

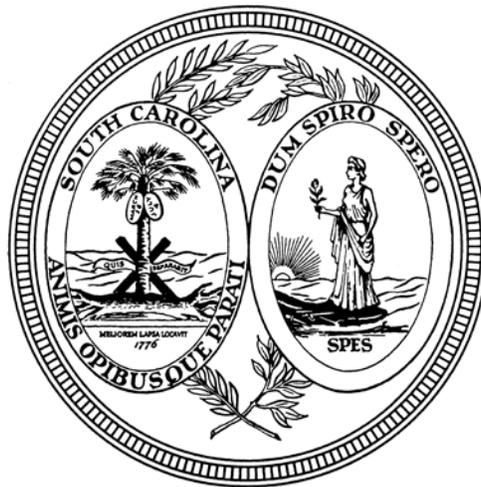


LAC

SOUTH CAROLINA GENERAL ASSEMBLY  
Legislative Audit Council

July 2016

A REVIEW OF THE  
SMALL BUSINESS  
DEVELOPMENT  
CENTERS PROGRAM



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## A REVIEW OF THE SMALL BUSINESS DEVELOPMENT CENTERS PROGRAM

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# Contents

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## Chapter 1 Introduction and Background

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|                            |   |
|----------------------------|---|
| Audit Objectives .....     | 1 |
| Scope and Methodology..... | 1 |
| Scope Impairment .....     | 2 |
| Background .....           | 3 |

---

## Chapter 2 Consultants and Key Performance Indicators

---

|   |    |
|---|----|
| Statewide Distribution of Consultants ..... | 5  |
| Human Resources Practices .....             | 7  |
| Consultant Qualifications.....              | 7  |
| HR Policies and Files.....                  | 8  |
| Performance Evaluations .....               | 10 |
| Consultant Training.....                    | 11 |
| Key Performance Indicators.....             | 13 |

---

## Chapter 3 Revenues and Expenditures

---

|  |    |
|--|----|
| SBDC Revenue .....                           | 17 |
| Donation Funds.....                          | 18 |
| Travel Expenditures .....                    | 19 |
| Procurements.....                            | 20 |
| Technology Committee.....                    | 21 |
| Sponsorships for Statewide Conferences ..... | 22 |

---

## Chapter 4 Program Structure

---

|                                  |    |
|----------------------------------|----|
| SBDC Staff .....                 | 25 |
| Changes to Structure Needed..... | 26 |

---

---

**Appendix**

---

Agency Comments.....29

# Introduction and Background

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## Audit Objectives

Members of the General Assembly requested that we conduct an audit of the Small Business Development Centers (SBDC) program. We planned to review the accuracy of the program's reporting of its effectiveness, expenditures, and structure. Our audit objectives are listed below.

- Determine if the SBDC program's reporting, including the program's effectiveness, is in compliance with the U.S. Small Business Administration's (SBA) guidelines and is accurate and complete.
- Determine if the current structure of the SBDC is the most beneficial to the small business clients, provides appropriate oversight to SBDC staff, and allows for necessary sharing of best practices throughout all SBDC offices.
- Review a sample of SBDC's use of funding to ensure that the program is efficiently handling federal, state, and other funds for expenditures, including technology upgrades and training conferences.

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## Scope and Methodology

The period of our review was generally calendar years 2014 and 2015, with consideration of earlier and more recent periods when relevant. To conduct this audit, we used a variety of sources of evidence, including the following:

- Interviews of SBDC staff, employees of other state agencies, and private individuals.
- Interviews of the U.S. Small Business Administration (SBA) officials.
- SBDC human resources records and financial records.
- Federal and state laws and regulations.
- SBA program announcements and cooperative agreements.
- Financial, programmatic, and accreditation reviews conducted by SBA of the SBDC program.
- Minutes of the technology task force.

Criteria used to measure performance included primarily federal laws and guidelines, agency policies, and principles of good business practice. We used samples, which are described in the audit report. We reviewed internal controls in several areas, including SBDC's procurement. Our findings are detailed in the report.

We interviewed staff regarding the various information systems used by SBDC. We determined how the data was maintained and what the various levels of control were. The use of computerized data was not central to our audit objectives in that we reviewed the majority of evidence in hard copy form.

We conducted this performance audit in accordance with generally accepted government auditing standards, with one exception (see *Scope Impairment*). Those generally accepted government auditing 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.

We did not conclude from this review that the SBDC program should be eliminated; however, our audit includes recommendations for improvement.

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## Scope Impairment

Generally accepted auditing standards require us to report significant constraints imposed upon the audit approach that limit our ability to address audit objectives. One of our audit objectives was to review the program's reporting of its effectiveness to determine if it was in compliance with the SBA's guidelines and whether it is accurate and complete. In order to determine if the numbers reported by the SBDC were accurate and complete, we needed access to the program's client database where the source evidence for these numbers are housed.

Program management denied the LAC access to this database citing confidentiality and SBA prohibition. We contacted SBA officials and explained our need to review the client database. We explained our access to records and our obligations regarding confidentiality: S.C. Code §2-15-61 states that the LAC "...shall have access to the records...of every state agency..." for the purposes of carrying out its audit duties. Also §2-15-62 requires LAC staff, in the performance of audit duties, to be "...subject to the statutory provisions and penalties regarding confidentiality of records of the agency under review" to SBA and SBDC officials. These sections allow the LAC access to the records of other state agencies while still protecting the confidentiality of these records.

In addition, the Office of Small Business Development Centers 2016 Cooperative Agreement states in the section regarding protection of client information: "...you cannot disclose a client's name, address, or telephone number to any party (including SBA), except where: ...c) SBA determines it is necessary for the purpose of conducting programmatic or financial examinations of client surveys." We also found a 2006 performance audit performed by the State of Montana's Legislative Audit Division where the report states that auditors "...reviewed individual files for 62 clients receiving services...."

As we were finalizing the draft report and one month after we requested access to the client data, SBDC offered to request written consent of some "...reasonable sampling of clients serviced in the last year...." We have no assurances that all clients contacted will consent. Also, this would limit the scope and type of testing we had planned.

Even with our assurances and evidence of precedent, SBA would not allow us unrestricted access to the client database records; therefore, we were unable to address the audit objective concerning SBDC's effectiveness reporting.

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## Background

South Carolina's Small Business Development Centers (SBDC) program employs consultants who work with entrepreneurs and existing companies with the goal of advancing economic development in the state by supporting the growth of successful businesses. SBDC consultants provide assistance to businesses and entrepreneurs in a range of areas including the creation of business plans, preparation of loan packages for financing from third-party lenders, marketing, and management.

SBDC, started as a pilot program in 1979, is divided into four regions that together serve the entire state. Each region is hosted by a university — the University of South Carolina (USC), South Carolina State University, Clemson University, and Winthrop University. The entire network is coordinated by a state director's office located at the University of South Carolina in Columbia. There are 21 centers, some of which are hosted by other colleges in smaller communities. Although a few SBDCs in other states are hosted by state governments, such as departments of commerce, since 1990 the U.S. Congress has required that any new SBDC be hosted by institutions of higher education or Women's Business Centers.

