

# OFFICE OF THE STATE AUDITOR

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# DIANA DIZOGLIO

Official Audit Report – Issued August 28, 2024

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## Massachusetts Growth Capital Corporation

For the period March 1, 2020 through June 30, 2022



OFFICE OF THE STATE AUDITOR

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**DIANA DIZOGLIO**

August 28, 2024

Esther Schlorholtz, Interim President and Chief Executive Officer  
Massachusetts Growth Capital Corporation  
Schrafft's City Center  
529 Main Street, Suite 201  
Charlestown, MA 02129

Dear Ms. Schlorholtz:

I am pleased to provide to you the results of the enclosed performance audit of the Massachusetts Growth Capital Corporation. As is typically the case, this report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, March 1, 2020 through June 30, 2022. As you know, my audit team discussed the contents of this report with agency managers. This report reflects those comments.

I appreciate you and all your efforts at the Massachusetts Growth Capital Corporation. The cooperation and assistance provided to my staff during the audit went a long way toward a smooth process. Thank you for encouraging and making available your team. I am available to discuss this audit if you or your team have any questions.

Best regards,



Diana DiZoglio  
Auditor of the Commonwealth

cc: Yvonne Hao, Chair of the Board of Directors of the Massachusetts Growth Capital Corporation

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## LIST OF ABBREVIATIONS

EOED	Executive Office of Economic Development
MGCC	Massachusetts Growth Capital Corporation
SBRGP	Small Business Relief Grant Program
WISP	Written Information Security Policy

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## EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Massachusetts Growth Capital Corporation (MGCC) for the period March 1, 2020 through June 30, 2022.

The purpose of our audit was to determine whether MGCC did the following:

- administered the COVID-19 Small Business Relief Grant Program (SBRGP) to ensure that funds were distributed to eligible businesses within eligible industries and that priority was given to businesses serving gateway cities and owned by traditionally underserved groups such as people of color, women, and veterans, in accordance with Section III of Amendment to Attachment A of the Small Business Relief Grant Program—Part II;
- accounted for COVID-19 SBRGP funds received from the Executive Office of Economic Development (formerly the Executive Office of Housing and Economic Development) to ensure that the grant funds MGCC received matched the grant request amounts and were properly recorded to MGCC's accounting records, in accordance with its Grant Receipts & Control Procedures;
- disbursed the COVID-19 SBRGP funds to eligible businesses to ensure that maximum amounts as stipulated in the contract were distributed to grant recipients and that these funds were used for allowable expenses, in accordance with Section III of Amendment to Attachment A of the Small Business Relief Grant Program—Part II;
- adhered to reporting requirements to ensure that reports contained required information and were submitted according to stipulated timelines, in accordance with Section VII of Amendment to Attachment A of the Small Business Relief Grant Program—Part II; and
- provided information security training to its employees responsible for the management, approval, and accounting of COVID-19 SBRGP funds when initially hired and on an ongoing basis as required by MGCC's Written Information Security Policy.

Below is a summary of our findings, the effects of those findings, and our recommendations, with links to each page listed.

<b>Finding 1</b> <b>Page <u>14</u></b>	MGCC distributed grants in excess of allowable contract amounts.
<b>Effect</b>	Funding some small business grants in excess of amounts allowed by the contract with the Executive Office of Economic Development could result in MGCC and the Commonwealth having less funding available for other state programs and misuse of taxpayer funds.
<b>Recommendations</b> <b>Page <u>15</u></b>	<ol style="list-style-type: none"> <li>1. MGCC should award grants in amounts established by contracts and program guidelines.</li> <li>2. MGCC should request written approval from the awarding entity for adjusting grants based on qualifying economic circumstances and should include these provisions in its grant application policies and procedures.</li> <li>3. MGCC should apply any program changes uniformly to all applicants and awardees.</li> </ol>
<b>Finding 2</b> <b>Page <u>17</u></b>	MGCC did not consistently apply priority scoring for Sector Specific applicants in accordance with its contractual obligations.
<b>Effect</b>	If MGCC does not consistently apply priority scoring of applications from businesses that serve gateway cities and businesses owned by people of color, women, and veterans, then applicants that might be entitled to receive grants earlier under the terms of a contract might not receive priority. If the funds are insufficient, then some applicants might not receive a grant at all.
<b>Recommendation</b> <b>Page <u>19</u></b>	MGCC should consistently apply priority scoring in accordance with its contractual obligations to ensure appropriate documentation regarding sector specific grant requirements including, but not limited to, those regarding gateway cities and businesses owned by people of color, women, and veterans.
<b>Finding 3</b> <b>Page <u>20</u></b>	MGCC provided COVID-19 SBRGP grants to ineligible entities.
<b>Effect</b>	As a result, MGCC and the Commonwealth expended money in impermissible ways, which may result in misuse of taxpayer funds and less funding for permissible state programs.
<b>Recommendation</b> <b>Page <u>20</u></b>	MGCC should ensure that it only provides grants to eligible applicants.
<b>Finding 4</b> <b>Page <u>21</u></b>	MGCC did not provide information security training to its employees responsible for managing and accounting for COVID-19 SBRGP funds.
<b>Effect</b>	A lack of such training may lead to user error or compromise the integrity and security of MGCC's information systems, such as MGCC's accounting system, which was used to administer approximately \$650 million in COVID-19 SBRGP funding.
<b>Recommendations</b> <b>Page <u>22</u></b>	<ol style="list-style-type: none"> <li>1. MGCC should provide information security training to its newly hired employees during orientation and on an ongoing basis for all employees.</li> <li>2. MGCC should develop and implement monitoring controls to ensure that it provides information security training to all employees.</li> </ol>

