

Small Business Administration
Office of Entrepreneurial Development
409 Third St, SW 6th Floor
Washington DC 20416

Financial Examination of the Massachusetts Small Business Development Center

Program Year 2018



Budget Period: October 1, 2017 to September 30, 2019
Grant Activity Period: October 1, 2017 to December 31, 2018

Date: 10/18/2019
Contract Award Number: SBAHQ-18-B-0001



October 18, 2019

To: George Koklanaris, Associate Administrator for Small Business Development Centers

Through: Jeanne Crepeau
Administrative Officer, OED

The attached Program Year 2018 financial examination was conducted June 24, 2019 to June 26, 2019, of the Massachusetts Small Business Development Center (MA-SBDC) network, including the lead center in Amherst, MA (including satellite offices servicing the Western and Southeastern areas), Clark University (Central Region) and Salem State University (Northeast Region) The scope of the financial examination focused on validating the adequacy of the MA-SBDC network financial management procedures to ensure compliance with financial laws, regulations, and policies of the SBDC Program.

The overall objective of the financial examination was to determine whether the MA-SBDC network had controls in place to ensure: (1) the accuracy of the reported financial management data; (2) costs incurred and claimed for reimbursement were reasonable, allowable, and allocable; (3) compliance with applicable laws and regulations, policies, operating procedures as it pertains to financial management. This was accomplished by reviewing samples of Financial Reporting, Cash Disbursements, Indirect Cost, Program Income, and other financial requirements of the SBDC Program.

Overall, MA-SBDC is in compliance with the financial objectives of the SBDC Program. Based on the review of the limited data examined, there are no findings requiring attention.

Please extend my sincere thanks to the MA-SBDC for the cooperation and courtesies they afforded the Financial Examination Unit during this examination.

A handwritten signature in black ink that reads "Felicia Daniels Smith". The signature is written in a cursive style with some loops and flourishes.

Felicia Daniels Smith
Financial Examiner
Office of Entrepreneurial Development

Executive Summary:

A Program Year 2018 financial examination was conducted of the Massachusetts Small Business Development Center (MA-SBDC) network, including the Lead center in Amherst, MA (including satellite offices servicing the Western and Southeastern regions) Clark University (Central Region) and Salem State University (Northeast Region), during June 24, 2019 to June 26, 2019. The overall objectives of the Small Business Administration (SBA) financial examination process are to determine whether the MA-SBDC network has controls in place to ensure: (1) the accuracy of the reported financial and management data; (2) whether costs incurred and claimed for reimbursement were reasonable, allowable, and allocable; (3) compliance with program policies, operating procedures, applicable laws and regulations. The scope of the financial examination focused on the adequacy of the MA-SBDC network management to ensure compliance with policies, laws, and regulations of the SBDC Program. This was accomplished by reviewing MA-SBDC's compliance with the Reporting, Time and Effort, Cash Disbursements, Indirect Cost, and Program Income requirements of the SBDC Program.

MA-SBDC reported Federal expenditures of \$1,816,105.17 for the network, which was matched with \$1,083,978.31 in cash match, \$0.00 of In-Kind Contribution, and \$934,709.62 of waived Indirect Costs for the period October 1, 2017 to December 31, 2018.

Findings: There are no findings to report.

I. EXAMINATION PURPOSE

The overall objective of the SBA financial examination process is to determine whether the SBDC network has controls in place to ensure: (1) the accuracy of the reported financial and management data; (2) whether costs incurred and claimed for reimbursement were reasonable, allowable, and allocable; (3) compliance with program policies, operating procedures, applicable laws and regulations.

Pursuant to 15 USC 648 § 21(k) (1) of the Small Business Act (the Act) and the Code of Federal Regulations (CFR) 13, Part 130 which require the Office of Small Business Development Centers (OSBDC) to perform a financial and programmatic examination of each SBDC network every two years.

