

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0515

MEMORANDUM

TO: Members, Subcommittee on Investigations, Oversight, and Regulations
FROM: Chairwoman Judy Chu
RE: “SBA Management and Oversight of the SCORE Program.”
DATE: July 11, 2019

On **Thursday, July 11, 2019, at 11:00 a.m. in Room 2360 of the Rayburn House Office Building**, the Committee on Small Business Subcommittee on Investigations, Oversight, and Regulations will convene for a hearing titled, “SBA Management and Oversight of the SCORE Program.” The SCORE Association (then called the Service Corp of Retired Executives) was established in 1964 as a national, volunteer nonprofit organization to provide free business mentoring services. It provides face-to-face counseling at nearly 350 chapters nationwide with more than 11,000 SCORE volunteers. SCORE volunteers provide a full range of business consultation services, such as business plan development, strategic marketing, and financing ideas. The Small Business Administration Office of Inspector General released an audit of the program in April 2019, examining the SBA’s oversight of the program’s awarded federal funds and the measurement and achievement of program goals. The hearing provides an opportunity to discuss the audit report and what steps the agency is taking to resolve the recommendations.

Witnesses:

- Mr. Hannibal “Mike” Ware, Inspector General, United States Small Business Administration
- Mr. Allen Gutierrez, Associate Administrator, Office of Entrepreneurial Development, U.S. Small Business Administration

Background

The SCORE Association, or SCORE, formerly known as Service Corps of Retired Executives, is an entrepreneurial development program established in 1964 and administered by the Small Business Administration (SBA). SBA awards a federal cooperative agreement to SCORE each year. The award provides funds for volunteer recruitment, training and support, equipment and leases, technology, management systems, marketing materials and course development.¹

SCORE utilizes an expansive network of volunteers to provide free or low-cost mentoring and training to entrepreneurs throughout the country. It is the largest network of volunteers, with more

¹ Small Bus. Admin., SCORE Funding Opportunity Announcement 2018, Funding Opportunity Announcement No. SCORE-2018-01, available at <https://www.sba.gov/sites/default/files/2018-10/FINAL%20-%20SCORE%20-%20Funding%20Opportunity%20Announcement%20FY2018%20version%206.pdf> (last visited July 1, 2019).

than 11,000 expert business advisors at 350 chapters nationwide.² SCORE provides personalized one-on-one counseling to help entrepreneurs start, grow, and manage their small business, as well as workshops, either on-line or in local communities. Among other services, SCORE aids with developing a business plan, building a website, growing an online brand, managing cash flow, and determining a company's legal structure.³ In FY 2018, SCORE volunteers mentored and trained 600,000 clients and conducted outreach to attract additional clients. In FY 2017, it helped start 54,506 new businesses.⁴

With regard to online resources, SCORE is developing on-line guides, in English and Spanish, on a wide array of business topics, which include templates for business plans, financial projections, marketing plans, and funding sources. There is other information specifically tailored to women, veterans, minorities, and young entrepreneurs. SCORE also offers free on-line workshops to help small business owners develop business plans, arrange loans, develop market analysis, and with other relevant topics.⁵ SCORE also developed a video mentoring program to connect mentors with entrepreneurs living in rural areas who might not have access to services.⁶

In addition to the above-mentioned services, SCORE offers a virtual conference, which allows individuals from across the country to partake in an on-line program that feels like an in-person event. The conference captures the benefits of a small business conference with networking and interactive features that allow participants to visit trade shows, listen to keynote speakers, and interact with mentors.⁷

In terms of federal funding for SCORE, the appropriation has increased from \$3.487 million in Fiscal Year 2000 (FY 2000) to \$11.7 million in FY 2019. Below, is a chart prepared by the Congressional Research Service (CRS) that reflects funding in thousands of dollars; the modification reflects a rescission.⁸

² Small Bus. Admin., FY 2020 CONGRESSIONAL BUDGET JUSTIFICATION AND FY2018 ANNUAL PERFORMANCE REPORT 89-90 (2019).

³ SCORE, available at <https://www.score.org/our-impact> (last visited Jul 1, 2019).

⁴ SBA CBJ, *supra* note 2, at 91.

⁵ SCORE, Frequently Asked Questions About Score <https://www.score.org/frequently-asked-questions-about-score> (last visited Jul 7, 2019).

