



DEPARTMENT OF SMALL BUSINESS AND SUPPLIER DIVERSITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2021

Auditor of Public Accounts

Staci A. Henshaw, CPA

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AUDIT SUMMARY

Our audit of the Coronavirus Relief Fund federal grant program, administered by the Department of Small Business and Supplier Diversity (DSBSD), for the fiscal year ended June 30, 2021, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and reporting system; and
- one matter involving internal control and its operation necessary to bring to management's attention that also represents an instance of noncompliance with applicable laws and regulations or other matters that are required to be reported.

The Rebuild Virginia Small Business Grant Program (Rebuild VA) was created in July 2020 to provide financial assistance for Virginia's small businesses and non-profits whose operations were impacted by the COVID-19 pandemic. DSBSD received \$120 million in Coronavirus Relief Funds during the fiscal year to administer this program. The Commonwealth's Secretary of Commerce and Trade established the eligibility requirements for Rebuild VA grant payments. During the grant period of July 2020 to March 2021, DSBSD made payments of approximately \$115 million that impacted nearly 3,000 entities throughout the Commonwealth.

Due to the small size of the agency and obligation to distribute funds as quickly as possible, DSBSD outsourced certain programmatic responsibilities to a third-party service provider including application reviews and eligibility determinations. During our review of selected payments, we identified two grant payments that the third-party service provider improperly calculated under the eligibility requirements established by the Secretary of Commerce and Trade, resulting in overpayments of \$114,290 by DSBSD. Although the total error rate for all Rebuild VA grant payments is unknown, we estimate that DSBSD may have processed approximately \$10.9 million in overpayments. Because DSBSD prioritized performing its other functions during this time, DSBSD did not dedicate the necessary resources maintain proper oversight of the outsourced functions. We believe this lack of oversight contributed to the material weakness in internal control and matter of noncompliance described in the section titled "Internal Control and Compliance Finding and Recommendation."

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INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Ensure Proper Monitoring over Outsourced Programmatic Functions

Type: Internal Control and Compliance

Severity: Material Weakness

Repeat: No

The Department of Small Business and Supplier Diversity (DSBSD) is not properly monitoring its small business grant eligibility process for the Rebuild Virginia Small Business Grant Program (Rebuild VA), which DSBSD established to help Virginia's small businesses manage the impacts associated with the COVID-19 pandemic and funded through the Coronavirus Relief Fund federal grant program. DSBSD contracted with a third-party service provider to perform application reviews and eligibility determinations on behalf of DSBSD. However, DSBSD did not perform adequate reviews of the outsourced functions prior to distributing grants to small businesses.

The Commonwealth's Secretary of Commerce and Trade established the eligibility requirements for this program, which include limits on gross annual revenue and total number of employees for small businesses operating in Virginia. Under those requirements, eligible applicants received Rebuild VA grant payments equal to three times the average monthly operating expenses in addition to any COVID-19 related expenses, up to a maximum of \$100,000. DSBSD's third-party service provider determined the total grant award for each grant payment. During our review of selected payments, we identified two grant payments that the third-party service provider improperly calculated under the eligibility requirements established by the Secretary of Commerce and Trade. These miscalculations resulted in an overpayment by DSBSD to grantees of \$114,290. Both overpayments were a result of errors by the third-party service provider during review of the applicants' supporting documentation and calculation of the grant award.

The Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 10305 requires agencies to have adequate interaction with service providers to gain an appropriate understanding of the service provider's control environment. In addition, an agency must maintain oversight over third-party service providers in order to gain assurance over outsourced operations. Further, 2 CFR § 200.303 states that non-federal entities must establish and maintain effective internal control over federal awards and provide reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Although DSBSD had an appropriate understanding of the multiple review levels performed by the third-party service provider for all program eligibility determinations, it did not dedicate resources to maintain proper oversight over the outsourced functions. Proper oversight could have prevented the overpayments noted above. Without proper monitoring of these operations, DSBSD cannot provide reasonable assurance that the third-party service provider is maintaining proper internal controls over eligibility determinations as required by federal regulations and places itself at risk of having to return money to the federal government for noncompliance that could occur at the third-party service provider.

Although DSBSD is not currently accepting applications for this program, DSBSD will likely receive additional funding to continue the efforts of supporting small businesses in the Commonwealth to manage the impacts associated with the COVID-19 pandemic. Therefore, DSBSD should dedicate resources to ensure proper monitoring over outsourced application reviews and eligibility determinations, where applicable.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 27, 2022

The Honorable Glenn Youngkin
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Coronavirus Relief Fund federal program**, administered by the **Department of Small Business and Supplier Diversity (DSBSD)**, for the year ended June 30, 2021. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Single Audit. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objective was to audit the Rebuild Virginia Small Business Grant Program (Rebuild VA), as funded by the Coronavirus Relief Fund federal program, in support of the Commonwealth's Single Audit. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system. We reviewed the adequacy of DSBSD's internal controls over compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

DSBSD's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the Coronavirus Relief Fund federal program.

