United States Government Accountability Office

Report to Congressional Committees

May 2020

SMALL BUSINESS DEVELOPMENT CENTERS

Reevaluation of How SBA Sets Initial Funding Estimate Needed to Help Reduce Burden

Accessible Version

GAO-20-457

GAO Highlights

Highlights of GAO-20-457, a report to congressional committees

Why GAO Did This Study

SBA's SBDC Program provides training and counseling to small businesses through a nationwide network of 62 lead centers and more than 900 service centers. Each year, SBDC lead centers submit grant applications based on an estimated amount in SBA's funding opportunity announcement.

GAO was asked to review SBA's procedure for the SBDC funding estimate. This report discusses SBA's change to the way it estimates funding in the funding opportunity announcement, its rationale for the change, and views of SBDC grantees on the effect of the change on their budgeting and operations.

GAO reviewed SBDC funding opportunity announcements, Presidents' budget requests, and appropriations for fiscal years 2012–2020; examined relevant laws and guidance; and interviewed SBA officials and OMB staff. GAO also reviewed documentation and interviewed officials from a nongeneralizable sample of eight SBDCs (selected to achieve diversity in funding amount, budget cycle, and host institution) and surveyed all 62 lead SBDCs.

What GAO Recommends

GAO is making one recommendation that SBA reevaluate its funding application requirements, including the initial funding estimate SBDCs are to use. SBA partially agreed and outlined steps it plans to take that could address the intent of the recommendation.

View GAO-20-457. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

May 2020

SMALL BUSINESS DEVELOPMENT CENTERS

Reevaluation of How SBA Sets Initial Funding Estimate Needed to Help Reduce Burden

What GAO Found

The Small Business Administration (SBA) annually issues a funding opportunity announcement with an estimate of total funding for the Small Business Development Center (SBDC) Program. Individual SBDCs are required to use this estimate to apply for their portion of the funding. In fiscal year 2016, SBA began using the lowest funding estimate—the amount in the President's budget—rather than an estimate reflecting historical funding levels. In fiscal year 2019, the amount in the President's budget was 15 percent lower than the prior-year appropriation and in 2020, 23 percent. If SBA continues its practice for fiscal year 2021, the funding estimate will be 35 percent lower than the 2020 appropriation. When appropriations are enacted for the program, the funding amount is revised and SBDCs submit a final budget.

SBA officials said they changed how they set the funding estimate to conform to federal standards and appropriations law.

- In a 2019 letter to the House and Senate Small Business Committees, SBA said it adopted the change to help the program operate more effectively and be consistent with federal financial management standards. SBA officials could not point to specific regulations or guidance to support this statement. Office of Management and Budget (OMB) guidance for grants states that estimates based on the previous year's funding are acceptable if current appropriations are not yet available, as was the case when recent SBDC funding opportunity announcements were issued.
- SBA officials also cited the Antideficiency Act, which prohibits federal agencies from obligating or expending federal funds in advance or in excess of an appropriation. But staff from OMB and SBA's Office of General Counsel told GAO that the Antideficiency Act does not apply to a funding opportunity announcement because the announcement does not obligate federal funds.

A majority of SBDCs that GAO surveyed said using the President's budget request for the initial funding estimate created budgeting, operational, and performance burdens and challenges—mostly stemming from the large gap between the initial estimate and appropriated amounts. For example, SBDCs surveyed said that they now

- spend more time on budgeting (determining what to cut from initial budgets to meet the lower estimate and then recalculating for final budgets);
- have a harder time obtaining matching funds (from state, local, or private-sector sources) or increasing the amounts from initial to final funding levels;
- have difficulty hiring or retaining staff;
- face challenges providing services to small businesses (particularly if SBDCs have staffing gaps); and
- thus also face challenges meeting performance goals (which include number of clients served).

Under SBA's current practice for funding estimates, SBDCs will continue to experience (or may experience increasing) challenges given the growing divergence between the initial estimate and appropriated amounts.

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Abbreviations

OMB	Office of Management and Budget
PTAP	Procurement Technical Assistance Program
SBA	Small Business Administration
SBDC	Small Business Development Center

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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May 22, 2020

The Honorable Marco Rubio
Chairman
The Honorable Benjamin L. Cardin
Ranking Member
Committee on Small Business
and Entrepreneurship
United States Senate

The Honorable Nydia M. Velázquez
Chairwoman
The Honorable Steve Chabot
Ranking Member
Committee on Small Business
House of Representatives

The mission of the Small Business Administration's (SBA) Office of Entrepreneurial Development is to help small businesses start, grow, and compete in global markets.[1] The office oversees programs that include the Small Business Development Center (SBDC) Program, which funds a network of 62 lead centers and more than 900 service centers that offer counseling, training, and technical assistance to current and prospective small businesses.

SBDCs are funded by grants from SBA and matching funds from nonfederal sources. Before the beginning of a new fiscal year, SBA publishes a funding opportunity announcement that includes an overall funding estimate for the program for the upcoming fiscal year (funding estimate). Each SBDC lead center that wishes to apply for funding must submit an application based on the SBDC's proportionate share of this amount.[2]

[1]The Office of Entrepreneurial Development aims to do this by providing training, counseling, and access to resources.

[2]Funding recipients are SBDC lead centers that oversee networks of local service centers (which include subcenters or regional centers). We generally refer to the SBDC lead centers as "SBDCs" and the other centers as "service centers."

In recent years, SBA changed the methodology it uses to determine the funding estimate. For fiscal year 2020, SBA used the amount requested in the President's proposed budget ($101 million) for the funding estimate. Congress ultimately appropriated $135 million for the program.[3]

You asked us to review SBA's procedure for determining the SBDC funding estimate. This report discusses (1) SBA's rationale for changing the way it estimates funding in the annual SBDC funding opportunity announcement and (2) views of SBDC grantees on the effect of that change on their budgeting and operations.

For the first objective, we reviewed SBDC funding opportunity announcements for fiscal years 2012 through 2020 and associated program guidance. We compared funding estimates, appropriations, and Presidents' budget requests from fiscal years 2012 through 2020. We also interviewed SBA officials to obtain the agency's rationale for changing the way it estimates the funding amount in its SBDC funding opportunity announcements. We examined select laws, regulations, and Office of Management and Budget (OMB) guidance related to agency budgeting and obligation and expenditure of federal funds, and reviewed documentation on other selected programs to compare how funding estimates are determined.

For the second objective, we reviewed funding application documentation from a nongeneralizable sample of eight SBDC lead centers. We selected these centers to achieve diversity in funding amount, budget cycle, and host institution, and we interviewed center representatives about the change in the funding estimate methodology. We also distributed a survey to all 62 SBDC lead centers to obtain their perspectives on the effect of the change on their operations. Sixty of the 62 lead centers (97 percent) responded to the survey. Appendix I describes our scope and methodology in greater detail.

We conducted this performance audit from October 2019 to May 2020 in accordance with generally accepted government auditing standards. 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

[3]Consolidated Appropriations Act, 2020, Pub. L. No. 116-93, 133 Stat. 2317, 2475 (2019).

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

SBDC Program

As SBA's largest matching grant program, the SBDC Program provides funding to SBDCs to deliver business advising and technical assistance to prospective and existing small businesses.[4] SBDC lead centers manage the program, including submitting annual funding applications.[5] Approximately two-thirds of SBDCs are funded on a calendar-year basis and the rest on a fiscal-year basis. Universities, community colleges, or state governments host SBDC lead centers.

SBA provides grants covering 50 percent or less of SBDC program costs. As a condition of the grant, SBDCs are required to provide 100 percent matching funds from nonfederal sources (one nonfederal dollar for each federal dollar provided by SBA), which are used to cover remaining program costs. At least 50 percent of the match must be in cash and the remaining amount can include combinations of additional cash, in-kind contributions, or waived indirect costs. Organizations that provide matching contributions include state legislatures, private-sector foundations, state and local chambers of commerce, economic development entities, and colleges or universities. SBA considers expenditures of nonfederal funds that an SBDC spends on the program in excess of the statutorily required match as "overmatch." SBA generally reimburses SBDCs for allowable program costs, up to the amount of the

[4]By statute, SBDC programs must be implemented under cooperative agreements between SBA and the recipient of the grant.15 U.S.C. § 648(a)(3). Federal awards are generally governed by cooperative agreements when substantial involvement is expected between the federal awarding agency and the award recipient in carrying out the activity contemplated by the award.

[5]According to SBA's fiscal year 2020 Funding Opportunity Announcement, only SBDCs that are current award recipients can apply for funding. SBA awards "continuation" funding to SBDCs subject to continued program authorization, availability of funds, satisfactory performance, and continued interest of the SBDCs.

federal award and provided such costs adhere to the budget approved by SBA.[6]

SBDC Funding Award Process

As with other federal programs, the President submits a budget request to Congress for the SBDC Program in or around February of each year, and Congress thereafter engages in its appropriations process.[7] In or around July of each year, SBA publishes a funding opportunity announcement for the SBDC Program. This announcement includes a funding estimate (because the final appropriation is not known at this time) for awards to be made by SBA during the upcoming fiscal year, which begins on October 1.