⁶ *Reauthorization of the SBA's Entrepreneurial Development Programs Before the S. Comm on Small Business and Entrepreneurship Before the H. Comm. on Small Business*, 116th Cong. 9-10 (2019) (statement of Ken Yancey, CEO, SCORE Association).

⁷ *Id.*

⁸ Robert Dilger, R43846, Cong. Research Serv., *Small Business Administration Funding: Overview and Recent Trends* (2019).

Fiscal Year	Initial Recommended			Final				
	Appropriation	Modifications	Appropriation	Expenditures				
2019	\$11	.700	—	\$11	.700	\$11	.700	
2018	\$11	.500	—	\$11	.500	\$11	.500	
2017	\$10	.500	—	\$10	.500	\$10	.500	
2016	\$10	.500	—	\$10	.500	\$10	.500	
2015	\$8	.000	—	\$8	.000	\$8	.000	
2014	\$7	.000	—	\$7	.000	\$7	.000	
2013	\$7	.000	(\$0	.556)	\$6	.444	\$6	.440
2012	\$7	.000	—	\$7	.000	\$7	.000	
2011	\$7	.000	(\$0	.014)	\$6	.986	\$6	.986
2010	\$7	.000	—	\$7	.000	\$7	.000	
2009	\$5	.000	—	\$5	.000	\$5	.000	
2008	\$4	.950	—	\$4	.950	\$4	.950	
2007	\$5	.000	—	\$5	.000	\$4	.936	
2006	\$5	.000	(\$0	.050)	\$4	.950	\$4	.936
2005	\$5	.000	(\$0	.040)	\$4	.960	\$4	.933
2004	\$5	.000	(\$0	.030)	\$4	.970	\$4	.958
2003	\$5	.000	(\$0	.033)	\$4	.967	\$4	.977
2002	\$5	.000	—	\$5	.000	\$5	.010	
2001	\$3	.750	(\$0	.008)	\$3	.742	\$3	.750
2000	\$3	.500	(\$0	.013)	\$3	.487	\$3	.471

SCORE also generates income from fees that it collects from workshops and seminars, and in FY 2017, SCORE collected \$1.8 million in program income.⁹ In addition to the fees, SCORE receives income from the SCORE Foundation, a 501(C)(3), whose mission is “supporting affiliate of SCORE Association and its volunteers.” In 2017, the SCORE Foundation reported \$1,447,443 in revenue, and \$2,781,346 in expenses.¹⁰

SBA Management

The Office of Entrepreneurial Development (OED) oversees a network of programs and services that support training and counseling needs of small businesses. Given its mission statement,¹¹ OED is charged with helping small businesses through management training and technical assistance. OED houses three separate sub-offices; the Office of Small Business Development Centers, which services SBDCs; the Office of Women’s Business Ownership, which oversees WBCs; and the Office of Entrepreneurship Education (OEE), which works with SCORE. Through a multitude of

⁹ SBA OFFICE OF INSPECTOR GENERAL, AUDIT OF SBA’S OVERSIGHT OF THE SCORE ASSOCIATION (Report No. 19-12., 2019).

¹⁰ SCORE Foundation, Form 990 – Return of Organization Exempt from Tax Income (2019) at <https://projects.propublica.org/nonprofits/organizations/521962712/201930779349300308/IRS990>.

¹¹ THE OFFICE OF ENTREPRENEURIAL DEVELOPMENT WEB RESOURCES, [HTTPS://WWW.SBA.GOV/OFFICES/HEADQUARTERS/OED](https://www.sba.gov/offices/headquarters/oed).

resources and tools, OED manages the three congressionally-created programs and their respective resource partners.¹²

The OEE works with the Office of Grants Management to award the cooperative agreement and oversees SCORE's adherence to the terms of the agreement. SBA district office personnel are responsible for conducting site visits at the SCORE chapters to monitor performance.

Office of Inspector General's Audit of SBA's Oversight of the SCORE Association

The Office of Inspector General (OIG) regularly conducts audits and evaluations of SBA's programs. On April 25, 2019, the Inspector General released the findings of an audit (Report No. 19-12.) of the SCORE Association. The objectives of the audit were to determine whether SBA has effective oversight to ensure SCORE spent federal funds in accordance with the cooperative agreement requirements and had measurable performance measures and achieved its program goals.