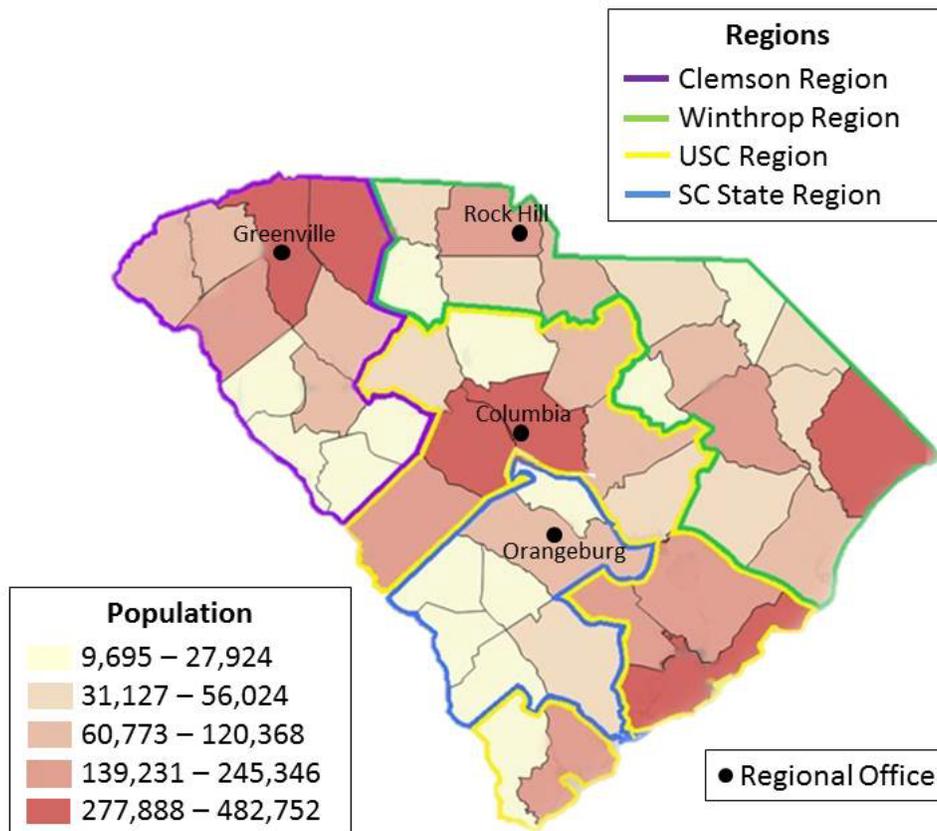
There is at least one SBDC network in each state, the District of Columbia, and several U.S. territories, with multiple regional networks in some large states for a total of 63. The U.S. Small Business Administration provides funding to these networks through a formula based on population. SBDC is required to provide matching funds from other sources and in-kind contributions. SBDC's match funding is provided primarily by the state government, including contributions from the S.C. Department of Commerce and the host universities. SBDC receives some additional funding from certain counties or communities to maintain a presence in those areas. The program also generates revenue for services such as training workshops and it receives sponsorships for the annual statewide conference.

# Consultants and Key Performance Indicators

## Statewide Distribution of Consultants

The current structure of SBDC does not allow for the even distribution of workloads across the state. This leads to an inefficient use of human and other resources. The concurrent resolution that created the structure of the SBDC states that the program should be administered by the four universities; however, it did not set forth the area or population that each region should cover. The current boundaries drawn by SBDC do not divide the population evenly, leading some offices and consultants to have far more work or potential clients to serve than others.

Map 2.1: South Carolina SBDC Regions and Population by County



Sources: SBDC and US Census Bureau 2014 Population Estimates

Map 2.1 shows that the four SBDC regions each cover very different areas and populations. The USC region, the largest in terms of population, covers three larger cities and a population of more than two million people. However, the smallest region, S.C. State, covers seven rural counties with a population of just over 200,000. The Winthrop and Clemson regions also have varying populations, though the differences are not as great. Regional population differences may be excused, if resources were allocated proportionally to population, but as Table 2.2 shows, some offices and consultants serve many more people than others.

**Table 2.2: Consultants and Population by Region**

| REGION     | POPULATION | OFFICES | POPULATION PER OFFICE | STAFF | POPULATION PER STAFF | CONSULTANTS | POPULATION PER CONSULTANT |
|------------|------------|---------|-----------------------|-------|----------------------|-------------|---------------------------|
| Clemson    | 1,382,107  | 4       | 345,527               | 12    | 115,176              | 10          | 138,211                   |
| S.C. State | 209,980    | 2       | 104,990               | 5     | 41,996               | 4           | 52,495                    |
| USC        | 2,040,870  | 9       | 226,763               | 17    | 120,051              | 14          | 145,776                   |
| Winthrop   | 1,199,525  | 6       | 199,921               | 16    | 74,970               | 15          | 79,968                    |

As of December 7, 2015

Note: Graduate assistants are included as consultants because they consult with clients. Also included in the table are 18 part-time employees working anywhere from 15 to 30 hours per week.

Sources: SBDC and US Census Bureau 2014 Population Estimates

As shown in Table 2.2, not only do some regions have a higher population, but their consultants also serve more potential clients. For example, USC consultants have almost twice as many potential clients as consultants in the Winthrop region and nearly three times as many as S.C. State consultants. While population may not correlate perfectly to clients, the large differences in populations served would translate to differences in workloads, number of clients, and administration of the program.

Another consideration for redrawing the regions could be the type of help needed by most potential clients. For example, counties in the current S.C. State region may have more of a need for agri-business than other types of business.

According to an SBDC official, although the regions have never been redrawn, this is an area that the program should address.

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## Consultant Workloads

We also contacted a random sample of consultants across the state and asked about, among other things, consultant workloads. Suggestions for improving workloads included having different goals for new or inexperienced consultants and requiring fewer client contacts for consultants in less populated areas. Experience, as well as urban versus rural area needs, should be considered when setting workload goals for consultants.

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## Recommendation

1. The Small Business Development Centers program should redraw the current regions to better reflect population or area needs.

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## Human Resources Practices

Currently, the agency does not have uniform human resources (HR) practices; instead, each region follows the HR rules of its host institution for which they work. This can lead to inconsistencies between regions as well as generally inefficient practices, especially in the areas of staff qualifications and recordkeeping. The differences and structure may seem minor but, as the example we include shows, these differences can lead to poor hiring decisions, even in management positions.

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## Consultant Qualifications

Each region has slightly different qualifications for consultants, but the regions do not necessarily follow their own recommendations. For example, all of the schools list at least a bachelor's degree as a required qualification of a beginning consultant. However, USC, for example, prefers candidates with MBAs. Despite these requirements, Clemson is the only region in which every consultant has a bachelor's degree, though only 88% of its consultants statewide have a degree in a related field. The other three regions have as few as 50% of consultants with a degree in an area related to their work. Table 2.3 shows the qualifications of consultants by region. This table does not include regional directors, state directors, or administrative staff.

**Table 2.3: SBDC Consultant Qualifications**

|            | BACHELOR'S DEGREE | GRADUATE DEGREE | RELATED FIELD | SMALL BUSINESS EXPERIENCE |
|------------|-------------------|-----------------|---------------|---------------------------|
| S.C. State | 83%               | 17%             | 67%           | 17%                       |
| Winthrop   | 92%               | 42%             | 50%           | 25%                       |
| Clemson    | 100%              | 88%             | 88%           | 63%                       |
| USC        | 80%               | 36%             | 56%           | 56%                       |

Source: SBDC and LAC.

As the table also shows, fewer than half of the consultants in two regions have small business experience. While this experience is helpful, none of the regions require it. In responses from interested parties we contacted, it was stated that a consultant needs to have small business experience.

## HR Policies and Files

SBDC employees follow the HR policies of their host institutions. This leads to administrative inefficiencies. The universities house HR files separately and each school has a different recordkeeping system. When asked to review the files for all employees, an SBDC management official replied that she could only provide the files for her host university, but directed us to the other universities for the remaining files. As the following example shows, the inability of this official to see or contribute to the records of her agency could lead to a poor understanding of her employees' performance and abilities.

