

AUDIT REPORT

AUDIT OF NEW YORK SMALL BUSINESS DEVELOPMENT CENTER'S PHASE 2 DISASTER TECHNICAL ASSISTANCE GRANT





EXECUTIVE SUMMARY

Report No. 17-09

March 31, 2017

AUDIT OF NEW YORK SMALL BUSINESS DEVELOPMENT CENTER'S PHASE 2 DISASTER TECHNICAL ASSISTANCE GRANT

What OIG Reviewed

The Disaster Relief Appropriations Act (DRAA) of 2013 provided \$19 million for the Small Business Administration's (SBA's) Office of Entrepreneurial Development (OED) to provide technical assistance to small businesses recovering from Hurricane Sandy. Using these funds, OED awarded grants to its resource partners in two phases. The New York Small Business Development Center (NYSBDC) received the largest portion of these grants: \$1.8 million in Phase 1 for short-term needs and \$6.2 million in Phase 2 for a long-term resiliency initiative. These grants were in addition to the regular core funding NYSBDC receives to carry out its mission.

Our audit objectives were to determine (1) whether NYSBDC's goals and performance measures aligned with the 2013 DRAA, addressed the needs of Hurricane Sandy victims, and were accurately reported and (2) whether expenditures reported by NYSBDC and its sub-centers were allowable, allocable, and reasonable under the terms of the grant. We conducted site visits to the NYSBDC lead center and the Farmingdale, Brooklyn, Rockland, and Staten Island sub-centers.

What OIG Found

We found that both NYSBDC and OED needed to improve their methods for gathering and reporting performance data. NYSBDC attempted twice to retroactively produce detailed records to support its quarterly performance report as of June 30, 2015, but in both cases, the queries resulted in significantly lower outcomes than previously reported. Similarly, we requested that OED provide detailed reports from their database supporting these results, but they also could not produce those reports because they had not established a method to differentiate Hurricane Sandy grant performance from core grant funding performance.

As a result, the Hurricane Sandy technical assistance grant's reported performance is significantly higher than either NYSBDC or OED can support. For example, NYSBDC originally

reported that it had helped its clients obtain \$39 million in financial assistance as of June 30, 2015, but it could only support \$19 million—about 51 percent less than the reported amount.

While we concluded from our audit test work that most of the costs charged to Phase 2 of the Hurricane Sandy technical assistance grant were allowable, allocable, and reasonable, we found that the NYSBDC incurred costs that were neither allowable nor allocable to the grant. Specifically, NYSBDC included personnel costs unrelated to Hurricane Sandy technical assistance. NYSBDC also incurred advertising costs that were general in nature and not specific to Hurricane Sandy technical assistance and therefore should not have been paid with Hurricane Sandy technical assistance funding.

OIG Recommendations

We made five recommendations intended to improve how SBA manages disaster technical assistance grants. These recommendations included developing system tools necessary to adequately monitor and validate grant performance, and validating reported performance results; and addressing almost \$55,000 in unallowable or unallocable costs.

Agency Response

SBA partially agreed with two recommendations and disagreed with three recommendations. SBA stated that it has refined its internal guidelines and protocols for disaster technical assistance grants and believes that this will mitigate the weaknesses identified in our audit. The recommendations to develop system tools to monitor and validate disaster grant performance, validate NYSBDC disaster grant performance, and validate reported metrics for all Hurricane Sandy technical grant recipients are resolved. Resolution was not reached on two recommendations to recuperate unallowable costs. SBA provided no basis for its disagreement or any challenge to the criteria asserted by OIG. OIG will notify the Audit Follow-up Official of the unresolved recommendations to seek resolution.




**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416**

Final Report Transmittal
Report Number: 17-09

DATE: March 31, 2017

TO: Linda E. McMahon
Administrator



FROM: Hannibal M. Ware
Acting Inspector General

SUBJECT: *Audit of New York Small Business Development Center's Phase 2 Disaster Technical Assistance Grant*

This report presents the results of our audit of the New York Small Business Development Center's (NYSBDC's) Phase 2 Disaster Technical Assistance Grant. The objectives of our audit were to determine (1) whether NYSBDC's goals and performance measures aligned with the 2013 Disaster Relief Appropriations Act, addressed the needs of Hurricane Sandy victims, and were accurately reported and (2) whether expenditures reported by NYSBDC and its sub-centers were allowable, allocable, and reasonable under the terms of the grant.

We previously furnished copies of the draft report and requested written comments on the recommendations. SBA management's comments are appended and were considered in finalizing the report. Based on SBA's response, the overall report is partially resolved with two recommendations pending resolution.

