

# AUDIT REPORT

## SMALL BUSINESS DEVELOPMENT CENTER HOSTED BY MIDDLE TENNESSEE STATE UNIVERSITY





# EXECUTIVE SUMMARY

## SMALL BUSINESS DEVELOPMENT CENTER HOSTED BY MIDDLE TENNESSEE STATE UNIVERSITY

Audit Report  
No. 16-06  
December  
18, 2015

### What OIG Reviewed

Small business development centers (SBDCs) provide aspiring and current small business owners a variety of free business consulting and low-cost training services. Typically, these SBDCs are hosted by universities and State economic development agencies and referred to as lead centers. For every dollar that lead centers receive from the Small Business Administration (SBA), SBDCs must provide a dollar-for-dollar match.

SBA awarded about \$1.9 million to the Tennessee SBDC (Lead Center) hosted by Middle Tennessee State University for calendar year (CY) 2013. We audited the \$1.9 million grant to determine whether the Lead Center complied with SBA grant requirements related to Federal expenditures and program performance.

### What OIG Found

We found the Lead Center generally complied with grant requirements relating to reporting, budget management, and control, and its Federal expenditures and matching contributions were, in general, properly authorized, classified, supported, and charged to the grant.

Of the \$1.9 million that SBA awarded to the Lead Center, the approved budget designated nearly \$1.2 million to be used for personnel costs. However, a significant portion of the personnel expense transactions that we tested did not have sufficient documentation to indicate the actual time personnel spent working on the grant. Because employees' time and effort spent on the grant counted towards the Lead Center and subcenters' required match, if this time and effort was overstated, the match could also be overstated.

### OIG Recommendations

We recommend that SBA require the Lead Center to (1) obtain after-the-fact confirmations based on verification of the time and effort that employees spend working on the grant, at least annually, and (2) implement procedures to ensure performance data reported to SBA is accurate.

### Agency Response

SBA management's planned actions resolve both recommendations. SBA plans to work with the Tennessee SBDC to implement policies for obtaining after-the-fact confirmations of time and effort employees spend working on the grant, and ensuring performance data reported to SBA is accurate.



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

---

**Final Report Transmittal**  
Report Number: 16-06

**DATE:** December 18, 2015

**TO:** Maria Contreras-Sweet  
Administrator

Douglas Kramer  
Deputy Administrator

Tameka Montgomery  
Associate Administrator, Office of Entrepreneurial Development

Scott Henry  
Acting Associate Administrator, Office of Small Business Development Centers

**FROM:** Troy M. Meyer /s/  
Assistant Inspector General for Auditing

**SUBJECT:** *Small Business Development Center Hosted by Middle Tennessee State University*

This report presents the results of our audit of the Tennessee Small Business Development Center's compliance with grant requirements. The overall report is resolved. 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.

We appreciate the cooperation that we received from your staff during our audit. Please contact me if you would like to discuss this report or any related issues.

cc: Nick Maduros, Chief of Staff  
Matthew Varilek, Chief Operating Officer  
Melvin F. Williams, Jr., General Counsel  
Martin Conrey, Attorney Advisor, Legislation and Appropriations  
Tami Perriello, Chief Financial Officer  
LaNae Twite, Director, Office of Internal Controls

## **Table of Contents**

---

Introduction.....	1
The Lead Center .....	1
Objective.....	2
Finding 1: Subcenters Did Not Adequately Document Employees’ Time and Effort on the Grant.....	3
Recommendation.....	4
Finding 2: Lead Center did not Achieve its Program Performance Goals .....	5
Recommendation.....	6
Analysis of Agency Response.....	7
Appendix I: Scope and Methodology.....	8
Use of Computer-Processed Data.....	9
Review of Internal Controls.....	9
Appendix II: Centers That Supported Personnel Expenditures with an Acceptable Payroll Distribution Method.....	10
Appendix III: Agency Comments.....	11

## **Introduction**

---

The Small Business Administration (SBA) is authorized to make grants to 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.<sup>1</sup> Specifically, SBDCs (called lead centers) and their subcenters provide free business consulting and low-cost training services to aspiring entrepreneurs and small businesses. Among the services offered are advice on writing business plans, accessing capital, and marketing. SBDCs coordinate program services offered to small businesses through their network of subcenters. There are 63 SBDCs with over 900 subcenters throughout the United States.