This examination was conducted June 24, 2019 to June 26, 2019, and covered the SBDC operations for Program Year 2018. Please note that the MA-SBDC is operating under a two-year budget. The budget period is from October 1, 2017 to September 30, 2019. Our examination focused on the financial activities of the MA-SBDC. The Centers included in our review were as follows:

- Lead Center (University of Massachusetts, Amherst) Amherst, MA
 - Western Regional
 - Southeast Regional
- Clark University (Central Region), Worcester, MA
- Salem State University (Northeast Region), Salem, MA

The findings and opinions noted in this report pertain solely to the centers and samples selected. This examination does not substitute for audits required of Federal grantees under the Single Audit Act of 1984 or Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Named users of this report are the SBA, America's Small Business Development Centers (ASBDC) Accreditation Committee, University of Massachusetts, Amherst, and the MA-SBDC network. This report is not intended as a basis for reliance or action by any other users.

II. CORRECTIVE ACTIONS RESULTING FROM PREVIOUS EXAMINATION

The last examination had no findings.

III. RESULTS OF CURRENT EXAMINATION

Reporting

The examination covered a review of required financial reports, including Federal Financial Report SF-425 and Program Income Report SBA Form 2113.

No Finding - The required financial reports have been submitted on time, and all information in the reports was complete and accurate.

Service Center Monitoring

The examination included a review of service center financial monitoring reports which covered periodic reviews by the lead center for the selected service centers.

No Finding – The reports were comprehensive and covered all relevant financial areas. The lead center is sufficiently monitoring financial activities of the MA-SBDC network.

Time & Effort

The examination included a review of time and effort for employees at the lead center and selected service centers. The review included samples of timesheets and certifications for employees working on the SBDC program.

No Finding – Time and effort for employees of the MA-SBDC network appeared to be reported, tracked, and certified correctly.

Examiner’s comments: As you know, State Directors and Regional Directors (in California and Texas) can allot 25% of their time to the other grant projects, but they still must dedicate 75% of their time to the functions of the SBA SBDC Cooperative Agreement (See 2018 OSBDC Program Announcement, section 8.2.16). In many cases, SBDCs that managed multiple grants projects (PTACs, MEP etc) are not tracking or explaining the methodology used to support the percentages for all employees dedicating time to other grant projects managed by the SBDC. We are somewhat confident that the consultants/advisors’ work activities are being properly monitored as their performance is recorded and tracked in the SBDC’s designated CRM system (e.g. Center Dynamic or Neoserra). However, we are uncertain about the **actual** time the State/Regional Directors’ and their support staff dedicate to the other projects as their time is usually not reported on their time and effort report and/or recorded and tracked in the SBDC’s CRM system. OSBDC plans to provide more guidance concerning this issue in the coming months to ensure SBDCs are complying with time and effort requirements.

Cash Disbursements (Federal and Matching)

The examination included a review of transaction activity from the lead center and selected service centers’ general ledger accounts. Invoices and support documentation, together with sample expenditures for personnel salaries and direct operating costs were used.

The Federal Financial Report, SF-425, was supported by a crosswalk spreadsheet maintained by the lead center. The lead center reported Federal expenditures of \$1,816,105.17 for the network, which was matched with \$1,083,978.31 in cash match.

No Finding - Ledgers properly support all requests for reimbursement submitted by the service centers to the lead center. The examination included a test of 160 transactions.

- 112 transactions at the Lead Center (includes Western and Southeast Regions)
- 48 transactions at Service Center Clark University (Central Region) SBDC
- 0 transactions at Service Center Salem State University (Northeast Region) SBDC (only federal and waived indirect costs. Funds used for salary only).

All tested transactions were supported by ledgers and were determined to be allowable expenses.

Indirect Costs

The examiner reviewed all Indirect Cost agreements for the MA-SBDC network. The MA-SBDC network Federal Financial Report, SF-425, reported a total of \$934,709.62 for Indirect Costs. A detailed breakout of Indirect Cost shows the amount reimbursed by Federal funds for the period totaled \$0 with \$934,709.62 reported as waived indirect non-cash matching costs.