Please contact me if you would like to discuss this report or any related issues.

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Introduction

On October 29, 2012, Hurricane Sandy devastated portions of the Mid-Atlantic and Northeastern United States. It was the second costliest Atlantic storm in United States history, causing tens of billions of dollars in damages and economic injury, displacing more than 775,000 people, and resulting in over 160 fatalities. In response to Hurricane Sandy, on January 29, 2013, Congress enacted the Disaster Relief Appropriations Act of 2013 (DRAA). DRAA included \$19 million for the Small Business Administration's (SBA's) Office of Entrepreneurial Development (OED) to provide technical assistance to small businesses recovering from Hurricane Sandy.¹ To support Hurricane Sandy recovery, OED collaborated with SBA's Office of Disaster Assistance (ODA) to develop a two-phased approach for awarding the \$19 million in DRAA funds to SBA's resource partners, which include the SCORE Association, small business development centers (SBDCs), and women's business centers. OED awarded \$5.8 million in Phase 1 for short-term needs and \$13.2 million in Phase 2 for a long-term resiliency initiative. In this audit, we examined the \$6.2 million grant SBA awarded to the New York Small Business Development Center (NYSBDC) in Phase 2.

Small Business Development Center Programs

Section 21 of the Small Business Act authorizes SBA to enter into cooperative agreements with public or private institutions of higher education to establish SBDCs, which provide small businesses with various forms of support, including management and technical assistance. Specifically, SBDCs receive grants, known as core funding, to provide free business consulting and low-cost training services to aspiring entrepreneurs and small businesses, including advice on writing business plans, accessing capital, and marketing. For fiscal years 2014 and 2015, NYSBDC received core funding in the amounts of \$6.6 million and \$6.7 million, respectively.

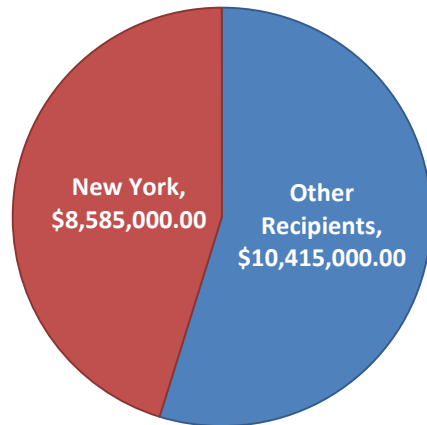
SBA's Office of Small Business Development Centers, within OED, oversees the SBDC program. OED personnel conduct oversight at SBA headquarters and perform site visits to SBDC lead centers and sub-centers. There are 63 lead centers and over 900 sub-centers throughout the United States. The work done by a sub-center is reported to its lead center, then the lead center reports to SBA.

NYSBDC Hurricane Sandy Technical Assistance Grant

In addition to its core funding, the NYSBDC lead center and its 12 sub-centers also received funding from the DRAA appropriation. The State of New York received the largest portion of the \$19 million appropriated for technical assistance to small businesses recovering from Hurricane Sandy (see Figure 1).

¹ DRAA initially included \$20 million for this purpose; however, \$1million was cancelled due to sequestration, the cancellation of budgetary resources provided by discretionary appropriations or direct spending laws.

Figure 1. Funding Allocation of the \$19 million Hurricane Sandy Technical Assistance Grants



Source: Generated by OIG based on SBA grant administration records. ²

Of the more than \$8 million the NYSBDC received in Hurricane Sandy technical assistance grants, approximately \$6.2 million was part of the Phase 2 long-term resiliency initiative. Table 1 shows NYSBDC’s budget allocation for its Phase 2 grant.

Table 1. NYSBDC’s Approved Budget for Hurricane Sandy Funds by Cost Category³

Cost Category	Approved Budget
Personnel Services	\$3,480,968
Fringe	\$1,183,352
Travel	\$235,100
Equipment	\$0
Supplies	\$71,920
Contractual	\$101,160
Consultants	\$171,200
Other	\$135,380
Total Direct Costs	\$5,379,080
Indirect Costs	\$811,920
Total	\$6,191,000

Source: Generated by OIG based on NYSBDC’s approved budget.

Prior Work

On July 31, 2015, SBA Office of Inspector General (OIG) issued Audit Report 15-15, *SBA Needs to Improve Its Management of Disaster Technical Assistance Grants*. This audit focused on the two largest Hurricane Sandy technical assistance grant recipients, NYSBDC and the New Jersey SBDC. The audit found that for Phase 1, these SBDCs faced challenges in operating under an initial

² Other recipients included the SCORE Association, women’s business centers, and SBDCs in New Jersey, Connecticut, Maryland, Pennsylvania, Puerto Rico, Virginia, West Virginia, Massachusetts, Rhode Island, and Delaware.