SBDCs are funded, in part, through a partnership between SBA and SBDCs. Each year, SBDCs submit proposals for funding in response to SBA's program announcement. For every dollar received from SBA, the Small Business Act requires SBDCs to provide a matching amount equal to the Federally-appropriated amount. These matching funds must be derived from non-Federal sources and be comprised of at least 50 percent cash and at least 50 percent of the value of indirect costs and in-kind contributions.<sup>2</sup>

SBA's Office of Small Business Development Centers (OSBDC), within the Office of Entrepreneurial Development (OED), has the primary responsibility for the oversight of SBDCs. It shares this responsibility with the Financial Examination Unit, also within OED, and district directors and project officers in the Office of Field Operations (OFO). Agency personnel within OED and OFO conduct oversight at SBA headquarters and conduct site visits to SBDC lead centers and subcenters.

### **The Lead Center**

Since 2004, Middle Tennessee State University has hosted an SBDC in Tennessee ("Lead Center"), which has 14 subcenters in its network. The Lead Center operates on a calendar year (CY) and is managed by a director with the authority to make expenditures and manage program activities in accordance the SBA-approved budget. In December 2012, SBA awarded a \$2,125,783 grant to the Lead Center in support of an approved budget totaling \$5,020,376 for the CY 2013 program year. In June 2013, the Federal share was reduced to \$1,961,846, and the total budget was reduced to \$5,000,662 (see Table 1).

---

<sup>1</sup> Small Business Act, Section 21, (a) (1).

<sup>2</sup> Matching funds typically come through State legislatures, private sector foundations and grants, chambers of commerce, state-chartered economic development corporations, and public and private universities and community colleges.

**Table 1. Recipient's CY 2013 Approved Budget by Cost Category**

<b>Budget Category</b>	<b>Federal Share</b>	<b>SBDC Match</b>	<b>Total</b>
<b>Personnel</b>	\$1,193,645	\$1,097,977	\$2,291,622
<b>Fringe Benefits</b>	\$464,982	\$402,644	\$867,626
<b>Travel</b>	\$101,604	\$116,900	\$218,504
<b>Equipment</b>	\$5,000	\$5,000	\$10,000
<b>Supplies</b>	\$55,926	\$18,435	\$74,361
<b>Contractual</b>	\$5,000	\$89,889	\$94,889
<b>Consultants</b>	\$26,000	\$50,500	\$76,500
<b>Other</b>	\$109,689	\$453,105	\$562,794
<b>Indirect Charges</b>	\$-	\$804,366	\$804,366
<b>Total</b>	<b>1,961,846</b>	<b>\$3,038,816</b>	<b>\$5,000,662</b>

Source: Generated by OIG based on CY 2013 Award Modification #2

### **Objective**

We audited the \$1.9 million grant awarded to Middle Tennessee State University Small Business Development Center (Lead Center) for CY 2013 to determine whether the Lead Center complied with SBA grant requirements related to Federal expenditures and program performance.<sup>3</sup>

---

<sup>3</sup> See Appendix I for a detailed discussion of our scope and methodology.

## Finding 1: Subcenters Did Not Adequately Document Employees' Time and Effort on the Grant

---

As the grant recipient, the Lead Center was responsible for ensuring that both the Lead Center and its subcenters spend grant funds in accordance with grant requirements, laws, and regulations. Of the \$1.9 million that SBA awarded to the Lead Center, the approved budget designated nearly \$1.2 million for personnel costs. However, we found that a significant portion of the 15 personnel expense transactions that we tested did not have sufficient documentation to indicate the actual time personnel spent working on the grant.

According to Federal guidance, acceptable payroll distribution methods must include an after-the-fact confirmation of an employee's effort on the grant so that they represent actual costs, such as time and effort certifications or another form.<sup>4</sup> This confirmation must be verified and signed by the employee or another designated official using suitable means of verification that the work was performed. In addition, SBA's notice of award referenced this requirement and also required the Lead Center to maintain time and attendance documentation sufficient to support the claimed percentage of work performed for all employees whose salaries were charged to the award.

