

LEGISLATIVE AUDIT DIVISION

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MEMORANDUM

TO: Legislative Audit Committee Members
FROM: Angie Grove, Deputy Legislative Auditor
CC: Anthony J. Preite, Director, Department of Commerce
Andy Poole, Administrator, Business Resources Division
Ann Desch, State Director, Small Business Development Centers
DATE: June 2, 2008
RE: Performance Audit Follow-up (08SP-001): Small Business Development Centers,
Department of Commerce (orig. 05P-04)
Attachment: Original 05P-04 SBDC Performance Audit Summary

INTRODUCTION

In January 2006, we issued our performance audit of the Small Business Development Center (SBDC). The audit made seven recommendations to the Montana Department of Commerce (DOC). In November 2007, we began gathering information from the DOC and SBDC on progress in implementing the recommendations. This memo summarizes the results of our follow-up work in addition to presenting background information on the audit.

Overview

Through our analysis of information provided by the department, we found the SBDC program has varying levels of success in the implementation of audit recommendations. The department has fully implemented some of the recommendations while partially implementing others. The following explains the implementation status of each of the seven recommendations.

Implementation Status

Implemented	4
Partially Implemented	2
Being Implemented	1
Not Implemented	0

BACKGROUND

The SBDC, which is overseen at the federal level by the Small Business Administration (SBA), was developed to provide small businesses professional counseling and training services clients could not otherwise access or afford. Services are delivered through individual sessions with a SBDC counselor or through group training workshops organized by regional sub-centers.

The SBDC lead center is located in the DOC's Business Resources Division. The ten SBDC sub-centers are located in Kalispell, Missoula, Butte, Helena, Bozeman, Great Falls, Havre, Billings, Colstrip, and Wolf Point. The sub-centers are located in host agencies contracting with the DOC to deliver SBDC services within the region.

FOLLOW-UP AUDIT FINDINGS

Recommendation #1

We recommend the department improve review of SBDC client records to ensure all participating companies are eligible under SBA business size regulations and program outcomes are reported accurately.

Implementation Status – Implemented

In order to ensure each client's business size fits within the size requirements, the lead center communicated the importance of these regulations to all the sub-center directors as well as implemented training via their management information systems. In addition, the lead center conducts periodic audits of business size to ensure compliance. A review of all the sub-center clients counseled in 2006 subsequently showed all 1,309 clients and businesses counseled met the SBA size requirements. Although there were some nationally recognized franchises on the list, they were privately owned. In 2007, 840 clients utilized SBDC's services through the first three quarters and all complied with SBA eligibility requirements.

Recommendation #2

We recommend the department ensure cooperative agreements and host agency contracts address provision of training opportunities in outlying communities within SBDC service areas.

