

Kentucky Small Business Development Center's Compliance with Cooperative Agreement Requirements



Inspection Report

Report 26-04

February 03, 2026



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Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to AIGA@sba.gov within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments may be appended to this report and posted on our public website.



U.S. Small Business Administration Office of Inspector General

EXECUTIVE SUMMARY

Kentucky Small Business Development Center's Compliance with Cooperative Agreement Requirements (Report 26-04)

What OIG Reviewed

The Small Business Administration (SBA) is authorized to make grants to states, institutions of higher education, and Women's Business Centers to establish Small Business Development Centers (SBDCs). SBDCs, which generally consist of a lead center that manages a network of service centers, provide free business consulting and low-cost training to small businesses.

SBDC funding is provided through a cooperative agreement that establishes a partnership between SBA and an eligible entity to support its small business community. Since 1981, the University of Kentucky has been a recipient and hosts the Kentucky SBDC to administer the program.

For every dollar received from SBA, SBDCs are required to provide an equal amount of funds. For program year (PY) 2023, SBA awarded the Kentucky SBDC \$1,756,008 in federal funds and the SBDC contributed \$1,756,008 in matching funds, for a total of \$3,512,016. The period of performance for PY 2023 was from January 1, 2023, through December 31, 2024.

Our objectives were to determine whether the SBDC met financial, programmatic, and performance requirements as prescribed in the terms and conditions of the cooperative agreement.

What OIG Found

The SBDC generally met financial requirements as prescribed in the agreement for the transactions we reviewed. Specifically, we found adequate documentation to support 129 of 131

financial transactions. However, opportunities exist for the SBDC to improve program and performance compliance.

We identified operational improvements to protect and enhance program integrity such as publicizing service center accessibility and fully informing SBDC personnel of whistleblower protections.

Further, we identified opportunities for the SBDC and SBA to strengthen their ability to accurately track and monitor progress by improving the quality and collection of data and aligning performance goals with related funding. These improvements will ensure funds are effectively used to deliver on program goals, the network operates as intended, and support to Kentucky's small business community is effective.

What OIG Recommended

We made five recommendations for SBA to enhance and enforce financial and program compliance to strengthen program integrity, and address risks in program performance.

Agency Response

Management agreed with Recommendations 1 through 4 and disagreed with Recommendation 5. Notwithstanding the one disagreement, management's actions to work with the Kentucky SBDC officials to review questioned costs, update the SBDC's website to include service center hours and addresses, evaluate the whistleblower policy, and review reported counseling hours and capital infusion transactions resolved all recommendations.

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Introduction

The Small Business Administration (SBA) is authorized to make grants to states, institutions of higher education, and Women’s Business Centers to assist in establishing Small Business Development Centers (SBDCs) that provide small businesses with many forms of support, including management and technical assistance.¹ SBDCs, which generally consist of a lead center and a network of service centers, provide free business consulting, low-cost training, and advice on writing business plans, accessing capital, and marketing services to aspiring entrepreneurs and small businesses. SBDCs coordinate program services offered to small businesses through their service centers located at college campuses, local chambers of commerce, or economic development organizations.

SBDC funding is provided through a cooperative agreement that establishes a partnership between SBA and the recipient host to support its local small business community. For every dollar received from SBA, the Small Business Act requires SBDCs to provide a matching amount equal to the federally appropriated amount.² The SBDC’s required matching funds must be derived from non-federal sources and be at least 50 percent in cash, with any remaining match fulfilled through in-kind contributions (such as property or services) and the value of indirect costs.³ The funds are awarded each calendar year with an overlapping 2-year period of performance. The performance goals are established and reported on the federal government’s fiscal year basis.⁴ In fiscal year (FY) 2023, SBA was appropriated \$140 million for federal grants to the 63 SBDC networks, consisting of over 900 service centers across the United States and its territories.

Within SBA’s Office of Entrepreneurial Development (OED), the Office of Small Business Development Centers (OSBDC) administers and oversees the SBDC program. OSBDC program officials are located at SBA headquarters in Washington, DC, and work closely with SBA’s District Office officials to monitor the nationwide network of SBDCs’ compliance with financial, programmatic, and performance requirements. Program officials also coordinate with OED’s Financial Examination Unit (FEU) to review the accuracy of reported financial and management

¹ 15 U.S. Code § 648 (a)(1).

² 15 U.S. Code § 648 (a)(4).

³ 13 C.F.R. § 130.450.