³ Includes \$964,720 in funding to the following entities outside of the NYSBDC network: SCORE Association, Queens Economic Development Corporation, Women’s Enterprise Development Center, and Business Outreach Center Network, Inc.

aggressive 6-month timeline while delivering an increased level of technical assistance services supported by multiple funding sources. Both SBDCs were able to achieve some Phase 1 goals, but they were at risk of not meeting their Phase 2 goals for long-term resiliency. We made 10 recommendations to OED's Associate Administrator intended to improve how SBA manages disaster technical assistance grants. One recommendation pertaining to NYSBDC remains outstanding: prepare a closeout report for technical assistance grant funds and develop a plan for deploying technical assistance resources in the wake of disasters.

Objectives

We audited the \$6.2 million Phase 2 grant awarded to the NYSBDC lead center to determine (1) whether NYSBDC's goals and performance measures aligned with the 2013 DRAA, addressed the needs of Hurricane Sandy victims, and were accurately reported and (2) whether expenditures reported by NYSBDC and its sub-centers were allowable, allocable, and reasonable under the terms of the grant. Appendix I contains additional information on our scope and methodology.

Finding 1: New York Small Business Development Center Performance Results Data Unreliable

NYSBDC created Phase 2 performance goals that aligned with the DRAA and were established to address the needs of businesses impacted by Hurricane Sandy. Although these goals might have been effective, OED and NYSBDC did not adequately design controls to gather, track, and measure Hurricane Sandy technical assistance grant metrics. Consequently, the grant's performance data is unreliable, and neither NYSBDC nor SBA can determine with certainty the impact of Phase 2 grant dollars on its overall mission.

SBDCs are required to gather and report accurate information to SBA, which SBA uses to monitor performance.^{4,5} OED provides SBDCs with a standard form to gather data relating to performance activities and accomplishments. According to the cooperative agreement, NYSBDC must report this data on a quarterly basis. Once submitted, the OED project officer assigned to the grant is required to review the data. In addition to these regular controls, the Office of Management and Budget (OMB) required increased internal controls for Hurricane Sandy grants.⁶

NYSBDC established eight Phase 2 performance metrics to assess its impact on Hurricane Sandy technical assistance efforts. We reviewed the performance report for the quarter ending June 30, 2015. The following table summarizes the performance results for each metric contained in that report. (See Appendix II for performance metric definitions.)

Table 2. Performance Metrics Reported by NYSBDC to SBA, as of June 30, 2015

Performance Metric	Project Goal	Project to Date Actual	Percentage of Goal
Economic Impact	\$80 million	\$39.17 million	49%
Extended Engagement Clients	3,500	3,075	88%
Clients Assisted with Capital Access	3,500	2,310	66%
Business Starts	200	43	22%
Jobs Created/Saved	700	46/3,152	450%
Training Events	36	53	147%
Training Attendees	540	551	102%
Information and Outreach Events	144	157	109%

Source: NYSBDC's June 30, 2015, quarterly report.

During our review, however, we found that these metrics were not reliable. We calculated actual to-date performance numbers by adding all of the quarterly amounts reported prior to the June 30, 2015 performance report and found that NYSBDC could not support the reported performance numbers. In fact, their documentation supported lower results than originally reported in the June 30, 2015, quarterly report (see Table 3). For example, NYSBDC reported that the economic impact metric, which states the amount of financial assistance NYSBDC clients received (through grants, loans, or owner's capital infusion), was \$39 million. NYSBDC attempted to retroactively

⁴ 13 CFR Part 130, Small Business Development Centers (June 13, 1995).

⁵ SBA SOP 60 15, Small Business Development Centers (September 15, 1983).

⁶ OMB Memorandum 13-07, Accountability for Funds Provided by the Disaster Relief Appropriations Act (March 12, 2013).

produce supporting documentation twice during our audit, but both times the documentation provided totaled approximately \$19 million, about 51 percent less than the reported amount.

Table 3. Comparison of Reported Metrics by NYSBDC

Performance Metric	NYSBDC Quarterly Report to SBA as of June 30, 2015	NYSBDC Query to Regenerate Metrics October 19, 2015	NYSBDC Query to Regenerate Metrics January 28, 2016
Economic Impact	\$39,172,914	\$19,343,496	\$19,228,719
Extended Engagement Clients	3,075	3,045	902
Clients Assisted with Capital Access	2,310	2,120	604
Business Starts	43	18	18
Jobs Created / Saved	46/3,152	14/1,984	14/1,973
Training Events	53	23	32
Training Attendees	551	265	338
Information & Outreach Events	157	155	Not Provided
Source: NYSBDC's June 30, 2015, quarterly report and queries, provided by the NYSBDC lead center.			

