# White Paper: Risk Awareness and Lessons Learned from Prior Audits of Entrepreneurial Development Programs

REPORT NUMBER 20-13 | April 23, 2020

# EXECUTIVE SUMMARY

## RISK AWARENESS AND LESSONS LEARNED FROM PRIOR AUDITS OF ENTREPRENEURIAL DEVELOPMENT PROGRAMS

Report Number
20-13

April 23, 2020

### Why We Did This

We prepared this memorandum to inform the Small Business Administration (SBA) of lessons learned and risks identified in prior audits and reviews of entrepreneurial development programs. SBA should consider this information as it implements mandates to administer Federal funds to Small Business Development Centers (SBDC), Women's Business Centers (WBC), and resource partner associations related to the Coronavirus (COVID-19) pandemic to ensure funds are used as intended and programs achieve their goals and objectives.

The President signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law on March 27, 2020. The Act contains several provisions intended to provide economic relief to our nation's small businesses. One of the Act's provisions provides $240 million for grants to SBA's SBDC and WBC resource partners to offer counseling, training, and related assistance to small businesses affected by COVID-19. The Act also provides $25 million for grants to resource partner associations to establish a single centralized hub for COVID-19 information, including a training program to educate resource partner counselors and mentors on the COVID-19 resources and information available to effectively assist affected small businesses.

SBA's entrepreneurial development programs provide technical and counseling assistance to small businesses through cooperative agreements awarded annually to its nationwide network of resource partners, including SBDCs and WBCs. In addition to the CARES Act funding, in fiscal year (FY) 2020, Congress had already appropriated $149.5 million in funding for SBDC and WBC entrepreneurial development programs.

### What OIG Reviewed

The Office of Inspector General (OIG) regularly conducts audits and other reviews that evaluate management controls and assess the integrity, efficiency, and effectiveness of the SBA grant programs. We compiled findings from those audits and reviews that identified significant issues and relevant risks.

### Identified Areas of Risk

Prior audits and reviews identified areas of risk in SBA's entrepreneurial development programs. Specifically, SBA's processes for monitoring how grant recipients spent Federal funds and assessing performance were ineffective. In addition, SBA's decentralized grants management functions inhibited agencywide improvements to its grant management process. As a result, SBA's entrepreneurial development programs were at risk of funds not being used for their intended purpose and not achieving program goals and objectives.

While SBA has improved controls related to existing grant programs, we note risk areas that may present SBA with challenges while implementing the CARES Act requirements for entrepreneurial development programs.

### Key Considerations for SBA

In summary, to ensure the integrity of entrepreneurial development programs and to mitigate the risk of funds not being used for intended purposes, SBA should:

- Establish clear oversight requirements in the notices of award and ensure program officials and grant recipients implement increased internal controls
- Establish outcome-oriented performance measures specific to entrepreneurial development COVID-19 priorities
- Track program data to adequately monitor and validate the performance of COVID-19 grant assistance
- Provide appropriate training to all grants officers and program personnel responsible for monitoring grant recipients' response to COVID-19
- Establish methodology to ensure funds are appropriately allocated to resource partners
- Establish a quality assurance plan to prevent and detect improper payments
- Provide oversight to ensure the COVID-19 programs are implemented as intended and that program goals and objectives are met

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

**DATE**: April 23, 2020

**TO:** Jovita Carranza
Administrator

**FROM:** Hannibal "Mike" Ware
Inspector General

**SUBJECT:** Risk Awareness and Lessons Learned From Prior Audits of Entrepreneurial Development Programs

We prepared this memorandum to provide the Small Business Administration (SBA) information regarding risks identified, in addition to lessons learned, from prior audit and evaluation findings pertaining to its entrepreneurial development programs. SBA should consider this information in managing and mitigating the risk of funds not being used for their intended purpose and of not achieving program goals and objectives for entrepreneurial development programs related to the Coronavirus (COVID-19) pandemic.

