JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION
OF THE VIRGINIA GENERAL ASSEMBLY

Review of the Virginia Small Business Development Center Program

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Preface

Senate Joint Resolution 233 of the 2000 General Assembly directed JLARC to study the policies and procedures governing the formation and operation of small business development centers (SBDCs) and other local organizations structured to assist and develop small businesses in Virginia. Virginia's small business assistance program was developed in 1988 as a local economic development strategy. The program currently consists of a lead center housed within the Department of Business Assistance (DBA) and 28 local service centers and satellite offices located across the State. These local centers are charged with providing management and technical assistance to help small businesses create and retain jobs and otherwise improve their profitability. In addition, the centers provide assistance to people interested in starting a business. The service centers are funded on a match basis by the U.S. Small Business Administration, the State (through the DBA), and various local public and private organizations. Total expenditures for the service centers in CY 2000 were $4.6 million.

The Virginia SBDC program has evolved from a small collection of diverse local centers with minimal State oversight into a network of centers with established policies and procedures and increased oversight. Much of the increase in State control results from federal requirements and a response to problems encountered in the program in the early to mid 1990s. As the program has become more structured, the decision-making authority of the local hosts has lessened. To moderate this trend, the State office needs to work more closely with local program hosts to ensure that the program provides maximum local flexibility to meet the needs of the local small business community while also adhering to federal program requirements.

The review found that the Virginia SBDC program appears to provide a beneficial service for the State and is generally administered in a manner consistent with federal and State program objectives. However, the economic impact of the program appears to have declined somewhat in recent years. The program needs to refocus its efforts on generating a positive economic impact on the State. Consistent with this renewed focus, the Virginia SBDC program needs to better target its services to those businesses with the most potential for economic benefit. Changes are also needed to the State office's oversight activities. Recommendations addressing these concerns are included in the report.

On behalf of the JLARC staff, I would like to thank the staff of the Department of Business Assistance and the local organizations that assisted in our review.

Philip A. Leone
Director

December 17, 2001

JLARC Report Summary

In 1980, Congress enacted the Small Business Act authorizing the U.S. Small Business Administration (SBA) to establish small business development centers (SBDCs) in all states and territories. The purpose of the SBDCs was to create a broad-based system of assistance to current and prospective small business owners. Virginia was one of the last states to join the program, establishing the Virginia Small Business Development Center (Virginia SBDC) network in 1990.

The U.S. Small Business Administration contracts with the Virginia Department of Business Assistance (DBA) to operate the Virginia SBDC program. In turn, DBA contracts with private and public organizations that "host" SBDC service centers throughout the State. The Virginia SBDC network has grown substantially during its 11-year existence and currently consists of the lead center housed within DBA, 17 local service centers, and 11 satellite offices located across the State. These local centers are charged with providing management and technical assistance to help small businesses create and retain jobs and otherwise improve their profitability. In addition, the centers provide assistance to people interested in starting a business. The Virginia SBDC program defines its client population as small- to medium-sized businesses having less than 100 employees.

Senate Joint Resolution 233 (Appendix A) of the 2000 General Assembly directed JLARC to study the policies and procedures governing the formation of small business development centers (SBDCs) and other local organizations structured to assist and develop small businesses, to examine the existing procedures for SBDCs to receive State and federal funding under programs administered by the DBA, and to determine the appropriate degree of control that DBA should have over the operations and personnel decisions of SBDCs. This report presents the results of that review.

Purpose and Responsibilities of the SBDC Service Centers

The mission of the Virginia SBDC network as stated in its strategic plan is:

> To contribute to the growth and development of Virginia's economy by providing management, technical, and other State assistance to existing and potential small- and medium-sized businesses.

To carry out its mission, the Virginia SBDC lead center set the following goals for its service centers:

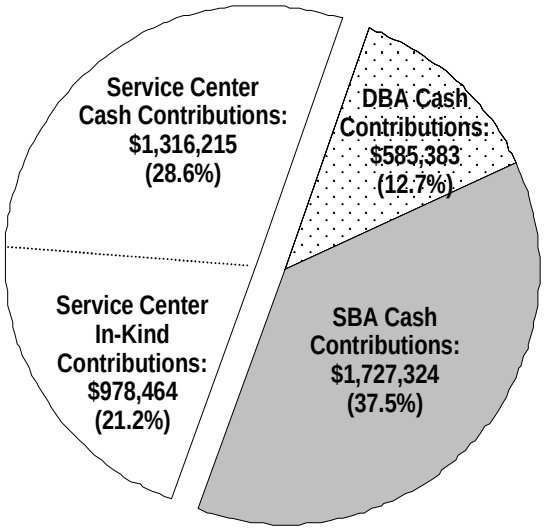
- assist small business clients to create and retain jobs,
- increase the revenue and profitability of clients' operations,
- increase the success rate of client small businesses,
- increase capital investment in clients' business establishments, and
- be a recognized contributor to the State's economic development efforts.