⁴ Office of Management and Budget Circular A-11, Section 20 defines that the federal government’s fiscal year starts on October 1 and ends on September 30.

data, allowability of costs, adherence to policies and operational procedures, and operational effectiveness of each SBDC on a recurring basis.

Kentucky SBDC Network

The Kentucky SBDC is hosted in the University of Kentucky's College of Agriculture, Food and Environment. The SBDC expands its capacity by partnering with the Kentucky Economic Development Cabinet, chambers of commerce, cities, regional academic institutions, and other appropriate entities located throughout the state to benefit Kentucky's small businesses and entrepreneurs. The Kentucky SBDC consists of a lead center and 10 service centers that serve small businesses and entrepreneurs in all 120 counties with one-on-one and team counseling, business coaching, educational workshop training and webinars, market research, loan packaging help, assistance with financial projections, etc. Clients are referred to these service centers to leverage small business resources that assist them with making informed business decisions.

SBA awarded the Kentucky SBDC \$1,756,008 of federal funds and the SBDC contributed \$1,756,008 in matching funds, totaling \$3,512,016 for Program Year (PY) 2023 (see Table 1).

Table 1: PY 2023 Total Budget by Cost Category – Kentucky SBDC

Budget Category	Federal Share	SBDC Match	Total Budget
Personnel	\$1,136,016	\$766,361	\$1,902,377
Fringe Benefits	\$409,102	\$256,598	\$665,700
Travel	\$60,000	\$200	\$60,200
Supplies	\$40,000	\$196	\$40,196
Other ^a	\$105,890	\$135,552	\$241,442
Contractual	\$5,000	\$0	\$5,000
Indirect Costs ^b		\$597,101	\$597,101
Total	\$1,756,008	\$1,756,008	\$3,512,016

^a Includes costs related to telephones, memberships, software, publications, and network events.

^b Includes costs such as facilities, general administrative expenses, and general expenses.

Source: Generated by the Office of Inspector General (OIG) based on Kentucky SBDC PY 2023 Award issued on April 11, 2023

The period of performance for PY 2023 was from January 1, 2023, through December 31, 2024. In addition to the total budget, the SBDC may generate program income, such as from fees for client training, which must be reinvested into the SBDC program. Unused program income may be carried over to subsequent program years. The center reported a beginning program income balance of \$383,469 for PY 2023.

Objectives

Our objectives were to determine whether the Kentucky SBDC met financial, programmatic, and performance requirements as prescribed in the terms and conditions of the cooperative agreement.

Results

The Kentucky SBDC generally met financial requirements as prescribed in the agreement for the transactions we reviewed. However, opportunities exist for the SBDC to improve program and performance compliance. Specifically, we identified operational improvements to protect and enhance program integrity such as (1) publicizing the lead center's and service centers' operating hours so small businesses know how to access these vital services, and (2) ensuring coaches within the network are aware of whistleblower protection rights to encourage reporting of misconduct without fear of retaliation.

We also determined the SBDC can better enhance its compliance with performance reporting requirements by (1) ensuring coaches accurately record time spent assisting clients; (2) improving its coordination with SBA as it relates to data collection and performance reporting for capital infusion transactions; and (3) aligning performance goals to related funding.

Implementing our recommendations will ensure transparent use of taxpayer funds, improve program integrity, and ensure the Kentucky SBDC's program goals to assist potential and existing small business owners are achieved.

Finding 1: Financial Reporting Requirements Were Generally Met

SBDCs are required to maintain complete and accurate records and supporting documentation of sufficient detail to facilitate a thorough financial, programmatic, or legal compliance audit or

examination. This includes copies of receipts, invoices, contracts, leases, and other supporting documentation for all expenses paid with project funds.⁵

We found Kentucky SBDC officials reported financial activities timely as required by the terms and conditions of the cooperative agreement. Specifically, we judgmentally selected 131 out of 1,053 transactions related to program income and budgetary expenses totaling \$287,355 that occurred during the 2023 cooperative agreement's period of performance to determine if funds were spent in accordance with federal requirements. Of the 131 transactions, we determined 129 of them totaling \$264,851, were adequately supported.

We found two transactions, totaling \$49,371, that were not adequately supported. These transactions included invoices that summarized the balances for operating costs—such as salaries, fringe benefits, supplies, travel, and technology—but did not include supporting documentation. SBDC officials subsequently provided additional documentation that supported \$26,867 of the expenses listed on the invoices. As a result, we question the remaining amount of \$22,504 due to inadequate support.

To ensure taxpayer funds are spent on reasonable, allowable, and allocable expenses, the Kentucky SBDC should ensure it maintains adequate documentation to support expenses.