Based on the personnel transactions we reviewed, 9 of the 14 subcenters in the Lead Center's network fell short of maintaining the documentation that the Office of Management and Budget (OMB) and SBA required.<sup>5</sup> Only 5 of the subcenters and the Lead Center could support the time that employees charged to the grant with after-the-fact confirmations. These centers maintained time and effort certifications consistent with OMB's planned confirmation method for payroll distribution.<sup>6</sup>

When we spoke with Lead Center personnel, they stated that each subcenter was required to follow its own institution's payroll procedures. While this may be true, as recipients of Federal funding, they must also follow Federal procedures.<sup>7</sup> However, the Lead Center did not require subcenters to prepare and maintain certifications of time and attendance that the employees charged to the award. For example, one subcenter official asked a Lead Center official if the subcenter was required to maintain documentation of time spent working on the grant, since they were required to do so for another Federal grant the subcenter had received. According to the subcenter official, the Lead Center official explained that additional time and effort documentation was not required because the subcenter was reviewing the payroll register. However, we believe that this step alone was insufficient, since the payroll register reports showed how employees' salaries were allocated to the grant but did not provide any evidence that what was charged to the grant was valid and correct. That subcenter has since revised its policies to include certification of time spent working on the SBDC grant. The executive director at that subcenter provided a signed confirmation to us in response to our request for the required after-the-fact documentation, more than 1 year after the grant closed. The Lead Center had not required this documentation.

---

<sup>4</sup> OMB guidance in 2 CFR §220 Appendix .A, Section J.10.b, in effect during the grant period addressed acceptable payroll distribution methods. This guidance was superseded by 2 CFR § 200.430 in the new Super-Circular, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, which requires charges for salaries and wages be based on records that accurately reflect the work performed on Federal awards.

<sup>5</sup> With the exception of hourly employees whose salaries accounted for 6.7 percent of the \$142,235.

<sup>6</sup> Appendix II contains a list comprised of the Lead Center and its subcenters that maintained sufficient documentation to support personnel expenditures.

<sup>7</sup> According to 2 C.F.R. § 220, "The distribution of salaries and wages, whether treated as direct or F&A costs, will be based on payrolls documented in accordance with the generally accepted practices of colleges and universities" However, the CFR and the notice of award both say that documentation of the actual effort is required as well.

Because some colleges and universities receive multiple Federal grants, it is important that the Tennessee Lead Center—and all other SBDCs—prepare after-the-fact confirmations supporting that employees' actual time spent working on the grant has been verified. If SBDCs do not follow OMB and SBA's documentation requirements, they cannot be sure that SBA grant funds are being used for employee's work on that specific grant. This is even more important considering the over-allocation of an employee's salary to the grant is considered an unallowable Federal expenditure.

Unsupported employee time and effort could also affect the Lead Center's matching contribution. The notice of award required the Lead Center to provide dollar-for-dollar support from non-Federal sources to match the Federal Government's contribution; of that, 50 percent of the matching contribution must be comprised of a direct cash match. In the Lead Center's case, its cash match primarily consisted of its subcenters' personnel expenditures.<sup>8</sup> Therefore, if the subcenters overstated the time and effort of their employees, the Lead Center's match could also be overstated. Overall, we found that matching contributions were allowable; however, because some subcenters did not prepare and maintain time and effort certifications for employees' time and effort spent working on the grant, SBA cannot be certain that the Lead Center and its subcenters contributed the required amount of matching funds.

As a result of our audit, the Lead Center plans to now require each subcenter to provide the Lead Center with after-the-fact confirmations certifying the time and effort for each employee working on the grant with submission of the subcenter's semi-annual performance report.

## **Recommendation**

We recommend that the Acting Associate Administrator for the Office of Small Business Development Centers:

1. Require the Lead Center to obtain after-the-fact confirmations based on verification of time and effort employees spend working on the grant prepared by either the employee, the principle investigator on the grant, or a responsible official with suitable means of verification that the work was performed by the employee, at least annually.

---

<sup>8</sup> The remaining 50 percent can be a combination of in-kind contributions or indirect costs.



## **Finding 2: Lead Center did not Achieve its Program Performance Goals**

The primary goals of the SBDC Program are to promote entrepreneurship and small business growth. The grant's notice of award provided three metrics by which the Lead Center's performance was measured: (1) long-term clients, (2) business starts, and (3) capital infusion. However, for CY 2013, the Lead Center fell short in achieving two of the three goals identified in its technical proposal. (See Table 2)

**Table 2. The Lead Center's Achievement of Program Goals for CY 2013**

<b>Metric</b>	<b>Goal</b>	<b>Lead Center Data<sup>9</sup></b>	<b>Difference</b>	<b>Percent Attainment</b>
<b>#1 Long-Term Clients</b>	1,055	917	(138)	87%
<b>#2 Business Starts</b>	254	168	(86)	66%
<b>#3 Capital Infusion</b>	\$68,972,400	\$119,021,901	\$50,049,501	173%

Source: Generated by OIG based on CY 2013 notice of award (metric), technical proposal (goal), and Lead Center support for the December 31, 2013 performance report.