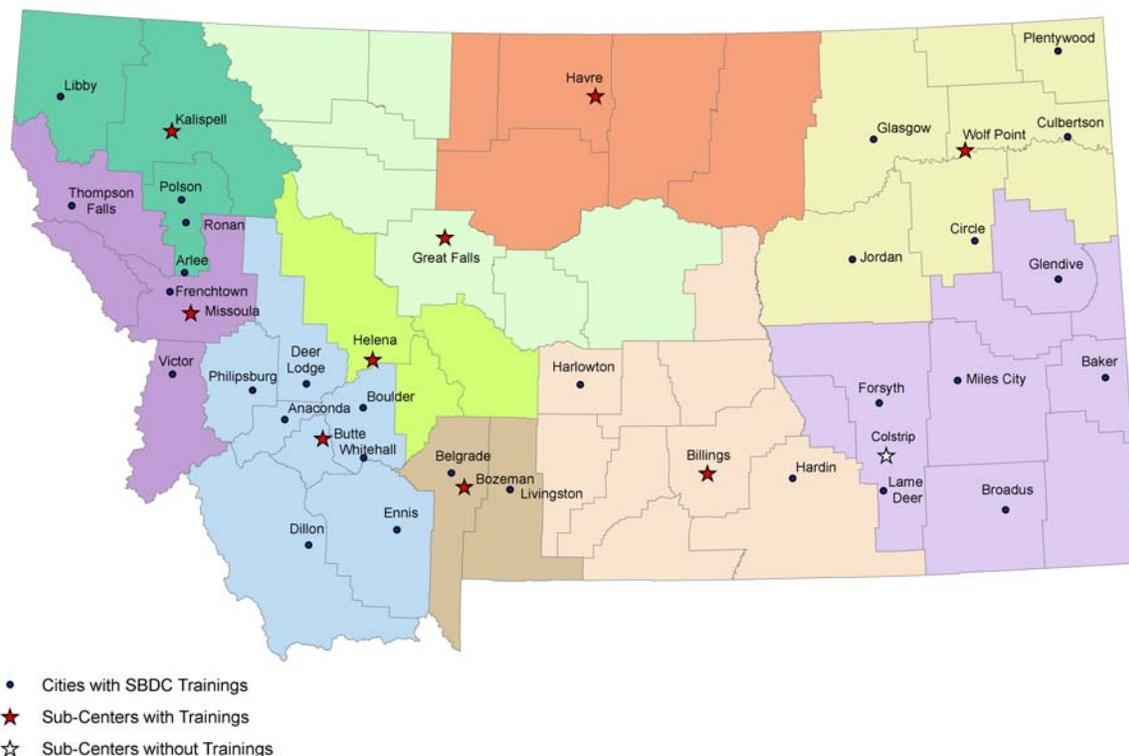
Implementation Status – Partially Implemented

The SBDC lead center has developed a contract that states the need for training opportunities outside each of the regional headquarters' immediate area. An extract from a 2007 contract shows this is required for all sub-centers:

4.11 The Host Agency shall provide convenient access to training and one-on-one assistance to businesses throughout the region and may utilize electronic means to achieve this geographic coverage.

However, despite this section within each contract, a review of all 2007 training locations did not confirm this took place. The map on the next page displays the cities and towns that hosted an SBDC training event in 2007.

2007 SBDC Sub-Center Training Locations by Region



Source: Compiled by the Legislative Audit Division from department records.

Based on the map above, three regions held all trainings in one location. Two of these regions, Great Falls and Havre, cover seven and five counties, respectively. The Billings region held all trainings in three of nine counties. The remaining regions did a good job spreading trainings throughout coverage areas. However, the amount and locations of trainings may have been hindered by the turnover within the sub-centers. For example, there were three vacancies occurring simultaneously in March, April, and May 2006. The lead center is addressing turnover by better marketing, reviewing and approving the hiring protocols used at the host agency, and taking part in the actual hiring process.

Recommendation #3

We recommend the department perform analysis and other testing of veteran outreach efforts in the state's larger urban centers to ensure these populations are being effectively served by the SBDC program.

Implementation Status – Partially Implemented

As was addressed in the original audit, we recommended the SBDC take a closer look at the veteran populations throughout the state and improve outreach. However, veteran participation with the SBDC declined in recent years. Analysis of the number of veterans counseled from 2005 through 2007 showed this decline has continued. In 2005, 118 veterans participated in counseling. This number increased slightly to 121 (+2.5 percent) in 2006, but dropped to 100 participants (-17.4 percent) in 2007. Discussions with SBDC staff indicate the veterans initiative was cancelled in 2006 and this is no longer a strategic priority for the program. The following chart shows the number of veterans counseled in each of the ten regions.

Veteran Participation By SBDC Sub-Center				
Sub-Center	1998-2004 Annual Average	2005	2006	2007
Colstrip	12	2	2	2
Helena	18	5	5	7
Havre	10	2	4	4
Butte	25	21	16	14
Great Falls	30	15	22	21
Bozeman	17	24	22	5
Wolf Point	7	5	13	7
Missoula	22	22	15	9
Kalispell	17	6	2	18
Billings	22	14	17	13
Source: Compiled by the Legislative Audit Division from department and U.S. Department of Veterans Affairs records.				