## Background

Like other nations, the United States is dealing with the devastating effects of the COVID-19 pandemic, which has significantly impacted countless small businesses across the country. Temporary business closings and layoffs could have a lasting negative impact on local economies if these entities do not survive. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020, to provide economic relief to our nation's small businesses.[1] One of the Act's provisions provided $265 million for entrepreneurial development programs, that results in $192 million to Small Business Development Centers (SBDC) and $48 million to Women's Business Centers (WBC) to offer counseling, training, and related assistance to small businesses affected by COVID-19. The Act also provided $25 million to resource partner associations to establish a single centralized hub for information related to COVID-19, including a training program to educate resource partner counselors and mentors on the COVID-19 information available to effectively assist affected small businesses.[2]

## Applicable Federal Statutes, Regulations, and Guidelines

Section 21 of the Small Business Act empowers SBA's Administrator to make grants to SBDCs. These powers are subject to restrictions, limitations, and provisions as defined in the Act.

Section 29 of the Small Business Act authorizes the Administrator to provide financial assistance for the benefit of small business concerns owned and controlled by women.

[1] Public Law 116-136.
[2] SBA collaborates with resource partner associations for many of its entrepreneurial development initiatives. The America's SBDC and the Association of WBC support the nationwide networks of SBDCs and WBCs, respectively. These nonprofit organizations promote, inform, support, continuously improve, and represent the interest of their members.

Title 13, Part 130 in the Code of Federal Regulations contains the requirements for SBDCs.

Title 13, Part 131 in the Code of Federal Regulations contains the requirements for WBCs.

SBA Standard Operating Procedures (SOP) 60 16 1 provides specific policies and procedures governing SBDCs.

SBA SOP 90 80 provides specific policies and procedures governing WBCs.

SBA SOP 00 18 01 provides standardized policies for the management and administration of all grants awarded by SBA by either the Office of Grants Management or other authorized program offices to include the Office of Small Business Development Centers and the Office of Women Business Ownership.

The CARES Act contains provisions that relate to SBA's entrepreneurial development programs. Specifically:

- **Section 1103(b):** authorizes SBA to provide financial assistance in the form of grants to SBDCs and WBCs to provide counseling, training, and education on SBA and other Federal resources relating to access to capital and business resiliency to small business owners affected by COVID-19. The Act requires SBA to waive the requirement for recipients to obtain matching funds for any grants awarded under the Act. Further, the Act requires that SBA and resource partners jointly develop, negotiate, and agree upon goals and metrics. The Act also requires SBA to publish the methodology by which SBA and resource partners jointly developed the metrics and goals. Under this section, SBA is mandated to award 80 percent of funds appropriated for these education, training, and advertising grants to SBDCs and 20 percent to WBCs.

- **Section 1103(c)**: authorizes SBA to provide grants to an association or associations representing resource partners to establish a single centralized hub for COVID-19 information, to include a training program to educate resource partner counselors and mentors on the COVID-19 information available to effectively assist affected small businesses.

- **Section 1107:** appropriates $265 million for SBA entrepreneurial development programs, of which $240 million will fund grant awards to SBDCs and WBCs for education, training, and advising small business concerns and $25 million will fund grant awards to resource partner associations.

## Prior Audit Findings

In fulfilling our responsibility to oversee the entrepreneurial development programs, we have provided testimony in congressional hearings and issued numerous audit and evaluation reports. In addition, in October 2018, we identified SBA's grants management as a top management challenge for the Agency. The following is a compilation of significant findings and relevant risks from prior audits and evaluations focused on SBDC and WBC programs, as well as previous awards to resource partners for disaster technical assistance.

### Oversight of Federal Funds

In prior audits, we identified systemic issues with SBA's oversight of grant recipients' use of Federal funds. These findings demonstrate that SBA needs to ensure it enforces financial reporting requirements, detects budget reallocations that exceed allowable transfer limits, uses robust financial review procedures, and maintains supporting documentation. Furthermore, prior audits of resource partners that received disaster grants in addition to their annual technical assistance grants, identified challenges the resource partners had with spending funds from competing sources and providing simultaneous assistance. Because the CARES Act substantially increases the amount of funds for SBA to administer to SBDC and WBC programs and waives grant matching requirements, SBA must ensure it implements procedures to effectively oversee that recipients use these funds for the intended purpose. Further, because certain parts of the country have been impacted more by COVID-19 than others, SBA needs to ensure it allocates funds to the SBDCs and WBCs proportionally with the demand for technical assistance in these areas.