- Each SBDC submits an initial application for funding based on its proportional share of the funding estimate.[8] The application must include detailed budgets setting forth program costs, broken out separately for the SBDC and each of the service centers it oversees.[9] If the appropriation were to match the initial funding estimate, SBDCs would be required to adhere to the budgets they initially submitted or request approval for a modification from SBA.
- If a continuing resolution is in place, SBA awards partial funding to the SBDCs based on amounts available under the continuing resolution

[6]For reimbursement, SBDCs must provide SBA with bank account information and submit a Standard Form 270 (Request for Advance or Reimbursement). SBA program officials are responsible for reviewing the reimbursement requests and submitting them to the finance center for processing.

[7]During the appropriations process, both the House and Senate "mark up" proposed legislation—that is, congressional committees and subcommittees debate, amend, and rewrite proposed legislation.

[8]According to the program's Standard Operating Procedures, SBDCs that want to continue participating in the SBDC Program must submit a letter of intent to renew funding. In response, SBA provides SBDCs with the funding level at which to submit their applications. The funding level is based on a statutory formula (discussed below).

[9]See fiscal year 2020 SBDC Funding Opportunity Announcement, Section 4.1.2.3. By statute, an applicant's plan for participating in the SBDC Program must include a budget, as well as any other information and assurances SBA may require to ensure that the applicant will carry out eligible activities. 15 U.S.C. § 648(b)(2). Program regulations require that SBA review the budget annually upon submission of a renewal application, and that separate budgets be provided for SBDC subcenters. 13 C.F.R. § 130.460.

and apportioned by OMB.[10] According to SBA officials, SBDCs are required to submit revised budgets after a continuing resolution.[11]

- After appropriations are enacted for the full year, the funding amounts for the SBDC Program are revised and SBDCs submit a final, revised budget.

SBDCs are informed of funding decisions through a notice of award that includes the budget approved by SBA and the other terms and conditions under which the award is made.[12]

We previously reported on the effects of budget uncertainties and disruptions. In a February 2018 testimony, we noted that Congress annually faces difficult decisions on what to fund among competing priorities and interests, and often postpones final funding decisions to allow additional time for deliberations.[13] Under a continuing resolution, agencies can continue to operate, but the funding expires on a certain date and therefore creates uncertainty about both the timing of final appropriations and the level of funding ultimately available. And when a lapse in appropriations—or funding gap—is possible, the affected agencies must prepare for an orderly shutdown of operations, even if a shutdown is ultimately averted. In the same testimony, we reported that continuing resolutions and lapses in appropriations leading to government

[10]A continuing resolution is an appropriation act that provides budget authority for federal agencies, specific activities, or both to continue in operation when Congress and the President have not completed action on the regular appropriation acts by the beginning of the fiscal year. A continuing resolution may be enacted for the full year, up to a specified date, or until regular appropriations are enacted. The amount of funding available under a continuing resolution depends on the language of the continuing resolution and apportionment by OMB. For example, some continuing resolutions appropriate the same amount as provided in the agency's appropriation act for the prior fiscal year, and OMB apportions a proportion of that amount to the agency or activity based on the duration of the continuing resolution.

[11]If more than one continuing resolution is enacted, SBA officials noted that SBDCs are required to submit a revised budget for each one.

[12]According to SBA's Office of General Counsel, no obligation of federal funds occurs until SBA sends the notice of award to the SBDC, which documents SBA's funding commitment and authorizes the SBDC to begin incurring costs under the award. In general, SBDCs can only be reimbursed for costs incurred during the award period, and must obtain SBA approval to carry over unused funds into subsequent periods. Beginning with the fiscal year 2019 Funding Opportunity Announcement, the award period was extended from 1 to 2 years.

[13]GAO, *Budget Issues: Continuing Resolutions and Other Budget Uncertainties Present Management Challenges*, GAO-18-368T (Washington, D.C.: Feb. 6, 2018).

shutdowns created inefficiencies and other management challenges for agencies, such as delayed hiring and additional work.

Agency Budgeting and Obligation and Expenditure of Federal Funds

The following are select statutes, guidance, and regulations that govern agency budgeting and obligation and expenditure of federal funds, including for the SBDC Program:

- **Antideficiency Act.** This act prohibits agencies from obligating or expending funds in excess or in advance of an available appropriation unless otherwise authorized by law and, with some exceptions, from accepting voluntary services for the United States.
- **Impoundment Control Act.** An impoundment is any action or inaction by an officer or employee of the federal government that precludes obligation or expenditure of budget authority. When Congress appropriates funds to the executive branch, the President, unless otherwise authorized to withhold such amounts, must prudently obligate them. The Impoundment Control Act is rooted in this principle, and grants the President strictly circumscribed authority to temporarily withhold funds from obligation by transmitting a special message pursuant to procedures established by the act. Transmission of a special message is the only mechanism through which an agency may withhold budget authority from obligation.
- **OMB guidance.**
  - *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 2 CFR Part 200 (Uniform Guidance), is meant to provide a government-wide framework for grants management and to reduce administrative burden for nonfederal entities receiving federal awards while reducing the risk of waste, fraud, and abuse. To comply with the Uniform Guidance, federal agencies are responsible for developing requirements for grant applicants and recipients of their program awards, with consultation with OMB's Office of Information and Regulatory Affairs. Under the Uniform Guidance, federal agencies must provide the projected total amount of funds available for programs providing federal financial assistance, and this amount is then made publically available. Estimates based on the previous year's funding are acceptable if current appropriations are not yet

available.[14] In addition, federal agencies must publically announce specific funding opportunities. These announcements must include sufficient information to help an applicant make an informed decision about whether to apply, such as the total amount of funding the agency expects to award through the announcement.[15] SBA has adopted the Uniform Guidance, thereby giving regulatory effect to the guidance with respect to SBA awards.[16]

  - *Preparation, Submission, and Execution of the Budget*, OMB Circular No. A-11, contains instructions and schedules for agency submission of budget requests and justification materials to OMB. It provides agencies with an overview of applicable budgetary laws, policies for the preparation and submission of agency budgets, and information on financial management and budget data systems.

- **Statutory funding formula for SBDCs.** The amount of an SBDC formula grant received by a state is determined by a statutory formula. The formula divides the annual amount made available for the entire SBDC Program—for the fiscal year the grant begins—on a pro rata basis, based on the population of each state and subject to minimum funding levels specified in statute.[17] The maximum grant amount for each recipient (SBDC) is the greater of the minimum statutory amount, or their pro rata share of all SBDC grants as determined by the statutory formula.[18]

[14] 2 C.F.R. § 200.202(b)(3).

[15] 2 C.F.R. § 200.203(c)(2), Appendix I to Part 200, ¶ B.

[16] 2 C.F.R. § 2701.1(a).

[17] 15 U.S.C. § 648(a)(4)(C). According to SBA, this statutory formula applies to all SBDCs, regardless of whether the SBDC is a state government or other organization.

[18] 13 C.F.R. § 130.440.

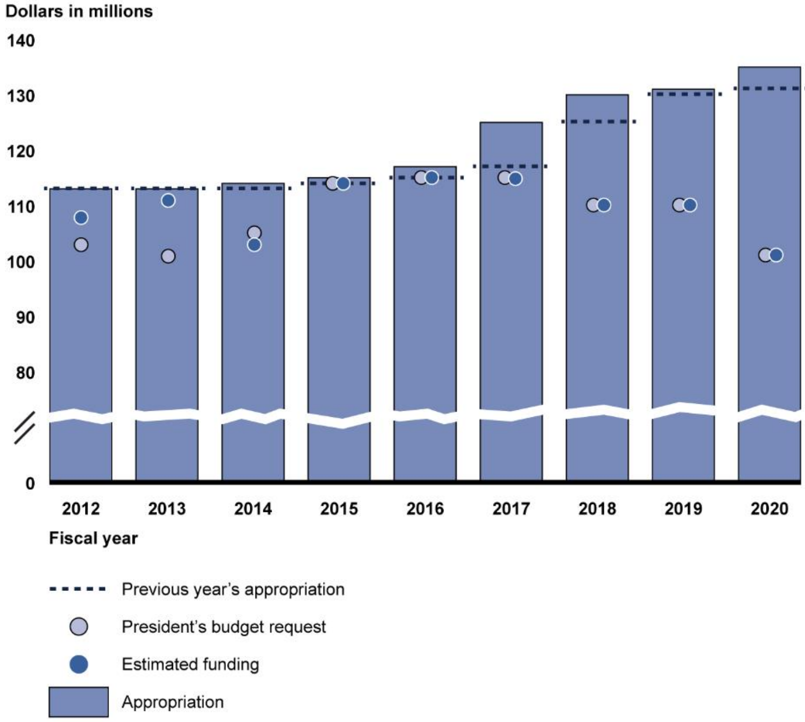
SBA Changed Its SBDC Funding Estimate Methodology to Align with Standards and Statute but Neither Required the Change

SBA Changed Its SBDC Funding Estimate Methodology in Fiscal Year 2016

In fiscal year 2016, SBA changed the methodology it used for the estimate in the SBDC funding opportunity announcement.[19] Before fiscal year 2016, SBA officials stated that the agency used the prior year's appropriated amount for the program as the funding estimate in the funding opportunity announcement. However, we found that this was not always the case. The funding estimates in fiscal years 2012 through 2014 ranged from $2 million to $10 million lower than the prior year's appropriation (see fig. 1). The officials were unable to provide information on the justification for the different pre-2016 practices, stating that no officials involved in such determinations during those years remained at the agency.