<b>Finding 5</b> <b>Page <u>22</u></b>	MGCC did not file COVID-19 SBRGP reports by required dates.
<b>Effect</b>	If MGCC does not provide timely grant program and financial information, then key stakeholders and the public cannot measure the impacts of the program and assess whether the program met its intended purpose in a timely manner.
<b>Recommendation</b> <b>Page <u>23</u></b>	MGCC should develop reporting processes and procedures to ensure that required reports are submitted to appropriate entities by required dates and that these reports contain requested information. If dates cannot be met or deadlines are unreasonable given disbursement schedules, MGCC should contact the entity it contracted with to negotiate a different timeframe.
<b>Finding 6</b> <b>Page <u>24</u></b>	MGCC did not properly reconcile all COVID-19 SBRGP funds that it received.
<b>Effect</b>	If MGCC does not reconcile all of its funding, then there is a higher-than-acceptable risk that MGCC cannot identify any potential misappropriation of funds.
<b>Recommendations</b> <b>Page <u>24</u></b>	<ol style="list-style-type: none"><li>1. MGCC should reconcile all grant funds.</li><li>2. MGCC should determine whether it needs a new accounting system that has the ability to track all grant receipts and disbursements.</li></ol>

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## OVERVIEW OF AUDITED ENTITY

The Massachusetts Growth Capital Corporation (MGCC) was created within the Executive Office of Economic Development (EOED) on October 1, 2010, under Chapter 40W of the Massachusetts General Laws through the merger of the Massachusetts Community Development Finance Corporation and the Economic Stabilization Trust Fund.

According to its website, MGCC's mission is to "[empower] Small Business through financing and managerial assistance to create economic opportunities for all. MGCC provides and supports inclusive business resources to organizations across the Commonwealth."

To accomplish its mission, MGCC works with local banks and lending institutions, community development corporations, and other nonprofit organizations to finance projects that produce jobs in economically distressed communities throughout the Commonwealth. It also provides loans to organizations that, for various reasons, cannot obtain financing from traditional sources. Finally, MGCC manages a grant program for community development organizations that provide training and technical assistance to small businesses, including small contractors.

MGCC is overseen by a 12-member board that is chaired by the Secretary of Economic Development and has a designated seat for the Secretary of Administration and Finance or their designee. The Governor appoints the other 10 board members. This board meets to vote on debt financings, loan portfolio reviews, grant approvals, and MGCC expenditure decisions. The board is governed by Section 2 of Chapter 40W of the General Laws.

MGCC is located at 529 Main Street in Charlestown. As of June 30, 2022, MGCC had 18 full-time employees. Employees are responsible for underwriting proposed loans, administering grant programs, marketing loan and grant programs, managing and approving lines of credit, and performing other accounting activities.

### Pandemic Relief Contracts

During fiscal year 2021, because of the urgent need to help thousands of small businesses in Massachusetts during the COVID-19 pandemic, MGCC was awarded approximately \$752,100,000 through eight federally funded contracts with various Massachusetts agencies. As of June 30, 2022, MGCC had

received \$751,856,500 from those contracts and distributed \$702,754,582 in total to approximately 15,000 small businesses throughout the Commonwealth.

### **COVID-19 Small Business Relief Grant Program**

In response to the COVID-19 pandemic, MGCC signed two contracts with EOED to administer approximately \$667,500,000 in grants through the COVID-19 Small Business Relief Grant Program (SBRGP). The larger contract, which included two amendments, comprised a total of \$650,000,000 in federal funds and was signed on December 31, 2020, with the final amendment executed on February 2, 2021. The smaller contract for \$17,500,000 in state funds was executed on January 4, 2021. The purpose of the COVID-19 SBRGP was to help small businesses endure loss of revenue from COVID-19 and to preserve jobs by providing grants of up to \$75,000 for specific expenses such as payroll, employee benefits, rent, utilities, and interest on debt obligations.

Under the COVID-19 SBRGP, funding was to be assigned by scoring applications and adding points for businesses that could be characterized in the following ways: businesses serving Massachusetts gateway cities;<sup>1</sup> businesses owned by people of color, women, and veterans; businesses that had not received aid related to COVID-19; and businesses from Sector Specific industries<sup>2</sup> adversely impacted by COVID-19. Eligibility requirements for grant funds included the following:

- The business must be located in Massachusetts and be part of an eligible industry.
- The business must be able to document a loss of income because of the COVID-19 pandemic that is equal to or greater than the requested grant funding.
- The business must currently be in operation and have been established before June 30, 2019.
- The business must be in good standing with the state and municipality, be current on taxes through March 1, 2020, and be in possession of valid state licenses/registrations, if applicable.

MGCC received 19,070 applications for the COVID-19 SBRGP and awarded grants to 14,066 applicants.

These 14,066 applicants who were awarded grants belonged to one of the following five categories:

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1. Section 3A of Chapter 23A of the General Laws defines a gateway city as “a municipality with a population greater than 35,000 and less than 250,000 with a median household income below the commonwealth’s average and a rate of educational attainment of a bachelor’s degree or above that is below the commonwealth’s average.” There are (26) gateway cities in Massachusetts, which are Attleboro, Barnstable, Brockton, Chelsea, Chicopee, Everett, Fall River, Fitchburg, Haverhill, Holyoke, Lawrence, Leominster, Lowell, Lynn, Malden, Methuen, New Bedford, Peabody, Pittsfield, Quincy, Revere, Salem, Springfield, Taunton, Westfield, and Worcester.
  2. Sector Specific industries included bars, restaurants, retail stores, hair salons, and barbershops.

- businesses with five or fewer employees;
- businesses with 50 or fewer employees;
- businesses from Sector Specific industries impacted by COVID-19;
- businesses that were part of MGCC's small business recovery loan forgiveness program; or
- businesses from Sector Specific industries that resubmitted grant applications.

MGCC accepted applications for the program from October 2020 through June 2021, and the last payments were disbursed in July 2021. Small business owners submitted applications online through MGCC's web portal, which were then reviewed by a team of MGCC employees and contractors using a grant application system. MGCC staff members designated applications as eligible, not eligible, or incomplete. They also worked with applicants to correct mistakes or gather missing documents for the application using the grant application system's message function. Completed, eligible applications went through this system in stages (Eligibility, Application, and Approval); MGCC staff members reviewed applications at each stage. Applicants attached required documents (e.g., tax returns, Internal Revenue Service Forms W-9, state Certificates of Good Standing, and/or municipal business certificates) to the application and MGCC employees verified applicants' declarations against their tax returns. The MGCC financial analyst reviewed completed applications in LexisNexis<sup>3</sup> for possible criminal history, fraudulent Social Security numbers, and addresses. MGCC grouped applications as they approved them and periodically sent these groups of applications to EOED for final approval throughout the duration of the program.

