

**AUDIT REPORT ON THE MARYLAND  
SMALL BUSINESS DEVELOPMENT CENTER  
REPORT NO. 7-6-H-001-006  
FEBRUARY 6, 1997**

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**U.S. Small Business Administration  
Office of Inspector General  
Washington, D.C. 20416**

<b>AUDIT REPORT</b>
<b>Issue Date: February 6, 1997</b>
<b>Number: 7-6-H-001-006</b>

**TO:** Allen Stephenson  
District Director  
Baltimore District Office

**FROM:** Peter L. McClintock  
Assistant Inspector General for Auditing

**SUBJECT:** Audit of the Maryland Small Business Development Center

The Office of Inspector General's Auditing Division performed an audit of the Maryland Small Business Development Center for the period October 1, 1993, through September 30, 1995. The summary section, beginning on page iii, provides a synopsis of the findings and recommendations.

The findings included in this report are the conclusions of the Auditing Division based upon the auditors' testing of the auditee's operations. The findings and recommendations are subject to review and implementation of corrective action by your office following existing Agency procedures for audit follow-up and resolution.

Please provide us your management decisions for the recommendations within 80 days. Record your management decisions on the attached SBA Forms 1824, "Recommendation Action Sheet," and show either your proposed corrective action and target date for completion, or an explanation of your disagreement with our recommendations.

Should you or your staff have any questions, please contact Victor R. Ruiz, Director, Headquarters Operations, at (202) 205-7204.

## SUMMARY

We completed an audit of the Maryland Small Business Development Center (SBDC). The objectives of the audit were to determine whether the Maryland SBDC's (1) expenditures were allowable; (2) resources were effectively used to provide counseling assistance to the small business community; and (3) activities were in conformance with the cooperative agreements and applicable laws, regulations, and policies.

Our audit found the Maryland SBDC had problems in providing sufficient cash match, allocating and expending funds, using resources to effectively provide counseling and training assistance, and reporting program income. As a result of the audit, the Maryland SBDC should reimburse SBA \$125,803 for insufficient matching funds and unallowable costs. Specifically, we found the following :

- The Maryland SBDC had a cash match shortfall of \$13,635 during 1994. Cash match totaled \$587,945 although \$601,580 was required based on SBA funding of \$1,203,159.
- The Maryland SBDC incurred and claimed costs totaling \$529,827 that were not allowable during 1994 and 1995. During the course of the audit, the Maryland SBDC acknowledged \$152,045 of the costs were unallowable and took appropriate corrective action to reduce claimed costs or put the funds to better use by that amount. The questioned costs included (1) the salary of a non-SBDC employee, (2) paid leave that employees were not entitled to, (3) unrelated and excessive travel, (4) improper procurement, (5) excessive indirect costs, and (6) overstated and unsupported in-kind match.
- Resources were not always effectively utilized to provide in-depth counseling and training assistance. At the Suburban Washington subcenter, (1) counselors spent an unreasonable portion of their time on administrative functions, (2) funds budgeted for client consulting were used to obtain administrative support, and (3) documentation of counseling did not support that counseling was in-depth. A statistical sample of Maryland SBDC 1994 and 1995 clients found 19 percent were dissatisfied with the counseling received.
- The Suburban Washington subcenter did not report program income totaling \$27,546 during 1994 and 1995. Also, some financial and programmatic reports were submitted late or not at all during 1994 and 1995.

A draft report was forwarded to the State of Maryland's Department of Business and Economic Development (DBED) on December 5, 1996. On December 20, 1996, DBED officials provided written comments disagreeing with, or stating there was insufficient information to respond to, some of our findings. In response to clarifying information

provided on January 7, 1997, DBED provided additional written comments on January 8, 1997. We have evaluated and considered DBED's comments in finalizing our report. DBED's written comments (excluding Attachments) are included as Appendix A.

On January 30, 1997, we received written comments from SBA's Baltimore District Office. SBA Baltimore District Office officials generally agreed with the findings, conclusions, and recommendations. We have evaluated and considered the written comments in finalizing our report. The written comments (excluding Attachments) are included as Appendix B.

We recommend that the District Director of the Baltimore District Office require the State Director of the Maryland SBDC to ensure that (1) future cash match requirements are met; (2) SBA is reimbursed a net of \$125,803 for insufficient cash match and questioned costs; (3) future costs are reasonable, allocable, and allowable; (4) subcenters maintain complete and accurate documentation to support reported in-kind match; (5) written goals, policies, and procedures are established to increase counseling hours and reduce administrative time; (6) consulting funds are used for direct assistance to clients and not for administrative functions; (7) counselors sufficiently document counseling sessions; (8) subcenters report program income accurately and use it to further SBDC program objectives; and (9) financial and programmatic reports are submitted timely.

The findings included in this report are the conclusions of the Auditing Division based on the auditors' testing of operations. **The findings and recommendations are subject to review, management decision and corrective action by your Office in accordance with existing Agency procedures for audit follow-up and resolution.**

## INTRODUCTION

### Background

The Small Business Development Center (SBDC) Program is a partnership between the U.S. Small Business Administration (SBA) and recipient organizations to provide quality assistance to small businesses to promote growth, expansion, innovation, increased productivity, and management improvement. This is accomplished through counseling, training, and specialized support. In addition, SBDCs act in an advocacy role to promote local small business interests.