[19]Although SBA made this change during fiscal year 2016, the change first affected the fiscal year 2017 Funding Opportunity Announcement, which was published in June 2016.

Figure 1: Small Business Development Center Funding Amounts, Fiscal Years 2012–2020



Source: GAO analysis of Small Business Administration data. | GAO-20-457

Fiscal year	Prior year's appropriation	President's budget request	Estimated funding	Appropriation
2012	113	103	108	113
2013	113	101	111	113
2014	113	105	103	114
2015	114	114	114	115
2016	115	115	115	117
2017	117	115	115	125
2018	125	110	110	130

Fiscal year	Prior year's appropriation	President's budget request	Estimated funding	Appropriation
2019	130	110	110	131
2020	131	101	101	135

Since fiscal year 2016, SBA has instructed SBDC grantees to submit their funding applications for the upcoming year based on the President's budget request.

- In fiscal year 2016, the prior year's appropriation and the President's budget request were the same—$115 million—and the final appropriated amount was $117 million.
- In fiscal year 2017, the President's budget request of $115 million was slightly lower than the prior year's appropriation of $117 million, and the final appropriated amount increased to $125 million.
- Beginning in fiscal year 2018, the funding estimate and the prior year's appropriation began to diverge significantly (funding estimates decreased, appropriations increased). In that year, SBDCs were required to submit funding applications based on a funding estimate of $110 million, which was 12 percent lower than the prior-year appropriation of $125 million. The final appropriated amount increased to $130 million.
- In fiscal year 2019, the funding estimate was $110 million, 15 percent lower than the prior-year's appropriation of $130 million. The final appropriated amount increased to $131 million.
- By fiscal year 2020, SBDCs were required to submit funding applications based on the President's budget request of $101 million, which was 23 percent lower than the prior year's appropriation.[20] The final appropriated amount increased to $135 million.
- If SBA continues this practice for fiscal year 2021, SBDCs will be required to submit funding applications at a level that is 35 percent lower than the 2020 appropriation, in order to match the President's budget request of $87.9 million (13 percent lower than the President's budget request for fiscal year 2020).

[20]According to SBA officials, SBDCs on a calendar-year budget cycle were not required to submit budgets based on the President's budget, and thus should not be negatively affected by the lower amount. However, the fiscal year 2019 and fiscal year 2020 Funding Opportunity Announcements state that the funding estimate will be based on the President's budget, and that the announcements apply to both fiscal-year and calendar-year SBDCs. In addition, we obtained documentation from calendar-year SBDCs showing that they submitted budgets based on the President's budget.

SBA Said It Changed the Funding Estimate Methodology to Conform with Financial Management Standards and Antideficiency Act, but Neither Required the Change

SBA cited two reasons for changing the way it estimates funding in the annual funding opportunity announcement: to conform to federal financial management practices and to address concerns about violating the Antideficiency Act.

Federal Financial Management Practices

SBA officials cited federal financial management practices as one reason for changing the funding estimate methodology. The officials stated that it was a management decision to use the only known amount, the number in the President's budget, for the funding opportunity announcement. They noted that the difference between the Senate and House markups for fiscal year 2020 exceeded $20 million. SBA officials also told us that they rely on the lowest estimate available to be prudent with taxpayer dollars.

According to a December 2019 letter from SBA to the Senate and House Small Business Committees, the change to the funding estimate methodology was adopted when the SBDC Program office identified areas requiring process improvements and stronger internal controls to help the program operate and plan more effectively and efficiently and in consistency with federal financial management standards. SBA's letter also stated that it is standard federal financial management practice to plan to the lowest budget estimate in the absence of a full-year appropriation, and SBA therefore provided the President's budget to SBDCs for planning purposes.

Although SBA characterized its use of the President's budget as a standard practice within the federal government, SBA officials did not point to a specific regulation or guidance to support this view, either in the letter or in our interviews. OMB's Uniform Guidance does not advise federal agencies to use the lowest estimate (that is, the lowest among the House mark, Senate mark, President's budget request, and the prior year's appropriation) when reporting funding available under federal financial assistance programs. Rather, the guidance states that estimates based on the previous year's funding are acceptable if the current appropriations are not yet available, as was the case when recent SBDC funding opportunity announcements were issued. Although OMB's

Uniform Guidance does not identify any other accepted practice in this regard, it does not expressly prohibit other practices.

OMB staff told us that, in the absence of a full-year appropriation, it is permissible for agencies to use the lowest estimate as the funding estimate in a funding opportunity announcement. The staff said that from their perspective, SBA's use of the figure in the President's budget is consistent with OMB Circular A-11 and the Uniform Guidance. However, they also acknowledged that there is no requirement to use the lowest estimate in a funding opportunity announcement. They also said that practices vary across agencies.

During our limited review of other SBA and federal award programs, we did not find other programs that had funding application practices similar to those for SBDCs. However, those programs may not be entirely comparable to the SBDC Program, which publishes its funding opportunity announcement before the annual appropriation is known, requires applicants to initially apply based on a funding estimate, and is subject to a statutory formula that calculates individual grant amounts based on the final appropriation. The following are examples of ways in which the programs we reviewed differed from the SBDC Program:

- According to SBA officials, the funding for its Women's Business Centers is awarded at the end of the fiscal year, and thus the final appropriation is known during the application process.[21]
- In a fiscal year 2018 funding opportunity announcement for SBA's Veterans Business Outreach Center Program, the total amount of available funding was known at the time applicants submitted their proposals.[22]
- Like the Veterans Business Outreach Center Program, a fiscal year 2018 funding opportunity announcement for SBA's Federal and State

[21]Women's Business Centers offer training and counseling to assist women in starting and growing small businesses. According to Funding Opportunity Announcement OWBO-2019-02-02, the project period for renewal grants would commence on September 30, 2019. §1.1.10.

[22]Funding Opportunity Announcement VBOC-2018-01, section 1.1. Through cooperative agreements with SBA, Veterans Business Outreach Centers provide training and counseling to veteran small business owners and entrepreneurs.

Technology Partnership Program listed the amount of funding available.[23]

- Applicants for the Defense Logistics Agency's Procurement Technical Assistance Program (PTAP) can apply for specific amounts of funding based on their service areas.[24] For example, in a fiscal year 2020 funding announcement for PTAP, applicants providing statewide coverage could apply for up to $1 million in funding and those providing less than statewide coverage could apply for up to $600,000.[25] In addition, the funding announcement did not include a funding estimate for the program as a whole.

Antideficiency Act

SBDC Program officials also cited adherence to the Antideficiency Act as a reason for the change. SBA stated in its letter to the Senate and House Small Business Committees that its practice of providing SBDCs with the President's annual budget request as the dollar amount for planning purposes ensures that SBA abides by the terms of the Antideficiency Act. In doing so, they noted the Antideficiency Act prohibits obligating or expending funds in excess of amounts available through appropriations. In interviews, SBA officials said that if they consistently took a conservative approach, they would be less likely to violate the Antideficiency Act when appropriations were enacted.

However, OMB staff told us that SBA's use of other estimates in a funding opportunity announcement would not violate the Antideficiency Act. SBA's funding opportunity announcements make clear that funding awards will be based on the appropriated level of funding, not the estimate provided in the funding opportunity announcement. OMB staff told us that because SBA's funding opportunity announcement does not obligate the federal government, it does not present the potential for a violation of the Antideficiency Act. They further stated that using a higher amount, such

[23]Funding Opportunity Announcement FAST-2018-R-0012, section 1.1.11. The Federal and State Technology Partnership Program provides 1-year funding to organizations to increase the participation of small firms in the innovation and commercialization of high-risk technologies.

[24]PTAP provides financial assistance to entities operating programs that expand the number of businesses capable of participating in government contracts.

[25]Funding Opportunity Announcement DLA-202001A, p. 7.

as the prior year's appropriation, also would not violate the Antideficiency Act.

