting or a lack of reporting by contractors; and
- material omissions and significant errors to ensure consistency in which data quality reviews are assessed throughout the Agency.

These deficiencies occurred because M&A management did not effectively communicate the need to expeditiously develop and deploy a definitive policy for reviewing reports submitted by Federal contractors. By not timely developing and deploying an effective policy for reviewing recipient reports for contracts awarded under the Recovery Act, M&A may not effectively ensure that: (1) accurate and complete information is provided to the public; (2) material omissions and/or significant reporting errors are identified; and (3) recipients are notified of the need to make timely, appropriate, and corrective changes in accordance with the Recovery Act.

OCA Has Notified Microloan Recipients of Reporting Requirements, but Had Not Yet Defined its Process for Reviewing Recipient Data

To date, OCA has taken several steps to communicate the 1512 reporting requirements to Microloan intermediaries, including:

- issuing Procedural Notice 5000-1119, *Recovery Act – Microloan Recipient Reporting*, which was effective 7/31/09;
- disseminating the notice to intermediaries; and
- posting the notice on the SBA Recovery Act portal.

The procedural notice provides the deadlines for reporting, and details all of the data elements to be reported, as required by the OMB guidance.

However, OCA had not yet drafted a policy describing its process for identifying material omissions and/or significant reporting errors in recipient data, although \$15 million of Recovery funds had been obligated to Microloan intermediaries as of September 30, 2009. OCA staff is collaborating with the OCFO to develop a process for performing the data quality reviews and anticipates having it completed prior to the disbursement of Microloan funds to loan and grant recipients.

RECOMMENDATIONS

We recommend that the Associate Administrator for M&A:

1. Issue a Procedural Notice for performing data quality reviews over contract recipient reports, which incorporates specific, detailed instructions for using FederalReporting.gov, and other relevant instructions provided in the OFPP Memorandum.

We also recommend that the Associate Administrator for OCA:

2. Define its process for reviewing Microloan intermediary reports that incorporates specific, detailed instructions for using FederalReporting.gov, and other relevant instructions provided in the OMB M-09-21.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

On October 22, 2009, we provided a draft of this report to SBA for comment, and on October 28, we received responses from the Associate Administrators for M&A and OCA. Management agreed with the results of our review.

Recommendation 1

Management Comments

M&A verbally agreed with recommendation 1 and will develop and implement a procedural notice for performing data quality reviews over recipient reporting in accordance with the instructions provided in the OFPP Memorandum by December 1, 2009.

OIG Response

M&A's comments are responsive to the recommendation.

Recommendation 2*Management Comments*

The Associate Administrator for OCA provided written comments that are included in their entirety in Appendix I. OCA agreed with recommendation 2, stating that it is in the process of developing an internal procedure for reviewing Microloan recipient reporting data, which focuses on avoiding material omissions and significant reporting errors, as outlined in OMB M-09-21. OCA has also drafted a recipient reporting procedural notice for the 7(a) Broker Dealer Direct Loan program that is currently in the Agency's clearance process. In addition, an internal review procedure will be developed for the 7(a) Broker Dealer Loan program, following clearance of the reporting guidelines.

OIG Response

While OCA's proposed actions adequately address recommendation, we do not consider them to be fully responsive because the target dates for implementing the procedural notices were not provided.

ACTION REQUIRED

We request that by November 21, 2009, OCA provide the OIG a proposed timeline for implementing recommendation 2.

We appreciate the courtesies and cooperation of the M&A and OCA staff during this review. If you have any questions concerning this report, please call me at (202) 205-7390 or Jeffrey Brindle, Director, Information Technology and Financial Management Group, at (202) 205-7490.

APPENDIX I. AGENCY COMMENTS

October 28, 2009

TO: Debra S. Ritt
Assistant Inspector General for Auditing

FROM: Eric Zarnikow
Associate Administrator for Capital Access

RE: **OIG Draft Report: SBA Readiness for Reviewing Recipient Reports on the Use of Recovery Act Funds**

Thank you for the opportunity to comment on your report regarding SBA's Readiness for Reviewing Recipient Reports on the Use of Recovery Act Funds. As you noted, Recovery Act Recipient Reporting guidelines apply to SBA's Recovery Act direct loan programs, including the Microloan Program and the soon-to-come 7(a) Broker/Dealer program.

As noted, SBA has taken appropriate steps to notify and educate Recovery Act direct loan recipients of their reporting requirements and responsibilities, through the procedure notice issued on July 31, 2009 outlining the requirements for microloan intermediary reporting three months in advance of the first reporting date. In addition, the Agency is prepared to validate the information that is reported.

At the same time, a draft of recipient reporting procedural guidance for the 7(a) Broker Dealer Direct Loan program is currently in Agency clearance. An internal review procedure will also be developed for the 7(a) Broker Dealer Loan program, following clearance of the reporting guidelines.

Following is our response to your recommendation.

Recommendation 2: OIG recommends that the Associate Administrator for OCA define its process for reviewing recipient reports that incorporates specific, detailed instructions for using FederalReporting.gov, and other relevant instructions provided in the OMB M-09-21.

Response: SBA has been developing an internal procedure for reviewing recipient reporting data which focuses on avoiding material omissions and significant reporting errors, as outlined in OMB's guidance for Agencies. This procedure is still being reviewed internally. SBA's Procedural Notice "Recovery Act - Microloan Recipient Reporting" (Control Number 5000-1119) provides specific, detailed instructions for intermediaries that need to use FederalReporting.gov.