**OIG Management Advisory 19-20: Review of Women's Business Center, Inc., Compliance with Cooperative Agreement Requirements, September 19, 2019**

We reported that SBA did not ensure WBCs complied with Federal statutes, regulations, or the terms and conditions of the cooperative agreements. Specifically, the recipients did not maintain an adequate financial management system and requisite supporting documents, records, or policies and procedures. The recipients also did not have audited financial statements for FYs 2016 – 2018 as required by the terms and conditions of the cooperative agreements. Further, WBCs did not have available client facilities and service hours or a fulltime program director. As a result, WBCs received Federal funding without meeting the intent of the program to provide training and counseling to women business owners.

**OIG Report 17-10: The SCORE Association's Disaster Technical Assistance Grant, March 31, 2017**

We reported that SBA's internal controls were insufficient to prevent unallowable costs of $391,000, or 47 percent, of the awarded funds. In addition, SBA exempted the recipient from submitting quarterly financial reports, which limited SBA's ability to oversee the recipient's use of Federal funds. Therefore, SBA had no assurance the recipient effectively achieved the disaster technical assistance grant objectives that the grant funds were intended to support.

**OIG Report 17-09: Audit of New York Small Business Development Center's Phase 2 Disaster Technical Assistance Grant, March 31, 2017**

We reported that SBA did not detect the SBDC incurred costs that were neither allowable nor allocable to the grant. Specifically, the SBDC included personnel costs that were unrelated to the grant. The SBDC also incurred advertising costs that were general in nature and not specific to the disaster technical assistance and should not have been paid with disaster funding. As a result, SBA had no assurance that the SBDC used Federal funds intended to assist disaster-impacted individuals and small businesses only for disaster recovery and resiliency initiatives.

### Program Performance Data Reliability and Reporting

Prior audits and evaluations also identified findings regarding program performance, data reliability, and reporting, demonstrating that SBA needs to enforce performance reporting requirements, develop data verification procedures, and ensure that its performance system of record, Entrepreneurial Development Management Information System (EDMIS) captures a complete record of performance data. SBA must implement procedures to ensure it effectively oversees activities of SBDCs and WBCs and assesses the impact that these efforts have on helping small businesses survive the COVID-19 outbreak and build resiliency for the future.

**OIG Report 17-10: The SCORE Association's Disaster Technical Assistance Grant, March 31, 2017**

We reported that SBA exempted the recipient from submitting quarterly performance reports, which limited SBA's ability to oversee and assess the recipient's role in the recovery efforts. Further, SBA's established performance goals for the disaster grant focused on outputs rather than outcomes. We also determined that the disaster grant data entered into the Office of Entrepreneurial Development's EDMIS was unreliable. As such, SBA had no assurance the recipient effectively achieved the objective that the grant funds were intended to support.

**OIG Report 17-09: Audit of New York Small Business Development Center's Phase 2 Disaster Technical Assistance Grant, March 31, 2017**

We reported that both SBA and the SBDC needed to improve their methods for gathering and reporting performance data. Specifically, we found that SBA and the SBDC reported significantly higher performance results for the disaster technical assistance grant than they were able to support. Consequentially, SBA could not determine how well the SBDC performed or measure the impact of the $6.2 million dollars it awarded to the SBDC for a long-term resiliency initiative.

### Disaster Technical Assistance Implementation

A prior audit of the disaster technical assistance awards to resource partners determined that SBA did not effectively oversee the resource partners to ensure they delivered increased services generated by the additional disaster technical assistance funding. In addition, SBA did not ensure that the resource partners fully collaborated with other resource partners outside of their core network to whom they could have spread the funding and services that supported goal achievement more broadly. These findings demonstrate the SBA's need to implement effective oversight, under compressed timelines, to ensure the integrity of entrepreneurial development programs and to mitigate the greater risk posed by CARES Act spending.