Because NYSBDC's reported information was unsupported, we requested that OED provide detailed reports of all NYSBDC Phase 2 metrics from SBA's Entrepreneurial Management Information System (EDMIS), where data from SBA counseling and training forms are stored. After 59 calendar days, OED notified us that they could not produce detailed records to compare to NYSBDC's report.

OED was unable to produce detailed records for two reasons. First, although OED developed a query method that could extract data from EDMIS for core activities, they had not developed a reliable standard query specific to Hurricane Sandy grant activities. As a result, OED was unable to provide us with a report of all Hurricane Sandy performance results and only produced a data set with the individual performance records for the economic impact metric. We requested records for all of the metrics; however, OED could not provide us with similar records for any of the remaining performance categories.

Second, because NYSBDC did not reliably categorize and separate Phase 1 and Phase 2 performance information, work that was reported by NYSBDC under Phase 1 or Phase 2 could not be distinguished in the data set produced by OED during the time that these phases ran concurrently. This demonstrates that OED did not have the tools to ensure proper oversight of the NYSBDC Hurricane Sandy technical assistance grant. In addition, because all 12 SBDCs that received Hurricane Sandy technical assistance had similar phase reporting requirements, it is probable that there are systemic problems monitoring performance results for these grants.

Because the performance reports are inaccurate, SBA cannot determine with certainty how well NYSBDC performed or measured the impact of the \$6.2 million that SBA awarded for Phase 2.

Recommendations

To increase the reliability of performance data reporting, we recommend that the Deputy Associate Administrator for the Office of Entrepreneurial Development:

1. Develop EDMIS system tools to allow OED to adequately monitor and validate the performance of Hurricane Sandy technical assistance grants.
2. Require NYSBDC to review and validate its reported performance results prior to filing its next quarterly report, to ensure that reported results are reliable.
3. Review all performance reports of SBDCs with Sandy technical assistance grants received since June 2015 to determine whether the reported performance metrics submitted by these entities are accurate and reliable, prior to any future reporting to Congress and other stakeholders.

Finding 2: Grant Charges Were Generally Allowable, but Unallocable Personnel and Advertising Expenses Were Noted

We concluded from our audit test work that most of the financial charges for Phase 2 of the Hurricane Sandy technical assistance grant were allowable, allocable, and reasonable. However, grant charges from the College of Staten Island totaling \$54,827 did not directly support Hurricane Sandy efforts and should not have been charged to the grant (see Appendix III). These unallocable expenditures were for personnel and advertising costs that were allowed primarily due to a fundamental misunderstanding of the Hurricane Sandy technical assistance grant purpose. Although NYSBDC officials believed that any funding spent in Sandy-impacted areas fit the purposes of the grant, the grant specifically states that it was “to fund technical assistance related to disaster recovery, response, and long-term resiliency to small businesses that were affected by Hurricane Sandy.”

Personnel Costs

According to the authority in place at the time, *Cost Principles for Educational Institutions*, allowable costs were required to be reasonable and allocable, ultimately advancing the work laid out in the grant.⁷ In order to carry out its mission, the approved payroll budget for the Staten Island sub-center provided for three counselors during Phase 2. However, we found that some of the payroll charges were not allocable to Hurricane Sandy efforts and should not have been charged to the grant. We tested a Staten Island invoice to the lead center that included direct charges for three business advisors and a fourth employee, not included in the approved budget, that was also titled “business advisor.” To verify the fourth business advisor’s role, we requested that the lead center produce a report of counseling hours recorded for each business advisor. This report showed that the fourth business advisor had no counseling hours recorded in the lead center’s system during the period of the invoice. According to the Staten Island SBDC director, this employee worked on an initiative called Start-Up NY, sponsored by the New York State governor. CUNY College of Staten Island designated vacant space on campus to implement this State program to attract developing businesses to the area by providing tax incentives to build a high technology business base in the community.

NYSBDC lead center personnel stated that they considered this program to be Hurricane Sandy-related because it helped businesses relocate to Staten Island, an area devastated by Hurricane Sandy. The purpose of the DRAA, however, was to fund technical assistance related to disaster recovery, response, and long-term resiliency to small businesses that were affected by Hurricane Sandy. Start-Up NY assisted businesses moving into Staten Island and did not target businesses that were directly affected by Hurricane Sandy. The employee in question did not spend any time offering counseling or technical assistance to businesses affected by Hurricane Sandy. Therefore, the program activities should have been applied towards NYSBDC’s core funding, not the Hurricane Sandy technical assistance grant.