SBA funds SBDCs through cooperative agreements that link the resources of Federal, state, and local governments with those of colleges, universities, and the private sector. SBDC networks include a lead center and various subcenters. In order to qualify for assistance, an SBDC network must provide matching funds equal to the total amount of SBA funding. At least 50 percent of the match must be in the form of cash.

The SBDC Program is governed by the individual cooperative agreements; Title 13 of the Code of Federal Regulations (13 CFR), Parts 130 and 143; SBA Standard Operating Procedure (SOP) 60-16; SBA annual program announcements; Office of Management and Budget (OMB) Circulars A-21, "Cost Principles for Educational Institutions," A-87, "Cost Principles for State, Local, and Indian Tribal Governments," and A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations." SBA's Baltimore District Office monitors the Maryland SBDC.

The Maryland SBDC was established in 1988 and is part of the State of Maryland's Department of Business and Economic Development (DBED). The Maryland SBDC network consists of a lead center and subcenter in Baltimore (Central) and four other subcenters in Cumberland (Western), Landover (Suburban), Waldorf (Southern), and Salisbury (Eastern). The subcenters are located at sponsoring local government agencies and educational institutions. The sponsoring organizations are commonly referred to as host institutions. Each host institution maintains a separate set of accounting and financial policies, procedures, and systems.

The Maryland SBDC budget for 1994 and 1995 (ending September 30) is shown in the following chart:

	<u>1994</u>	<u>1995</u>
Federal Share	\$1,225,043	\$1,452,617
Non-Federal Share	<u>1,306,965</u>	<u>2,108,903</u>
Total	<u>\$2,532,008</u>	<u>\$3,561,520</u>

### **Objectives and Scope**

The objectives of the audit were to determine whether the Maryland SBDC's

- (1) expenditures were allowable;
- (2) resources were effectively used to provide counseling assistance to the small business community; and
- (3) activities were in conformance with the cooperative agreements and applicable laws, regulations, and policies.

The audit covered operations of the Maryland SBDC from October 1993 through September 1995. Fieldwork was conducted from November 1995 through October 1996 and was performed at the lead center and Suburban Washington subcenter located in Landover, Maryland. We judgmentally selected the Suburban Washington subcenter based on the large amount of dollars budgeted to it. We also mailed counseling confirmations to clients of all subcenters except those of the Eastern subcenter (see next paragraph).

Audit procedures included (1) interviewing SBDC network, State of Maryland, and host institution personnel; (2) examining program income accounts, client files, training files, cash match, in-kind match, and expenditures; (3) evaluating the quality and quantity of SBDC-provided counseling; and (4) reviewing financial transactions for allowability. To determine the effectiveness and quality of assistance provided to clients, we selected a statistical sample of 420 clients from the 5,257 reported to SBA as counseling cases by the SBDC during the period October 1993 to September 1995. Due to the Eastern subcenter's inability to produce addresses of their counseling clients, only 366 confirmations were mailed. We received 172 responses. We also received 57 confirmations marked "return to sender" with no forwarding address because the individuals did not reside at the address listed by the SBDC. The remaining 137 confirmations issued were not returned. For other transactions tested, we judgmentally selected items based on large dollar amounts and other identified audit risks. The audit was performed in accordance with Government Auditing Standards.

**Prior Audit Resolution**

This was our first audit of the Maryland SBDC.



## **RESULTS OF AUDIT**

### **FINDING 1 MATCHING, ALLOCATING, AND EXPENDING FUNDS**

The Maryland SBDC was short \$13,635 in matching funds in 1994 and costs totaling \$529,827 were unallowable in 1994 and 1995. The Small Business Act requires SBDCs to match SBA funding with cash and in-kind contributions, with cash equaling at least 50 percent of the SBA funding. An overmatch occurs when an SBDC obtains more non-Federal funding than required. With the approval of the Associate Administrator for Small Business Development Centers, SBDC's are authorized to use overmatch to offset unallowable costs. Insufficient and unallowable cash match need only be reimbursed at two thirds of the amounts to maintain the match requirement. Insufficient and unallowable in-kind match need only be reimbursed at one half of the amount to maintain the match requirement. OMB Circulars A-21, A-87, and A-122 provide the principles for determining which costs are allowable under the cooperative agreement. The State Director of the Maryland SBDC did not adequately monitor funding to ensure that the matching requirement was met and costs were allowable. Consequently, the Maryland SBDC is required to reimburse a net of \$125,803 as explained in Appendices D and E.

#### **Matching Funds**

The SBDC did not provide sufficient cash matching funds as required by the Small Business Act, Section 21(a)(5). The Act requires SBDCs to match SBA funding with cash equaling at least 50 percent of SBA funding. The Maryland SBDC provided \$587,945 in cash matching funds although \$601,580 was required, leaving a shortage of \$13,635 as shown in Appendix D.