We spoke to a Lead Center official, who explained why the SBDC fell short of two of its three goals. According to the Lead Center official, SBA's District Office placed more emphasis on capital infusion, which encouraged the Lead Center to focus on clients who could easily obtain capital rather than new businesses. As a result, the Lead Center reported meeting its capital infusion goal by 173 percent but did not focus as much attention on the other areas. In addition, the Lead Center and its subcenters could not count counseling sessions under 5 hours towards accomplishing their goals, regardless of whether the counseling session was successful.

We also noted that the Lead Center misreported to SBA that it accomplished two goals.<sup>10</sup> Under 13 CFR § 130.820, the grant recipient is required to submit performance reports that accurately reflect the activities, accomplishments, and deficiencies of the SBDC network. However, the Lead Center reported that it had served 1,104 long-term clients, even though the Center IC (the Lead Center's performance tracking system) data showed that the Lead Center only assisted 917 long-term clients. While we found additional, minor discrepancies from what was reported in the performance reports to the data maintained in Center IC in the other two metrics, these discrepancies were immaterial in assessing whether the Lead Center achieved its program goals. Lead Center officials stated that the discrepancies between what was reported to SBA and the Lead Center's internal tracking system were caused by an error in the queries that the Lead Center ran. According to Lead Center officials, they now require performance data to be prepared by both the Lead Center and a third party, and for any differences to be reconciled prior to submitting to SBA.

<sup>9</sup> This data is comprised of data from Center IC, the Lead Center's performance tracking system.

<sup>10</sup> We discovered this by vouching the performance claims as reported in the CY 2013 performance reports to the supporting data from the Lead Center's internal performance tracking system.

## **Recommendation**

We recommend that the Acting Associate Administrator of the Office of Small Business Development Centers:

2. Require that the Lead Center implements procedures to ensure performance data reported to the SBA is accurate.

## **Analysis of Agency Response**

SBA management provided formal comments that are included in their entirety in Appendix III. SBA agreed with our two recommendations, and its planned actions resolve both recommendations.

### **Summary of Actions Necessary to Close the Report**

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

- 1. Require the Lead Center to obtain after-the-fact confirmations based on verification of time and effort employees spend working on the grant prepared by either the employee, the principle investigator on the grant, or a responsible official with suitable means of verification that the work was performed by the employee, at least annually.**

**Resolved.** SBA management agreed with this recommendation and stated that it will work with the Tennessee SBDC to implement a policy to obtain after-the-fact confirmations based on verification of time and effort employees spend working on the grant. SBA plans to complete final action on this recommendation by January 2016. This recommendation can be closed upon SBA providing evidence supporting that the Tennessee SBDC implemented the policy for after-the fact confirmation of employees' time and effort spent working on the grant.

- 2. Require that the Lead Center implements procedures to ensure performance data reported to the SBA is accurate.**

**Resolved.** SBA management agreed with this recommendation and stated that it will work with the Tennessee SBDC to implement a policy and procedures to ensure performance data reported to SBA is accurate. SBA plans to complete final action on this recommendation by January 2016. This recommendation can be closed upon SBA providing evidence supporting that the Tennessee SBDC implemented a policy and procedures to ensure performance data reported to the Agency is accurate.

## Appendix I: Scope and Methodology

---

Our audit objective was to determine whether the Lead Center complied with grant requirements for its CY 2013 grant. We assessed compliance in the following areas: (1) internal control environment, (2) reporting, (3) program performance, (4) budget management and control, (5) grant expenditures, and (6) matching contributions.

We tested \$177,985 (9 percent) in personnel and fringe benefits, supplies, and other direct costs to determine if the expenses were allowable. This included selecting a judgmental sample of 19 transactions from personnel and other direct costs, including supplies, contractors, and other professional service fees charged to the grant for CY 2013. We did not test the extent to which employees actually performed the percentage of work reported for time and effort devoted to the grant.

**Table 3. Summary of Grant Expenditures**

Budget Category	Amount Budgeted	Amount Recorded	Amount Tested
Personnel	\$1,193,645	\$1,162,252	\$142,235
Fringe Benefits	\$464,982	\$414,936	\$1,537
Travel	\$101,604	\$81,218	-
Equipment	\$5,000	-	-
Supplies	\$55,926	\$92,642	\$6,188
Contractual	\$5,000	-	-
Consultants	\$26,000	\$16,313	\$3,876
Other	\$109,689	\$194,485	\$24,149
<b>Total</b>	<b>1,961,846</b>	<b>\$1,961,846</b>	<b>\$177,985</b>

Source: Generated by OIG based on 2013 notice of award and the Lead Center's accounting records.