### Unqualified Former Employee

The decentralized nature of SBDC's HR system contributed to an unqualified individual being promoted to regional director. In 2013, the USC region hired a grant-funded consultant who, according to his own application, did not have a bachelor's degree, though SBDC officials claim that it is a prerequisite for the position. The consultant's official USC HR file does not contain any justification for the hire. Also, the consultant claimed that he did not have a criminal record beyond minor traffic violations, and USC did not require a background check at the time.

In 2014, this consultant applied to be the regional director of the S.C. State region. Though he would be part of the same agency, the consultant was required to go through the entire hiring process again, because the vacancy was hosted at a different school with a separate HR system. This job also required a bachelor's degree. In his new application, he falsely stated that he had a bachelor's degree.

SBDC hired the consultant as the regional director, but soon after his appointment, S.C. State did a background check and transcript request as part of its standard procedure. S.C. State discovered that this person did not have the degree or qualifications that he claimed. Also, the background check showed that he had an arrest record which he had not disclosed. S.C. State terminated him shortly thereafter specifically for these reasons.

This instance highlights multiple inefficiencies of the current system, structure chief among them. If the SBDC was under one system, this employee would not have had the opportunity to give false information for a promotion. Also, differences in the HR policies of the schools meant that the agency did not discover a criminal history, which may have disqualified him from his first appointment.

According to the state director, she uses the hiring process that her predecessors used. She and the dean of the host school create the job posting and select the top candidates. They, as well as a regional director and other university employees, interview regional director candidates, and both she and the host dean conduct reference checks. Because this consultant was already an SBDC employee in the director's region, this may have involved talking to the consultant's supervisor as well. Ultimately, the host dean makes the final hiring decision with input from the state director. Despite the checks and collaboration, the weak internal controls of this hiring process caused the agency to hire an unqualified and unethical individual to one of their highest levels of management.

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## Performance Evaluations

Currently, SBDC is not conducting performance reviews in accordance with SBDC's policies and procedures manual or the policies of its host institutions. All of the universities have review systems in place to improve performance by advising employees of expectations and measuring performance. Of the four universities, only S.C. State requires an annual Employee Performance Management System (EPMS) for non-full-time equivalents (FTEs), such as temporary or grant-funded employees. According to the policies of the other three schools, all FTEs must have a review, but they recommend formal reviews for temporary and grant-funded employees as well. In practice, none of the regions conducted performance evaluations on all employees. Only 27% of the employees in our sample have ever received an official EPMS. None in the S.C. State region has had a formal review despite the school's policy and only three Winthrop employees have had reviews. In particular, only one of the part-time consultants had been formally evaluated even though part-time consultants do the same type of work as the full-time consultants.

The lack of reviews could lead to poor promotion decisions and other inefficiencies. Most SBDC employees are temporary, grant-funded employees, and the agency nearly always rehires them under the SBDC grant the next year. However, most employees have never had an annual review. Thus, there are some employees that have worked with the agency for more than five years without a formal review. If one of these employees came up for promotion, those making the decision would not have a performance record on which to base their case. In addition, an employee may lose focus or concentrate too much on one area of the job, and an annual review could serve as a course correction. Without a review, such inefficiencies may not be addressed.

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## Recommendation

2. The Small Business Development Centers program should evaluate all employees, both full-time and part-time, with a formal, written, annual evaluation.

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## Consultant Training

SBDC is not consistently monitoring and evaluating consultants to determine if the required number of training hours and type of training are being completed. Also, SBDC does not have a policy regarding required training hours for part-time consultants and has not implemented a professional development track for senior leaders, as was recommended in its last accreditation review. Lastly, we found that the national training conferences offer beneficial training sessions for consultants; however, the statewide training conferences should limit time allowed for banks and lending institutions to make presentations.

SBDC's policies and procedures manual states that all full-time employees must obtain 30 hours of training per year with at least 25% of training being outside of a staff member's area of expertise. The manual also states that training will be addressed in the annual employee performance appraisal. However, the manual does not address part-time consultants, who interact with clients in the same manner as full-time consultants.

### Training Records

We reviewed a sample of training records, including full-time and part-time consultants from each region. Only Winthrop provided documentation of completed training by consultants. In addition, Winthrop's consultants completed the required number of hours. S.C. State provided a detailed list of training, which listed each topic covered. USC did not provide any documentation for the full-time consultant's 2015 training. Clemson provided a list of training for each consultant; however, we were unable to determine what exact topics were covered in some of the training referred to as lunch/learns and webinars.

### Conferences

We reviewed the America's SBDC website, the industry's national association, for documentation of the 2014 and 2015 national annual conferences. We found that the sessions offered were varied and relevant to the work of consultants. For example, topics included:

- Understanding International Trade Compliance
- Helping Businesses Get Found on Google
- Best Practices for Rural and One-Person Offices
- QuickBooks 2015/Ask the Expert
- Tax Strategies for the Small Business

We also reviewed agendas from SBDC's statewide conferences for 2014, 2015, and 2016. While the topics were not as varied as the national conferences, many of them seemed relevant to a consultant's work. Also, various organizations were represented, including the S.C. Women's Small Business Center, the S.C. Ports Authority, and law firms.

However, because of the sponsorships required to fund the conferences, sessions listed on the agendas indicated that from 60 minutes to 90 minutes were allotted for various banks' presentations at all the conferences. According to an SBDC official, the banks may address changes in SBA loans, new products and services offered, or trends in the market that small businesses should know and usually make presentations for 20 minutes during lunch. According to the conference agendas, in 2014 banks were allotted presentation times of two and one-half hours, one hour at the 2015 conference, and three hours and 45 minutes at the 2016 conference. In addition, there was no evidence that one bank on the 2016 agenda had paid any sponsorship money. Also, this was not a luncheon speaker, but instead, it was a one-hour morning session.

We have anecdotal evidence that this type of training, among other speakers, may not be helpful to the consultants. Allowing over two hours for presentations by banks and lending institutions may not be the best use of limited time with all the consultants.

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## Accreditation Report

SBDC was last accredited by SBA in 2012. The reviewers recommended that SBDC develop a standardized statewide new employee orientation process. According to SBDC officials, this orientation process has been implemented. The reviewers also recommended a professional development leadership track for senior leaders across the state to ensure that quality leadership continues. According to SBDC management, this training has not been created because of budget limitations.

SBDC has employees with many years of service and some of the training conducted annually may not be as helpful to these employees as it would be to new consultants. SBDC should identify more relevant training for these staff.

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## Conclusion

Ensuring that all consultants, both full-time and part-time, are properly trained is essential. Proper training not only includes the number of hours, but also the type of training. This is important because consultants are providing assistance to clients starting different types of businesses.

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## Recommendations

3. The Small Business Development Centers program should include, in its annual evaluation of employees, whether all required training was obtained.
  4. The Small Business Development Centers program should establish minimum training requirements for part-time consultants.
  5. The Small Business Development Centers program should limit the amount of presentation time of banks and lending institutions to allow for other types of more relevant training at its statewide training conferences.
  6. The Small Business Development Centers program should implement a professional development leadership track for senior leaders.
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## Key Performance Indicators

SBDC reports its successes in assisting small new and existing businesses in the state through its key performance indicators (KPIs). We were unable to verify the KPI information because we were denied access to SBDC's client data.

Consultants are trained to enter information into SBDC's client database to record client contacts, including type of contact (telephone conversation or in-person meeting) and what actions were taken (help with writing a business plan or developing a loan application). Specific information provided and verified by the client, in writing, is entered to document the number of new businesses created, the number of jobs created, and the value of capital formation (i.e. bank loans received). According to SBDC management, reports are generated directly from the database and the KPIs are calculated automatically.

SBDC has specific goals, developed by the U.S. Small Business Administration (SBA), that it is supposed to meet each year. According to an SBDC official, those goals are assigned to each of the regions, that, in turn, assign specific goals to each of the consultants in the region.