Recommendation

We recommend the Administrator direct the Associate Administrator of the Office of Small Business Development Centers to:

Recommendation 1: Review the \$22,504 in unsupported expenses for the contractual invoices and remedy any unallowable costs.

⁵ PY2023 Notice of Award – SBA Award Standard Terms and Conditions.

Finding 2: Operational Improvements Needed to Protect and Enhance Program Integrity

The Kentucky SBDC met and exceeded the requirement for the number of coaches who are certified for exporting and international trade and provided training on these two topics as required. However, more can be done to protect and enhance program integrity. Specifically, the SBDC can offer consistent, reliable services to even more clients by posting service centers' hours of operation, ensuring all service centers have adequate signage, and listing all service center locations on the website. Additionally, SBDC officials can take steps to ensure staff and counselors are made fully aware of their whistleblower protection rights to encourage reporting of misconduct without fear of retaliation.

Export Certifications for Counselors

SBA previously identified that a significant barrier exists for small businesses participating in the export marketplace because of a lack of knowledge, and leveraging the SBDC network can play a significant role in ensuring small businesses receive qualified support.⁶ The 2023 Notice of Funding Opportunity (NOFO) required SBDCs to report to SBA annually and semi-annually their compliance in maintaining the required number of counselors certified to provide export assistance, and if not compliant, to give an account of their status, and timeframe for compliance.

The NOFO required the lesser of either five counselors or 10 percent of the total number of counselors within a given SBDC network to be certified in exporting and international trade. The lead center exceeded this program requirement. In its 2023 proposal, the lead center reported having 21 counselors within the network. This would have required the lead center to have approximately 2 certified counselors. The lead center had 15 certified counselors in PY 2023.

Service Center Accessibility

The Small Business Act, as amended requires that SBDCs provide services near small businesses with maximum accessibility to benefit small businesses.⁷ The emphasis that SBDCs should focus their availability on the needs of local small businesses is mirrored in the 2023 NOFO which states that service center locations provide counseling and training services within a service area

⁶ SBA FY 2023 Congressional Budget Justification and FY 2021 Annual Performance Report – Strategic Goal 1.

⁷ 15 U.S. Code § 648(c)(2).

that is widely available to the public. The lead center and service centers should also be available to the public throughout the year during normal business hours.⁸

We visited five service centers and observed that the hours of operation were not posted at any center nor were they posted on the Kentucky SBDC's website. The SBDC's website did include a form for new clients to complete and register for counseling. SBDC officials told us they used online registration because, since the COVID-19 pandemic, clients prefer to meet virtually rather than in-person. We also observed one service center did not have its address on the SBDC's website and another did not have easily visible signage at its location. At yet another service center, we found there were no personnel on site, the service center appeared to be closed, and there was no signage posted stating when personnel would return to the office.

Ensuring hours of operation are posted, including service center addresses on the website, and maintaining visible SBDC signage facilitate better opportunities for small businesses to access the counseling services that SBDCs are designed to provide

Notification of Whistleblower Protections

Whistleblowers play an important role in reporting what they believe to be evidence of fraud, waste, and abuse. Federal laws have been established to protect employees of a grantee, subgrantee, or personal services contractor who report information they reasonably believe provides evidence of: (1) gross mismanagement, waste, or abuse, relating to a federal grant; (2) substantial and specific danger to public health or safety; or (3) a violation of law, rule, or regulation relating to a grant. Federal guidance requires that agencies ensure that employees of a contractor, subcontractor, grantee, subgrantee, or personal services contractor are informed in writing of the rights and remedies under whistleblower protection.⁹

The Kentucky SBDC did not have a process to ensure employees were notified of their federal whistleblower protections pertaining to SBA's cooperative agreement. Employees within the Kentucky SBDC network were notified to follow their university's policy, which instructs whistleblowers to report instances of fraud, waste, and abuse to the university. Notwithstanding, employees should have also been notified to contact the SBA Office of Inspector General for such instances related to the SBDC program.

⁸ 13 C.F.R. § 130.320.

⁹ 41 U.S.C. 4712.

Recommendations

We recommend the Administrator direct the Associate Administrator of the Office of Small Business Development Centers to:

Recommendation 2: Ensure the Kentucky Small Business Development Center posts service hours including service center addresses on their website and have visible SBDC signage at service center locations in accordance with the terms and conditions of the award.

Recommendation 3: Ensure the Kentucky Small Business Development Center implements a process to ensure all personnel funded by federal grant funds are notified of their whistleblower protection rights in accordance with 41 U.S.C. §4712.