Consistent with that position, SBA's Office of General Counsel agreed that the Antideficiency Act does not apply to the SBDC funding opportunity announcement because it does not create an obligation on behalf of SBA.[26] Counsel also stated that SBA's decision to use the President's budget as the funding estimate was a management decision and was not required by the Office of the General Counsel.

SBDCs Said Change to Funding Estimate Methodology Hindered Budgeting, Operations, and Services

Most SBDCs that responded to our survey told us that using the lowest budget estimate—the President's budget request—as the funding estimate for fiscal year 2020 had created budgeting, operational, and performance burdens and challenges.[27] The burdens and challenges largely stemmed from the large gap between the initial funding estimates and final appropriations.

According to SBA officials, using the amount in the President's budget as the funding estimate should not negatively affect SBDCs that are on a calendar-year budget cycle (approximately two-thirds of SBDCs) because they have approved funding through December 31 of each year. They stated that by January 1 of each year, there is either a budget or continuing resolution in place that eliminates uncertainty for these SBDCs. They also stated that SBDCs on a calendar-year cycle are not required to submit their initial applications based on the estimated funding amount in the funding opportunity announcement (that is, the amount in the President's budget), and can instead use a higher amount under a

[26]SBA counsel also noted that the Impoundment Control Act did not apply to, or otherwise affect, SBDC funding opportunity announcements, because funding opportunity announcements were published before SBA received budget authority and therefore there was nothing for SBA to defer or impound.

[27]As discussed previously, the SBDC Program includes a service delivery network of 62 lead centers (and more than 900 service centers). We surveyed all 62 lead SBDCs about the effect of the change in the funding estimate methodology. Sixty of the 62 lead centers (97 percent) responded to the survey. For a more detailed discussion of our survey methodology, see app. I. To view the full set of survey results, including question text and all response options, see app. II.

continuing resolution or other approved budget. However, SBA did not provide any documentation authorizing SBDCs on a calendar-year budget cycle to submit initial applications using a higher estimated funding amount. Rather, the fiscal year 2020 Funding Opportunity Announcement states that the funding estimate will be based on the President's budget, and the announcement applies to both fiscal-year and calendar-year SBDCs.

Lastly, SBA's view that calendar-year SBDCs should not be negatively affected by SBA's use of the lowest budget estimate is not consistent with SBDC responses to our survey. Both fiscal-year and calendar-year SBDCs reported in their survey responses that using SBA's funding estimate had hindered different aspects of their operations. In the following discussion of these and other survey results, we note the limited instances in which calendar-year SBDCs reported a different experience than fiscal-year SBDCs.

SBDCs Said Funding Estimate Impeded Efficient Administration and Budgeting

Added Administrative Burden

The vast majority of SBDCs responding to our survey said the large gap between the initial funding estimates and final appropriations imposed an additional administrative burden for SBDCs as they developed their budgets.[28] Fifty-one out of 58 SBDCs (88 percent) responding to our survey question estimated that staff time to prepare the initial and final 2020 funding applications was somewhat or greatly increased compared to previous years (when the estimated funding amount was approximately the same as the current year's award).[29]

[28]To characterize the number of survey respondents that made the same comment, we used "vast majority" for 46 or more survey respondents, "most" for 31 to 45 survey respondents, "many" for 16 to 30 survey respondents, "some" for six to 15 survey respondents, and "few" for three to five survey respondents.

[29]We received survey responses from 60 SBDCs. However, the number of responses to individual questions may be fewer than 60, depending upon how many SBDCs chose to respond to a particular question. See app. II (tables 12 and 13) for details on the number of hours that survey respondents said it took to complete the initial funding application and the number of hours they anticipated it would take to complete the final funding application.

Many SBDCs noted that using SBA's funding estimate for fiscal year 2020 had created an additional administrative burden in their responses to open-ended questions on our survey.[30] For example, one SBDC said that requiring two budget justifications (an initial funding application and a revised application) added time, complexity, duplication of effort, and considerable paperwork to the budgeting process. Another SBDC said the process of submitting multiple budgets took extra time and increased the likelihood of human error.

Survey comments help explain why the use of the lowest budget estimate made budgeting more burdensome. For example, one SBDC explained that the lower amount required more time for negotiations to assure their matching partners that the actual number would likely be higher. Another SBDC noted the lower funding estimate required more proposed budget cuts in the initial application.

Proposed Budget Cuts, Some Substantial

Most SBDCs said using the funding estimate in the 2020 Funding Opportunity Announcement (which was $30 million below the 2019 appropriation and $34 million below the 2020 appropriation) required them to propose cuts in their initial budgets. Forty of the 57 SBDCs (70 percent) that responded to the survey question said their initial budget proposals eliminated some salaries, fringe benefits, and travel; 34 of 57 (60 percent) reduced supplies; and 33 of 57 (58 percent) reduced their contractual obligations.[31] See table 1 for a full breakdown.

[30]SBDCs gave these answers in response to open-ended questions that asked for examples of how using the initial funding amount had affected their ability to ensure continuous operations, obtain matching funds, spend grant funds, retain personnel, and provide services. In the survey, we defined "initial funding amount" as the SBDC's portion of the estimated funding of $101 million total available in the 2020 SBDC Funding Opportunity Announcement, which was ultimately below the $135 million later authorized under the Consolidated Appropriations Act, 2020, Pub. L. No. 116-93, 133 Stat. 2317 (2019).

[31]SBA officials noted that these were proposed, not actual, cuts.

Table 1: Number of SBDCs That Proposed Budget Item Reductions in Initial 2020 Funding Applications

Percentage of reduction	Salaries	Fringe benefits	Travel	Equipment	Supplies	Contractual	Other direct costs
0% (Not reduced)	15	13	12	23	16	13	16
1-25%	28	26	14	5	13	12	7
26-50%	8	10	6	0	6	6	5
51-75%	2	1	12	2	6	6	5
76-99%	2	3	5	4	6	4	4
100% (Eliminated)	0	0	3	3	3	5	1
Not budgeted	0	0	1	12	1	4	5
Unable to determine	2	3	2	4	2	4	3
No response	3	4	5	7	7	6	14
Any reduction	40	40	40	14	34	33	22

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

Notes: SBDCs were asked the following survey question: *By approximately what percentage were the following budget items reduced in your initial funding application to SBA in order to account for the decrease—from the prior year's approved funding—in your estimated funding amount in 2020?* Fifty-seven of the 62 SBDCs surveyed responded to the question, although some SBDCs did not provide a response for every budget item. "Any reduction" represents the sum of the previous rows where a reduction was made (1-25%, 26-50%, 51-75%, 76-99%, and 100%).

Our survey asked SBDCs to provide a brief description of how they made adjustments to account for the decrease in the estimated funding amount in 2020:

- Some SBDCs stated that they had zeroed out the lead center or one or more service centers.
- A few SBDCs said they eliminated all part-time staff. Some also told us they decreased travel and professional development.
- Some SBDCs moved contractual line items (such as rent and software licenses) off the budget or reduced use of service providers (such as business consultants and independent contractors).

Other survey respondents provided insight on why they made certain proposed cuts. To limit the burden on its service centers, one SBDC budgeted zero federal funds for the lead center and budgeted its service centers at the prior year's amount so that its service centers would only need to budget once. Another SBDC stated that it chose the largest single line item that could be quickly reduced to meet the funding estimate. It noted that this allowed it to quickly scale down the budget and would allow it to quickly scale the budget back up to "reality."

Some of the survey respondents and SBDCs we interviewed indicated that they did not expect to have to make the cuts they proposed in their initial budgets because they were confident that Congress would appropriate the same or more funding as the prior fiscal year.

- One SBDC surveyed said that it took all budget deductions from the lead office personnel, but that it would not do so in a final budget if the lower amount in the President’s budget was to be appropriated.
- Three SBDCs we interviewed said that to account for the decrease, they proposed cuts in their initial budget they did not think they would have to make, such as eliminating an entire service center or a core information technology system.
- One SBDC we interviewed described the process as putting together two budgets simultaneously: one budget using the President’s budget request and one budget that was based on a funding amount that it believed was more consistent with historical norms.

Still other survey respondents reported that they actually reduced their expenditures after receiving the funding estimate, although the amounts ultimately appropriated for SBDCs in fiscal years 2019 and 2020 were higher than for prior years. In response to the same open-ended question asking for a brief description of how they made adjustments to account for the decrease in the estimated funding amount in 2020, SBDCs provided the following examples:

- One SBDC said that to maintain all of its full-time personnel within the constraints of the initial application, some of its service centers had to stop providing training classes or attending conferences.
- Another SBDC told us a key staff person was given a layoff notice.
- Another said that due to the budget uncertainty, the SBDC eliminated all travel, cancelled almost all of its business development software subscriptions, and delayed replacing old computer equipment.