The College of Staten Island sub-center inappropriately charged \$44,815 directly to the grant for payroll and fringe benefits of the business advisor. Because indirect costs accrue as a percentage of direct costs (in this case, 16 percent), SBA should also be reimbursed for the \$7,170 in increased indirect costs resulting from the improper direct charges, for a total of \$51,985.

⁷ Formerly 2 CFR 220.

Advertising Expenses

The College of Staten Island sub-center also charged advertising expenses that were not allocable to the Hurricane Sandy technical assistance grant. According to the Hurricane Sandy Phase 2 Notice of Award, direct costs claimed by an SBDC must be allowable under relevant cost principles and be clearly and specifically allocable, either in whole or in part, to the project funded by the Hurricane Sandy technical assistance award. The regulation in place at the time of award further stated that a cost is allocable if it was incurred to advance the work under the sponsored agreement.⁸

The sub-center charged \$600 for an exposition table and tickets to attend an awards ceremony, which it classified as an “advertising cost.” However, our review of the awards ceremony and exposition revealed that its purpose was not related to Hurricane Sandy and did not promote small business disaster recovery, response, or long-term resiliency. Instead, the awards ceremony was to honor young professionals who had affected the Brooklyn community. The sub-center also charged \$600 for a full-page ad in a journal, which displayed information promoting the Staten Island SBDC assistance for start-up and existing businesses, with no focus on Hurricane Sandy.

Additionally, the sub-center charged \$1,250 for an advertisement in *Staten Island Advance*, which publicized free consultations with business advisors for individuals looking to open or expand a business. Once again, these advertising expenses charged to the Hurricane Sandy Phase 2 technical assistance grant displayed no clear connection to supporting devastated Hurricane Sandy victims, but instead promoted the services of SBDC’s overall program. When we spoke to the sub-center director, he stated that because Staten Island was so severely impacted by Hurricane Sandy, any efforts in the area were applicable to the grant. However, these expenses should have been charged to core funding, which is intended to cover its regular mission and had funds available. We therefore question a total of \$2,450 for advertising costs and an additional \$392 for related indirect costs that are not allocable to the Hurricane Sandy technical assistance grant.

Recommendations

To address unallocable costs, we recommend that the Deputy Associate Administrator for the Office of Entrepreneurial Development:

4. Recover \$51,985 from NYSBDC for unallocable personnel costs directly charged to the Hurricane Sandy technical assistance grant.
5. Recover \$2,842 from NYSBDC for advertising expenses and related indirect costs that were not allocable to the Hurricane Sandy technical assistance grant.

Analysis of Agency Response

SBA management provided formal comments and partially agreed with two of our recommendations and disagreed with three recommendations. SBA’s comments are included in their entirety in Appendix IV. SBA stated that it has refined its internal guidelines and protocols for disaster technical assistance grants and believes that this will mitigate the weaknesses identified in our audit.

⁸ 2 CFR section 220, Cost Principles for Educational Institutions (OMB Circular A-21) (January 1, 2012) established principles for determining costs applicable to grants, contracts, and other agreements with educational institutions.

Summary of Actions Necessary to Close the Report

The following provides the status of each recommendation and the necessary action to resolve the recommendation.

1. Develop EDMIS system tools to allow OED to adequately monitor and validate the performance of Hurricane Sandy technical assistance grants.

Resolved: SBA partially agreed to the recommendation and stated that it will continue to develop system tools to assist in monitoring data specific to the performance of Hurricane Sandy technical assistance grants. SBA stated that the current system is not suited to validate Hurricane Sandy technical assistance grants; however, management did not provide details regarding the system tools they agreed they would develop. Since the RISE After Disaster Act authorizes SBDC participation in future events for which the President has declared a major disaster, we believe that system tools to validate disaster technical assistance grant performance is a necessary control. Based on management's agreement to develop system tools, we consider this recommendation resolved and will consider it implemented when management has developed adequate system tools to validate disaster technical assistance grant performance.

2. Require NYSBDC to review and validate its reported performance results prior to filing its next quarterly report, to ensure that reported results are reliable.

Resolved: SBA disagreed with the recommendation and stated that it cannot comply because the NYSBDC has already filed the final report for the Hurricane Sandy technical assistance grant. Since SBA will conduct an audit of the NYSBDC to determine the reliability of performance reporting in response to recommendation 3 of this report, we consider this recommendation resolved and will consider it implemented when the audit is performed.