Finding 3: Improvements Needed to Effectively Monitor Performance

Opportunities exist for the Kentucky SBDC to better monitor performance. We found instances where coaches recorded an unusual number of hours assisting clients and performance data was not captured in SBA's data collection system. We also found the SBDC can enhance its coordination with SBA to better manage and report its program data to track progress towards meeting performance goals.

Performance Data Quality

The 2023 NOFO requires SBDCs to report all counseling activities on an SBA Form 641, Counseling Information Form. A client will be counted once in a federal fiscal year with reporting to include both the number of sessions and the number of hours coaches spend with the client. Coaching hours can include (1) contact time, which includes the time spent directly with the client; (2) preparation time; and (3) travel time.

For the fiscal year 2024 performance data, we identified that some SBDC coaches were recording an unusual number of hours for assisting clients. Some of the following examples may be valid but warrant further review. Of the 32 coaches within the Kentucky SBDC network:

- Eight coaches recorded more than 12 hours of coaching per day on multiple days.
- Two coaches recorded more than 30 hours of total time per day.
- One coach recorded 8 hours of preparation time but only recorded 17 minutes of contact time with the client.
- One coach recorded 1 hour of preparation time but recorded 20 hours of contact time with the client in 1 day.

Ensuring data is accurately reported promotes transparency, strengthens the integrity of the SBDC program, and provides a reliable foundation for evaluating impact and making informed decisions.

Capital Infusion Transaction Data Collection

The 2023 NOFO requires SBDCs to report program data through SBA’s centralized data collection system and to be fully capable of either manually entering the data or uploading batch files into the system. The NOFO also requires SBDCs to upload all data they have collected via SBA Forms 641 and 888, except as precluded by statute. To claim capital infusion – which can include grants, lines of credit, loans, or business owners’ capital contributions –the Kentucky SBDC required clients to provide a written statement acknowledging that the SBDC assisted them in obtaining business grants or loans. If the client did not provide a written statement, the Kentucky SBDC could not claim the capital infusion.

For four service centers, we reviewed the 22 capital infusion transactions, totaling \$6.78 million, that were reported in the fourth quarter of fiscal year 2024 and maintained in SBDC’s performance data system. We found the service centers obtained the required client statements for all 22 transactions. However, although SBDC personnel told us they uploaded the data in SBA’s data collection system, 3 of the 22 capital infusion transactions, totaling \$1.28 million, were not in the system. As a result, the capital infusion transactions were underreported for the quarter we reviewed. Since SBA relied on this data to assess the SBDC’s impact on helping small businesses grow, ensuring this data is fully reported enables SBA to measure the economic impact of the program.

Performance Goals Reporting and Alignment to Funds

Federal regulations require SBDC grant recipients to report financial data related to performance goals and objectives, to support monitoring and reporting of program performance.¹⁰ For the SBDC program, SBA established different time periods and duration for reporting on financial and performance activities (see Table 2).

Table 2: SBDC Program Schedule for Financial Expenditure and Program Performance Reporting

Type of Report	Frequency	Duration	Timeframe
Performance	Semi-annual	1-year	Fiscal Year
Financial	Quarterly	2-years	Calendar Year

Source: OIG generated based on the cooperative agreement terms and conditions on select reporting requirements

When the schedules for performance reporting are not aligned with financial reporting, it restricts program officials' ability to assess the reasonableness of the amount expended in relationship to the performance activities and results. It also reduces the ability to monitor whether the program funds are having its intended impact.

SBA can improve its coordination with SBDCs to better monitor the funds used to achieve performance goals. For PY 2023, the Kentucky SBDC met only one of four goals. Specifically, the center had four negotiated performance goals for the following measures: (1) unique clients served, (2) jobs supported, (3) new business starts, and (4) capital infusion. The center exceeded its goal by 105 percent for unique clients served; however, it did not meet the remaining three goals (see Table 3).

Table 3: Kentucky SBDC's 2023 Performance Progress

Performance Measure	Goal	Actual	Percent to Goal
Number of Unique Clients Served	3,173	3,332	105%
Capital Infusion Dollars	\$73,760,109	\$51,719,966	70%
New Business Starts	204	191	94%
Number of Jobs Supported	11,723	8,266	71%

Source: OIG generated based on performance results data reported in the *Kentucky SBDC Annual Report* for PY 2023

¹⁰ 2 C.F.R. § 200.329(b).