As expected, the number of veterans counseled by region varies by the size and population of the region. However, the audit recommended the SBDC should particularly focus on the state's more populated regions with low veteran turn-out: Billings, Kalispell, and Missoula. With the exception of Kalispell, these areas have not improved their total counseled veteran count in recent years. In addition, analysis shows Billings and Missoula continue to fall below the statewide regional average for the percentage of veteran population served.

Recommendation #4

We recommend the department address SBDC participation on the state's Indian reservations by:

- A. Implementing a regular schedule of training events on reservations over a sustained timeframe; and**
- B. Clarifying the role of SBDC technical assistance services in ongoing efforts to promote Indian economic development.**

A) Implementation Status – Implemented

The department did implement a cooperative agreement in 2005 that required two SBDC workshops to be held on each American Indian reservation. However, the workshops were poorly attended. To improve the development of businesses on the reservations, the department expanded relationships with American Indian entrepreneurs. As a result, two new coalitions were formed: the Indian Business Mentoring Group and the Montana Indian Business Alliance (MIBA). According to an article published by the *Federal Reserve Bank of Minneapolis* in 2006, the Indian Business Mentoring Group was created to help tribal governments adjust their infrastructures in order to become more business-friendly and -sustaining. Furthermore, the article stated MIBA was started to encourage American Indian business development by "maximizing and developing resources that support" American Indian entrepreneurs.

With the help of these organizations, the SBDC offered a 13-week business planning course on each American Indian reservation during the fall of 2006 and the winter of 2007. The SBDC also helped coordinate and implement four workshops aimed at training American Indian mentors starting in the fall of 2006. The following chart displays the amount of trainings held on each American Indian reservation in 2007.

Trainings Held on American Indian Reservations		
Reservation	2007	
	# of Trainings	Total # of Attendees
Blackfeet	0	0
Crow	0	0
Flathead	3	14
Fort Belknap	0	0
Fort Peck	10	268
Northern Cheyenne	4	43
Rocky Boy	0	0
Source: Compiled by the Legislative Audit Division from department records.		

As the chart shows, three of seven American Indian reservations had onsite trainings in 2007. This may be due to the cancellation of the two mandatory workshops on each reservation that was started in 2005. However, it is important to note there is an SBDC Entrepreneur Development Coordinator who works with all the sub-centers to set up Indianpreneurship trainings and Montana Indian Equity Fund projects on the American Indian reservations. These show up in WebCATS (SBDC's web-based management information system) as narratives as opposed to trainings. With these additional projects, we believe the SBDC has implemented this recommendation.

B) Implementation Status – Implemented

The SBDC created the Montana Indian Business Alliance in early 2006 to help with resource allocation on the American Indian reservations. Another goal of the Montana Indian Business Alliance was to develop relationships with existing American Indian business development organizations already present on the American Indian reservations.

Recommendation # 5

We recommend the department ensure SBDC program administration serves the needs of the state's small businesses by:

- A. Monitoring implementation of training programs and continuing trends in client activity levels; and**
- B. Adjusting funding and allocating resources to reflect demand for program services.**

A) Implementation Status – Implemented

The goal of this recommendation was to ensure counseling sessions and training events matched demand in each region. The following chart shows the number of clients counseled and trainings sessions in each region.

SBDC Sub-Center	Total Clients Counseled in 2006 & 2007		Trainings by Location in 2006 & 2007	
	Clients Counseled	% of Total Clients Statewide	Number of Trainings	Percent of Statewide Trainings
Billings	399	17.1%	85	19.0%
Bozeman	327	14.0%	56	13.0%
Butte	228	9.8%	72	16.0%
Colstrip	128	5.5%	14	3.0%
Great Falls	218	9.4%	48	11.0%
Havre	105	4.5%	17	4.0%
Helena	98	4.2%	4	1.0%
Kalispell	311	13.4%	45	10.0%
Missoula	257	11.0%	66	15.0%
Wolf Point	258	11.1%	31	7.0%
Total	2,329	100%	438	100%
Source: Compiled by the Legislative Audit Division from department records.				