#### **Allocating and Expending Funds**

##### **Salaries**

The cooperative agreements were charged \$126,162 for salaries that were not allocable to the grant. Specifically, we found:

- The SBDC charged the 1994 and 1995 cooperative agreements \$123,580 for the salary and fringe benefits of a State of Maryland employee who performed no SBDC related services. The person's position was the "Maryland with Pride" Coordinator. Maryland with Pride is a state program that promotes Maryland manufactured products. OMB Circular A-87, Attachment A, Section C requires costs to be necessary, reasonable, and allocable in order to be allowable under Federal awards. Costs are allocable to a particular cost

objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received. Attachment B, Section 11(h)(3) of the circular also requires that when employees are expected to work solely on a single Federal award, charges for their salaries will be supported by certifications that the employee worked solely on that program. We found no such certifications. During the course of the audit, the Maryland SBDC acknowledged that the 1994 and 1995 cooperative agreements had been incorrectly charged \$79,941 and \$43,639, respectively for the non-SBDC employee and took appropriate corrective action.

- Suburban Washington subcenter counselors received pay for 129 hours of leave that they were not entitled to during 1995. The counselors were classified as limited term grant-funded employees (LTGF). OMB Circular A-87, Attachment B, Section 11(b) states compensation is considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the host organization. Prince George's County personnel policies state employees occupying LTGF positions are not entitled to pay for time off (leave). As a result, the cooperative agreement was overcharged \$2,483 in 1995.
- A lead center employee was paid at an hourly rate that was higher than the employee's contracted amount. Effective April 1, 1995, the employee's contract renewal lowered his pay from \$16.83 per hour to \$15.62 per hour. The host institution's payroll office started using the new pay rate on April 19, 1995, or 19 days after the effective date. As a result, the cooperative agreement was overcharged \$99 in 1995.

### **Travel and Meals**

The State Director of the Maryland SBDC charged meals, lodging, and local transportation for out of state travel that was not SBDC related. Also, a meal charge exceeded allowable amounts. As a result, unallowable costs totaling \$224 were charged to the 1995 cooperative agreement.

In December 1994, the State Director of the Maryland SBDC traveled to Illinois to attend a training event called "McDonald's School to Work Project Conference." Meals, lodging, and local transportation totaling \$195 were charged to the SBDC. The conference was designed to lay out public relations strategy between Maryland and big business (McDonald's) respecting employment issues. The training provided no benefit to the SBDC. The travel was not included in the 1995 proposal nor was it justified after the fact as required by the cooperative agreement.

The Maryland SBDC charged an excessive amount for a meal provided to a Maryland SBDC state advisory board member. Maryland State regulations allow uncompensated advisory board members to be provided with meals; however, the amount may not exceed \$14. SBDC officials charged \$43 for one meal. As a result, \$29 was inappropriately charged to the 1995 cooperative agreement.

## **Procurement**

The Suburban Washington subcenter received reimbursement for procurements that (1) were not related to the cooperative agreement, (2) had not been made following required contracting procedures, and (3) were obtained by the host institution without the SBDC's approval. Consequently, \$11,400 was inappropriately charged to the 1994 and 1995 cooperative agreements.

The Suburban Washington subcenter paid \$3,000 for publication of a guide that was outside the scope of the subcenter. In addition, the subcenter did not follow required procurement procedures when awarding the contract. 13 CFR 143.36 (a) requires grant recipients to follow the same policies and procedures used for procurement from non-Federal funds when procuring property and services under a Federal grant. As such, the Suburban Washington subcenter was required to follow the host institution's procurement policies. Prince George's County requires (a) three bids for contracts more than \$1,000, (b) the County print shop facilities be used for printing, and (c) contracts be awarded by an authorized individual. None of these requirements were met. The Suburban Washington subcenter Executive Director stated competitive bidding procedures were not followed because of the relatively small cost of the contract. As a result, the 1995 cooperative agreement was charged \$3,000 for unallowable costs.

The Suburban Washington subcenter inappropriately reimbursed the host institution \$8,400 for a portion of a computer maintenance agreement. The agreement covered computers owned by the host institution as well as the subcenter's five computers. The host institution awarded the contract without consulting the subcenter. Besides the fact that the subcenter did not contract for the service, the amount charged for the maintenance agreement exceeded the replacement cost of the subcenter's five computers. Although the subcenter protested the charges for maintenance because they were more than the cost of replacement, it paid the amount charged. OMB Circular A-87, Attachment A, Section C(2) states a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. As a result, the 1994 cooperative agreement was charged \$8,400 for unallowable costs.

## **Indirect Costs**

Charges to the cooperative agreements for indirect costs exceeded allowable amounts. The Maryland SBDC indirect cost rate was established by a June 9, 1994, "Indirect Cost Negotiation Agreement" that shows the indirect cost rate was 27.2 percent of total direct salaries and wages including vacation, holiday, and sick pay, but excluding other fringe benefits. Maryland SBDC officials did not adequately verify the accuracy of indirect cost allocations. As a result, indirect costs allocated to the 1994 and 1995 cooperative agreements exceeded the allowable amounts by \$7,423 and \$27,997, respectively. During the course of the audit, the Maryland SBDC acknowledged that the 1994 and 1995 cooperative agreements had been overcharged for indirect costs and took action to reduce the amounts charged. Although the Maryland SBDC's actions corrected the overcharge for 1994, the 1995 cooperative agreement still had excessive indirect costs charged totaling \$6,955 as shown in the following chart.