As of December 31, 2023, the Kentucky SBDC expended \$877,466, or 25 percent, of the \$3,512,016 that the center agreed to spend on the program.¹¹ Despite the Kentucky SBDC not meeting three of the four PY 2023 goals, it carried over the remaining \$2,634,550 PY 2023 award funds into PY 2024. In addition, SBA awarded the SBDC PY 2024 funds totaling \$3,512,016, which included an equal amount of federal funds and matching contributions, and established new performance goals for PY 2024, associated with the new award.

This means the Kentucky SBDC had a total of \$6,146,566 to achieve PY 2024 goals even though 42 percent of this amount had been allotted to achieve PY 2023 goals. In other words, SBA annually awards program funds that are available to use for 2-years with performance goals that only focus on 1-years' worth of work.

Program officials stated the significant amount of carryover of PY 2023 funds into PY 2024 may have been a timing issue. We noted the Kentucky SBDC received additional funds in 2020, provided under the CARES Act, which could have created a surplus of funds in prior program years. The officials also stated that the federal appropriations process being subject to continuing resolutions results in delays of each year's funding.

Overlapping funds is permissible under agreement terms, but separating goals from the financial resources designated to perform those activities is not consistent with federal regulations.¹² Aligning the performance and financial reporting schedules allows for an accurate analysis of whether funds are effectively spent to meet program goals and objectives. This is an overarching program concern we plan to evaluate during our ongoing audit of SBA's oversight of the Small Business Development Centers' program. Therefore, we are not making a recommendation to address the issue in this report.

¹¹ The amount that the Kentucky SBDC expended in the first year of PY 2023 award included \$503,783 in federal funds, and \$373,683 in matching funds.

¹² 2 C.F.R. § 200.329(b).

Recommendations

We recommend the Administrator direct the Associate Administrator of the Office of Small Business Development Centers to:

Recommendation 4: Review reported client counseling hours for fiscal year 2024 and correct any errors or discrepancies.

Recommendation 5: Reconcile capital infusion transaction submissions reported in the fourth quarter of fiscal year 2024 from the Kentucky Small Business Development Center's performance data system with SBA's data collection system to ensure capital infusion transactions are reported correctly.

Evaluation of Agency Response

SBA management provided formal written comments that are included in their entirety in Appendix 3. Management agreed with Recommendations 1 through 4 and disagreed with Recommendation 5. Management's planned actions are sufficient to resolve all recommendations.

Summary of Actions Necessary to Close the Recommendations

The following section summarizes the status of our recommendations and the actions necessary to close them.

Recommendation 1

Review the \$22,504 in unsupported expenses for the contractual invoices and remedy any unallowable costs.

Status: Resolved

SBA management agreed with the recommendation, stating they reviewed documentation pertaining to the contractual invoices such as the statement of work, number of hours, and pay rate and determined that the costs of \$22,504 were allowable and reasonable. While management did not provide supporting documentation for our review, they plan to complete final action by March 31, 2026.

Management's planned corrective action resolves this recommendation, and it can be closed when management provides evidence of their review and documentation to support contractual invoice expenses totaling \$22,504.

Recommendation 2

Ensure the Kentucky Small Business Development Center posts service hours including service center addresses on their website and have visible SBDC signage at service center locations in accordance with the terms and conditions of the award.

Status: Resolved

SBA management agreed with the recommendation and stated that Kentucky SBDC officials posted all service center addresses on their website and have visible SBDC signage at service center locations in accordance with the terms and conditions of the award. Although management stated they reviewed documentation and photos to confirm the SBDC complied with these requirements, they did not provide the information for our review.

Management's planned corrective actions resolve the recommendation, and it can be closed when management provides documentation to support the SBDC's website includes service hours and service center addresses and that service center locations have visible SBDC signage. SBA management plans to complete final action by March 31, 2026.

Recommendation 3

Ensure the Kentucky Small Business Development Center implements a process to ensure all personnel funded by federal grant funds are notified of their whistleblower protection rights in accordance with 41 U.S.C. §4712.

Status: Resolved

SBA management agreed with the recommendation and stated that Kentucky SBDC officials provided evidence that all employees signed a conflict-of-interest agreement which included the whistleblower protection rights. Although management stated they reviewed these agreements and confirmed the whistleblower protection rights were included, they did not provide the documentation for our review.

Management's planned corrective actions resolve the recommendation, and it can be closed when management provides evidence that Kentucky SBDC employees have been notified of their whistleblower protection rights. SBA management plans to complete final action by March 31, 2026.

Recommendation 4

Review reported client counseling hours for fiscal year 2024 and correct any errors or discrepancies.