Difficulty Obtaining Matching Funding

Thirty-eight of the 60 SBDCs that responded to our survey (63 percent) said that using the initial funding amount as the basis for their initial applications somewhat or greatly hindered their ability to obtain matching funds. As discussed previously, SBDCs are required to match SBA funding at a 1:1 ratio. Host institutions (often supplemented by local governments, higher education institutions, and private-sector groups) provide matching funding.

In response to open-ended survey questions, SBDCs noted the following:

- **Difficulty obtaining full matching funding.** Some survey respondents said that submitting a funding application based on the initial estimate put the SBDC's ability to secure 100 percent of matching funding at risk.[32] For example, one SBDC stated that the initial funding amount was the basis for its host institution's budget for the match and that once the host's budget was approved, it was difficult to amend it to increase the match (to meet the 1:1 requirement). Another SBDC said that host institutions only contribute a match equal to the federal allocation and that if the final allocation amount is not known, the host may choose to invest in other initiatives.
- **Negative effect on relationships.** Most survey respondents expressed concern that the change to the funding estimate would create confusion or uncertainty with their hosts or service centers (partners).[33] For example, one SBDC told us that its host institutions do not react well to ambiguity in planning. This SBDC described the change in amounts between the initial estimate and the final appropriation as an unwelcome surprise to its partners, which needed to match the difference. Another SBDC noted that the decrease in the initial funding amount in 2020 was so great that several funding partners indicated they would partner with other organizations that were better funded and supported.

Many survey respondents stated they were able to mitigate the impacts of the lower funding estimate by using matching funds, either because their host provided the same amount it had provided the previous year or overmatched (provided funds in excess of the statutorily required match). For example, one SBDC told us it was fortunate to have strong support

[32]SBDCs gave these answers in response to an open-ended question that asked for examples of how using the initial funding amount had affected their ability to obtain matching funds.

[33]SBDCs gave these answers in response to open-ended questions that asked for examples of how using the initial funding amount had affected their ability to obtain matching funds, spend grant funds, retain and hire personnel, ensure continuous operations, meet performance goals, and provide services.

from its host to be able to temporarily fund program operations at full capacity, until the revised funding amount from SBA was released.

Three survey respondents who reported that using the initial funding amount neither helped nor hindered their efforts to obtain matching funds either stated they did not share the estimated amount with their hosts or local partners or that the amount they shared was equal to their portion of the appropriated amount.

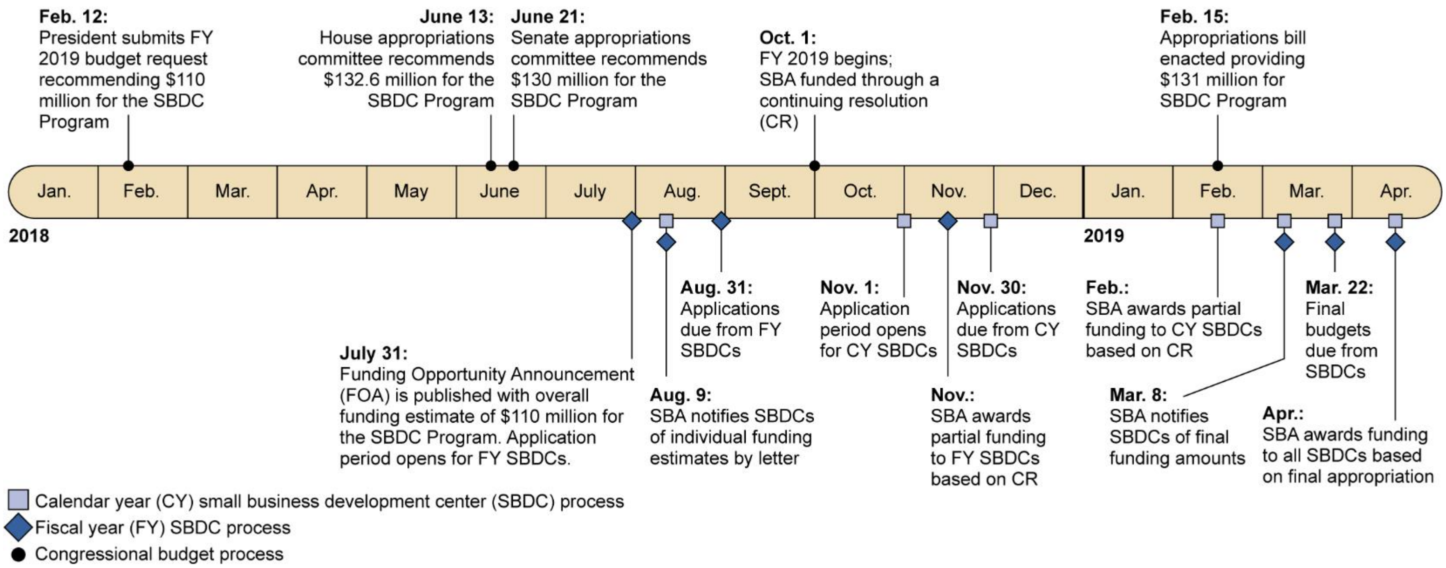
Difficulty Spending Grant Funding

Forty-two of 60 SBDCs that responded (70 percent) said using the initial funding amount as the basis for their initial applications somewhat or greatly hindered their ability to spend grant funds.

In response to an open-ended survey question asking for examples of how using the initial funding amount had affected their ability to spend grant funds, SBDCs noted the following:

- **Having to spend conservatively early in the year.** Some SBDCs told us that the funding process requires them to spend conservatively at the beginning of the budget cycle, only to ultimately receive more than the prior year's amount. As shown in figure 2, SBDCs did not receive the notice of award for their full fiscal year 2019 appropriation until April 2019. One SBDC noted the extreme pressure in the first half of the year to operate on a lean budget and then having to switch to increased activity in the second half of the year once the final, higher amount was awarded. Another SBDC required its service centers to propose special projects but did not fund them at the beginning of the year because it did not know what the funding level would be.

Figure 2: Fiscal Year 2019 Funding Timeline for SBDCs on a Fiscal-Year and Calendar-Year Cycle



Source: GAO. | GAO-20-457

Notes: The timing of the passage of appropriations bills varies from year to year. There were multiple CRs between October 1, 2018, and February 15, 2019.

- **Having to carry over funding to the next year.** Some SBDCs said it has become common for them to have unexpended funding left at the end of the fiscal or calendar year. In these instances, they carry over their funding to the next year. For example, one SBDC said that the late-in-year increases in funding prevented certain activities from being completed within appropriate project dates and led them to carry over funds. While the ability to carry over funding for one additional fiscal year was considered helpful, some expressed concern that this was not the best use of federal dollars over the course of the year.[34] For example, one SBDC said it was forced to carry over unspent funds partly as a result of difficulties in forecasting monthly spend rates and adjusting the rates midyear.

A few survey respondents noted that operating under a continuing resolution at the beginning of the year made spending grant funds more difficult. For example, one SBDC stated that multiple continuing resolutions in one year meant that by the time its host rebudgeted, it had

[34]These comments were made in response to open-ended questions that asked for examples of how using the initial funding amount had affected their ability to obtain matching funds, retain and hire personnel, ensure continuous operations, meet performance goals, and provide services.

less than 3 months to spend the increase. Another noted that because the initial funding amount varied so greatly from the final amount, the shortened time frame for deploying funds can make it difficult to maximize use of grant funds.

Two SBDCs that operate on a calendar-year budget cycle told us that they had not experienced the same challenges as SBDCs that operate on a fiscal-year budget cycle because there is either a continuing resolution or final award by January. A smaller proportion of calendar-year SBDCs responded that using the initial funding amount somewhat or greatly hindered their ability to spend grant funds compared to fiscal-year SBDCs. However, the majority of calendar-year SBDCs still responded that using the amount somewhat or greatly hindered their ability to spend grant funds.

SBDCs Said Funding Estimate Created Operational and Planning Challenges

Difficulty Hiring New Personnel

Forty-four of 60 SBDCs that responded to our survey (73 percent) said using the initial funding amount as the basis for their initial applications somewhat or greatly hindered their ability to hire personnel. As mentioned previously (see table 1), 40 of the 57 SBDCs (70 percent) that responded to the survey question about reducing budget items in their initial funding application reduced salaries in their initial funding application.

In response to various open-ended questions in our survey, SBDCs noted the following:

- **Hiring delays or freezes.** Many SBDCs reported delays in hiring or hiring freezes.[35] For example, one SBDC told us it had to leave vacant counseling positions unfilled, although it knew the funding for those positions almost certainly would materialize. Another SBDC noted that using SBA's current funding estimate created a minimum of a 6-month delay in hiring a new adviser at a local center. Another SBDC said its host institution would not allow any staff to be hired in the period from SBA issuance of the funding estimate through the congressional

[35]These comments were made in response to open-ended questions that asked for examples of how using the initial funding amount had affected their ability to hire personnel and spend grant funds, as well as a question that asked how they made adjustments to account for the decrease in the estimated funding amount in 2020.

appropriation. Thus, when consultants and staff retire or leave the program, there is a staffing gap, which results in less service to clients.