3. Review all performance reports of SBDCs with Sandy technical assistance grants received since June 2015 to determine whether the reported performance metrics submitted by these entities are accurate and reliable, prior to any future reporting to Congress and other stakeholders.

Resolved: SBA partially agreed with the recommendation and stated that it will validate the reported performance metrics by conducting an audit of grant recipients who received grants over \$2 million. Management stated that it will ensure the accuracy and reliability of performance information prior to reporting to Congress and other stakeholders. We believe this is responsive to the recommendation and will consider it implemented upon completion of the audits.

4. Recover \$51,985 from NYSBDC for unallocable personnel costs directly charged to the Hurricane Sandy technical assistance grant.

Unresolved: SBA disagreed with the recommendation and stated that they fundamentally disagree with OIG's narrow interpretation of the purpose of Hurricane Sandy Disaster funding. SBA did not provide specific reasons for their disagreement. As previously noted, we properly applied the relevant criteria, *Cost Principles for Educational Institutions*, to determine the allowability and allocability of costs, and there is no basis for SBA's disagreement or challenge to the criteria asserted by OIG.

The Disaster Recovery Appropriations Act of 2013 authorized SBA to award grants or cooperative agreements to provide technical assistance to small businesses that are *recovering from Hurricane Sandy*. There is no evidence that the employee whose salary we questioned provided counseling, training or any other technical assistance to small businesses recovering from Hurricane Sandy. The SBDC stated this individual worked on the Start-Up NY program; however, that program did not have any connection to the Hurricane Sandy disaster and we did not find any references to Hurricane Sandy in the New York State Start-Up NY documents we reviewed. Further, we examined all the NYSBDC quarterly reports from September 2013 through June 2015 and found no reference to the Start-Up NY program in the Staten Island sub-center reporting or in the reporting of any of the other sub-centers. Additionally, the NYSBDC lead center did not identify this as a program supporting Hurricane Sandy technical assistance grants when interviewed by OIG. As a result, we maintain our position that the employee's time spent on this unrelated state program did not advance the work of the Hurricane Sandy technical assistance grant and is therefore not allocable or allowable.

Management's response to Recommendation 4 is not responsive to the recommendation because it does not explain or support the reasons or provide a legal basis for disagreement (as required by OMB Circular A-50 Audit Follow Up and SBA's Audit Follow Up policy⁹), and as a result, this recommendation remains unresolved. Recommendation 4 can be resolved when SBA agrees to recover \$51,985 from NYSBDC for unallocable personnel costs charged to the grant. Otherwise pursuant to the OMB Circular and SBA policy on audit follow-up, OIG will notify the Audit Follow-up Official of the disagreement not later than 60 days after the report date to seek resolution.

5. Recover \$2,842 from NYSBDC for advertising expenses and related indirect costs that were not allocable to the Hurricane Sandy technical assistance grant.

Unresolved: SBA disagreed with the recommendation and stated that they fundamentally disagree with OIG's narrow interpretation of the purpose of Hurricane Sandy Disaster funding. Again, SBA did not provide specific reasons for this disagreement. As outlined in the report, we properly applied the relevant criteria, *Cost Principles for Educational Institutions*, to determine the allowability and allocability of costs. Advertising expenditures that were not specific to providing Hurricane Sandy technical assistance were not allocable to the grant.

Management's response to Recommendation 5 is not responsive to the recommendation because it does not explain or support the reasons or provide a legal basis for disagreement (as required by OMB Circular A-50 Audit Follow Up and SBA's Audit Follow Up policy), and as a result, this recommendation remains unresolved. Furthermore, there is no basis for SBA's disagreement or challenge to the criteria asserted by OIG. This recommendation can be resolved when SBA agrees to recover \$2,842 from NYSBDC for unallocable advertising costs. Otherwise, OIG will notify the Audit Follow-up Official of the disagreement not later than 60 days after the report date.

⁹ SBA SOP 20 35 1, System for OIG Audit Follow Up, dated February 10, 2014.

Appendix I: Objective, Scope, and Methodology

Of the \$19 million disaster relief funds, we reviewed SBA's \$6.2 million Phase 2 award to NYSBDC at the State University of New York. Specifically, we reviewed the grant to determine (1) whether NYSBDC's goals and performance measures aligned with the 2013 DRAA, addressed the needs of Hurricane Sandy victims, and were accurately reported and (2) whether expenditures reported by NYSBDC and its sub-centers were allowable, allocable, and reasonable under the terms of the grant. We tested records and data as of June 30, 2015.