Status: Resolved

SBA management stated a comprehensive review was conducted by comparing the exported data from the Kentucky SBDC and SBA's data systems. Per management, the review confirmed that total counseling hours were consistent across both data systems and that entries exceeding 12 or 30 hours in a day and sessions with substantial preparation time are normal and allowable reporting patterns within the Kentucky SBDC's data system. Program officials also told us they verified individual counseling records in SBA's data system and obtained documentation to support the amount of time received by individual clients through group counseling sessions. However, management did not provide us with the documentation.

Management's planned corrective actions resolve the recommendation, and it can be closed when management provides evidence of their review and documentation to support the counseling hours noted in Finding 3. Management plans to complete final action by March 31, 2026.

Recommendation 5:

Reconcile capital infusion transaction submissions reported in the fourth quarter of fiscal year 2024 from the Kentucky Small Business Development Center's performance data system with SBA's data collection system to ensure capital infusion transactions are reported correctly.

Status: Resolved

SBA management disagreed with the recommendation and stated that Kentucky SBDC program officials conducted a comprehensive review of the three capital infusion transactions identified by comparing Kentucky SBDC records with corresponding entries in SBA's system. According to management, the review confirmed that the three capital infusion transactions noted in the finding were accurately captured in SBA's data system. Management explained that the

discrepancies stemmed from issues with the Kentucky SBDC's client identification structure not matching the client identification format used in SBA's system.

Management also stated Kentucky SBDC officials previously provided the Office of Inspector General with an updated crosswalk dataset that aligned data fields in the Kentucky SBDC system with SBA's data requirements. Lastly, management stated they verified that the capital infusion transactions were included in SBA's data system but did not provide this information to OIG for review.

During our audit, we used the updated crosswalk dataset management referenced in their response to match client identification numbers across both the Kentucky SBDC and SBA's data systems. However, we were unable to locate 3 of the capital infusion transactions in SBA's system.

Although management disagreed with the recommendation, they required Kentucky SBDC officials to reconcile the capital infusion transaction data to verify results were reported accurately, which meets the intent of the recommendation. Therefore, this recommendation is resolved. This recommendation can be closed when management provides documentation to support that the three capital infusion transactions are included in SBA's data system. SBA management plans to complete final action by March 31, 2026.

Appendix 1: Scope and Methodology

Our scope of work included the Kentucky Small Business Development Center's (SBDC) financial and program compliance with the terms and conditions of the grant cooperative agreement for program year (PY) 2023, with a period of performance from January 1, 2023, to December 31, 2024. We selected the Kentucky SBDC based on risk factors related to the materiality of the federal grant award, previous hotline complaints, and prior findings from SBA's Financial Examination Unit's report.

To meet our objectives, we reviewed the U.S. Small Business Administration's (SBA) award procedures and controls relevant to our objectives, relevant sections of the Small Business Act, Title 13 of the Code of Federal Regulations, other public laws and regulations, and SBA and SBDC guidance. We reviewed the 2023 program year cooperative agreement which consisted of the notice of funding opportunity, notice of award, technical proposals, approved budgets, and terms and conditions. We also interviewed SBA program officials in the Office of Entrepreneurial Development, Office of Small Business Development Centers, Financial Examination Unit, Kentucky District Office, and Kentucky SBDC officials responsible for oversight and administration of the SBDC program. Through these discussions, we gained an understanding of the information system, data, and processes used for managing funds, executing program activities and recording and reporting performance results.

We judgmentally selected 5 of 10 service centers in the SBDC's network based on their progress toward fiscal year 2024 performance goals or geographic location. We conducted announced site visits to four service centers and an unannounced site visit to one service center. In addition to physically visiting sites and interviewing officials, we used online tools and search engines to verify information made available to the public.

We used statistical sampling and judgmental selection methods to select transactions from the PY 2023 general expense and program income ledgers. We also factored in our sampling method the cost categories within the center's approved budget and materiality of selected budget transactions. For the judgmentally selected cost categories, we used statistical sampling methods to select 131 transactions related to program income and budgetary expenses totaling \$287,355 that occurred during the 2023 cooperative agreement's period of performance to determine if funds were spent in accordance with federal requirements. Of the 131 transactions we selected, 20 transactions totaling \$34,482 were for expenses that were paid using program income. The remaining 111 transactions selected for review totaling \$254,873 were for expenses that were paid using federal funds (see Table 1-1).