According to an SBA official, she negotiates annual goals for three key performance measures with SBDC — number of long-term clients, new businesses started, and amount of capital infusion. For 2014 and 2015, SBDC substantially met these goals.

SBDC also reported the following KPIs for 2014 and 2015.

**Table 2.4: KPIs, 2014-2015**

|      | NEW<br>BUSINESSES<br>CREATED | JOBS<br>CREATED<br>AND SAVED | VALUE OF<br>CAPITAL<br>FORMATION | CHANGE<br>IN SALES | CLIENTS<br>ASSISTED* |
|------|------------------------------|------------------------------|----------------------------------|--------------------|----------------------|
| 2014 | 163                          | 1,199                        | \$42,382,600                     | \$24,382,547       | 4,919                |
| 2015 | 189                          | 1,277.5                      | \$52,931,220                     | \$28,780,305       | 4,771                |

\* This is not an actual KPI; however, it is shown to provide context on the number of clients SBDC reports it assists each year.

Source: SBDC

According to SBDC staff, random samples of files are reviewed periodically to make sure information has been entered correctly and that, as of 2012, there is a client verification form for all KPI data. There was no written documentation of these periodic reviews. The SBA also reviews a small number of files during its programmatic review of the program, which is conducted every two years.

Our audit requestors asked that we review the “scientific accuracy and completeness of survey and reporting methodologies used to report the effectiveness of the program.” In order for us to address this issue, we needed access to the client database and other client information. Our methodology for determining the accuracy and completeness of the KPIs presented was going to be confirming the number of new jobs created, for example, for a certain time frame.

We would have reviewed the supporting documentation (consultant notes, client verification forms, etc.) to ensure that there was sufficient evidence that each business credited with creating new jobs did, indeed, create new jobs and that the client verified that the consultant had “substantially helped” in this regard. We would have verified that the consultant had not simply called a business five years after it was started asking how many jobs had been created since the consultant had worked with the client. According to the verification form, the consultant has to have “assisted” the client in obtaining these performance goals.

Additionally, without access to the database, we cannot discern whether all those contacting SBDC were clients or just contacts (someone seen less than one-half hour).

We were unable to address all of our requestors’ concerns because we were denied access to all client information (see *Scope Impairment* in Chapter 1).

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## Recommendations

7. The Small Business Development Centers program should conduct formal, written reviews of information in the client database monthly to verify that information is accurate.
8. The Small Business Development Centers program should provide client information at the request of the General Assembly to assure the legislature that key performance indicators are accurate.



# Revenues and Expenditures

## SBDC Revenue

SBDC receives income from a variety of sources as seen in Table 3.1. SBDC's state funding has fluctuated since 2006. However, starting in September 2011, the S.C. Department of Commerce awarded a four-year grant to SBDC. The S.C. Department of Commerce also requested \$500,000 in its FY 16-17 budget for SBDC; however, as of June 2, 2016, the General Assembly appropriated \$100,000 in S.C. Department of Commerce's budget for SBDC. The U.S. Small Business Administration (SBA) grants the largest portion of funding to SBDC based on a formula in federal regulation 15 USC §648.

In addition, the regional offices collect donations and the state director's office collects sponsorship money to fund the statewide conference. The USC region collects the most in local donations. As of December 31, 2015, there was a balance of \$204,576 in that region's donation account. According to SBDC staff, these funds are used to pay for payroll expenses, supplies, or travel at the end of each year once federal and state funds have been depleted. Finally, program income primarily results from training and traditionally is expended on contractual services, supplies, and travel.

**Table 3.1: Revenues 2006 – 2015**

| YEAR | STATE APPROPRIATIONS | S.C. DEPARTMENT OF COMMERCE | SBA         | SPONSORSHIPS & LOCAL DONATIONS* | PROGRAM INCOME | TOTAL       |
|------|----------------------|-----------------------------|-------------|---------------------------------|----------------|-------------|
| 2006 | \$753,274            | \$0                         | \$1,093,070 | \$0                             | \$68,033       | \$1,914,377 |
| 2007 | \$895,370            | \$0                         | \$1,079,743 | \$0                             | \$20,553       | \$1,995,666 |
| 2008 | \$936,500            | \$0                         | \$1,209,436 | \$0                             | \$32,346       | \$2,178,282 |
| 2009 | \$676,120            | \$0                         | \$1,215,094 | \$0                             | \$13,135       | \$1,904,349 |
| 2010 | \$650,293            | \$0                         | \$1,434,805 | \$1,000                         | \$20,560       | \$2,106,658 |
| 2011 | \$576,734            | \$0                         | \$1,375,023 | \$1,500                         | \$29,312       | \$1,982,569 |
| 2012 | \$495,356            | \$314,277                   | \$1,277,857 | \$12,000                        | \$18,918       | \$2,118,408 |
| 2013 | \$495,356            | \$332,311                   | \$1,205,543 | \$6,750                         | \$20,866       | \$2,060,826 |
| 2014 | \$695,354            | \$327,331                   | \$1,469,983 | \$81,907                        | \$30,574       | \$2,605,149 |
| 2015 | \$695,354            | \$211,667                   | \$1,441,354 | \$79,373                        | \$21,962       | \$2,449,710 |

\* Local donations only included in 2014 and 2015

Note: Does not include in-kind contributions

Source: SBDC and LAC

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## Donation Funds

In addition to the SBA grant, state appropriations (through USC), funding from the S.C. Department of Commerce, sponsorships (for statewide conference), and a small amount of program income (from training workshops), SBDC also receives donations from some organizations, cities, and counties. According to records from each region, the Winthrop, Clemson, and S.C. State regions receive very little in donations (a total of \$4,780 for 2014 and 2015), but the USC region collects over \$68,000 each year. As of December 31, 2015, there was \$204,576 in the USC region account. We requested documentation of all revenue and expenditures for this account for years 2014 and 2015. We were provided some information; however, SBDC did not provide complete documentation of all revenues and expenditures. When asked specifically for bank statements, SBDC management stated that SBDC does not have bank statements since the account is handled by USC.

According to an SBDC official, this money is requested from entities where SBDC's "presence" is requested. According to an SBDC official, if a county, for example, asks if SBDC can provide assistance to it, SBDC has responded that if the county pays some of the consultant's salary, SBDC can pay the remainder.

Also, according to SBDC officials, there are no SBA restrictions on how this money is expended. We contacted SBA officials regarding the practice of collecting donations or gifts to the program and were told that SBA has no restrictions on where SBDCs get their match funds and "...receiving funding from localities is a typical way to ensure local engagement."

Requesting or accepting funds from certain areas of the state is not an equitable practice. This is another example of how the program is inconsistently implemented across the state. Also, SBDC should be transparent with the General Assembly regarding all funds that are available for the program.

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## Recommendations

9. The Small Business Development Centers program should inform the General Assembly about all available funds.
10. The Small Business Development Centers program should maintain a full accounting of all revenue and expenditures from this donation account.

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## Travel Expenditures

We reviewed all travel expenditures for calendar years 2014 and 2015 for all four regions to determine if there were undocumented or unnecessary expenditures. We found that the state director's office does not have a comprehensive list of travel expenditures from each region. We also found instances of incomplete travel reimbursement forms and excessive hotel costs.

We initially received a list of travel expenditures from the state director's office. We visited each regional office to collect documentation of travel expenditures. After comparing the documentation to the list provided by the state director's office, we found several travel expenditures that were not included on the list. Specifically, most of the travel expenditures from the annual national conferences, hosted by America's SBDC and held in various states, were not included on the list. According to SBDC management, the list should have been comprehensive of all travel expenditures. The discrepancies could be the result of the decentralized structure of the organization.