<b>QUESTIONED INDIRECT COST</b>						
<b>YEAR</b>	<b>ALLOWABLE SALARIES &amp; WAGES</b>	<b>ALLOWABLE INDIRECT COST @ 27.2%</b>	<b>INDIRECT COST CHARGED PER SF 269</b>	<b>QUESTIONED INDIRECT COST</b>	<b>CORRECTIVE ACTION TAKEN</b>	<b>OUTSTANDING QUESTIONED INDIRECT</b>
1994	\$176,729	\$48,070	\$55,493	\$7,423	(\$7,423)	<b>\$-0-</b>
1995	\$199,832	\$54,354	\$82,351	<u>\$27,997</u>	<u>(\$21,042)</u>	<b><u>\$6,955</u></b>
		<b>TOTAL</b>		<u>\$35,320</u>	<u>(\$28,465)</u>	<b><u>\$6,955</u></b>

**In-Kind Match**

The Suburban Washington subcenter claimed in-kind match totaling \$204,368 and \$158,475 for 1994 and 1995, respectively. The in-kind match consisted of unpaid employee overtime, the value of consulting services donated by third parties, and "other" in-kind match. Since the subcenter had insufficient supporting documentation, inappropriately claimed employee overtime, and overvalued donated consulting services, \$356,621 of its claimed in-kind match was unallowable.

The subcenter had no supporting documentation for any of its 1994 and 1995 "other" in-kind match or 1994 donated consulting services, and its documentation for 1994 and 1995 unpaid employee overtime was incomplete. Title 13 CFR 143.24 (b)(6) states that costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost type contractors. These records must show how the value placed on third party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods the organization uses to support the allocability of regular personnel costs.

Consequently, we are questioning \$197,621 of the in-kind match claimed by the Suburban Washington subcenter due to insufficient support.

The Suburban Washington subcenter's claimed in-kind match inappropriately included \$140,700 for unpaid employee overtime during 1994 and 1995. Suburban Washington subcenter employment agreements stipulate that employees be paid hourly up to a maximum of 40 hours per week. Any hours worked in excess of 40 hours per week were considered to be in-kind match by the subcenter. Title 13 CFR 143.24 requires in-kind contributions to be made by third parties. Suburban Washington subcenter officials incorrectly considered subcenter employees to be third parties when they worked in excess of 40 hours.

The value of consulting services donated by third parties to the Suburban Washington subcenter and claimed as 1995 in-kind match was overstated. The subcenter valued donated consultant hours at \$24,523, an average of \$99 per hour. Title 13 CFR 143.24 states unpaid services provided to a grantee will be valued at rates consistent with those ordinarily paid for similar work in the grantee's organization. There was no documentation to support that the donated consulting services were any different from that provided by Suburban Washington subcenter paid counselors. Suburban Washington counselors were ordinarily paid \$19.25 per hour. Using the \$19.25 per hour rate, we determined consulting services donated as in-kind match for 1995 should have been valued at only \$6,222. Consequently, we are questioning most of the Suburban Washington subcenter's in-kind match as shown in the following chart:

<b>SUBURBAN WASHINGTON QUESTIONED IN-KIND MATCH</b>				
	1994		1995	
<b>VALUE CLAIMED</b>		\$204,368		\$158,475
<b>LESS:</b>				
<b>UNSUPPORTED "OTHER" IN-KIND</b>	\$100,463		\$67,603	
<b>UNSUPPORTED CONSULTING SERVICES</b>	\$29,555			
<b>UNPAID EMPLOYEE OVERTIME</b>	<u>\$74,350</u>		\$66,349	
<b>OVERVALUED CONSULTING SERVICES</b>			<u>\$18,301</u>	
<b>SUBTOTAL</b>		<u>\$204,368</u>		<u>\$152,253</u>
<b>ALLOWABLE IN-KIND MATCH</b>		<u>\$-0-</u>		<u>\$6,222</u>

**Summary**

We found a cash match shortage of \$13,635 and questioned \$529,827 in unallowable costs (see Appendix C for details). Corrective action was taken to resolve \$152,045 of the unallowable costs. The Maryland SBDC should reimburse \$125,803 for 1994 and 1995 (see Appendices D and E for details of the calculation).

## **Recommendations:**

We recommend that the District Director of the Baltimore District Office require the State Director of the Maryland SBDC to ensure that:

- 1A. Future cash match requirements are met.
- 1B. Future costs are reasonable, allocable, and allowable.
- 1C. Subcenters maintain complete and accurate documentation for reported in-kind match.
- 1D. SBA is reimbursed \$87,963 for the 1994 cash match shortage and questioned costs and \$37,840 for 1995 questioned costs.