The COVID-19 SBRGP grants were distributed to various businesses in different towns and cities across Massachusetts. A total number of 324 towns and cities, many of which were gateway cities, received grants. A breakdown of the top grant recipients is in the [Appendix](#).

## Grant Receipts and Control Process

Once EOED gave its final approval of COVID-19 SBRGP applications, the MGCC controller produced an invoice for each group of approved applications and sent this invoice along with a request for funding to the EOED grants manager. The EOED grants manager sent the requested funds through a wire transfer to MGCC. Once MGCC received these funds, the MGCC controller recorded the receipts in the MGCC

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3. LexisNexis is a global information and analytics company that provides decision tools and analytics products.

accounting system. MGCC used this accounting system to post grant receipts and disbursements. The MGCC controller recorded the COVID-19 SBRGP grant funds on this accounting system using a code to identify them. The MGCC controller also updated the accounting system as receipts for awarded grant funds were posted.

### **COVID-19 SBRGP Reporting**

As part of the COVID-19 SBRGP contract requirements, MGCC was required to submit both initial and final financial and program reports to EOED. MGCC was required to include certain program information in these reports. This information could include, but was not limited to, the following: the number of businesses awarded grants, along with award amounts; business industries represented by grant recipients; the types and number of priority groups, such as people of color, women, and veterans, that were awarded grants; and the number of businesses in gateway cities that were awarded grants. MGCC was also required to include outcomes (e.g., job creation and local economic impact) in these reports.

### **MGCC Information Security Training**

MGCC has a Written Information Security Policy (WISP). According to this WISP, its purpose is to ensure that information security training is provided to all employees. The WISP states that it, and the procedures outlined within it, will be supported by training and awareness programs and that training will be provided on an ongoing basis beginning with new employee and user orientation. The senior management group reviews the WISP annually or when business, technical, or legal circumstances dictate. All MGCC employees are required to provide their signature, confirming that they have read MGCC's WISP.

## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Massachusetts Growth Capital Corporation (MGCC) for the period March 1, 2020 through June 30, 2022.

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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did MGCC administer the COVID-19 Small Business Relief Grant Program (SBRGP) in accordance with Section III of Amendment to Attachment A of the Small Business Relief Grant Program—Part II to ensure that funds were distributed to eligible businesses within eligible industries and that priority was given to underserved demographic groups?	No; see Findings <u>1</u> , <u>2</u> , and <u>3</u>
2. Did MGCC account for COVID-19 SBRGP funds received from the Executive Office of Economic Development (EOED) in accordance with its Grant Receipts & Control Procedures to ensure that the grant funds MGCC received matched the grant request amounts and were properly recorded to MGCC's accounting records?	No; see Finding <u>6</u>
3. Did MGCC disburse the COVID-19 SBRGP funds to eligible businesses in accordance with Section III of Amendment to Attachment A of the Small Business Relief Grant Program—Part II to ensure that maximum amounts as stipulated in the contract were distributed to grant recipients and that these funds were used for allowable expenses?	No; see Finding <u>1</u>
4. Did MGCC follow reporting requirements in accordance with Section VII of Amendment to Attachment A of the Small Business Relief Grant Program—Part II to ensure that reports contained required information and were submitted according to stipulated timelines?	No; see Finding <u>5</u>
5. Did MGCC provide information security training to its employees responsible for the management, approval, and accounting of COVID-19 SBRGP funds when initially hired and on an ongoing basis as required by MGCC's Written Information Security Policy (WISP)?	No; see Finding <u>4</u>

To accomplish our audit objectives, we gained an understanding of the aspects of MGCC's internal control environment that we determined to be relevant to our objectives by reviewing applicable policies and procedures and relevant contracts, by conducting interviews and walkthroughs with management, and by reviewing the processes related to our objectives. We evaluated the design of controls over the administration of grant applications, the accounting and disbursement of grant funds, the reporting of grants, and the administration of information security training. We also tested the operating effectiveness of controls over the administration of grant applications.

To obtain sufficient, appropriate evidence to address our audit objectives, we performed the following procedures.

## **Sampling Strategy**

For our first three objectives, we obtained a list of COVID-19 SBRGP grant recipients and chose a random, statistical sample<sup>4</sup> of 60 out of the population of 14,066 COVID-19 SBRGP grant recipients, using a 95% confidence level,<sup>5</sup> a 0% expected error rate,<sup>6</sup> and a 5% tolerable error rate<sup>7</sup> for our testing.

## **Administration of COVID-19 SBRGP Funds**

To determine whether MGCC administered the COVID-19 SBRGP in accordance with Section III of Amendment to Attachment A of the Small Business Relief Grant Program—Part II, we performed the following procedures.

- For our sample of 60 COVID-19 SBRGP grant recipients, we examined grant applications, tax records, state Certificates of Good Standing, municipal business certificates, state licenses and registrations, MGCC's scoring and prioritization records, reports on groups of approved applications, and internet searches to confirm certain details (e.g., each business's location or its current certificate standing with the Secretary of the Commonwealth). We determined whether the grant recipients met the following qualifications:

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4. Auditors use statistical sampling to select items for audit testing when a population is large (usually over 1,000) and contains similar items. Auditors generally use a statistics software program to choose a random sample when statistical sampling is used. The results of testing using statistical sampling, unlike those from judgmental sampling, can usually be used to make conclusions or projections about entire populations.
  5. Confidence level is a mathematically based measure of the auditor's assurance that the sample results (statistic) are representative of the population (parameter), expressed as a percentage.
  6. Expected error rate is the number of errors that are expected in the population, expressed as a percentage. It is based on the auditor's knowledge of factors such as prior year results, the understanding of controls gained in planning, or a probe sample.
  7. The tolerable error rate (which is expressed as a percentage) is the maximum error in the population that is acceptable while still using the sample to conclude that the results from the sample have achieved the objective.