- **Reliance on short-term or contractor positions**. Some SBDCs told us that using the funding estimate already had forced them to rely on or might force them to rely on part-time staff, short-term contracts, or contractors to provide services. For example, one SBDC stated the initial funding estimate restricted its ability to hire full-time personnel and instead required it to hire part-time individuals. This SBDC also noted it had a difficult time finding qualified individuals, since it could not guarantee funding for the new position in 6 months. Another SBDC said it was forced to put all personnel on short-term contracts. Another SBDC opted to use contractors for specialized projects and subject matter experts, rather than making a long-term investment in a core business advisor, because those hires were more flexible in the face of budget uncertainty.

Difficulty Retaining Personnel

In addition to difficulty in hiring personnel, 35 of 60 SBDCs that responded to our survey (58 percent) said that using the initial funding amount as the basis for their initial applications had somewhat or greatly hindered their ability to retain personnel. In response to various open-ended questions in our survey, SBDCs cited morale and retention issues:

- **Staff morale.** Some SBDCs said that using the lower funding estimate had affected staff morale.[36] Some respondents attributed this decline in morale to the lack of job security and funding certainty. Two others told us they withheld personnel management information from their staff and other centers to minimize the impact on morale.
- **Staff retention.** Some SBDCs noted that staff members left the SBDC to seek employment elsewhere in response to the uncertainty created by the lower initial funding amount.[37] For example, one SBDC said that for 6 months its staff heard about the uncertainty and lack of

[36]These comments were made in response to open-ended questions that asked for examples of how using the initial funding amount had affected their ability to obtain matching funds, spend funds, retain personnel, and provide services.

[37]These comments were made in response to an open-ended question that asked for examples of how using the initial funding amount had affected their ability to retain personnel.

a stable budget, which led to staff members leaving for other jobs. In addition, a few SBDCs noted that they were unable to offer a competitive salary.[38] For example, one SBDC said that the initial funding estimate dictates matching funding, which constricts its ability to raise salaries to a competitive level.

Reduced Ability to Plan for New Operations

Survey respondents provided examples of how using the lower estimate in the President's budget as the basis for the SBDC funding estimate negatively affected their ability to plan for new operations and expand services.[39]

- Some SBDCs said they were not able to plan and promote a program until far into the fiscal year when the final notice of award was released. For example, one SBDC said it was very difficult to plan for expansion because the initial funding amount was barely enough to sustain operations.
- Two SBDCs said they had delayed opening one or more centers. For example, one SBDC said it would not be able to expand to additional rural areas and instead only would be able to maintain existing operations. The SBDC noted that it would have been able to expand with the amount of funding it eventually received, if that funding had been received at the start of the budget cycle and made available in a predictable manner.
- Two SBDCs stated that the funding ambiguity affects their host institutions' ability to plan their own budgets, which directly affects the amount of matching funding they are able to provide.

[38]These comments were made in response to open-ended questions that asked for examples of how using the initial funding amount had affected their ability to obtain matching funds, hire personnel, ensure continuous operations, and meet performance goals.

[39]SBDCs gave these answers in response to open-ended questions that asked for examples of how using the initial funding amount had affected their ability to obtain matching funds, spend grant funds, retain and hire personnel, ensure continuous operations, and meet performance goals.

SBDCs Said Funding Estimate Affected Their Ability to Meet Performance Goals and Serve Small Businesses

Reduced Ability to Meet Performance Goals

Thirty-one of 59 SBDCs that responded to the survey question (53 percent) said that using the initial funding amount as the basis for their initial applications somewhat or greatly hindered their ability to meet performance goals. SBDCs have four performance goals against which they agree to be evaluated when applying for SBA funding—number of jobs supported, number of new business starts, number of clients served, and amount of capital infusion.

In response to an open-ended question that asked for examples of how using the initial funding amount had affected their ability to meet performance goals, many SBDCs pointed to the staffing difficulties discussed earlier as a reason for the increased difficulty in meeting performance goals. Some SBDCs surveyed also mentioned that performance goals did not decrease when the initial funding estimate was lower than the prior year's funding amount. One SBDC noted that its goals are based on the assumption that the full funding amount will be available over 12 months, rather than from 4 to 5 months after the start of the year.

Reduced Ability to Provide Services

Thirty-five of 59 SBDCs that responded to the survey question (59 percent) said using the initial funding amount as the basis for their initial applications somewhat or greatly hindered their ability to provide services. As noted previously, the purpose of the SBDC Program is to deliver business advising and technical assistance to prospective and existing small businesses.

In response to an open-ended question that asked for examples of how using the estimated funding amount affected their ability to provide services, a few SBDCs mentioned the budget process took time away from providing services. For example, one SBDC said that its time and energy was split between the core mission and addressing budget uncertainty. Similarly, another SBDC stated that the extensive funding application work took time away from providing direct services to clients. Two SBDCs also pointed to gaps in service created by the uncertain funding situation. For example, one SBDC noted gaps in service delivery in terms of geographic coverage and of expanding technology training for clients because of the inconsistent budget environment.

Our Prior Work and Survey Responses Include Suggestions for Improvement

In prior work, we described legislative authorities and agency actions that may mitigate challenges associated with budget uncertainties. For example, in a 2018 testimony, we noted that Congress may include specific provisions in continuing resolutions (called legislative anomalies) that provide some agencies or programs with funding or direction different from those specified in the standard provisions that require agencies to spend more conservatively.[40] For example, programs that previously received a specific or additional amount of funding under a continuing resolution have included wildfire management, veterans healthcare and benefits, and disaster relief. In addition, agencies can take actions to mitigate challenges associated with continuing resolutions and shutdowns. For example, agencies may have the ability to shift grant cycles to later in the fiscal year when they are less likely to be under a continuing resolution. Shifting these cycles can help minimize disruption of services.

In response to an open-ended survey question on how SBA could help mitigate any of the challenges posed by the funding application procedure, SBDCs offered a number of suggestions. Many recommended that SBA allow SBDCs to submit funding applications at the prior year's appropriated amount, as generally had been the practice historically. As noted previously, OMB's Uniform Guidance offers SBA the flexibility to use other estimates, such as the prior year's appropriation. A few also suggested a more streamlined process that does not involve multiple funding applications (and budgets), but a process in which SBDCs submit budgets only once. A few recommended 5-year funding for the program.

Conclusions

SBDCs face administrative burdens and operational challenges stemming from SBA's current practice of using the lowest budget estimate—the amount in the President's budget—as the funding estimate for SBDC funding applications. More specifically, because of the large gap in recent

[40] GAO-18-368T.

years between the President’s budget and appropriated amounts for the program, SBDCs told us they now spend more time on budgeting, have a harder time obtaining matching funds, and have difficulty hiring and retaining staff. This in turn affected their ability to meet their performance goals and program objectives of serving small businesses.

The use of continuing resolutions in recent years also has put strains on SBDCs’ ability to effectively plan, budget, and operate throughout a year. And if the funding estimates continue to decrease (as is already the case for fiscal year 2021) and diverge from appropriations in such an environment, SBDCs will face increased challenges in the areas cited above.

SBA could take actions to alleviate some of the burden on SBDCs, in particular by reevaluating its funding application requirements for the SBDC Program. For example, the agency could reconsider the amount it uses as the basis for the funding estimate. While SBA previously cited a desire to improve operational efficiencies as a reason for changing the funding estimate methodology, most SBDCs told us their operational efficiencies have decreased. SBA also cited a need to align with federal financial management standards, but OMB’s Uniform Guidance permits the use of other estimates, such as the prior year’s appropriation. Lastly, SBA cited concerns over violating the Antideficiency Act, but OMB staff and SBA’s Office of General Counsel confirmed that the Antideficiency Act does not present a barrier to using other estimates.

SBA might also reconsider other aspects of the funding application process that cause burden, such as the timelines for submitting applications and the number of times SBDCs must submit detailed budgets.

Recommendation for Executive Action

We are making the following recommendation to SBA:

The Associate Administrator of the Office of Entrepreneurial Development should reevaluate the SBDC funding application requirements, including reexamining the funding estimate SBDCs are required to use and considering other changes that could reduce administrative burdens on SBDCs. (Recommendation 1)

Agency Comments and Our Evaluation

We provided a draft of this product to SBA and OMB for their review and comment. OMB did not provide comments. SBA provided written comments that are reprinted in appendix III. In its written comments, which are summarized below, SBA partially agreed with our recommendation and recognized room for improvement in how it sets the funding estimates for the SBDC Program.