To conduct the audit, the OIG reviewed SCORE's FY 2017 federal award in the amount of \$10.5 million and the first quarter of the FY 2018 federal award in the amount of \$11.5 million for three chapters and the National SCORE Office in Herndon, Virginia. The OIG found that improvements are needed to ensure SCORE minimizes risk of fraud or misuse of program funds and SBA did not ensure it accurately measured the effectiveness of the SCORE program.

Finding 1: Improvements Needed to Ensure SCORE Minimizes Risk of Fraud or Misuse of Program Funds

SBA program officials did not ensure that SCORE spent federal funds in accordance with the cooperative agreement. The OIG found that SBA has never conducted a complete annual examination of SCORE, and more specifically:

1. **SCORE commingled restricted funds with unrestricted funds.** Federal regulations require grant recipients to maintain financial management systems that identify the source and application of funds for federally funded activities. SCORE's program announcement specified that the program income may not be commingled, and the operating manual defined commingled funds and stated that restricted and unrestricted funds are considered restricted if combined. SBA program officials did not ensure SCORE followed federal regulations regarding the accounting of program income, and SCORE did not ensure its chapters adhered to the guidance in its operating manual. SBA program officials relied on SCORE's national office to enforce the accounting standards, and the national office couldn't because there were 300 separate accounting systems, some on the private laptops of volunteers.
2. **SCORE used federal funds for unallowable, unallocable, and unsupported costs.** Because there was no effective oversight of the 300 separate accounting systems in chapter offices, the OIG found that SCORE misused \$627,299 in federal funds and misallocated \$4,687 in program income.
 - a. **Excessive Bonuses.** The OIG found that SCORE used \$101,014 of federal funds remaining in FY 2017 to award bonuses to 19 employees in the national office. SBA program officials did not detect that SCORE reprogrammed funds to increase bonuses

¹² *Id.*

because they did not enforce a reporting requirement that SCORE provide them with a detailed worksheet listing personnel expenses with every request for advance or reimbursement of funds.

- b. Improperly Awarded Contracts. In 12 of the 25 contracts reviewed, SBA program officials did not ensure SCORE complied with the requirements of the cooperative agreement that directed SCORE to obtain at least three qualified price quotes. Moreover, for contracts over \$150,000, SCORE is required to follow federal competitive award procedures and obtain prior approval by SBA. While SBA said that they spoke with SCORE, program officials could not provide supporting documentation.
- c. Unallocable Expenses that Benefited the SCORE Foundation. SCORE used \$40,947 from the federal award to reimburse expenses for activities that supported both the SCORE Association and the SCORE Foundation. Federal regulations require costs to be distributed in proportion to the benefits received between the two entities. The OIG found SCORE did not abide by the regulations.
- d. Prohibited Costs, Unallowable Local Travel Expense, and Unallocable and Unsupported Costs. SBA program officials did not detect that SCORE used \$35,341 in federal funds for unsupported costs. SCORE has relied on the 300 plus chapters to report all expenses and program income prior to submitting the final award reimbursement, but it did not ensure that the chapters properly accounted for their expenditures.
3. Inappropriately Solicited Donations for Mentoring Services. SBA program officials did not ensure that SCORE performed free mentoring services, which is a requirement of the cooperative agreement.
4. Incorrectly Managed Funds Used for Cosponsored Activities. Neither SBA nor SCORE complied with the cooperative agreement requirements for cosponsored activities. The SBA district offices did not ensure that co-sponsorship funds were properly recorded, some district office staff handled funds despite strict rules preventing them from doing so, and neither SBA nor SCORE national office knew about the number of agreements that were in place between SBA and SCORE. Without proper oversight, SBA risks the funds not being used for the intended purpose.
5. SCORE's Published Materials Did Not Consistently Acknowledge SBA's Support of the Program. The cooperative agreement requires SCORE to acknowledge SBA's involvement with the program for all materials paid for in whole or in part with cooperative agreement funds. The OIG found publication materials at each chapter that did not recognize SBA's support, therefore, SCORE clients may not be aware that it is a taxpayer-funded program.
6. SBA Did Not Track the Total Cost of the Program. SBA was not aware of the total cost of the program and may have underestimated the cost of donated lease space. The Small Business Act gives SBA the authority to donate the use of office facilities, materials, and services to

SCORE. SCORE reported \$1.7 million in donated government space, which was based on data SBA provided to SCORE, but the SBA could not verify.