- part of an eligible industry;
  - located in Massachusetts;
  - able to document a loss of income equal to or greater than the requested grant funding because of the COVID-19 pandemic;
  - currently in operation and established before June 30, 2019;
  - in good standing with the state and municipality;
  - current on taxes due through March 1, 2020;
  - in possession of valid state licenses/registrations, if applicable; and
  - scored and prioritized by MGCC to give priority to businesses owned by underserved demographic groups (specifically businesses owned by people of color, women, and veterans). (See Finding 2 for more information.)
- During our review of the COVID-19 SBRGP applicant list, we identified 32 grant recipients with an out-of-state legal business address within our population. We verified the addresses by independently reviewing the MGCC SBRGP Package Grant List. We reviewed each of the 32 grant applications and determined that all 32 businesses had a physical location in Massachusetts and had a state Certificate of Good Standing or a business certificate for a municipality within Massachusetts.
  - During our initial inquiry, we also investigated whether any of these 32 grant recipients were part of a chain,<sup>8</sup> which would make them ineligible for the COVID-19 SBRGP. (See Finding 3 for further information.)

## Accounting of COVID-19 SBRGP Funds

To determine whether MGCC accounted for COVID-19 SBRGP funds in accordance with its Grant Receipts & Control Procedures, we performed the following procedures.

- For our sample of 60 COVID-19 SBRGP grant recipients, we verified that grant receipt amounts matched requested amounts by confirming that each grant in our sample was part of an approved funding request MGCC sent to EOED. We also verified that each approved group was represented by an invoice sent by MGCC to EOED.
- We confirmed that MGCC accounting staff members properly recorded grant receipts from EOED to MGCC's accounting records by reviewing receipt postings on MGCC's accounting system to confirm that posting amounts matched requested amounts of grant funding.

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8. According to MGCC's Sector Specific grant solicitation language, "chains are defined as businesses not headquartered in Massachusetts with multiple locations."

- We then performed a reconciliation of overall COVID-19 SBRGP funding against the payment amounts for the program.

See Finding 6 for further information.

## **Disbursement of COVID-19 SBRGP Funds**

We determined whether MGCC disbursed COVID-19 SBRGP funds to eligible businesses in accordance with Section III of Amendment to Attachment A of the Small Business Relief Grant Program—Part II to ensure that amounts as stipulated in the contract were distributed to recipients and that these funds were used for allowable expenses. To do this, we performed the following procedures.

- For our sample of 60 COVID-19 SBRGP grant recipients, we reviewed grant applications, tax records, and Automated Clearing House<sup>9</sup> files and bank statements. We did this to determine whether (1) funds were disbursed to the grant recipients, (2) grant recipients provided required details regarding the use of these funds in their applications, and (3) the lesser of \$75,000 or three months of eligible expenses—and no more—was distributed to grant recipients.

See Finding 1 for more information.

## **Reporting of COVID-19 SBRGP Funds**

To determine whether MGCC followed reporting requirements in accordance with Section VII of Amendment to Attachment A of the Small Business Relief Grant Program—Part II to ensure that reports contained required information and were submitted according to stipulated timelines, we performed the following procedures.

- We determined whether MGCC management submitted both the initial and final reports by the required dates of January 31, 2021 and June 30, 2021, respectively.
- We also determined whether, if submitted by the required dates, these reports contained the following required information:
  - program information (e.g., the number of grants and grant recipient demographics, such as priority group, location, and industry sector);
  - financial information (e.g., grant amounts); and
  - outcomes (e.g., job creation, job retention, economic impact, and revenue growth).

See Finding 5 for more information.

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9. Automated Clearing House is a system used for electronic fund transfers between consumers and financial institutions.

## **Information Security Training**

To determine whether MGCC provided information security training to its employees responsible for the management, approval, and accounting of COVID-19 SBRGP funds when initially hired and on an ongoing basis, as required by MGCC's WISP, we performed the following procedures.

- We obtained from MGCC a list of employees who worked at MGCC during the audit period.
- We identified a total of 10 employees who were responsible for managing and accounting for the COVID-19 SBRGP by interviewing MGCC management, reviewing job descriptions, and reviewing system access and approval documentation.
- We requested training certificates and reviewed employee files for evidence of training certificates for all 10 of these employees to determine whether they completed the required information security training.

See Finding [4](#) for more information.

## **Data Reliability Assessment**

To determine whether grant funds were distributed, accounted for, and disbursed in accordance with COVID-19 SBRGP contract requirements and MGCC policies, respectively, we relied on data from MGCC's grant application and accounting systems. To assess the reliability of this data, we performed the following procedures.

### **MGCC Grant Application List**

To determine the reliability of the list of applications MGCC provided to us, we tested selected information system controls (security management, access controls, configuration management, segregation of duties, and contingency planning) and interviewed knowledgeable staff members at MGCC about the COVID-19 SBRGP applicant list and tested this list for hidden records and duplicate values. To test the list for completeness and accuracy, we reconciled grant recipient populations between the list received from MGCC and a direct system download of application data that we witnessed an MGCC employee completing. We also reconciled the total dollar amount of grants on the application list to contract amounts. In addition, we randomly selected 20 applications from each of the three major categories of grants financed by the COVID-19 SBRGP on the list (five or fewer employees, 50 or fewer employees, and Sector Specific) and randomly selected 10 applications from businesses that were part of MGCC's small business recovery loan forgiveness program. We also selected the 2 applications for businesses from Sector Specific industries that resubmitted grant

applications that were also financed by the COVID-19 SBRGP, giving us a total of 72 applications. We traced these 72 applications to source documents (tax returns and Internal Revenue Service Forms W-9) for the business name, the business address, and the owner's Social Security number.

### **Accounting System**

To determine the reliability of the data in MGCC's accounting system, we tested selected information system controls (security management, access controls, configuration management, segregation of duties, and contingency planning), reviewed policies and procedures, and interviewed MGCC employees who were knowledgeable about the system. We judgmentally selected three credits, which totaled \$163,695,000 of MGCC's \$650 million COVID-19 SBRGP award (and which were listed on the MGCC posting file downloaded from MGCC's accounting system by the MGCC controller) and traced these credits to invoices that MGCC sent to EOED.