Each region requires a different type of travel reimbursement form since each region follows policies and procedures of its host university. In our review, we found that some forms did not have a supervisor's signature, employee's signature, or a purpose listed for the travel. The employee's signature is attesting that the reimbursement form is accurate and valid. The travel policies in three of the four regions require approval for reimbursement. All three pieces of information are needed to hold employees accountable and ensure reimbursements are for valid business travel for the program.

In our review of travel expenditures, we found some travel involved hotel costs greater than the per diem rates established by the U.S. General Services Administration (GSA). The S.C. Office of the Comptroller General's disbursement regulations require state employees to be reimbursed for lodging while on business travel not to exceed the per diem rates established by the GSA. Specifically, the hotel for the national conference in 2014 was \$268 per night and the GSA per diem rate was \$140 per night. According to SBDC management, there is an option to stay at a different hotel for the national conference; however, the conference hotel is usually the most economical hotel in proximity to the conference. In addition, we found a trip to the Washington, D.C. area where the hotel costs were in excess of \$300 and \$400 per night. According to the GSA, the per diem rates for Washington, D.C. area at that time were \$229.

According to SBDC officials, the program's budget is tight; therefore, every effort should be made to save money and spend available funds in the most economical manner.

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## Recommendations

11. The Small Business Development Centers program should ensure that the state director's office maintains an accurate, comprehensive list of travel expenditures for all regions.
  12. The Small Business Development Centers program should not approve travel reimbursement forms that do not have a purpose for travel and the proper signatures.
  13. The Small Business Development Centers program should adopt the U.S. General Services Administration per diem allowances for hotel costs.
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## Procurements

We reviewed procurement expenditure records in each region for purchases which were unusual or not business related. We reviewed reimbursement forms, statements, and receipts. There was nothing unusual discovered in the files for three of the four regions. A vast majority of purchases were for renewing chamber memberships, ink, office supplies, business cards, and sometimes, but not often, new electronics and required accessories.

In one region, however, we found some questionable documents. In some files, there were memos detailing missing receipts for that month. In the university's travel policies and procurement card policies, receipts are required to show documentation of the expenditure to receive reimbursement.

In addition, there were several food purchases. One receipt showed an item that appeared to have been a birthday cake. A birthday cake is a personal purchase and is not an appropriate use of the procurement card. Finally, office supplies for SBDC are mainly purchased from Staples through a state contract. We identified a receipt that detailed some office supplies were purchased from a vendor other than Staples. It is unclear why office supplies were purchased through another vendor.

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## Recommendation

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14. The Small Business Development Centers program should establish internal controls to ensure that only business expenses with a receipt are reimbursed.

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## Technology Committee

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We were also asked to review the SBDC's use of technology and possible need for technology upgrades. We did not find the program's use of technology to be problematic to its implementation of the program; however, SBDC formed a technology committee, which met monthly, to address possible improvements.

In February 2016, SBDC formed a committee of four consultants and the program's training and operations coordinator to address issues including:

### ELECTRONIC CLIENT FORMS

Clients would be able to complete the initial client information form (SBA Form 641) online and possibly other client information.

### STATEWIDE TRAINING/WORKSHOP CALENDAR

Training offered in various regions could be coordinated and presented on a central calendar.

### SKILLS MATRIX

Profiles of the consultants' work histories, industry experience, counseling experience, and areas of expertise.

In May 2016, the committee presented its findings regarding these areas and recommended implementation of all.

## Sponsorships for Statewide Conferences

According to SBDC officials, funding for the program is limited so it seeks out sponsors, mainly banks, to help fund its statewide conferences. We found that this is a common practice among SBDCs nationwide. Over the past three years, SBDC received \$29,250 in sponsorships for its conferences.

**Table 3.2: Sponsorships  
2014 – 2016**

|       | SPONSOR           | DONATION |
|-------|-------------------|----------|
| 2014  | Bank              | \$250    |
|       | Bank              | 3,500    |
|       | Loan Institution  | 1,500    |
|       | Bank              | 3,500    |
|       | Bank              | 1,500    |
|       | TOTAL             | \$10,250 |
| 2015  | Bank              | \$3,500  |
|       | Bank              | 3,500    |
|       | Marketing Company | 2,000    |
|       | TOTAL             | \$9,000  |
| 2016  | Loan Institution  | \$1,500  |
|       | Bank              | 3,500    |
|       | Bank              | 3,500    |
|       | Bank              | 1,500    |
|       | TOTAL             | \$10,000 |
| TOTAL |                   | \$29,250 |

Source: SBDC

SBDC helps clients in obtaining bank loans and banks also refer clients to SBDC to obtain assistance in helping write business plans, bank applications, etc. which helps them to qualify for SBA and other types of loans for their businesses. Because of this seemingly close relationship, we questioned the propriety of SBDC requesting money from entities with which they do business.

We contacted officials with the U.S. Small Business Administration to determine if this practice was acceptable and used by other SBDCs. According to SBA officials, the practice of obtaining sponsorships from lending institutions to help fund statewide conferences is a common practice. We found at least eight other states, including North Carolina, Georgia, Florida, and Virginia, that seek sponsorships for their training. In fact, Florida's sponsorship levels range from \$2,000 to \$15,000. South Carolina's formal sponsorship levels range from \$1,500 to \$6,500.

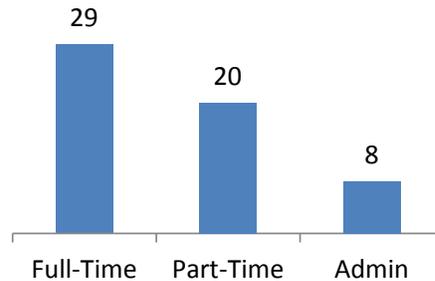


# Program Structure

## SBDC Staff

As of December 2015, SBDC employed 49 staff. The majority of the staff are consultants, both full-time and part-time, who work directly with clients. There were eight administrative staff (three full-time and five part-time) across the state and five full-time and two part-time employees in the state director’s office.

Graph 4.1: SBDC Employees



We did not conclude that there were too many consultants employed by SBDC; however, we did find that the distribution of those consultants could be improved. Also, having employees report to four different universities adds complexities to the program such as:

- Inconsistencies in hiring qualifications.
- Variance in policies and procedures for staff.
- Difficulties in moving consultants from region to region.
- Inability to redraw regional lines.
- Not having a single oversight authority to ensure consistency and compliance with employee supervision, financial transactions, etc.

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## Changes to Structure Needed

The Small Business Development Centers program was initially established as a pilot program by the U.S. Small Business Administration in 1979. The formal program was established by a concurrent resolution of the South Carolina General Assembly for the "...Board of Trustees of the University of South Carolina, Clemson University, South Carolina State College and Winthrop College to name the Small Business Development Center of South Carolina."

South Carolina's SBDC structure is the only program which is hosted by *four* institutions of higher education. Of the 63 programs nationwide, 48 are university-sponsored, 8 are community college-sponsored, and 7 are state agency-sponsored. Throughout this audit, we found inconsistencies in how the four regions implement the program. We have heard, anecdotally, that the program is less fractured under its current state director than it has been in the past. However, we have determined that, since this is a statewide program, it would be better managed under one entity. Since the SBDC has often been referred to as the S.C. Department of Commerce's "boots on the ground," we found that placing SBDC under the S.C. Department of Commerce would alleviate the issues we identified. However, since 1990, Congress has required all new SBDCs to be hosted by institutions of higher education or Women's Business Centers.

Each region under each of the four universities has its pros and cons regarding the implementation of the program. However, Winthrop University's support of the program is strong. The current College of Business Administration dean is personally involved in the program and the business school pays for graduate assistants who work for the SBDC in that region. Also, Winthrop requires the current regional director to also teach classes, such as entrepreneurship. We found that Winthrop had the most thorough documentation for travel, procurements, and training. An S.C. Department of Commerce official agreed that housing the program under one university may be more efficient.