## **Auditee's Response**

DBED agreed with the findings related to cash match, the Maryland with Pride Coordinator, overpayment of a lead center employee, State Director's travel, indirect costs, and lack of documentation of Suburban Washington subcenter in-kind match. DBED disagreed with the following:

## **Salaries**

DBED attributed the questioned Suburban Washington subcenter counselor leave costs to incentive compensation, although the accounting system showed payroll.

## **Procurement**

- DBED stated that although procurement policies were not followed, publishing the guide was within the scope of the grant. DBED also stated that the cost was only \$1500.
- DBED stated all county computer equipment is covered by the computer maintenance agreement and the subcenter's computers were purchased through the county. The maintenance agreement cost was uniformly allocated among county operating units.

## **In-Kind Match**

- DBED stated that the valuation of donated consulting services does not have to be the same as the subcenter's counselors. The services in question were provided by individuals (i.e., attorneys, certified public accountants) whose expertise exceeded that of subcenter's counselors. DBED stated they used the rate the individuals charged in conducting their business.
- In regards to unpaid employee overtime, DBED stated employees are eligible for third party status and by working in excess of 40 hours are eligible for compensatory time. Since no cash expense was incurred, the contributions were non-monetary and met the in-kind match criteria.

### **Summary**

DBED stated that based on their response, the total questioned cost should be recalculated.

### **Evaluation of Auditee's Response**

We revised the report and amount of required reimbursement based on DBED's removal of the Maryland with Pride Coordinator's cost. We do not agree with the auditee's conclusions in the following areas:

### **Salaries**

DBED did not provide any documentation to support their position that the amount paid was incentive pay in lieu of pay for hours not worked. As stated in the report, employees are not entitled to pay for hours not worked.

### **Procurement**

- We continue to question the cost of the guide because the contract for the guide specifically stated that it was: (1) not within subcenter's scope, (2) on behalf of Montgomery County, and (3) a separate revenue funding activity, with receipts coming from sale of the guide. Another indicator that the guide was not SBDC related, was that the guide did not acknowledge SBA support, whereas, other SBDC publications contained the acknowledgment. Also, the subcenter's records

indicate there were two charges of \$1,500, however, there was documentation for only one of the charges.

- As previously stated, the host institution contracted for maintenance of the Suburban Washington subcenter's computers without the subcenter's consent. In addition to the subcenter not being contractually liable, the amount allocated to the subcenter was excessive. Subcenter personnel were of the opinion that it would have been more cost effective to purchase new equipment rather than pay for a maintenance agreement.

### **In-Kind Match**

- DBED did not provide any documentation to support their position that in-kind match was properly valued. Of the 69 cases reviewed, supporting documentation indicated 11 of the donors were attorneys and the remaining 58 were either counselors or consultants. The Suburban Washington subcenter was unable to provide any documentation that detailed the services provided for the 69 counseling sessions reviewed. Consequently, we were not able to value the services higher than the value of Suburban Washington subcenter counselors. Also, if the donated services had been adequately supported, DBED's position regarding their allowable value is incorrect. Title 13 CFR 143.24(c)(1), states donated services will be valued at rates consistent with those ordinarily paid for similar work in the recipient's organization (i.e., Prince George's County). Thus, it would be inappropriate to value services donated by practitioners at their standard hourly rates when the recipient organization has employees that perform similar services.
- DBED's statement that unpaid employee overtime is eligible for compensatory time is contrary to the employment agreements. An SBA program manager surveyed other SBDCs and informed us that the consensus was that unpaid employee overtime should not be counted as third party in-kind match. We have requested a legal opinion on the issue, and if contrary to our position, will inform SBA officials to adjust the reimbursement.

### **SBA Management's Response**



The District Director of the Baltimore District Office agreed with our recommendations and stated the findings resulted from inadequate staffing of the Maryland SBDC.

**Evaluation of SBA Management's Response**

The Baltimore District Office's comments are responsive to our recommendations.

## **FINDING 2 CLIENT SERVICE**

The Suburban Washington subcenter did not always effectively utilize its resources to provide in-depth counseling and training assistance to small business concerns and potential entrepreneurs. SBDCs must meet standards established by the Association of Small Business Development Centers (ASBDC) in order to obtain certification. These standards require Maryland SBDC counselors to spend at least 50 percent of their time directly counseling clients. Our review of SBDC counseling and training records, contracted consulting services, and client survey responses found the following:

- Thirty-six percent of paid counselor time was spent on direct client counseling.
- Ninety percent of consulting events sampled did not directly assist clients.
- Twenty-six percent of client survey respondents stated dissatisfaction with Suburban Washington subcenter counseling. (For the entire SBDC network, nineteen percent of the respondents stated dissatisfaction with counseling.)
- Documentation was lacking specificity on depth of counseling.

As a result, we concluded the Suburban Washington subcenter did not effectively meet its major objective to provide small business counseling.

SBDC policy guidelines emphasize that an SBDC's primary purpose is to provide in-depth and high quality management and technical assistance to small businesses and potential small business owners. The guidelines state that SBDCs should focus on providing quality assistance to small businesses in areas which promote growth, innovation, increased productivity, and management improvement. To accomplish this goal, SBDCs utilize SBDC employees and private consultants depending on the needs of each client.