SBA did not explicitly state with which part of our recommendation it disagreed; rather, SBA reiterated its view that the agency's practice of planning to the more conservative President's annual budget request affects only fiscal-year SBDCs.

In addition, SBA listed two changes it was considering to improve the funding application process. SBA first stated that it is exploring moving the program start date for fiscal-year SBDCs to January 1, which would make all SBDCs operate on a calendar-year basis. SBA also indicated that it is considering publishing the fiscal year 2021 Funding Opportunity Announcement later in the fall (for example, on the first day of October), by which time the agency would be operating on a continuing resolution or final appropriation and would no longer be working with funding estimates. These steps are promising, but we would need to evaluate their implementation to determine whether they fully address our recommendation.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Administrator of SBA, the Acting Director of OMB, and other interested parties. In addition, the report will be available at no charge on the GAO website at https://gao.gov.

If you or your staff members have any questions about this report, please contact William B. Shear at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs maybe found on the last page of this report. Major contributors to this report are listed in appendix IV.

William B. Shear

William B. Shear
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report discusses the (1) Small Business Administration's (SBA) rationale for changing the way it estimates funding in the annual funding opportunity announcement for the Small Business Development Center (SBDC) Program and (2) views of SBDC grantees on the effect of that change on their budgeting and operations.

To determine SBA's rationale for changing the way it estimates funding in the annual SBDC funding opportunity announcement, we reviewed SBDC funding opportunity announcements for fiscal years 2012 through 2020 and program guidance that governs the SBDC funding application procedure. We compared the funding estimates in the funding opportunity announcements, appropriations, and Presidents' budget requests from fiscal years 2012 through 2020. We also interviewed SBA officials in the SBDC program office and Office of General Counsel to obtain the agency's rationale for changing the way it estimates the funding amount in its SBDC funding opportunity announcements.

In addition, we examined select laws (such as the Antideficiency Act) and regulations (such as the Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*).[1] We interviewed OMB staff and officials in SBA's Office of General Counsel to obtain their views on the relevance of the Antideficiency Act and the extent to which SBA's funding proposal procedure is consistent with that law.

We also reviewed documentation on other selected programs to compare the funding application processes used: the Women's Business Center, Veterans Business Outreach Center, Federal and State Technology

[1]31 U.S.C. § 1341; 2 C.F.R. Part 200 and § 2701.1(a).

Partnership, and Procurement Technical Assistance Programs.[2] We selected these programs because they were other SBA grant programs or because SBDCs we interviewed mentioned them as federal grant programs that used different budget practices. (We discuss below how we selected the SBDCs to interview.)

To gather the views of SBDC grantees on the effect of the funding estimate change on their planning and operations, we interviewed representatives of a nongeneralizable sample of eight SBDC lead centers, selected to achieve diversity in funding amount, budget cycle, and host institution. Their views are not generalizable to other SBDCs but offered important perspectives. We also reviewed funding application documentation from these eight lead centers to determine their funding timelines. We then focused on the fiscal year 2019 timeline for SBDCs that use a calendar-year budget cycle and SBDCs that use a fiscal-year budget cycle to identify any differences in their timelines. We selected fiscal year 2019 because it was the most current complete funding cycle at the time we conducted our work.

In addition, we conducted a web-based survey of all 62 SBDC lead centers to obtain their perspectives on the effect on their operations of the change in how SBA estimates SBDC funding. In total, we obtained 60 responses (a 97 percent response rate). We conducted four pretests of our draft questionnaire by telephone with officials at four SBDC lead centers with varying characteristics, such as amount of funding, budget cycle, and host institution. We used these pretests to help refine our questions, develop new questions, clarify any ambiguous portions of the survey, and identify any potentially biased questions, and we made revisions as necessary.

We launched our web-based survey on January 30, 2020, and emailed log-in information to the directors of the SBDC lead centers. The survey was available through February 7, 2020. From February 10, 2020,

[2]Women's Business Centers offer training and counseling to assist women in starting and growing small businesses. Through cooperative agreements with SBA, Veterans Business Outreach Centers provide training and counseling to veteran small business owners and entrepreneurs. The Federal and State Technology Partnership Program provides 1-year funding to organizations to increase the participation of small firms in the innovation and commercialization of high-risk technologies. The Procurement Technical Assistance Program, administered by the Defense Logistics Agency, provides financial assistance to entities operating programs that expand the number of businesses capable of participating in government contracts.

through February 14, 2020, we conducted follow-up with nonrespondents by telephone and email. See appendix II for the full set of survey results.

The survey included both closed- and open-ended questions. To analyze open-ended comments provided by the SBDCs that responded to the survey, GAO analysts read the comments and developed categories for the responses. An initial coder assigned a category that best summarized the comments. A separate coder reviewed and verified the accuracy of the initial categorizations. The initial coder and reviewer discussed orally and in writing any disagreements about code assignments and documented consensus on the final analysis results. For purposes of this report, we used the following terms to describe the number of SBDCs (out of 60) that were assigned to categories: “few” to describe three to five SBDCs, “some” to describe six to 15, “many” to describe 16 to 30, “most” to describe 31 to 45, and “vast majority” to describe 46 and over.

We conducted this performance audit from October 2019 to May 2020 in accordance with generally accepted government auditing standards. 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.

Appendix II: Results of GAO's Survey of Small Business Development Centers

To obtain the views of Small Business Development Centers (SBDC) on the Small Business Administration's (SBA) change in the way it sets funding estimates, we conducted a web-based survey of all 62 lead SBDCs.[1] Our survey comprised closed- and open-ended questions. This appendix includes all survey questions and results of each closed-ended question; it includes only the number of responses for each open-ended question. We received surveys from 60 lead SBDCs (a 97 percent response rate). The total number of responses to individual questions may be fewer than 60, depending upon how many lead centers chose to respond to a particular question. For a more detailed discussion of our survey methodology, see appendix I.

Background Information

Table 2: Which of the following describes your SBDC's host institution? (Question 1)

	Number of SBDCs
University	46
Community college	7
State organization	7

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

Table 3: On which budget cycle does the federal funding for your SBDC operate? (Question 2)

	Number of SBDCs
Calendar year	39
Fiscal year	21

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

[1]Funding recipients are SBDC lead centers that oversee networks of service centers (which can include subcenters or regional centers). We refer to the SBDC lead centers as "SBDCs."

(Question 3.) What was the dollar amount of federal funding proposed for your SBDC based on the initial 2019 SBDC Funding Opportunity?

We received 58 responses to this question.

(Question 4.) What was the final dollar amount of federal funding awarded to your SBDC under SBA's SBDC program for 2019?

We received 57 responses to this question.

(Question 5.) What was the dollar amount of federal funding proposed for your SBDC based on the initial 2020 SBDC Funding Opportunity?

We received 59 responses to this question.

(Question 6.) What was the final dollar amount of federal funding awarded to your SBDC under SBA's SBDC program for 2020?

We received 58 responses to this question.

Funding Application Process

For questions 7 through 13, the "initial funding amount" refers to your SBDC's portion of the estimated funding of $101 million total available in the 2020 SBDC Funding Opportunity, which was ultimately below the $135 million later authorized under the Consolidated Appropriations Act, 2020, Pub. L. No. 116-93 (Dec. 20, 2019).

Table 4: How has using the initial funding amount as the basis for your initial application helped or hindered your SBDC's *ability to obtain matching funds*? (Question 7)

	Number of SBDCs
Greatly helped	0
Somewhat helped	0
Neither helped nor hindered	22
Somewhat hindered	24
Greatly hindered	14
No basis to judge/ No opinion	0
No response	0
Total responses	**60**

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

(Question 7a.) Please provide a specific example or examples of how using the initial funding amount has affected your SBDC's ability to obtain matching funds.

We received 49 responses to this question.

Table 5: How has using the initial funding amount as the basis for your initial application helped or hindered your SBDC's *ability to spend grant funds*? (Question 8)

	Number of SBDCs
Greatly helped	0
Somewhat helped	1
Neither helped nor hindered	17
Somewhat hindered	22
Greatly hindered	20
No basis to judge/ No opinion	0
No response	0
Total responses	**60**

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

(Question 8a.) Please provide a specific example or examples of how using the initial funding amount has affected your SBDC's ability to spend grant funds.

We received 51 responses to this question.

Table 6: How has using the initial funding amount as the basis for your initial application helped or hindered your SBDC's *ability to retain personnel*? (Question 9)

	Number of SBDCs
Greatly helped	0
Somewhat helped	2
Neither helped nor hindered	23
Somewhat hindered	20
Greatly hindered	15
No basis to judge/ No opinion	0
No response	0
Total responses	**60**

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

(Question 9a.) Please provide a specific example or examples of how using the initial funding amount has affected your SBDC's ability to retain personnel.

We received 49 responses to this question.