If the program were restructured and placed under just one university, there may be issues with the other universities not continuing to offer office space and other technical supports. This may mean that the program would have to pay more in rent and other in-kind support would most likely cease from the universities not selected. Currently, SBDC pays rent for office space in Greenville (Clemson region), Charleston (USC region), and pays a minimal amount to Coastal Carolina University (Winthrop region).

We found that this program should continue to exist, with certain modifications and improvements, and the other universities should continue to support SBDC to continue its efforts.

As discussed earlier in this report, to better ensure that the SBDC program's outreach is consistent and beneficial across the state:

- The hiring requirements for consultants, not performing specialty consulting, should be the same.
- All employees should work for and follow one institution's policies and procedures.
- All consultants should be evaluated annually.
- All expenditures should be approved by the state office.

Having one host institution should address many of these issues and better focus the efforts of the SBDC program.

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## **Recommendation**

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15. The General Assembly should designate, in state law, Winthrop University as the host institution for the Small Business Development Centers program and require the University of South Carolina, Clemson University, and South Carolina State University to continue to provide current levels of support, such as providing office space.



# Agency Comments

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Appendix  
Agency Comments

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## **Response from the SC SBDC to the LAC Review**

### **Audit Objectives**

The U.S. Small Business Administration (SBA) has concluded that the SC SBDC does operate within federal law and SBA regulations/guidelines as evidenced by regular examinations by national and district SBA officials. These include bi-annual SBA program and financial reviews, annual SBA district project officer reviews of the lead center and 4-10 service centers, and also Baldrige based accreditation conducted every five years. Accreditation is a rigorous review conducted by a national committee of America's SBDC State and Associate State Directors who have been trained in Malcolm Baldrige standards. Evaluation and approval of findings also includes SBA leadership. All of the reviews noted here have consistently produced strong ratings with no significant findings and numerous commendations for performance excellence.

### **Scope Impairment**

LAC access to the client database was denied because federal law (United States Code, Title 15, section 648(a) (7) (A)) expressly provides that such access can be allowed only upon written consent of the clients or upon the direction of the United States Small Business Administration (SBA). Without either the consent of the clients or the express approval of the SBA, allowing LAC the requested access would have violated federal law. The LAC was provided a copy of the statute and the national SBA leadership and legal counsel denied in writing the LAC request to access the database.

As we explained to the audit team, the SC SBDC is accountable to the SBA and is obligated to comply with the regulations, policies and procedures in alignment with federal law. For this reason, it was necessary that the SC SBDC wait for a formal response from the SBA to the Legislative Audit Council *before* we could determine if and what latitude we might have to respond to the request for access to client data. As cited in the statute and our correspondence, and after extensive discussion, we offered to seek written approval from a sampling of clients (allowable by the statute and approved by the SBA) so that the audit team could assess our documentation and verification of services and results. The LAC declined this offer.

### **Consultants and Key Performance Indicators (KPIs)**

#### **Statewide Distribution of Consultants**

The audit report incorrectly concludes that "the current structure of the SC SBDC does not allow for even distribution of workloads across the state". Current distribution of consultants throughout the state is based on local population, local demand, type of assistance needed by small business clients and geography. SC SBDC capacity and capabilities are also considered when determining how funding will be allocated within the state. A funding formula is used as a starting point for funding by region based mainly on population; then the additional factors are evaluated in order that available funding is allocated to provide the optimum use of human resources. The SBA also requires that the SBDC provide assistance in all 46 counties of South Carolina in order that entrepreneurs and businesses in both rural and urban areas are all served. While consultants in rural areas may not have as many clients, the nature of client needs in many of these communities requires longer engagements to produce results and also requires more time in travel. Thus, the driving force for determination of resource allocation is *not region boundaries*, but rather the factors noted above. Consequently, funding provided to each of the regions is different (USC and Clemson budgets are highest and SC State is lowest, documentation was provided) and workload is not impacted by region boundaries.

Furthermore, because the SC SBDC operates on limited funding, we constantly strive to identify *affordable and effective* ways to improve productivity. For example, several years ago we initiated a new strategy of “team consulting.” Simply put, each client is assigned to a consultant who acts as the account manager; and that manager brings in other consultants from around the statewide network who may have specialized skills to augment his/her capabilities as needed. This involves consultants who provide highly specialized skills such as government contracting, exporting and technology commercialization as well as other “core” consultants with particular knowledge in a specific area, for example, online marketing. This is reflected in our strategic plan which was provided to the audit team. The “skills set database” has been used for over five years to help consultants identify who in the network can assist. This is being upgraded to make it more user friendly and to provide a platform for potential future use by the public. All of this documentation was provided to the audit team.

Table 2.2: Consultants and Population by Region. While the audit report references part-time consultants and graduate students, the numbers do not reflect FTE (full time equivalent) staff, which is the accurate measure of capacity. Below is a revised chart that shows these numbers based on FTEs (documentation was provided to the LAC).

| Region   | Population | Centers | Average Population per Center | Staff   | Population per Staff | Consultants *** | Population per Consultant |
|----------|------------|---------|-------------------------------|---------|----------------------|-----------------|---------------------------|
| Clemson  | 1,382,107  | 4       | 345,527                       | 11.1    | 136,842              | 10.1            | 136,842                   |
| SC State | 209,980    | 2       | 104,990                       | 4 *     | 52.495               | 3               | 69,993                    |
| USC      | 2,040,870  | 8       | 226,763                       | 15.5 ** | 171,502              | 13.5**          | 151,176                   |
| Winthrop | 1,199,525  | 6       | 199,525                       | 11.3    | 106,153              | 9.8             | 122,401                   |

\* SC State was budgeted for 3.5-4 people, but had 2-3 most of the year due to vacancies

\*\* 2 consultants out of the state director’s office are included in the USC numbers (in Columbia)

\*\*\* Students included who assist consultants with client research, business plans, etc. Winthrop region appears high because of the number of students included. Consultant FTE without them is 9.1 (population per consultant being 131,816) rather than 9.8.

While consultants in large rural areas do not serve as large a population, they do have responsibility to provide services in a larger geography. Therefore factors like travel time (many of these clients do not have access to online consulting) must be considered as part of the overall workload. For example, the SC State Region covers seven counties across a large geography with only two to three consultants in most of 2015 as shown above. Both federal and state legislators often cite the importance of providing assistance in these communities.

We recently investigated appointment lead times again. Consultants in three regions responded that average wait time for appointments ranges from 2-5 days and 1-2 days for SC State. The exception is that lead times to meet with some of the part-time consultants can be up to 7-10 days at times. Lead times for appointments are often driven by the clients rather than the consultant’s workload; they frequently postpone meetings due to their schedules and/or the fact that they have not completed the tasks assigned to them. Most centers also are able to accommodate some walk-ins.

We agree with the statement that different areas of the state may require some specialized knowledge or skills. This is already addressed in three ways:

- 1) New consultants are hired based on small business needs in the local communities that SBDC center serves. For example, the greatest need for assistance with product/technology commercialization is in the Upstate and Charleston areas. Therefore, the SC SBDC employs two

specialists who are based in those centers. They also offer these specialized services throughout the state, but the highest concentration of activity is in the areas where they are based.

- 2) Our team consulting approach allows us to capitalize on the breadth and depth of knowledge and skills throughout the SC SBDC network in order to meet all needs of our clients. Again, this is an efficient way of leveraging our resources to provide maximum results. For example, a consultant from our Sumter Area SBDC led an effort to provide increased assistance to our military/veteran community. He attended and spoke at National Guard, Yellow Ribbon events throughout the state with support of consultants based in those communities and developed new tools to assist them. This increased awareness and helped increase assistance levels to veteran owned businesses from 22.2% in 2010 to 26.5% of our client base in 2015, which addresses a key underserved market identified by the SBA.
- 3) SC SBDC consultants often work with our host universities and other partners to use our combined capabilities to address small business needs that we could not do on our own. For example, the Region Director at SC State is working with the SC State 1890 Extension and the Dean of the Business School to develop grant applications that support agribusiness assistance and student entrepreneurship in this area. This opportunity would likely not occur if SC State were not one of our consortium partner hosts.