### **Employee List**

To determine the reliability of the list of employees who worked at MGCC during the audit period, we checked this list for blank and duplicate values and hidden rows, columns, and worksheets. We identified employees responsible for managing COVID-19 SBRGP funds by interviewing MGCC management and by reviewing employee access and level of privileges on MGCC's grant application and accounting systems. We also confirmed that each of the 10 employees identified as responsible for managing and/or accounting for COVID-19 SBRGP funds had either a physical personnel file or, if a temporary employee, an executed Internal Revenue Service Form W-9 and a signed confidentiality agreement.

Based on the results of the data reliability assessment procedures described above, we determined that the information obtained for the audit period was sufficiently reliable for the purposes of our audit.

## DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

### 1. The Massachusetts Growth Capital Corporation distributed grants in excess of allowable contract amounts.

The Massachusetts Growth Capital Corporation (MGCC) distributed grants that were in excess of allowable contract amounts. We identified 18 (out of 60 total) grants where MGCC did not limit the grant amount to the lesser of \$75,000 or three months of operating expenses. MGCC issued grants on 18 instances totaling \$540,000, which was \$80,402.62 (17.5%) more than what was allowed, according to the terms of the COVID-19 Small Business Relief Grant Program (SBRGP) contract with the Executive Office of Economic Development (EOED). These 18 instances are outlined in the table below.

Grant Business Industry	Amount Paid	Eligible Amount	Amount Over Contract Limit
<b>Sector Specific</b>	\$ 20,000	\$ 5,161.00	\$ 14,839.00
<b>50 or Fewer Employees</b>	60,000	50,419.50	9,580.50
<b>Sector Specific</b>	30,000	23,372.50	6,627.50
<b>Sector Specific</b>	10,000	3,723.00	6,277.00
<b>Sector Specific</b>	10,000	3,918.00	6,082.00
<b>50 or Fewer Employees</b>	40,000	34,480.75	5,519.25
<b>Sector Specific</b>	10,000	5,867.00	4,133.00
<b>Sector Specific</b>	50,000	46,026.25	3,973.75
<b>Sector Specific</b>	20,000	16,073.50	3,926.50
<b>Sector Specific</b>	30,000	26,508.00	3,492.00
<b>Sector Specific</b>	20,000	16,822.25	3,177.75
<b>Sector Specific</b>	50,000	47,060.75	2,939.25
<b>Sector Specific</b>	20,000	17,208.75	2,791.25
<b>Sector Specific</b>	20,000	17,666.25	2,333.75
<b>Sector Specific</b>	70,000	67,794.00	2,206.00
<b>Sector Specific</b>	10,000	8,808.00	1,192.00
<b>Sector Specific</b>	40,000	38,979.25	1,020.75
<b>Sector Specific</b>	30,000	29,708.50	291.37
<b>Total</b>	<u>\$ 540,000</u>	<u>\$ 459,597.38</u>	<u>\$ 80,402.62</u>

Funding some small business grants in excess of amounts allowed by the contract with EOED could result in MGCC and the Commonwealth having less funding available for other state programs and misuse of taxpayer funds.

### Authoritative Guidance

Section III of Amendment to Attachment A of the Small Business Relief Grant Program—Part II contract between MGCC and EOED states,

*The new business relief program would offer grants up to \$75,000, but not more than three months of operating expenses, to be used for employee wage and benefits costs, space-related costs, and debt service obligations. . . .*

*[Applicants must be] able to document a loss of income equal to or greater than requested assistance due to COVID-19.*

### Reasons for Issue

MGCC officials told us in an email on June 6, 2023 that MGCC rounded requests up “based on the ongoing pandemic and the continued negative impacts on small business.” However, we did not find any documented policies and procedures that allowed for rounding up of grant amounts because of negative impacts on small businesses due to the pandemic. Further, MGCC did not provide any methodology on either when to round up requests from amounts calculated according to grant criteria or by how much. We also noted that the contract overages did not follow a consistent pattern, which would be expected from rounding, especially given the example of a \$5,161 grant being rounded up to \$20,000.

### Recommendations

1. MGCC should award grants in amounts established by contracts and program guidelines.
2. MGCC should request written approval from the awarding entity for adjusting grants based on qualifying economic circumstances and should include these provisions in its grant application policies and procedures.
3. MGCC should apply any program changes uniformly to all applicants and awardees.

### Auditee's Response

*As context for all of the responses which follow, MGCC notes that the small business COVID relief grant program (COVID-19 SBRGP) was established several months after former Governor Baker declared a state of emergency in an attempt to minimize the public health impact of a global pandemic. The Governor followed that declaration of a state of emergency with a number of executive orders prohibiting public gatherings and closing many businesses. Those closures, while*

*necessary and appropriate under the circumstances, imposed tremendous economic hardship on businesses across the Commonwealth. The COVID-19 SBRGP was funded by Governor Baker and administered by MGCC at his request to provide urgent economic assistance to those businesses hardest hit by the pandemic. MGCC processed over 18,000 applications over an eight-month period from December 2020 to July 2021. The funding for the COVID-19 SBRGP was delivered to MGCC pursuant to a contract with the Executive Office of Housing and Economic Development (EOHED).*

*Beginning in the first year of the Healey-Driscoll Administration, the Executive Office of Economic Development (EOED) (the successor to EOHED under legislation filed by Governor Healey) has been working with MGCC to improve MGCC's administration of other COVID relief grant programs, including by refining processes related to contracting, making eligibility determinations and documenting administrative expenses. The legislature has not appropriated funding for any COVID relief programs since 2022 and MGCC does not expect to be administering additional pandemic-related grant programs in the future, but the process improvements implemented to date and recommended in this report are being incorporated, as applicable, into MGCC's other lending and technical assistance programs.*

*With that background, MGCC agrees with the finding and all of the above recommendations and further notes:*