In conducting our audit, we performed sample testing in the following areas:

- **Federal Expenditures.** We selected a judgmental sample of 19 transactions. Our sample included 15 personnel expenditures, 2 benefits expenses, 1 professional service, and 1 supplies expense transaction. We obtained a universe of transactions from the Lead Center in a Microsoft Excel workbook. We traced the expense totals per the workbook to the SF 425 form, "Federal Financial Reports," submitted for CY 2013. We then selected our sample targeting higher dollar value transactions for both the Lead Center and the subcenters throughout all months of CY 2013.
- **Matching Contributions.** We selected a judgmental sample of 10 transactions, which included 5 direct cost expense contributions, 3 indirect cost expense contributions, and 2 in-kind contributions. We made our judgmental sample selections for direct expense contributions and in-kind contributions by targeting high-dollar transactions for multiple subcenters throughout CY 2013. After selecting three high-dollar indirect cost transactions, we determined that it was more effective and efficient to calculate indirect costs for each center for the entire calendar year rather than individual transactions.

We conducted this performance 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**

We relied on information from the Lead Center's accounting records maintained in a Microsoft Excel workbook, which tracked both Federal expenditures and matching contributions. We relied on this workbook to select our judgmental sample of Federal expenditures and matching contributions to assess whether each transaction was supported, allowable, and properly recorded to the grant. We judgmentally tied some transactions from the workbook to the automated general ledger maintained by Middle Tennessee State University. In addition, our testing indirectly tested the reliability of the data contained in the Microsoft Excel spreadsheet through matching the transactions listed in the Microsoft Excel spreadsheet to source documents. As a result, we believe the information is reliable for the purposes of this audit.

Additionally, we used system-generated reports to support actual performance report data. Because the system-generated reports did not agree with the performance reports, we concluded that we could not rely on these reports and recommended that the Lead Center improve its performance reporting process.

### **Review of Internal Controls**

SBA's Standard Operating Procedure (SOP) 00 02, *Internal Control Systems*, provides guidance on implementing and maintaining effective systems of internal control, as required by OMB. According to OMB, agencies must establish and maintain internal controls for effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

During our audit, we examined internal control activities and processes that the Lead Center used to oversee the financial management of the grant program. The Lead Center was responsible for ensuring that it maintained and reported financial information that accurately depicted whether grant funds were being used in a prudent manner. We found that there were no significant deficiencies or material weakness within the Lead Center's internal control structure. However, internal controls did not prevent payment of personnel expenses that were not fully supported, detect discrepancies in performance reports, or ensure that the Lead Center achieved its performance goals for CY 2013.

## **Appendix II: Centers That Supported Personnel Expenditures with an Acceptable Payroll Distribution Method**

---

Based on our testing, the following centers maintained sufficient documentation to support personnel expenditures based on OMB and SBA requirements:

1. The Lead Center
2. Dyersburg State Community College
3. Pellissippi State Technical College
4. Tennessee State University
5. Tennessee Technical University
6. Volunteer State Community College

SBA  
OFFICE OF ENTREPRENEURIAL DEVELOPMENT'S  
RESPONSE TO AUDIT REPORT



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, DC 20416

Date: December 9, 2015

To: Troy M. Meyer  
Assistant Inspector General for Auditing

Through: Melvin Williams  
General Counsel

From: Tameka Montgomery  
Associate Administrator  
Office of Entrepreneurial Development

Subject: Agency Response to Small Business Development Center Hosted by Middle Tennessee State University

The Office of Entrepreneurial Development (OED) appreciates the opportunity to respond to the draft report. We agree with the OIG's recommendations. For recommendation 1, by January 31, 2016, OSBDC will work with the Lead Center of SBDC-TN to implement a policy to obtain after-the-fact confirmations based on verification of time and effort employees spend working on the grant prepared by either the employee, the principle investigator on the grant, or a responsible official with suitable means of verification that the work was performed by the employee, at least annually. For recommendation 2, by January 31, 2016, OSBDC will work with the Lead Center of SBDC-TN to implement a policy and procedures to ensure performance data reported to the SBA is accurate. Please see the attached 1824s for more details.