#### **Consultant Workloads:**

The audit report suggested that goals should be different for inexperienced consultants and consultants in less populated areas. This in fact, is the case. We also adjust goals according to number of hours worked and demonstrated areas of expertise. Examples that verify this were provided to the LAC. Past performance against goals, marketplace and client changing needs and other factors are considered when allocating new goals each year. This is done at the region, center and individual levels.

#### **Response to LAC Recommendation 1:**

As explained above, funding allocation, consultant activity and workloads are driven by local population, client and market needs, *not by the region boundaries*. Our team consulting approach allows us to maximize the talents and skills throughout the network to efficiently and effectively meet client needs and our goals. Our results as reflected in Table 2.4 of the audit report confirm this. Redrawing the regions would not improve the SC SBDC's ability or effectiveness to meet small business needs, drive economic development and achieve our organization's goals. It would diminish statewide collaboration.

#### **Human Resources Practices/Consultant Qualifications:**

The SC SBDC does require a college degree today, although this was not always the case and some consultants who are excellent performers have been grandfathered in. In addition, our experience has been that it is often very difficult in South Carolina to find ideal, fully qualified candidates for consultant and leadership positions. For example, we have had an open requisition for a PTAC manager since October, 2015, but we still have not identified a candidate who meets the qualifications and is willing to take the job for the salary we are able to pay. As a result, there are occasions when we do hire someone who doesn't meet all of the preferred requirements, but whom we are confident can perform the role. Also, our records show that *100% of our consultants have small business related experience*. This might not be obvious by looking at a resume. For example, a number of our consultants came to the SC SBDC from large banks, but their primary responsibility there was to consult with and assist small businesses. Our SBDC job descriptions for various roles are very similar across the regions, but not identical. The leadership team is working on developing job descriptions for each type of position that will be utilized in creating job postings in all regions. For the purpose of the chart below, we did include Region Directors since they do client consulting (backup documentation by region was provided to the LAC).

| Region     | Bachelor's or Other Degree | Graduate Degree | Related Field | Small Business Experience |
|------------|----------------------------|-----------------|---------------|---------------------------|
| SC State   | 100%                       | 20%             | 100%          | 100%                      |
| Winthrop * | 82%/86%                    | 45%/57%         | 67%           | 100%                      |
| Clemson    | 100%                       | 80%             | 90%           | 100%                      |
| USC        | 93%                        | 43%             | 86%           | 100%                      |

\* 1<sup>st</sup> number is without student consultants, second is with student consultants. All students are in process of completing graduate degrees and some are hired permanently after graduation. Eduardo Venegas is an example.

**HR Policies and Files:**

Unqualified employee: Background checks were not required at the time this individual was hired at USC, although references were checked and all were positive. This individual was thorough, conscientious and effective in his initial role at USC, which prompted his consideration for the SC State Region Director position. Background checks are now done on all new permanent and temporary employees (except contractors).

While we try to meet all requirements posted for any position, there are times when we are unable to find a candidate who meets all qualifications. Based on anecdotal evidence from SBDC leadership around the country, this is harder to accomplish in South Carolina than in many areas due to quality and level of educational attainment, among other factors. In addition, the SC SBDC generally does not pay rates on par with the marketplace due to funding constraints which further magnifies the issue.

**Performance Evaluations:**

All employees receive some kind of review, but not all temporary employees and contractors currently undergo a formal documented process. Correction: SC State does not require a formal review of temporary employees (which is all but one SBDC employee). These reviews are not always maintained in the main university files, so some may have been missed because of this.

**Response to LAC Recommendation 2:**

We do agree that it is good practice to conduct written annual reviews on all employees; and we will establish a system for doing so.

**Consultant Training:**

The audit report states that the SC SBDC is not consistently monitoring and evaluating consultants to determine if the required number of training hours and type of training are being completed. In fact, each Region Director does collect and review information on professional development for all employees each year (documentation *was* provided). It has long been a policy to pro-rate professional development requirements for part-time consultants based on the number of hours worked and this is consistently followed, as was communicated to the audit team. It was overlooked in the Policies and Procedures manual, which is being updated.

As explained to the audit team, we have deployed senior leadership team professional development activities over the last three to four years including:

- 1) Attendance to the national state director association meetings and visits to Capitol Hill in the spring of each year. (Documentation provided). This provides a first-hand opportunity to learn more about the responsibilities of the State Director, learn about the national SBDC program and participate in activities that normally are reserved for State and Associate State Directors.

- 2) Region Directors generally attend the annual national conference and attend management level workshops designed for senior leadership. Copies of these agendas were provided to the LAC.
- 3) The State and Associate State Directors also regularly share information that the rest of the leadership team needs to learn in order to facilitate succession planning.

Beyond this, as stated we have not been able to create a specific senior leadership training program due to lack of resources and our priority on delivering direct client services.

#### **Training Records:**

All regions *did* provide 2015 training documentation.

Sponsorships by lenders are necessary to fund our two day annual professional development conferences. Given that we never do lending ourselves or refer clients to any one particular lender, there is no conflict of interest. Our role is to help the client understand their financial position, address weaknesses, and help them prepare loan packages. The lender presentations generally are well accepted and of real value because (1) client needs vary, (2) bank products and procedures change and we need to be current on this to do our job and (3) newer consultants especially need to learn this information and this is the most expedient way to cover it for everyone. In addition, the actual presentation times of the lenders at these conferences was misstated in the report because conclusions were drawn strictly on the basis of the agendas. Most of the lenders make 20 minute presentations during lunch. Documentation verifying this was provided to the audit team. Therefore, the total time of presentations by lenders in 2014 was 40 minutes (not 2.5 hours), in 2015 it was 20 minutes (not 1 hour) and in 2016, it was 1 hour, 40 minutes (not 3 hours and 45 minutes).

#### **Accreditation Report:**

Training for senior leadership was addressed under “Consultant Training” above. The LAC report also recommended that different training be offered for more seasoned consultants. As mentioned in another section of the audit report, the annual ASBDC conference does provide different tracts of training based on experience level, as well as specialty training programs for things like exporting and technology commercialization assistance (among others). The SC SBDC conference training is designed based on consultant survey responses and requests. Classes cover information on key markets, available resources and presentations from partners that are relevant to all consultants. Additional training is made available on specific topics that is appropriate, needed and for which we have funds. We continually strive to identify relevant training that is useful to both junior and senior level consultants.

The last accreditation of the SC SBDC resulted in a clean report with *no conditions and also four commendations for excellence* which is the highest level of accreditation and not common.

#### **Response to LAC Recommendations 3-6:**

3. Professional development generally is discussed in annual reviews, but not always documented; this will be done in the future.

4. Minimum training requirements for part-time consultants is established and practiced, but as noted before, it was overlooked in the Policies manual and is being added.

5. The SC SBDC does limit the time that bank sponsors can speak at annual conferences as documented above. We maintain that the information presented is appropriate and valuable.

6. Professional development for senior leaders was addressed above.

### **Key Performance Indicators**

Key performance metrics tracked and reported by the SC SBDC are measured in accordance with SBA and nationally accepted guidelines. We require that a consultant has been engaged with the client and had direct impact on their achievement of economic impact. Consultants confirm results themselves and then must obtain written verification from clients that the outcomes occurred and that the SBDC helped them achieve these results. This must be done prior to entering the data. Recently the SC SBDC initiated an additional procedure whereby each region director also must review and approve client files and verifications *before* they can be entered into the system. We know that our numbers are under-reported because the follow-up and verification required do not always occur.