7. Fraud in the Program and Lack of Appropriate Whistleblower Reporting System. SBA program officials did not ensure that SCORE had control over financial reporting at the chapter level, and SCORE did not have a process in place that fostered transparency and protected whistleblower rights under federal law. The OIG investigated two instances of fraud, totaling \$30,250, which ended in criminal prosecution.

Finding 2: SBA Did Not Ensure It Accurately Measured the Effectiveness of the SCORE Program.

SBA program officials did not accurately report two of the three performance goals for SCORE in the Congressional Budget Justification for Fiscal Year 2017. SBA overreported SCORE's accomplishments for number of clients trained by 31 percent and underreported SCORE's accomplishments for the total number of clients mentored by 7 percent. SCORE uploads results to Entrepreneurial Development Management System (EDMIS) and also provides SBA with quarterly performance reports. Evidently, the process to upload data onto EDMIS is prone to error, and SBA did not verify the completeness and accuracy of the data by cross-checking the information with the quarterly performance reports.

The purpose of SCORE is to provide business and economic development assistance to existing small businesses and aspiring entrepreneurs. The only outcome-based performance measure that SBA required SCORE to report was the number of small business created. While this information is a significant indicator of whether the program met its goal to support small business growth, it did not inform SBA of whether it achieved other goals. The OIG recommends that SBA develop more comprehensive outcome-based performance goals.

OIG Recommendations

The OIG made a number of recommendations that have either been resolved or closed. Most importantly, they recommended the Associate Administrator for the Office of Entrepreneurial Development improve its oversight and monitoring of SCORE's use of federal funds.

SBA Actions in Response to Audit. The Office of Entrepreneurial Development has taken steps to resolve and close out the OIG's recommendations. The Office implemented new compliance review procedures for SBA SCORE liaisons' annual reviews of SCORE chapters, prohibited SCORE from serving as a fiscal agent for SBA cosponsored activities, and worked with the Office of Management and Budget and SCORE to establish outcome-based performance measures. The Subcommittee members will have an opportunity to learn more about the additional steps the OED is taking to resolve the management challenges at SBA and restore integrity, accounting, and performance to SCORE.¹³

SCORE's Actions in Response to Audit. With regard to the OIG's finding that SCORE chapters commingled federal funds with unrestricted funds in chapter accounting systems and bank accounts, SCORE began the development of a consolidated accounting and banking system in 2016 that will become fully operational by September 30, 2020. The consolidated system will eliminate checks,

¹³ SBA OFFICE OF INSPECTOR GENERAL, AUDIT OF SBA'S OVERSIGHT OF THE SCORE ASSOCIATION APP. III (REPORT NO. 19-12, 2019) (SBA Response).

cash, debit cards, and other payment mechanisms at the chapter level, reducing the opportunity for misuse of federal funds. The new system will also separate restricted and unrestricted funds in chapter accounting systems.

SCORE reported that the program holds a portion of the employees' compensation "at risk," meaning that an individual can receive a bonus up to 10-30 percent of base salary if they meet negotiated metrics. SCORE contends that this practice is a widely used practice with businesses and non-profits. SCORE contends that the reprogramming of funds for bonuses was not a regular practice, and that it occurred once. Moreover, the Notice of Award states that SCORE has the ability to move up to 10 percent of its money in the budget, and the amount was within the threshold. In terms of salaries, SCORE commissions a salary survey every three years with a third party consultant to determine reasonableness and to comply with IRS rules. SCORE's policy is to pay in a range that is plus or minus 15 percent of the 50th percentile for each position. According to SCORE, no salary paid by federal funds exceeds the equivalent of the maximum salary allowed under the Senior Executive Service for agencies including the SBA, adjusted to the local Washington, D.C. market.

Regarding the finding on improperly awarded contracts, SCORE is updating the contracting process at the National Office and local chapters to ensure consistency with grant requirements and OMB policies.¹⁴

Conclusion

The SCORE Association was created by Congress in 1964 as a national, volunteer nonprofit organization to provide free or low-cost counseling and training to small business owners. The program has grown exponentially, with 11,000 business experts and 350 chapters across the country. The hearing will give Members an opportunity to learn more about the audit report and the steps the agency is taking to resolve the OIG's recommendations. These steps will help ensure the longevity and success of the program into the future.

¹⁴ Correspondence with Ken Yancey, CEO SCORE Association, to H. Comm on Small Business (July 1, 2019) (On file with H. Comm).