The above table displays the percentage of the state's total clients counseled by region. As expected, the lower populated areas counsel a smaller percentage of the total clients. However, Helena does seem to have a low client turnout based on its population.

As mentioned earlier, turnover at the sub-centers has had an effect on the number of clients counseled and trainings held per region. However, we believe the lead center has done a good job of helping each region become more aware of the importance of data monitoring and trend analysis. Overall, with the exception of Helena, we believe the SBDC is doing a good of matching the clients counseled and trainings conducted with the demand of each region.

B) Implementation Status – Implemented

The original audit found each sub-center received the same amount of federal and state grant money from the lead center (the Billings sub-center did receive an additional \$10,000 to cover the costs associated with an increased workload). Thus, aid was not dispersed based on demand. However, since the audit the SBDC has created a new funding allocation method. In 2006, each sub-center received an equal amount of General Fund money. However, the lead center created a funding range for available federal SBA funds (each funding level was separated by \$3,000 increments). Each center was then allocated an amount deemed relevant based on their coverage area population.

Recommendation # 6

We recommend the department make periodic adjustments in SBDC sub-center annual performance targets to ensure they realistically reflect prevailing program conditions and management expectations regarding future trends.

Implementation Status – Implemented

The areas of focus in the audit report were: clients counseled, counseling hours, training events, and training attendance. The original audit data analyzed the 2001 through 2004 program years. After comparing the 2006 lead center's objectives with the individual sub-center's goals, we found they are more realistically aligned with actual performances than in previous years.

Recommendation # 7

We recommend the department improve the consistency and reliability of reported SBDC outcomes data by:

- A) Ensuring sub-center counselors are familiar with standardized data definitions and reporting parameters developed by the Association of Small Business Development Centers; and**
- B) Developing quality control mechanisms to verify compliance with outcomes data reporting procedures.**

A) Implementation Status – Implemented

Upon review of training and contractual documents and exhibits, we found SBDC has formalized reporting parameters and standardized data definitions. The exhibits attached to the contracts between the SBDC and the host agency (where the sub-centers reside) include a data definitions form and a document with written instructions on what needs to be reported into WebCATS. The following is a list of what is entered into WebCATS by personnel in the sub-centers:

- ▶ Counseling activity (i.e. date, time, topic, etc.)
- ▶ Training activity
- ▶ Start-up firms remaining in business after one year
- ▶ New business starts
- ▶ Capital infusion
- ▶ Jobs created
- ▶ Jobs retained

This same exhibit also gives detailed step-by-step directions on how to upload these attributes into WebCATS. All training and counseling information is required to be uploaded after every session. These activities will then be collected from WebCATS and reported by the lead center in the year-end Annual Report to SBA.

Most or all of this information is conveyed during the sub-center Business Advisor's initial orientation. One area of this training focuses on the use of WebCATS and reporting requirements.

B) Implementation Status – Being Implemented

Additional exhibits attached to the contracts between the SBDC and the host agency detailed the future goals of the lead center and sub-centers. The overall reporting cycle for performance is based on the federal government's fiscal year. Therefore, data is to be reported to the SBA based on the four quarters during October 1 through September 30. For this to take place, the lead center must collect quarterly data from the sub-centers during each quarter. To streamline this process and to make the program more effective, the Montana's SBDC has set the following goals:

- ▶ To provide more consistent and timely feedback from the lead center to the host agency and the sub-centers, the lead center developed a scheduled list for quarterly performance reports. Implementation started in March 2008.
- ▶ The lead center will start sending out quarterly reports to the sub-centers to document how the sub-centers are meeting their goals and assess their quarterly counseling/training milestones. The lead center will also start evaluating (at both the programmatic and financial level) three sub-centers per quarter. After each evaluation, the lead center will send a report to the sub-center outlining its progress. Implementation started in March 2008.