To answer our objective, we interviewed personnel and conducted site visits at the NYSBDC lead center in Albany, New York, and sub-centers at Brooklyn, Farmingdale, Rockland, and Staten Island. We also interviewed personnel with responsibility for managing and overseeing Hurricane Sandy technical assistance grants in SBA's Office of Small Business Development Centers and OED. Further, we reviewed applicable laws, regulations, implementing guidance, and OMB guidance governing the award and administration of Hurricane Sandy grant funds and grants made to educational institutions and non-profit organizations. In addition, we also reviewed the Agency's *Disaster Preparedness Recovery Plan 2012* and its *Superstorm Sandy Closeout Report*. Moreover, we reviewed SBA grant files and NYSBDC financial and programmatic reports.

To test financial transactions, we judgmentally sampled Phase 2 costs from NYSBDC and its sub-centers' general ledgers using a risk based selection approach. For each of the five sub-centers audited, we selected the quarter with the highest dollar costs for our testing. At four of the sub-centers, we also tested additional quarters with high costs. Additionally, we reviewed multiple reversal or negative entries at two of the sub-centers. The general ledgers audited contained transactions totaling \$2,888,594 in costs incurred from September 2013 to June 2015.

To determine whether expenditures were allowable, allocable, and reasonable under the terms of the grant, we traced the transaction-level data to the underlying source documents supporting the costs. We sampled transactions within the general ledger accounts that supported the NYSBDC's costs reported to the SBA, as shown in Table 4.

Table 4. Amount of NYSBDC's Costs the OIG Sampled

Cost Category	Actual Cost Incurred	Amount Sampled	Percentage Sampled
Personnel Services GL account: Salaries	\$1,623,588	\$120,350	7%
Fringe GL Account: Fringe Benefits	\$589,569	\$142,306	24%
Travel GL Accounts: Travel, Meetings	\$37,519	\$3,996	11%
Equipment GL Account: Equipment	-	-	-
Supplies GL Account: Office Expenses	\$25,056	\$1,668	7%
Contractual GL Accounts: Outreach Offices, Internet and Cell Phone services	\$160,269	\$20,102	13%
Consultant GL Accounts: Specialized Professional Services Temporary Help	\$10,500	1,485	14%
Other GL Accounts: Program Promotion Conference Registrations Miscellaneous	\$60,345	\$4,489	7%
Total Direct Costs	\$2,506,846	\$294,396	12%
Indirect Costs	\$381,748	\$107,571	28%
Total	\$2,888,594	\$401,967	14%

We analyzed budgetary data and post-award payment requests and reconciled costs claimed by grant recipients to accounting records. To ensure direct labor and other direct costs (e.g., materials, supplies, equipment, and travel expenses) were adequately supported, we examined general ledgers, transaction data, and source documents used to support grant fund expenditures. We verified fringe benefit costs and indirect costs to the SBA-approved rates.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-Processed Data

Our audit involved assessing computer-processed data that supported the financial activity and performance for NYSBDC. NYSBDC reported financial data to SBA in SF-270, *Request for Advance or Reimbursement*; SF-425, *Federal Financial Report*; and detailed expenditure worksheets. For performance reporting, NYSBDC inputs performance data to their Management Quality System (MQS) which uploads performance data monthly into to SBA's EDMIS.

While examining information that supported performance reporting, we identified data integrity issues, including data that was inconsistent, inaccurate, and erroneous. Specifically, data contained in the quarterly performance reports that NYSBDC submitted to SBA was not consistent with data in the Agency's EDMIS or the lead center's MQS. Because this data cannot be reconciled, we did not rely on the data in either system.

Review of Internal Controls

SBA's standard operating procedure (SOP) 00 02 2, *Internal Control Systems*, provides guidance on implementing and maintaining effective systems of internal control, as required by OMB.¹⁰ According to OMB, agencies are responsible for establishing and maintaining internal controls to operate effectively and efficiently, report reliable financial data, and comply with applicable laws and regulations.

We limited our assessment of internal controls to the scope of our audit: controls governing SBA's oversight of Hurricane Sandy technical assistance grants. We identified control weaknesses and deficiencies, which we have addressed as causes in this report.

¹⁰ OMB Circular A-123, Management's Responsibility for Internal Control (December 21, 2004).