Table 7: How has using the initial funding amount as the basis for your initial application helped or hindered your SBDC's *ability to hire personnel*? (Question 10)

	Number of SBDCs
Greatly helped	2
Somewhat helped	1
Neither helped nor hindered	13
Somewhat hindered	16
Greatly hindered	28
No basis to judge/ No opinion	0
No response	0
Total responses	**60**

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

(Question 10a.) Please provide a specific example or examples of how using the initial funding amount has affected your SBDC's ability to hire personnel.

We received 52 responses to this question.

Table 8: How has using the initial funding amount as the basis for your initial application helped or hindered your SBDC's *ability to ensure continuous operations*? (Question 11)

	Number of SBDCs
Greatly helped	2
Somewhat helped	0
Neither helped nor hindered	13
Somewhat hindered	30
Greatly hindered	14
No basis to judge/ No opinion	0
No response	1
Total responses	**60**

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

(Question 11a.) Please provide a specific example or examples of how using the initial funding amount has affected your SBDC's ability to ensure continuous operations.

We received 54 responses to this question.

Table 9: How has using the initial funding amount as the basis for your initial application helped or hindered your SBDC's *ability to meet performance goals*? (Question 12)

	Number of SBDCs
Greatly helped	1
Somewhat helped	0
Neither helped nor hindered	27
Somewhat hindered	18
Greatly hindered	13
No basis to judge/ No opinion	0
No response	1
Total responses	**60**

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

(Question 12a.) Please provide a specific example or examples of how using the initial funding amount has affected your SBDC's ability to meet performance goals.

We received 44 responses to this question.

Table 10: How has using the initial funding amount as the basis for your initial application helped or hindered the *ability of all your centers to provide services*? (Question 13)

	Number of SBDCs
Greatly helped	1
Somewhat helped	0
Neither helped nor hindered	22
Somewhat hindered	18
Greatly hindered	17
No basis to judge/ No opinion	1
No response	1
Total responses	**60**

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

(Question 13a.) Please provide a specific example or examples of how using the initial funding amount has affected the ability of all your centers to provide services.

We received 49 responses to this question.

Table 11: By approximately what percentage were the following budget items reduced in your initial funding application to SBA in order to account for the decrease—from the prior year's approved funding—in your estimated funding amount in 2020? (Question 14)

	0 percent (was not reduced)	Between 1 and 25 percent	Between 26 and 50 percent	Between 51 and 75 percent	Between 76 and 99 percent	100 percent (eliminated)	Not budgeted	Unable to determine/ Unsure	No response
Salaries	15	28	8	2	2	0	0	2	3
Fringe benefits	13	26	10	1	3	0	0	3	4
Travel	12	14	6	12	5	3	1	2	5
Equipment	23	5	0	2	4	3	12	4	7
Supplies	16	13	6	6	6	3	1	2	7
Contractual	13	12	6	6	4	5	4	4	6
Other direct costs	16	7	5	5	4	1	5	3	14

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

(Question 14a.) Please provide a brief description of how your SBDC made adjustments to account for the decrease in the estimated funding amount in 2020.

We received 60 responses to this question.

Table 12: Approximately how many staff hours were needed to prepare the initial funding application in response to the 2020 SBDC Funding Opportunity? Please include *all individuals* who assisted with the application. (Question 15)

	Number of SBDCs
0 - 80 hours	8
81 - 120 hours	19
121 - 160 hours	13
161 - 200 hours	6
Over 200 hours	11
Unable to determine/ Unsure	1
No response	2
Total responses	**60**

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

Table 13: Approximately how many staff hours do you anticipate will be needed to prepare the final funding application for 2020 upon notice of award? Please include *all individuals* who will assist with the application. (Question 16)

	Number of SBDCs
0 - 20 hours	7
21 - 40 hours	15
41 - 80 hours	23
81 - 120 hours	9
Over 120 hours	4
Unable to determine/ Unsure	0
No response	2
Total responses	**60**

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

Table 14: How does the estimated amount of staff time needed to prepare the initial and final 2020 funding applications compare to previous years when the estimated funding amount was approximately the same as the current year's award? (Question 17)

	Number of SBDCs
Greatly increased	28
Somewhat increased	23
No change	4
Somewhat decreased	0
Greatly decreased	1
No basis to judge/ No opinion	2
No response	2
Total responses	**60**

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

Table 15: How much support, if any, has SBA provided to help mitigate any challenges faced with the current funding application procedure? (Question 18)

	Number of SBDCs
Great support	4
Some support	14
Limited support	15
No support	20
No basis to judge/ No opinion	4
No response	3
Total responses	**60**

Source: GAO survey of Small Business Development Centers (SBDC). | GAO-20-457

(Question 19) How could SBA help mitigate any of the challenges posed by the funding application procedure, if at all?

We received 56 responses to this question.

(Question 20) Is there anything else related to the current SBDC funding application procedure on which you would like to elaborate?

We received 42 responses to this question.

Appendix III: Comments from the Small Business Administration

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

April 30, 2020

William B. Shear
Director
Financial Markets & Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Director Shear:

Thank you for providing the U. S. Small Business Administration (SBA) with a copy of the Government Accountability Office's (GAO) draft report entitled, "Small Business Development Centers: Reevaluation of How SBA Sets Initial Funding Estimate Needed to Help Reduce Burden," GAO-20-457 (103849). This report examines SBA's procedure for the funding estimate for the national Small Business Development Center (SBDC) program.

As the Associate Administrator for the SBA Office of Entrepreneurial Development (OED), it is my responsibility to administer programs and initiatives that provide technical assistance, primarily counseling and training, to small business entrepreneurs. These programs, also known as Resource Partners, include Women's Business Centers (WBCs) and SCORE, in addition to the SBDC program.

GAO's study on SBA's methodology for setting the initial funding estimates for the SBDC program has provided us an excellent opportunity to obtain a comprehensive perspective of the overall process. We recognize there is room for improvement as it relates to SBA's procedures for determining the annual funding estimates for the SBDC program.

Further, the SBA has reviewed and partially concurs with the recommendation identified in the draft report.

Recommendation 1: The Associate Administrator of the Office of Entrepreneurial Development should reevaluate the SBDC funding application requirements, including reexamining the funding estimates SBDCs are required to use and considering other changes that could reduce the administrative burdens on SBDCs.

SBA Response: Partially concurs.

William B. Shear, Director, GAO
Financial Markets & Community Investment
Page 2

As GAO references in the report, approximately two-thirds of the SBDC networks operate on a calendar program year (January through December), while the remaining one-third have a fiscal program year (October through September). The Agency's practice of planning to the more conservative President's annual budget request for outyear planning to Congress impacts the 22 fiscal-year SBDC networks.

By the time, the calendar-year SBDC networks are required to submit their planning budgets, either a Continuing Resolution (CR) or final appropriation has been passed, which is what these calendar-year SBDC networks use to base their applications. Therefore, the practice of planning to the President's annual budget request to Congress impacts one-third of the SBDC program. Hence, the Agency is exploring with the fiscal-year SBDC networks the option to move the start of their program year to January 1; thereby, making all 62 SBDCs calendar-year networks. To date, the Agency has received a positive response from the 22 fiscal-year SBDC networks in favor of moving to a program year with a start of January 1.

Additionally, since the SBDC networks have two years to spend the Federally appropriated funds and are also able to continue operations utilizing their "match" funds, SBA is considering publishing the FY 2021 Funding Opportunity Announcement (FOA) later in the fall (e.g., first day of October), although the practice has been to publish the annual FOA in the summer. This will provide relief given that we would be either in a CR or a final appropriation would had been approved and the Agency would no longer be working with budget estimates.

Thank you for the opportunity to comment on this draft report. SBA appreciates GAO's consideration of our comments prior to publishing the final report.

Sincerely,

Allen Gutierrez
Associate Administrator
Office of Entrepreneurial Development

Agency Comment Letter

Text of Appendix III: Comments from the Small Business Administration

Page 1

April 30, 2020

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Director
Financial Markets & Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

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Page 2

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Additionally, since the SBDC networks have two years to spend the Federally appropriated funds and are also able to continue operations utilizing their "match" funds, SBA is considering publishing the FY 2021 Funding Opportunity Announcement (FOA) later in the fall (e.g., first day of October), although the practice has been to publish the annual FOA in the summer. This will provide relief given that we would be either in a CR or a final appropriation would had been approved and the Agency would no longer be working with budget estimates.

Thank you for the opportunity to comment on this draft report. SBA appreciates GAO's consideration of our comments prior to publishing the final report.

Sincerely,

Allen Gutierrez
Associate Administrator
Office of Entrepreneurial Development

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear, (202) 512-8678 or shearw@gao.gov

Staff Acknowledgments

In addition to the contact name above, Paige Smith (Assistant Director), Meredith P. Graves (Analyst in Charge), Kristine Hassinger, Jill Lacey, Jason Marshall, Marc Molino, Kirsten Noethen, and Barbara Roesmann made significant contributions to this report.

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