Table 1-1: Summary of Kentucky SBDC's PY 2023 Expenditures Tested

Cost Category	Amount Budgeted	Amount Expended	Amount Tested
Personnel	\$1,136,016	\$1,184,997	\$139,153
Fringe Benefits	\$409,102	\$341,416	\$35,600
Travel	\$60,000	\$68,215	\$10,893
Supplies ^a	\$40,000	\$4,155	\$54,194
Other ^{a, b}	\$105,890	\$145,305	\$13,625
Contractual	\$5,000	\$10,800	\$1,408
Total	\$1,756,008.00	\$1,754,888.00	\$254,873

^a The amount tested also includes expenses that were paid for using program income.

^b Includes costs related to telephones, memberships, software, publications, and network events.

Source: Generated by OIG based on 2023 notice of award and the Kentucky SBDC's accounting records

We tested direct cost categories for personnel, fringe benefits, supplies, travel, contractual, and other expenses related to administering the program. We reviewed supporting details for selected transactions to determine if financial expenses were reasonable, allowable, and allocable. We did not test transactions in indirect cost categories because indirect rates are negotiated and established with another federal agency and the costs of those applied rates were waived.

For the program income transactions, we tested costs associated with training and outreach events such as hotel space for conferences, speaker fees, and meals.

We conducted this inspection in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. These standards require that we adequately plan and perform this evaluation to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Use of Computer-Processed Data

We received computer-processed data from SBA's data collection system and the Kentucky SBDC's client and event management system to assess sets of data for performance activities. We received walkthroughs from SBA and Kentucky SBDC officials on the functionality and reporting functions of each system. We analyzed the data sets and were generally able to reconcile performance data received from SBA and the SBDC. From the performance data, we judgmentally selected client counseling sessions and performance narrative report summaries to review whether data was reported accurately from the SBDC to SBA. We reconciled the performance data uploaded by the SBDC's lead center to the performance data in SBA's system for October 1, 2023, through September 30, 2024.

We also received the general ledgers for PY2023 and PY2024 from the Kentucky SBDC's financial system. We selected a sample of transactions from the general ledgers and compared amounts recorded in the general ledger to supporting documentation. For the purpose of our inspection objective, we were able to account for a complete set of records for financial and performance data. We determined the computer-processed information the SBA and SBDC provided were reliable for the purposes of this inspection.

Prior Audit Coverage

The following lists the Office of Inspector General's previous audit coverage related to the objective(s) of this report:

Report Number	Report Title	Report Date
25-17	<i>New Jersey Small Business Development Center's Compliance with Cooperative Agreement Requirements</i>	June 3, 2025
21-11	<i>Evaluation of SBA's Award Procedures for the Coronavirus Aid, Relief, And Economic Security Act Entrepreneurial Development Cooperative Agreements</i>	March 30, 2021

Appendix 2: Monetary Impact

Monetary impact identified in this report is categorized as “questioned costs.” Questioned costs are expenses not supported by adequate documentation at the time of the audit, or which otherwise do not comply with legal, regulatory, or contractual requirements.

Table 2-1: Schedule of Unsupported Costs for the Kentucky SBDC, PY 2023 Award

Description	Amount (Dollars)	Explanation
Unsupported Contractual Costs	\$22,504	Contractual invoices were summarized without itemized support. All records must be supported with source documentation as required by 2 CFR § 200.302(b)(3).
Total	\$22,504	

Source: OIG generated based on transactions tested for the Kentucky SBDC’s compliance with the program year 2023 cooperative agreement financial requirements

Appendix 3: Agency Response

SBA RESPONSE TO THE INSPECTION



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

To: Sheldon Shoemaker
Deputy Inspector General for the Office of Inspector General

From: Paul Fitzpatrick **PAUL FITZPATRICK**
Associate Administrator for the Office of Entrepreneurial Development

Date: December 29, 2025

Subject: Audit of Kentucky Small Business Development Center's Compliance and Cooperative Agreement Requirements

Digitally signed by PAUL
FITZPATRICK
Date: 2026.01.13 19:24:06 -05'00'

Thank you for the opportunity to respond to the draft report entitled Kentucky Small Business Development Center's Compliance and Cooperative Agreement Requirements. We recognize this is part of a larger audit to determine whether the Agency has effective oversight to ensure Small Business Development Centers comply with the Agency's requirements in the cooperative agreements. We appreciate the opportunity to discuss the report with the OIG Team. We also appreciate the courtesies and cooperation extended to us during the audit and the collaborative manner in which our teams worked together to complete this work.

Please find our responses to the five recommendations outlined in the draft report.

Recommendation 1: Review the \$22,504 in unsupported expenses for the contractual invoices and remedy any unallowable costs.