Appendix II: NYSBDC Performance Metrics Definitions

Performance Metric	Definition
Economic Impact	Includes all forms of capital infusion including grants, debt, and investments from all sources (i.e., lines of credit, consumer debt products used specifically for the business, angel investors, and owner's capital contributions) Includes the aggregate total of the following: <ul style="list-style-type: none"> • Dollar amount of SBA loans • Dollar amount of non-SBA loans • Dollar amount of grants • Dollar amount of equity capital (to include private investment)
Extended Engagement Clients	Number of long-term clients receiving 5 hours or more of counseling, contact, and preparation time during that fiscal year.
Clients Assisted with Capital Access	Number of individuals assisted with economic impact.
Business Starts	New small businesses created.
Jobs Created/Saved	Jobs created and jobs retained.
Training Events	An event presented or co-sponsored by a resource partner, district office, or other SBA office that delivers a structured program of knowledge, information, or experience on an entrepreneurial or business-related topic. Training must last for a minimum of 1 hour.
Training Attendees	Individuals who attend an activity or event designed for the participant's acquisition of knowledge, skills, and competencies that relates to specific useful needs.
Information & Outreach Events	Events to disseminate information and create awareness of services available through SBA and/or the SBDC.

Source: Confirmed with SBA officials.

Appendix III: Schedule of Questioned Costs

Table 5. Questioned Costs¹¹

Unallowable Charge	Amount Charged
Advisor (No counseling performed - unrelated duties)	\$44,815
Print Advertising (Sandy services not offered)	\$1,850
Exposition Table (Unrelated to Sandy)	\$600
Indirect Cost (16%)	\$7,562
Total Questioned Cost	\$54,827

Source: OIG generated from audit data.

¹¹ Questioned costs are expenditures that are not supported by adequate documentation at the time of the audit or otherwise do not comply with legal, regulatory, or contractual requirements.

**SBA
Office of Entrepreneurial Development
Response to Audit Report**



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

Date: March 16, 2017

To: Hannibal M. Ware
Acting Inspector General

Through: Eric S. Benderson
Acting General Counsel

From: Lori M. Gillen
Deputy Associate Administrator
Office of Entrepreneurial Development

The Office of Entrepreneurial Development (OED) welcomes the opportunity to respond to the draft report “*Audit of New York Small Business Development Center’s Phase 2 Disaster Technical Assistance Grant.*” OED partially agrees with recommendations one and three and disagrees with recommendations two, four, and five. It is worth noting that OED has recently refined its internal guidelines and protocols regarding Disaster Technical Assistance grants. We are confident these improvements will mitigate weaknesses identified in this report.

Below please find the Agency’s response to each of the recommendations found in the report.

Recommendation 1:

We recommend that the Deputy Associate Administrator for the Office of Entrepreneurial Development develop EDMIS system tools to allow OED to adequately monitor and validate the performance of Hurricane Sandy technical assistance grants.

Explanation of proposed action: Partially agree. OED will continue to develop and improve EDMIS system tools to assist in monitoring data specific to the performance of Hurricane Sandy assistance grants. However, EDMIS tools are not suited to validate the grant’s performance. Target date for completion: June 30, 2019

Recommendation 2:

We recommend that the Deputy Associate Administrator for the Office of Entrepreneurial Development require NYSBDC to review and validate its reported performance results prior to filing its next quarterly report, to ensure that reported results are reliable.

Explanation of proposed action: Disagree. This is an untimely recommendation; therefore, Management is unable to comply. The NYSBDC has already filed the final report for the Sandy Disaster Grant.

Recommendation 3:

We recommend that the Deputy Associate Administrator for the Office of Entrepreneurial Development review all performance reports of SBDCs with Sandy technical assistance grants received since June 2015 to determine whether the reported performance metrics submitted by these entities are accurate and reliable, prior to any future reporting to Congress and other stakeholders.

Explanation of proposed action:

Partially agree. In accordance with Generally Accepted Auditing Standards, Management will validate the reported performance metrics submitted by conducting an audit on a sampling of the data from recipients who received more than \$2 million. Management will ensure the performance data is accurate and reliable prior to reporting to Congress and other stakeholders. Target date for completion: December 31, 2017

Recommendation 4:

We recommend that the Deputy Associate Administrator for the Office of Entrepreneurial Development recover \$51,985 from NYSBDC for unallocable personnel costs directly charged to the Hurricane Sandy technical assistance grant.

Explanation of proposed action:

Disagree. Management fundamentally disagrees with the narrow interpretation of the purpose of the Sandy disaster funding.

Recommendation 5:

We recommend that the Deputy Associate Administrator for the Office of Entrepreneurial Development recover \$2,842 from NYSBDC for advertising expenses and related indirect costs that were not allocable to the Hurricane Sandy technical assistance grant.

Explanation of proposed action:

Disagree. Management fundamentally disagrees with the narrow interpretation of the purpose of the Sandy disaster funding.

Please see the attached 1824 forms for additional details.