We performed audit tests to determine whether DSBSD’s controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel; inspection of documents and records; and observation of DSBSD’s operations. We performed analytical procedures and tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and, when appropriate, we projected our results to the population.

Our consideration of internal control over compliance was for the limited purpose described in the section “Audit Objectives” and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the section titled “Internal Control and Compliance Finding and Recommendation,” we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency titled “Ensure Proper Monitoring over Outsourced Programmatic Functions,” which is described in the section titled “Internal Control and Compliance Finding and Recommendation,” to be a material weakness.

Conclusions

We found that DSBSD properly stated, in all material respects, the amounts recorded and reported in the Commonwealth’s accounting and financial reporting system.

We noted a matter involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that require management’s attention and corrective action. This matter is described in the section titled “Internal Control and Compliance Finding and Recommendation.”

Since the finding noted above has been identified as a material weakness, it will be reported as such in the “Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance,” which is included in the Commonwealth of Virginia’s Single Audit report for the year ended June 30, 2021. The Single Audit report will be available at www.apa.virginia.gov in February 2022.

Exit Conference and Report Distribution

We discussed this report with management on February 10, 2022. Management’s response to the findings and recommendations identified in our audit is included in the section titled “Agency Response.” We did not audit management’s response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

DEM/clj



Glenn Youngkin
Governor

COMMONWEALTH of VIRGINIA

Caren Merrick
Secretary of Commerce & Trade

Department of Small Business and Supplier Diversity

Matthew James
Director

February 7, 2022

The Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

RE: Management Response to APA Audit Report Letter of January 27, 2022

Dear Ms. Henshaw:

The Rebuild! VA program (or "Program") is an unprecedented greenfield build by the Department of Small Business and Supplier Diversity (SBSD) of a solution, operations and technology to quickly provide financial assistance to Virginia's small businesses who, in mid-2020, were struggling with the impact of the COVID - 19 pandemic. Specifically, the Governor's Executive Order 54 which forced many "non-essential" small businesses to close their doors to the public. These small businesses employ over 1.5 million Virginians.

As administrator of Rebuild! VA, the SBSBD contracted day-to-day operations of the Program to a third-party service provider ("Service Provider"), with expertise in this field, to meet the crushing impact of the pandemic. SBSBD provided broad oversight of the Program including approving the Service Provider's processes and providing the web-based software platform to: (i) accept applications, (ii) determine applicant eligibility and the amount of the grant award, (iii) initiate payment processing, and (iv) provide customer service.

With approval from SBSBD, the Service Provider developed a three step review process for all applications which provided a check and balance system for grant approval, as initially, the primary concern and risk to the program focused on prevention of fraudulent activity. This review process required Service Provider team members to manually enter grant expenses into a spreadsheet which calculated the grant amount and were then manually entered into the grant management software. Given the short lead time to implementation (approximately 100 days) and originally assumed program end date of 12/31/2020, some of the program processes, controls, and technology capabilities were revised and improved after implementation, as well as, addressing policy revisions impacting parameters. Moreover, the original grant award process had several manual steps until automated and improved solutions were deployed.

As the Program has evolved, additional steps have been made to mitigate manual and other processing errors, including:

- Automating the grant calculation process so that the grant amount is now auto-populated and not manually keyed;

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- Hiring additional staff with greater skills and capabilities;
- Strengthening training through monthly refresher training for all team members; and
- Creating on-demand video training available to all team members.

Furthermore, SBSB has increased its oversight by:

- Auditing thirty (30) randomly selected applications per month for compliance to processes and procedures, detect errors and reviewing results with the Service Provider to improve grant processing and for training; and
- Continuing to:
 - Provide feedback to the Service Provider for applications whose decisions are overturned in the applicant appeal process. Monthly, a spreadsheet of all overturned decisions is reviewed with the Service Provider to improve grant processing and for training;
 - Meet weekly with the Service Provider leadership team to review program metrics and related matters to enhance Program processing and integrity.

Rebuild! VA has awarded over \$249 million in grants to more than 5,300 small businesses since August 2020. Grant awards have allowed these businesses to stay afloat in a time of crisis – especially truly small businesses across the Commonwealth that typically don't get access to such help. Rebuild! VA has been, and will continue to be, vital to Virginia's economic recovery from COVID - 19.

Thank you for the opportunity to submit this response.

Sincerely,



Howard F. Pisons

Executive Director
Virginia Small Business Financing Authority

DEPARTMENT OF SMALL BUSINESS AND SUPPLIER DIVERSITY

as of June 30, 2021

Matthew James
Agency Director

Howard Pisons
Executive Director
Virginia Small Business Financing Authority