SBA Response: Agree

In a letter dated December 4, 2025, the Associate Administrator for the Office of Small Business Development Centers (AA/OSBDC) required the Kentucky State Director to provide written documentation (statement of work, number of hours, and rate paid) of the requirement supporting the expenses for the contractual invoices and remedy any unallowable costs. At the time of the original request, the SBDC had not received the requested information. The SBDC has since received the requested information from the service center. The AA/OSBDC received a response letter from the Kentucky SBDC on December 11, 2025, where the State Director acknowledged the referenced requirement and provided the requested documentation. OSBDC reviewed the explanation and documentation and determined that the cost of \$22,504 is allowable and reasonable.

Target Date: March 31, 2026

Recommendation 2: Ensure the Kentucky Small Business Development Center posts service hours including service center addresses on their website and have visible SBDC signage at service center locations in accordance with the terms and conditions of the award.

SBA Response: Agree

In the AA/OSBDC letter referenced above, the Kentucky State Director was required to provide the documentation ensuring that all Kentucky Small Business Development Centers have posted all service center addresses on their website and have visible SBDC signage at service center locations in accordance with the terms and conditions of the award. In the Kentucky SBDC response received on December 11, 2025, the State Director provided all required documentation and pictures of websites and signage at each service center location. OSBDC reviewed the documentation provided by the Kentucky State Director and determined that Recommendation 2 is satisfied.

Target Date: March 31, 2026

Recommendation 3: Ensure the Kentucky Small Business Development Center implements a process to ensure all personnel funded by federal grants funds are notified of their whistleblower protection rights in accordance with 41 U.S.C. §4712.

SBA Response: Agree

In the AA/OSBDC letter referenced above, the Kentucky State Director was required to provide the documentation ensuring that all Kentucky Small Business Development Centers employees are notified of their whistleblower protection rights in accordance with 41 U.S.C §4712. In the Kentucky SBDC response received on December 11, 2025, the State Director provided evidence that all employees have signed the Conflict-of-Interest Agreement, which includes the whistleblower protection rights. OSBDC reviewed the documentation provided by the Kentucky State Director and determined that Recommendation 3 is satisfied.

Target Date: March 31, 2026

Recommendation 4: Review reported client counseling hours for Fiscal Year 2024 and correct any errors or discrepancies.

SBA Response: Agree

In the AA/OSBDC letter referenced above, the Kentucky State Director was required to provide the documentation of the review of reported client counseling hours for Fiscal Year 2024 and correct any errors or discrepancies. In the Kentucky SBDC response received on December 11, 2025, the State Director conducted a comprehensive review of the Fiscal Year 2024 counseling hour data by comparing exports from Neoserra and SBA's Nexus system. The review confirmed that total counseling hours are consistent across both systems and that the anomalies such as entries exceeding 12 or 30 hours in a day and sessions with substantial preparation time—result from normal and allowable reporting patterns within Neoserra, including group coaching sessions recorded per client, multi-day work aggregated into single entries, and legitimate preparation work that exceeds direct client contact time. These entries reflect routine advising activity and accurately represent the level of service provided. OSBDC verified individual counseling records in Nexus and obtained documentation to support the amount of time received by individual clients through group counseling sessions. OSBDC believes that this satisfies Recommendation 4.

Target Date: March 31, 2026

Recommendation 5: Reconcile capital infusion transaction submissions reported in the fourth quarter of Fiscal Year 2024 from the Kentucky Small Business Development Center's performance data system with SBA's data collection system to ensure capital infusion transactions are reported correctly.

SBA Response: Disagree

In the AA/OSBDC letter referenced above, the Kentucky State Director was required to reconcile capital infusion transaction submissions reported in the fourth quarter of Fiscal Year 2024 from the Kentucky Small Business Development Center's performance data system with SBA's data Collection system and ensure capital infusion transactions are reported correctly. In the Kentucky SBDC response received on December 11, 2025, the State Director conducted a comprehensive review of the three capital infusion transactions identified comparing Neoserra records with the corresponding entries in SBA's Nexus system. The review confirmed that all three transactions—Client IDs 92445, 92527, and 92831—were accurately submitted and are present in Nexus under the correct Client Key identifiers used by SBA's data collection system. The discrepancies noted stem from Neoserra's internal client ID structure, which does not match the Client Key format used in Nexus. Kentucky SBDC previously provided OIG with documentation clarifying this distinction and submitted an updated crosswalk dataset aligning Neoserra fields with Nexus metric requirements. Additional screenshots and data extracts demonstrating accurate reconciliation have been compiled. OSBDC verified that the information is in Nexus. OSBDC believes that this satisfies Recommendation 5.

Target Date: March 31, 2026