No Finding - The examiner's review of Indirect Cost agreements for the MA-SBDC network found that Indirect Costs appeared to be calculated correctly and in accordance with documented agreements.

In-Kind Match

The examination included a review of in-kind matching funds. The MA-SBDC network reported \$0.00 of In-Kind Match contributions for the period October 1, 2017 to December 31, 2018.

No Finding – the MA-SBDC network did not claim any in kind donations as matching funds.

Program Income

The examination included a review of program income activity for the network. SBA form 2113 (Program Income Report) and program income ledgers were reviewed. The examiner also tested the ending program income balance to ensure that it is within the acceptable limit.

The lead center reported the following for network program income for the period from October 1, 2017 to September 30, 2018.

Type	Amount
Network Opening Balance	\$233,472.17
Revenue	\$ 99,062.50
Expenses	\$ 66,067.47
Network Closing Balance	\$266,467.20

A review of the Program Income ending balance shows that the MA-SBDC is within the 25% policy that requires SBDCs to expend any Program Income exceeding 25% of their total budget. This was tested by the examiner and determined to be within the limits as established in the Program Announcement and the Notice of Award and therefore the MA-SBDC is in compliance with this requirement.

No Finding - Program Income activity from the network was reported on SBA Form 2113 and further supported by the lead center's internal schedule or spreadsheet of network Program Income. The examination included a review of selected transactions with no discrepancies.

Massachusetts Small Business Development Center

SBAHQ-18-B-0001

RESULTS OF CURRENT EXAMINATION

Results of our Examination of Cost Claimed on the Federal Financial Report (SF-425)
for the period October 1, 2017 through December 31, 2018

	Item Number	Item Description	Claimed	Examiner Adjustment	Adjusted Amount	Ref. Page
Federal Cash						
	10a	Cash Receipts	\$1,598,900.85	\$0.00	\$1,598,900.85	
	10b	Cash Disbursements	\$1,816,105.17	\$0.00	\$1,816,105.17	
	10c	Cash on Hand (a minus b)	(\$217,204.32)	\$0.00	(\$217,204.32)	
	10d	Total Federal Fund Authorized	\$2,188,251.00	\$0.00	\$2,188,251.00	
	10e	Federal Share of Expenditures	\$1,816,105.17	\$0.00	\$1,816,105.17	
	10f	Federal Share of Unliquidated Obligations	\$0.00	\$0.00	\$0.00	
	10g	Total Federal Share (sum of lines e and f)	\$1,816,105.17	\$0.00	\$1,816,105.17	
	10h	Unobligated Balance of Federal Funds (line d minus g)	\$372,145.83	\$0.00	\$372,145.83	
Recipient Share:						
	10i	Total Recipient Share Required	\$1,816,105.17	\$0.00	\$1,816,105.17	
	10j	Recipient Share of Expenditures	\$2,018,687.93	(\$0.00)	\$2,018,687.93	
	10k	Remaining Recipient Share to be Provided (line I minus j)	(\$202,582.76)	(\$0.00)	(\$202,582.76)	
Program Income:						
	10l	Total Federal Program Income Earned	\$0.00	\$0.00	\$0.00	
	10m	Program Income Expended in Accordance with the Deduction Alternative	\$0.00	\$0.00	\$0.00	
	10n	Program Income Expended in Accordance with the Addition Alternative	\$0.00	\$0.00	\$0.00	
	10o	Unexpended Program Income (line l minus line m or line n)	\$0.00	\$0.00	\$0.00	

SUMMARY OF RESULTS

Based on the limited testing of the data available from the lead center and the selected service centers, it was determined that the MA-SBDC network:

1. Is in compliance with reporting requirements;
2. Is in compliance with monitoring of the financial activities of its service centers;
3. Is in compliance with time & effort reporting;
4. Is in compliance with monitoring of cash disbursement requirements;
5. Is in compliance with indirect cost requirements;
6. Is in compliance with in-kind match requirements;
7. Is in compliance with program income requirements.