- 1. MGCC was in regular communication with EOHED regarding the implementation of the COVID-19 SBRGP, including about the amounts of grants made to each impacted business. Due to the large amount of funding provided to MGCC to disburse through the COVID-19 SBRGP, and the unusual urgency with which grant funds were to be disbursed, MGCC determined that it would be more effective to keep track of awarded amounts by rounding the grant funding to ten thousand dollar increments, or five thousand dollar increments for grants below \$10,000. In some cases, this rounding caused the grant amount to exceed the maximum grant amount established in the contract with EOHED.*

*EOHED supported this approach because it allowed MGCC to disburse funding to businesses impacted by the pandemic as expeditiously as possible, which was an important consideration given the urgency of the economic hardship businesses experienced during this time. Due to the urgency of the pandemic, and the ensuing economic hardship on businesses forced to shut down, EOHED and MGCC were focused on disbursing grants to impacted businesses and did not amend the contract to reflect that some grant awards would exceed the agreed upon cap as stated in the contract. MGCC agrees that it is best practice to document the agreed-upon grant amounts by either formally amending the contract with EOHED or requesting a written acknowledgement or waiver from EOHED.*

- 2. MGCC agrees that it would be best practice to request written approval from the awarding entity prior to adjusting grants based on qualifying economic circumstances, and to include these provisions in its grant application policies and procedures. As noted above, the circumstances of the pandemic resulted in MGCC not accounting for this best practice.*

3. *MGCC agrees that it should apply any program changes uniformly to all applicants and awardees.*

### **Auditor's Reply**

In its reply, MGCC provided information regarding how grants were awarded in excess of contractually allowable amounts. This information and methodology is not, and was not, documented and was not provided to us during this audit.

MGCC acknowledged that this methodology should have been formally documented but was not. Given this lack of documentation, there is no way for MGCC to ensure that grants were consistently awarded in accordance with this undocumented methodology. For example, our audit uncovered an instance where the grant amount was not in accordance with the undocumented grant award methodology described in MGCC's response (specifically, the grant award of \$20,000 that was \$14,839 above the contractually allowable amount).

Undocumented methodologies for grant distribution could result in the inappropriate and inequitable distribution of taxpayer-funded grants. MGCC stated that it and EOED decided to issue grant awards "by rounding the grant funding to ten thousand dollar increments, or five thousand dollar increments for grants below \$10,000." Some grantees received grant awards within the amount allowed by the documented contract, while other grantees (18 out of the 60 sampled) were awarded grants that were rounded in excess of the allowable contract amount. Based on MGCC's response, a grantee with an allowable grant award of \$50,419.50 might have been issued a grant of \$50,000 using undocumented methodologies. However, as noted, this grantee received an award of \$60,000 instead. We reiterate our concerns regarding the apparent inconsistent application of undocumented methodologies regarding the distribution of state-funded grants.

Based on its response, MGCC is taking steps to address our concerns.

### **2. The Massachusetts Growth Capital Corporation did not consistently apply priority scoring for Sector Specific applicants in accordance with its contractual obligations.**

MGCC did not always score applications when assessing COVID-19 SBRGP applications to prioritize grant applicants considered to be from underserved demographic groups. Specifically, grants awarded under

the COVID-19 SBRGP were to be prioritized by being given to businesses owned by people of color, women, and veterans, as well as to businesses focused on serving gateway cities in Massachusetts.

If MGCC does not consistently apply priority scoring of applications from businesses that serve gateway cities and businesses owned by people of color, women, and veterans, then applicants that might be entitled to receive grants earlier under the terms of a contract might not receive priority. If the funds are insufficient, then some applicants might not receive a grant at all.

### **Authoritative Guidance**

For Sector Specific grants, Section III of Amendment to Attachment A of the Small Business Relief Grant Program—Part II between MGCC and EOED stated that there would be a new round of grants related to specific industry sectors and specified these sectors. These sectors included the following:

- *Restaurants, bars, and caterers*
- *Indoor recreation and entertainment establishments*
- *Gyms and fitness centers*
- *Event-support professionals (photographers, videographers, etc.)*
- *Personal services*
- *Retail*

However, this section did not exempt Sector Specific grants from the prioritization of businesses serving gateway cities and businesses owned by people of color, women, and veterans, which was required by the COVID-19 SBRGP contract with EOED. Rather, it specifically required that these factors be included in the awarding of grants. Section III of Amendment to Attachment A of the Small Business Relief Grant Program—Part II contract between MGCC and EOED stated,

*The grants are awarded to small businesses with a priority given to underserved markets, specifically [people of color–], women-owned, and veteran-owned companies. . . .*

#### **SCORING / PRIORITIZATION**

- *Businesses focused on serving the Gateway Cities of Massachusetts*
- *[people of color–]owned, women-owned, and veteran-owned businesses*

## Reasons for Issue

MGCC officials told us during our interview on June 29, 2023 that there was enough funding available to give grants to all qualified applicants. Therefore, it was not necessary to apply a score to all eligible applications and apply any prioritization.

## Recommendation

MGCC should consistently apply priority scoring in accordance with its contractual obligations to ensure appropriate documentation regarding sector specific grant requirements including, but not limited to, those regarding gateway cities and businesses owned by people of color, women, and veterans.

## Auditee's Response

*When making grant awards under the COVID-19 SBRGP MGCC did prioritize the sectors identified as priority sectors in the contract with EOED. Prioritization was achieved by asking each applicant if their business was part of a priority sector. If an applicant indicated in its application that its business was within a priority sector, that application was prioritized for funding. Based on program data currently available, MGCC can confirm that 100 percent of all applicants from priority sectors received grants.*

## Auditor's Reply

We do not dispute MGCC's statement that all applicants that met eligibility requirements from priority sectors received COVID-19 SBRGP grants. This may have occurred because sufficient funding was available to fund all of these applications. A purpose of the priority scoring by MGCC was to give priority to businesses owned by underserved demographic groups (specifically businesses owned by people of color, women, and veterans). During the audit, we determined that MGCC did not apply priority scoring to all Sector Specific COVID-19 SBRGP applicants, which leaves room for potential challenges and inconsistencies regarding the equitable application of grant distribution. While MGCC has stated it used a process, it should have complied with the process outlined in the grant contract regarding the use of priority scoring, because that is what was required under the contract. Additionally, MGCC may not have known there was sufficient funding for all applicants, because MGCC grouped applications as they approved them and periodically sent them to EOED (see "[COVID-19 Small Business Relief Grant Program](#)" in this report for more information). Using priority scoring helps ensure that businesses that serve gateway cities and businesses owned by people of color, women, and veterans receive funding in situations where there may not be sufficient funding for all eligible applicants.