**OIG Report 15-15: SBA Needs to Improve its Management of Disaster Technical Assistance Grants, July 31, 2015**

We reported that SBA did not ensure that SBDCs mitigated the challenges faced in operating under an aggressive 6-month timeline while delivering an increased level of technical assistance services supported by multiple funding sources. Further, SBDCs faced challenges with attracting technical assistance clients and spending disaster funds concurrent with funds from other grants. SBDCs also had difficulty collaborating with other technical assistance providers. Also, SBA did not sufficiently modify its oversight processes or ensure SBDCs' modified their oversight processes of subrecipients. SBA made plans to increase its oversight procedures midway through the disaster assistance initiative; however, it did not effectively implement the changes because of a lack of administrative funds and insufficient time allotted for planning at the onset of the disaster assistance initiative. As a result, SBA did not provide sufficient oversight of the grant recipients and significantly fell short of its target collective level of services intended for disaster-impacted individuals and small businesses through the $12.6 million awarded to SBDCs.

## SBA's Improvements

The six reports we issued on SBA's entrepreneurial development programs included 39 recommendations for improving the SBDC, WBC, and SCORE programs. SBA addressed 38 of those recommendations, which we closed after review of the supporting documentation. SBA continues to make progress toward implementing a new grants management system that officials told us would improve their ability to enforce compliance and improve oversight and management of the grants program. Without this system, SBA has limited ability to assess the effectiveness of the recently implemented corrective actions. SBA made other improvements which include, but are not limited to:

- Implementing controls to ensure program officials enforced financial and performance reporting requirements
- Recovering unallowable costs
- Developing tools to monitor and validate performance
- Issuing revised SOP for grants management to standardize policies for compliance, management, and administration of all grants awarded by SBA
- Identifying, developing, and implementing training for all personnel responsible for grants management

Although SBA officials implemented corrective actions to address nearly all the recommendations in these reports, the actions taken may have since been revised because of program changes over time. SBA must reevaluate the current effectiveness of its internal controls to avoid a recurrence of these issues and to mitigate the risk of fraud, waste, and abuse of funds provided to resource partners in response to COVID-19 for entrepreneurial development programs.

## Key Points to Consider When Administering COVID-19 funds for Entrepreneurial Development Programs

In summary, to ensure the integrity of entrepreneurial development programs and to mitigate the greater risk posed by CARES Act spending, SBA needs to augment existing internal controls to monitor resource partners' compliance with performance and financial requirements ensuring they use CARES Act funds for intended purposes and achieve entrepreneurial development programs goals. SBA should:

- Establish clear oversight requirements in the notices of award and ensure program officials and grant recipients implement increased internal controls timely
- Establish outcome-oriented performance measures specific to entrepreneurial development COVID-19 priorities
- Track program data to adequately monitor and validate the performance of COVID-19 grant assistance
- Provide appropriate training to all grants officers and program personnel responsible for monitoring grant recipients' response to COVID-19
- Establish a methodology to ensure funds are appropriately allocated to resource partners
- Establish a quality assurance plan to prevent and detect improper payments
- Provide oversight to ensure SBA officials implement the program as intended and that program goals and objectives are met

## Fraud Hotline

SBA OIG also aggressively investigates allegations of fraud, waste, abuse, or mismanagement. Please report fraud, waste, abuse, or mismanagement of Federal funds involving SBA programs, operations, or personnel to the SBA OIG hotline. To submit a complaint, please visit https://www.sba.gov/about-sba/oversight-advocacy/office-inspector-general/office-inspector-general-hotline or call 1-800-767-0385.

## Disclaimer

This White Paper contains findings from prior audits and reviews. It is intended solely to provide risk information from those prior audits that SBA should consider as it implements mandates to administer Federal funds to its resource partners to ensure the funds are used as intended and that the programs achieve its goals. It is not an audit performed under Generally Accepted Government Auditing Standards and not an inspection, evaluation, or review performed under the CIGIE Quality Standards for Inspection and Evaluation.

If you have any questions, please contact me at 202-205-6586 or Andrea Deadwyler, Assistant Inspector General for Audits, at 202-205-6616.

cc: William Manger, Chief of Staff and Associate Administrator, Office of Capital Access
Nina Levine, Acting General Counsel
Allen Gutierrez, Associate Administrator, Office of Entrepreneurial Development
Sean Crean, Executive Director, Office of Executive Management, Installation and Support Services
Martin Conrey, Attorney Advisor, Legislation and Appropriations
Tami Perriello, Chief Financial Officer
Tonia Butler, Director, Office of Internal Controls