In addition to SBA program reviews, the district SBA Project Officer conducts annual reviews on some of the centers which includes reviewing client files and contacting clients to verify information.

### **Response to LAC Recommendation 7-8:**

7. The procedures in place including the additional region director reviews/approvals provide multiple checks and verifications that results have been achieved and reported accurately. Conducting formal, written reviews of data in the client database each month is an unreasonable burden that would negatively impact the services we can provide to businesses given our resources (we serve about 5,000 clients each year with multiple outcomes for many of them).

8. As explained in the first section, the SC SBDC is bound by federal statute as well as SBA program requirements to not divulge client data. Congress would have to amend current federal law for this recommendation to be implemented.

### **Revenues and Expenditures**

A minimum of 50% of match funding required to capture federal funds must be cash, preferably higher in order to pay salaries and fringe which represent well over 90% of the SC SBDC's spendable money.

### **Donation Funds:**

Request and use of donation accounts is totally at the choice and discretion of the respective Region Directors and local staff based on their markets and strategies to meet specific client needs in their areas. This is not a question of being inequitable and is not driven by the different universities, so it does not relate to the program's consortium structure. As the report noted, this is a typical practice of SBDCs across the U.S. Donation funds have helped us to meet our federal match requirements and to expand the program in geographical areas, underserved population segments such as minorities and veterans and new services such as export and tech commercialization consulting. Donated funds have also allowed at least one region to avoid personnel cutbacks in the face of federal and state funding cuts. All regions collect some donations, including small sponsorships for lunches during training programs; but again, if, what and how much are their decisions to make.

### **Response to LAC Recommendations 9-10:**

9. The SC SBDC does discuss program funding with legislators and is happy to provide a breakdown of sources of funds at any time.

10. The SBDC does maintain a full accounting of our donation account(s) and all of this was provided to the LAC during the audit and in our response to the draft report.

### **Travel Expenditures:**

The state lead center *does maintain complete and accurate information on travel expenditures*. We spent many days going back through invoices and compiling travel documentation for all employees covering a two year period for the audit team. There was a misunderstanding about the request, as only “core” state and federal funds were pulled the first time. Some annual conference travel expenditures were not included because they were covered through other accounts such as carry-over funds. This data was later provided and has nothing to do with the organization structure.

All travel authorizations *are* signed. The report stated that some travel reimbursements were not signed. This is likely for the time frame before this was made a requirement. This is the practice now, but we are unable to respond directly because the specifics were not provided.

The audit report also cited that some hotel costs were excessive, mostly related to national conferences. These conferences are held in large cities such as San Francisco, Washington D.C., Houston, etc. where hotel costs are very high. The negotiated hotel room rates for this large conference (~ 1500 attendees) are generally the lowest in the area. In order to obtain lower rates, we would have to stay at hotels far enough away that rental car, parking, taxis would exceed the difference in the room rate. Given that the conferences start early in the morning and run into the evenings, it also is inconvenient and harder on the attendees to stay elsewhere. Since SBDC personnel are not federal employees, we are not eligible for federal rates which makes compliance with GSA rates even more impractical.

### **Response to LAC Recommendations 11-13:**

11. The documentation provided during the audit and in response to the draft report verified that the state lead center does have accurate, comprehensive information of travel expenditures for all regions and personnel.

12. To our knowledge, travel reimbursement forms have included proper signatures since this requirement has been established at the host universities; prior to that, it was not done. The audit report did not provide specifics, so we cannot respond directly to this comment.

13. The SC SBDC and SBDCs across the country utilize the lowest rates as negotiated for our national conferences. See explanation under travel expenditures above.

### **Procurements:**

We are unable to address missing receipts mentioned since we do not have specifics and the review covered all procurements statewide for a two year period. The current system requires approvals by the Region Director, the school’s sponsored programs department and the State Director’s office. If grant funds were used to buy a birthday cake, the amount will be reimbursed by the individual back into the appropriate account.

### **Response to LAC Recommendation 14:**

14. Review of procurement procedures and retraining will be done.

### **Sponsorships for Statewide Conference:**

The audit report states, “Because of this seemingly close relationship, we questioned the propriety of the SBDC requesting money from entities with which they do business.” As explained in a previous section, the SC SBDC does not do business with lenders and does not loan money. When we work with clients on financial management and loan packages, we provide multiple suggestions (never one) on

which lenders offer the types of products needed by the client. We do assist clients who are referred to us by a bank, which happens with many lenders across the state. This is standard practice of SBDCs across the nation. As noted in the report, sponsorships are also allowed and common across the country. In fact, the LAC quoted the SC SBDC to have raised significantly less than other networks.

## **Program Structure**

### **SBDC Staff:**

The administrative staff cited equates to 5.16 FTEs before a 2015 promotion and 4.9 FTEs after. Of the seven employees in the state director's office, one is a part time admin included in the admin numbers and two are full time consultants who provide specialty consulting for multiple regions.

The audit team also stated that distribution of consultants could be improved. This was addressed under "Statewide Distribution of Consultants". It also noted "difficulties in moving consultants from region to region", but as explained, this is not the case. We work collaboratively and consultants regularly enlist help from their peers both within and across the regions in order to provide the highest quality, comprehensive portfolio of services possible. Specialists cover multiple centers and regions as part of their assignments. Our seven export specialists, three procurement specialists and two tech commercialization specialists assist all centers as needed. Promotions also occur across regions.

### **Changes to Structure Needed:**

The SC SBDC was actually established by the South Carolina General Assembly and supported by Governor Edwards as a result of working collaboratively with the four universities that make up the consortium. The SC SBDC became operational in 1979 with concurrence of Presidents of the four institutions and joined the national SBDC program under the SBA later that year (see "About Us" tab on the America's SBDC website: [www.americassbdc.org/about-us/history](http://www.americassbdc.org/about-us/history)). As the audit team heard from both SBDC staff and outside organizations, our network has functioned much more effectively and efficiently with open communication and best practice sharing over the last 5-6 years than at any time in the past. As a result, partnerships with key economic development organizations and other service providers have increased and been enhanced (confirmed in interviews with the audit team), further leveraging our limited resources. This includes a very close working relationship with the SC Department of Commerce, as we provide small business assistance services on their behalf. This further strengthens the collaborative nature of our program, incorporating key higher education and state economic development organizations in the SC SBDC strategic plan and initiatives, while still complying with federal law. We maintain that there are few inconsistencies that result from the structure in the consortium as addressed throughout this response.

There are clear advantages to the consortium structure including but not limited to:

- 1) Increased stability of the program during periods of individual university leadership change which has been constant over the last 5-6 years (3 of 4 schools)
- 2) Greater visibility, coverage and support across the state
- 3) Broader opportunities to collaborate in assisting faculty who want to start or grow businesses
- 4) Opportunities to teach students and establish internships with the state's small businesses
- 5) Continued provision of in-kind and cash resources needed to sustain the program. For example, per the audit report, the Greenville Area Center does pay rent for space at the Clemson facility; but Clemson provides cash match that actually covers most or all of this cost.

As the audit team mentioned, Dean Weikle, current consortium Chair from the Winthrop College of Business Administration and long-time advocate of the SBDC will be retiring in 2017, raising some uncertainty about future support from that institution.

**Response to LAC Recommendation 15:**

15. We recognize that there are pros and cons to any structure including the consortium. However, given the available university resources and level of support along with the geographical and political environments in South Carolina, our experience has shown that the benefits of the consortium structure outweigh the disadvantages. We do agree that it is good to re-evaluate this at some intervals, which is done.



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