We reiterate our recommendation that MGCC should consistently follow its contractual obligations to ensure accountability regarding the appropriate and equitable distribution of taxpayer-funded grants.

### **3. The Massachusetts Growth Capital Corporation provided COVID-19 Small Business Relief Grant Program grants to ineligible entities.**

MGCC provided grants to businesses that were parts of chains or franchises, which were ineligible for COVID-19 SBRGP grants. Specifically, we identified nine grants (totaling \$660,000) that were given to businesses that were parts of chains or franchises.

As a result, MGCC and the Commonwealth expended money in impermissible ways, which may result in misuse of taxpayer funds and less funding for permissible state programs.

#### **Authoritative Guidance**

Section III of Amendment to Attachment A of the Small Business Relief Grant Program—Part II between MGCC and EOED lists certain types of businesses that were ineligible for grants, and among these businesses are chains. MGCC's COVID-19 SBRGP program overviews and eligibility forms also specifically designated franchises as ineligible for grants.

#### **Reasons for Issue**

MGCC relied on self-attestation from COVID-19 SBRGP applicants, and MGCC employees did not review grant applications to ensure that applicants were not part of chains, or in the case of Sector Specific grants, franchises.

#### **Recommendation**

MGCC should ensure that it only provides grants to eligible applicants.

#### **Auditee's Response**

*MGCC agrees with the recommendation that it should provide grants only to eligible applicants. In this case, MGCC relied on applicant self-attestation to determine if the applicant met certain eligibility criteria, including whether the applicant was a part of a chain or franchise. During the pandemic, self-attestation was a common method for the federal government to ensure that assistance reached those in need as expediently as possible, especially for programs where federal guidelines did not require supporting documentation. Self-attestation was discussed with EOED during program design, and federal guidelines provided administering agencies broad latitude to design programs as necessary to respond to the public health emergency. MGCC agrees that*

*reliance on self-attestation would be less appropriate when administering a grant program not intended to respond quickly to a public health emergency.*

### **Auditor's Reply**

As noted above, MGCC relied on self-attestation from program applicants when assessing an applicant's eligibility. This led to at least nine ineligible applicants receiving grants totaling \$660,000.

In its response, MGCC stated, "Self-attestation was a common method for the federal government to ensure that assistance reached those in need as expediently as possible, especially for programs where federal guidelines did not require supporting documentation." We acknowledge that the COVID-19 pandemic created urgent economic hardships to Commonwealth residents. However, various procedures exist to check for program eligibility in a timely manner, including reviewing the applications that contained entries that were at a higher risk of noncompliance. For example, if MGCC performed an analysis of potential grantees with out-of-state legal business addresses before issuing grant payments, it could have potentially identified some ineligible applicants and asked follow-up questions to these higher-risk applicants to ensure that they met eligibility requirements before issuing the grant payments to them.

Based on its response, MGCC is taking measures to address our concerns.

### **4. The Massachusetts Growth Capital Corporation did not provide information security training to its employees responsible for managing and accounting for COVID-19 Small Business Relief Grant Program funds.**

MGCC did not provide any information security training to the 10 MGCC employees responsible for managing and accounting for COVID-19 SBRGP funds during the audit period.

A lack of such training may lead to user error or compromise the integrity and security of MGCC's information systems, such as MGCC's accounting system, which was used to administer approximately \$650 million in COVID-19 SBRGP funding.

### **Authoritative Guidance**

MGCC's Written Information Security Policy (WISP) includes the following provisions:

*The purpose of this WISP is to ensure that . . . information security training is provided to all employees and staff.*

*Training will be provided on an ongoing basis, beginning with new employee and User orientation, as scheduled by the [information security officer] for full-time employees, part-time employees and contract/temporary employees.*

## Reasons for Issue

MGCC did not have effective monitoring controls to ensure that it provided information security training to all employees.

## Recommendations

1. MGCC should provide information security training to its newly hired employees during orientation and on an ongoing basis for all employees.
2. MGCC should develop and implement monitoring controls to ensure that it provides information security training to all employees.

## Auditee's Response

*MGCC acknowledges that it did not provide information security training to its newly hired and temporary employees during orientation during the COVID19 pandemic. During the period that MGCC was administering the COVID-19 SBRGP, MGCC was adding temporary and new staff at a rapid pace and was still adjusting to pandemic response orders that required employees to work from home. This oversight was noticed and MGCC has since provided information security training to all employees. MGCC also has incorporated the Written Information Security Policy, Guidance, Standards and Protocols (WISP) into its employee handbook and will annually require every current and new employee to receive a copy of the WISP and to sign a form acknowledging the employee has received, reviewed and understands that policy.*

## Auditor's Reply

Based on its response, MGCC has taken measures to provide information security training to its current employees. We reiterate our recommendations that MGCC provide information security training to its newly hired employees during orientation and on an ongoing basis for all employees as well as develop and implement monitoring controls to ensure that it provides this training.

## 5. The Massachusetts Growth Capital Corporation did not file COVID-19 Small Business Relief Grant Program reports by required dates.

MGCC did not submit COVID-19 SBRGP reports by required dates and did not ensure that those reports included all necessary information.

MGCC did not produce an initial financial and program report. The final financial and program report produced by MGCC management at the end of the program was late by 16 days, and the prepared report did not contain any information on program outcomes.

If MGCC does not provide timely grant program and financial information, then key stakeholders and the public cannot measure the impacts of the program and assess whether the program met its intended purpose in a timely manner.