### **Use of Counselors and Consultants**

Suburban Washington subcenter counselors spent an unreasonable portion of their time on administrative functions. Also, contracted consulting services did not directly assist clients. As a result, the subcenter was not effectively accomplishing its primary purpose, which is to deliver assistance services to small businesses.

The Suburban Washington subcenter was unable to achieve the ASBDC counseling standard because of the unreasonable time spent on administrative tasks. Specifically, Suburban Washington subcenter counselors spent only 36 percent of their total 1994 and 1995 time on direct client counseling. Suburban Washington subcenter counselors performed administrative tasks for approximately 40 percent of their total time during 1994 and 1995.

According to the subcenter's reporting guidelines, counselors' administrative time consists entirely of scheduling, responding to Director requests, and reporting time and effort. The remaining 24 percent of the time had to cover: (1) client related support and travel, (2) preparing and conducting training sessions, and (3) professional reading (time spent studying and reading to maintain and expand technical capabilities of counselors, as well as time for miscellaneous memos and correspondence).

The Suburban Washington subcenter contracted for consulting services that did not directly assist clients. The Small Business Act, Section 21(c)(4) requires SBDCs to refer clients to private consultants for specialized assistance, at SBDC expense, depending on the unique needs of each client. Moreover, SBA officials stated consulting funds are specifically designated for direct client assistance. We judgmentally sampled 10 of 26 consultant charges and found that nine were for subcenter administrative support. Consequently, the Suburban Washington subcenter was not effectively delivering assistance services to small businesses.

### **Client Satisfaction**

We received responses from 172 (47 percent) of the 366 clients to whom we mailed surveys. Of the 172 respondents, 43 were Suburban Washington subcenter clients. In response to the question "Were you satisfied with the counseling received?", 31 of the 161 respondents (19 percent) indicated they were not satisfied with the counseling received. Eleven (26 percent) of the Suburban Washington subcenter respondents stated they were dissatisfied with the counseling received. Of the 172 respondents, 9 indicated they received no counseling. While we realize not everyone will be satisfied with services provided, we believe the nature of the complaints indicates a need for more in-depth counseling and counselor training. The following are examples of reasons clients were dissatisfied with the counseling received:

- Six clients stated they needed more in-depth counseling as information provided was too general, insufficient, or already known.
- Ten clients believed SBDC personnel were either inexperienced, lacked information, appeared disinterested, or were not capable of providing adequate assistance.

### **Counseling Records**

The Suburban Washington subcenter did not provide adequate and sufficient documentation to show counseling was in-depth. Documentation of counseling sessions did not provide sufficient written narratives to determine the nature and extent of counseling. As

a result, for most of the counseling files reviewed, we were unable to determine if counseling was in-depth, quality counseling.

The 1994 and 1995 SBDC Program Announcements require SBDCs to maintain complete and accurate records and supporting documentation to facilitate a thorough financial and/or performance audit. The announcements further state SBDCs shall provide high-quality in-depth, one-to-one counseling to small business owners or prospective small business owners.

We selected 40 counseling cases at the Suburban Washington subcenter to determine whether counseling was adequately documented. Of the 40 cases selected, 29 were judgmentally chosen from the cases in our mail survey and the remaining 11 from subcenter files (by selecting every tenth file). Three files could not be located. The lead center was aware of documentation problems as early as July 1994, but they went uncorrected. Of the 37 files available for review, 28 did not contain a completed counselor's report and four did not record counseling hours.

- In one case, the entire counseling file consisted of the one-page client intake form. There was no documentation of what transpired in the session. The amount of counseling hours was not in the file, yet 1.5 hours of counseling were claimed for this client.
- In another case, the counseling write-up consisted of two words, "international trade." No hours were recorded in the file, yet two counseling hours were claimed.

### **Recommendations:**

We recommend that the District Director of the Baltimore District Office require the State Director of the Maryland SBDC to ensure that:

- 2A. Written goals, policies, and procedures to increase counseling hours and reduce administrative time are established.
- 2B. Consulting funds are used for direct assistance to clients and not for administrative functions.
- 2C. Counselors sufficiently document counseling sessions.

### **Auditee's Response**

DBED did not fully agree with our finding and responded:

### **Use of Counselors and Consultants**

- There are no standards on the percentage of time a counselor devotes to scheduling, reporting and other duties deemed “administrative”. However, these efforts are necessary to effectively deliver services to clients in an organized manner as well as communicate the SBDC activities to the SBA, and therefore are largely attributable to counseling.
- There is insufficient information stated in the draft audit report to respond to the type of consulting services procured on behalf of the Suburban Washington subcenter.

### **Training Milestones**

There is insufficient information currently available to address whether training reports were overstated. The Suburban Washington subcenter did not meet all of its planned training milestones, but milestones represent goals, not mandatory requirements. In addition, the subcenter exceeded one milestone in fiscal year 1994 and came close on others. It was difficult to meet milestones during fiscal year 1995 because the director position and a counselor position were vacant, and the office manager left.

### **Client Satisfaction**

The suburban Washington subcenter can produce innumerable records that demonstrate clients’ satisfaction. The Inspector General’s sampling shows a high success ratio.