### **Authoritative Guidance**

Section VII of Amendment to Attachment A of the Small Business Relief Grant Program—Part II states,

*Initial financial and program report is due on February 28, 2021 including any quantifiable information such as job creation/retention and economic impact.*

*Final financial and program report, including outcomes due on June 30, 2021.*

### **Reasons for Issue**

According to MGCC officials, they could not produce outcome data by the deadlines of the initial and final program reports because not enough time had elapsed to measure the outcome of the COVID-19 SBRGP. MGCC officials told us that outcomes such as job creation, job retention, and economic impact could not be measured until the grant funds were used. Additionally, MGCC officials also told us that the final report was submitted after the deadline because the final COVID-19 SBRGP payment was made after June 30, 2021 (the date the final report was due).

### **Recommendation**

MGCC should develop reporting processes and procedures to ensure that required reports are submitted to appropriate entities by required dates and that these reports contain requested information. If dates cannot be met or deadlines are unreasonable given disbursement schedules, MGCC should contact the entity it contracted with to negotiate a different timeframe.

### **Auditee's Response**

*MGCC acknowledges that certain COVID-19 SBRGP reports were submitted to EOHED after the reporting deadline stated in the contract with EOHED. MGCC verbally notified EOED that its report would be late, and EOHED subsequently accepted the late reports.*

*MGCC is working currently with EOED to clarify reporting requirements on all of its programs funded through a contract with EOED. MGCC will thereafter implement policies and controls to ensure that program outcomes are reported in a timely manner and include all of the reporting data and metrics required.*

### Auditor's Reply

Based on its response, MGCC is taking measures to address our concerns on this matter.

## **6. The Massachusetts Growth Capital Corporation did not properly reconcile all COVID-19 Small Business Relief Grant Program funds that it received.**

During our audit, we found that MGCC had a \$54,324 unreconciled variance of COVID-19 SBRGP funds. This variance consists of funding that MGCC had not disbursed as grants or returned to the state, and MGCC could not explain this variance.

If MGCC does not reconcile all of its funding, then there is a higher-than-acceptable risk that MGCC cannot identify any potential misappropriation of funds.

### Authoritative Guidance

MGCC's Grant Receipts & Control Procedure states that it should, "match grant receipts with amounts in grant request letter, amounts, and grant programs [and] . . . update grant receipts schedule."

### Reasons for Issue

MGCC officials told us that there were a number of reasons for variances. Specifically, MGCC attributed these variances in tracking all grant receipts and disbursements to the following:

- initial invoices represented contract amounts as opposed to actual group amounts;
- some original award amounts were revised;
- returned funds were reallocated to other groups; and
- limitations of its accounting system.

### Recommendations

1. MGCC should reconcile all grant funds.
2. MGCC should determine whether it needs a new accounting system that has the ability to track all grant receipts and disbursements.

## Auditee's Response

*MGCC agrees that it should reconcile all grant funds after a program has concluded, and in fact did perform such a reconciliation for the COVID-19 SBRGP. That reconciliation was performed using MGCC's official accounting ledgers on a cash basis, rather than the [grant application system] that was on an award basis, which MGCC used to accept and process applications. The final and official close-out for the COVID-19 SBRGP reconciled program funds received with program funds disbursed without any deviation.*

*The auditor's attempted reconciliation using [the grant application system] found a deviation because the grant amounts logged in [the grant application system] were initial estimates, and subject to change after discussion with EOED. As noted, MGCC's final and official close-out for the COVID-19 SBRGP reconciled program funds received with program funds disbursed without any deviation.*

## Auditor's Reply

The total amount awarded to all grant recipients should agree to the total amounts disbursed under the COVID-19 SBRGP. Our review found a variance of \$54,324 for which MGCC could not provide any detailed information on what accounted for the discrepancy in the list of grant recipients. Assuming MGCC reconciled these accounts, as indicated in its response, it should be the case that MGCC can explain this variance with an itemized accounting, since this information was not made available to our audit team during the audit, nor was it included in MGCC's grant application system. Additionally, MGCC could not provide us a grant recipient list from its accounting system that detailed how much each grantee received as part of the COVID-19 SBRGP. As MGCC states in its response, the list generated from its grant application system included award estimates that were subject to change after review by EOED. MGCC should have updated its grant application system to reflect any changes that EOED told MGCC to make to document the amount and reason for the change. (See Finding 1 for a similar issue identified in MGCC's undocumented changes made in consultation with EOED.)

We reiterate our recommendations that MGCC should clearly reconcile all grant funds and determine which accounting system is accurately tracking all grant receipts and disbursements, for reconciliation purposes. Our office looks forward to our post-audit review alongside MGCC, where we hope to further review this reconciliation. Based on its response, MGCC is taking steps to address our concerns.

## APPENDIX

### Cities Awarded the Most Grant Funding

City	Ranking in Massachusetts by Population Size	Number of Grants	Dollars Awarded*
Boston	1	2,093	\$ 101,327,229
Worcester	2	414	\$ 17,240,000
Cambridge	4	320	\$ 16,263,000
Quincy	7	295	\$ 13,179,000
Springfield	3	206	\$ 7,935,000

\* Most grants were between \$5,000 to \$75,000.

### Gateway Cities Awarded the Most Grant Funding

Gateway City	Ranking in Massachusetts by Population Size	Number of Grants	Dollars Awarded
Worcester	2	414	\$ 17,240,000
Quincy	7	295	\$ 13,179,000
Springfield	3	206	\$ 7,935,000
Lawrence	11	233	\$ 7,343,000
Lynn	8	239	\$ 7,326,000

### Business Sectors Awarded the Most Grant Funding

Business Sector	Number of Grants	Dollars Awarded
Restaurant, Bar, Caterer, or Food Truck	3,670	\$ 213,895,251
Beauty/Personal Care	2,399	\$ 81,503,412
Retail	1,451	\$ 58,564,718
Other*	1,390	\$ 61,153,800
Healthcare	683	\$ 39,558,545

\* Other sectors include, but are not limited to, cleaning, fitness, and automotive.

### Grants Awarded to Priority Groups

Priority Group*	Number of Grants	Dollars Awarded
Woman-Owned Business	6,480	\$ 270,097,055
Person of Color-Owned Business	4,648	\$ 188,762,420
Veteran-Owned Business	460	\$ 22,705,000

\* Respondents may have identified as being from more than one demographic category.