### **Counseling Records**

The Suburban Washington subcenter did not always provide adequate documentation of counseling sessions.

### **Evaluation of Management’s Response**

Based on DBED's response, we revised the report to eliminate the finding related to training milestones. We do not agree with auditee's response in the following areas:

### **Use of Counselors and Consultants**

- DBED stated that there are no standards for administrative time and these efforts were necessary to deliver client services. As added in the report, the minimum required level of direct counseling was 50 percent, thus leaving a maximum of 50 percent for all other activities including training efforts. The 40 percent calculation of counselor administrative time did not include client support, information gathering, professional reading, travel, and training.
- We provided the auditee with additional documentation related to improper use of consulting funds, however, as of the date of the report, no response was received.

### **Client Satisfaction**

We agree that 81 percent of survey respondents were satisfied with services, however, we believe the reasons provided by 19 percent of respondents indicates a need for more in-depth counseling and counselor training.

### **SBA Management's Response**

The District Director of the Baltimore District Office agreed with our recommendations and stated that direct counseling hours should conform with standards established by the Association of Small Business Development Centers.

### **Evaluation of SBA Management's Response**

The Baltimore District Office's comments are responsive to our recommendations.

### **FINDING 3 REPORTING**

The SBDC did not properly report program income and submitted untimely financial and programmatic reports. Specifically, we found the following:

#### **Program Income**

The Suburban Washington subcenter did not always report program income. We determined that program income totaling \$21,806 in 1994 and \$5,740 in 1995 went unreported. The cooperative agreements for 1994 and 1995 stated fees for training were program income. Failure to report program income could result in program income not being used to further SBDC program objectives.

Suburban Washington officials did not consider income derived from the following events to be program income:

- Training events at the Frederick Community College satellite office.
- Contract reimbursement for training provided to the Montgomery County Housing Opportunities Commission.

#### **Financial and Programmatic Reports**

Some required Maryland SBDC financial and programmatic reports were submitted late and others were not submitted at all during 1994 and 1995. As a result, SBA was not given timely information to make program decisions. The late reporting is detailed in the following chart.

<b>TIMELINESS OF REPORTS FINANCIAL AND PROGRAMMATIC</b>		
<b>YEAR- QUARTER</b>	<b>REPORTS</b>	<b>DAYS LATE</b>
1994-4	ANNUAL	27
1994-4	FINANCIAL STATUS SF 269 (FINAL)	670+
1995-1	FINANCIAL STATUS SF 269	102
1995-4	FINANCIAL STATUS SF 269 (FINAL)	127
1995-1	FEDERAL CASH TRANSACTIONS SF 272	95
1995-4	COUNSELING & TRAINING	15

The 1994 and 1995 SBDC Program Announcements provide the following reporting requirements:

- The SF 272 “Report of Federal Cash Transactions” and SF 269 “Financial Status Report” are due 30 days after the end of each quarter with final reports due 90 days after the end of budget period.
- SBDC counseling and training reports (MIS Summary) are due quarterly within 30 days after the end of applicable quarter.
- Annual Performance reports are due within 90 days after completion of budget period.

### **Recommendations:**

We recommend that the District Director of the Baltimore District Office require the State Director of the Maryland SBDC to ensure that:

- 3A. Subcenters report program income accurately and use it to further SBDC program objectives.
- 3B. Financial and programmatic reports are submitted on a timely basis.

### **Auditee Response**

DBED cannot adequately address the issue of program income until information requested from the Suburban Washington subcenter is received. Some financial and programmatic reports were submitted to SBA late. There is insufficient information to respond to the allegation that some reports were not submitted at all.

### **Evaluation of Auditee’s Response**

Absent any further response from DBED, we still believe that the Suburban Washington subcenter did not always report program income as stated in the finding. Documentation showing that two financial reports were not submitted was provided to DBED on January 7, 1997.



### **SBA Management's Response**

The District Director of the Baltimore District Office agreed with our findings and recommendations.

### **Evaluation of SBA Management's Response**

The Baltimore District Office's comments are responsive to our recommendation.

<b>SUMMARY OF QUESTIONED COSTS</b>			
	<b>1994</b>	<b>1995</b>	<b>TOTAL</b>
<b>FEDERAL</b>			
<b>PAID VACATIONS FOR LTGF EMPL. SUBURBAN WASHINGTON</b>		\$2,483	\$2,483
<b>OVERPAID EMPLOYEE-LEAD CENTER</b>		\$99	\$99
<b>IRREGULAR PROCUREMENT FOR PRINTING-SUBURBAN WASHINGTON</b>		\$3,000	\$3,000
<b>IMPROPER BILLING BY SUBURBAN WASHINGTON</b>	\$8,400		\$8,400
<b>EXCESSIVE INDIRECT</b>		<u>\$6,955</u>	<u>\$6,955</u>
<b>SUBTOTAL</b>	\$8,400	\$12,537	\$20,937
<b>CASH MATCH</b>			
<b>QUESTIONED TRAVEL LEAD CENTER</b>		\$195	\$195
<b>EXCESSIVE COST FOR MEAL LEAD CENTER</b>		<u>\$29</u>	<u>\$29</u>
<b>SUBTOTAL</b>		<u>\$224</u>	<u>\$224</u>
<b>TOTAL QUESTIONED FEDERAL &amp; CASH MATCH</b>	\$8,400	\$12,761	\$21,161
<b>QUESTIONED IN-KIND CONTRIBUTIONS</b>	<u>\$204,368</u>	<u>\$152,253</u>	<u>\$356,621</u>
<b>TOTAL OUTSTANDING QUESTIONED COSTS</b>	\$212,768	\$165,014	\$377,782
<b>CORRECTIVE ACTION TAKEN DURING COURSE OF AUDIT</b>			
<b>STATE EMPLOYEE</b>	\$79,941	\$43,639	\$123,580
<b>INDIRECT LEAD CENTER</b>	\$7,423	\$21,042	\$28,465
<b>TOTAL CORRECTIVE ACTION</b>	<u>\$87,364</u>	<u>\$64,681</u>	<u>\$152,045</u>
<b>TOTAL QUESTIONED COSTS</b>	<u>\$300,132</u>	<u>\$229,695</u>	<u>\$529,827</u>

**CALCULATION OF REQUIRED REIMBURSEMENT**

1994	FEDERAL FUNDING	<u>STATE MATCH</u> CASH      IN-KIND		REQUIRED REIMBURSE- MENT
TOTAL OUTLAYS CLAIMED BY MD SBDC	\$1,203,159	\$587,945	\$619,089	
REQUIRED CASH MATCH		<u>\$601,580</u>		
CASH UNDERMATCH		\$13,635		
REQUIRED REIMBURSEMENT (X 2/3)	<u>(\$9,090)</u>	<u>\$9,090</u>		\$9,090
NET OUTLAYS	\$1,194,069	\$597,035		
QUESTIONED COSTS		\$8,400		
NET CASH MATCH OUTLAYS		\$588,635		
REQUIRED REIMBURSEMENT (X 2/3)	<u>(\$5,600)</u>	<u>\$5,600</u>		\$5,600
NET OUTLAYS	\$1,188,469	\$594,235		
QUESTIONED IN-KIND MATCH			<u>\$204,368</u>	
NET IN-KIND MATCH			\$414,721	
REQUIRED IN-KIND MATCH			<u>\$594,235</u>	
IN-KIND UNDERMATCH			\$179,514	
REQUIRED REIMBURSEMENT (X 1/2)	<u>(\$89,757)</u>	<u>\$89,757</u>		\$89,757
NET OUTLAYS	\$1,098,712	\$683,992	\$414,720	
LETTER OF CREDIT DRAWDOWNS	\$1,082,228			
DRAWDOWN AVAILABLE	\$16,484			<u>(\$16,484)</u>
TOTAL REQUIRED REIMBURSEMENT				<u>\$87,963</u>

<b>CALCULATION OF REQUIRED REIMBURSEMENT</b>				
<b>1995</b>	<b>FEDERAL FUNDING</b>	<b>STATE MATCH</b>		<b>REQUIRED REIMBURSEMENT</b>
		<b>CASH</b>	<b>IN-KIND</b>	
<b>TOTAL OUTLAYS CLAIMED BY MD SBDC</b>	<b>\$1,452,617</b>	<b>\$915,231</b>	<b>\$626,720</b>	
<b>REQUIRED CASH MATCH</b>		<b><u>\$726,309</u></b>		
<b>CASH UNDERMATCH (OVERMATCH)</b>		<b>(\$188,922)</b>		
<b>QUESTIONED COSTS</b>		<b>\$12,761</b>		
<b>ADJUSTED CASH OVERMATCH</b>		<b>(\$176,161)</b>	<b>\$176,161</b>	
<b>NET CASH MATCH OUTLAYS</b>		<b>\$726,309</b>		
<b>QUESTIONED IN-KIND MATCH</b>			<b><u>(\$152,252)</u></b>	
<b>ADJUSTED IN-KIND MATCH</b>			<b>\$650,629</b>	
<b>REQUIRED IN-KIND MATCH</b>			<b><u>\$726,309</u></b>	
<b>IN-KIND UNDERMATCH</b>			<b>\$75,680</b>	
<b>REQUIRED REIMBURSEMENT (X ½)</b>	<b><u>(\$37,840)</u></b>	<b><u>\$37,840</u></b>		<b>\$37,840</b>
<b>SUBTOTAL</b>	<b>\$1,414,777</b>	<b>\$764,149</b>	<b>\$650,629</b>	
<b>LETTER OF CREDIT DRAWDOWNS</b>	<b>\$1,452,617</b>			
<b>DRAWDOWN AVAILABLE</b>	<b>\$-0-</b>			<b><u>\$-0-</u></b>
<b>TOTAL REQUIRED REIMBURSEMENT</b>				<b><u>\$37,840</u></b>

<b>SUMMARY OF TOTAL REIMBURSEMENT</b>		
<b>1994</b>	<b>\$87,963</b>	<b>APPENDIX D</b>
<b>1995</b>	<b><u>\$37,840</u></b>	<b>APPENDIX E</b>
<b>TOTAL</b>	<b><u>\$125,803</u></b>	

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