The local centers address these goals by providing a variety of management and technical assistance to small business owners and individuals attempting to establish new businesses. Services provided by the centers include assistance with business planning, marketing, personnel management, and financial management through a combination of one-to-one counseling and group training.

Funding of SBDC Service Centers: A Federal, State, and Local Partnership

As shown in the figure below, the SBDC program is a federal, State, and local partnership. The service centers are funded on a match basis by the SBA, the State (through the DBA), and their hosts and other local organizations. Total expenditures for the service centers in CY 2000 were $4.6 million. The Virginia SBDCs' CY 2000 expenditures indicate that the SBA provided approximately 37.5 percent of the network's funding and the DBA provided about 12.7 percent. The remaining 49.8 percent of the funding for the service centers came from other sources. These other sources include local governments, State community colleges and universities, and private organizations such as local chambers of commerce.

Virginia SBDC Network Expenditures for CY 2000



TOTAL FUNDING: $4,607,386

Note: State and federal funding amounts for the Virginia SBDC State office are not included in this chart.

The Virginia SBDC State office is funded by a combination of SBA and DBA funds totaling $459,886 in 2000. The State office budget supports a variety of network activities, including network meetings, printing of network brochures and reports, videoconferencing equipment, NxLevel training activities, and special outreach projects. The overall State contribution represents a relatively small investment in support of small business development in Virginia.

State Control Over the Virginia SBDC Program Has Increased

Virginia's small business assistance program was developed in 1988 and initially administered by the Department of Economic Development (DED), which designed it as a local economic development strategy to generate jobs and enhance the tax base for the State. The program started with two local centers hosted by Longwood College and James Madison University. Thus, Virginia's system was begun outside of the federal SBDC system.

While not wholly consistent with the focus of the federal SBDC program, the State nonetheless joined the federal program in 1990 and immediately started expanding its network of assistance centers. In fact, much of the early 1990s was spent on efforts to increase the number of local SBDC service centers. While the system grew, an effective administrative structure to oversee the program was slow in developing. A number of events occurred during the mid- to late-1990s that raised concerns about the State office's oversight of the Virginia SBDC program.

In response to these problems, the State office took steps to strengthen the program structure, including increasing the requirements (most of which were of federal origin) placed on the local centers. The State office's actions facilitated the development of a more cohesive network of centers throughout the State. However, increased oversight came at the expense of some local center flexibility, and has resulted in a more "bureaucratic" program, according to some local center staff. The program's increasingly structured approach partly led to the withdrawal of one of the more productive centers from the network in 1999, the Dr. William E.S. Flory SBDC in Prince William County. (See Exhibit 2 in Chapter II.)

Now that a more solid program structure is in place, it is appropriate to examine whether steps can be taken to increase local flexibility in administering the program. As previously described, the program is referred to as a partnership between the SBA, DBA, and local hosts. Although the hosts provide one-half of the funding for the centers, the program's increasing requirements have resulted in less decision-making in the hands of the hosts. To moderate this trend, the State office needs to work more closely with local center hosts to ensure that the program provides maximum local flexibility to meet the needs of the local small business community, while also adhering to federal requirements.

In addition, it appears that the State office needs to identify ways to better assist service centers in meeting their objectives. During JLARC staff interviews with center directors, several directors reported the desire for the State office to better facilitate the sharing of information across the network, as well as facilitate the streamlining of center duties so that local staff can focus on counseling and training small business clients.

Recommendation. *The Virginia SBDC State office, in cooperation with center hosts, should evaluate the State requirements placed on the program with the goal of identifying requirements that could be made less restrictive to the hosts, while still maintaining an adequate level of accountability.*

Recommendation. *The State office should solicit input from the local center staff regarding ways the State office could better*

assist the centers in accomplishing their mission. In particular, the State office should identify avenues for reducing the administrative burden of the program and identify "best practices" in other states that could be incorporated into Virginia's program.

Virginia SBDC Program Provides a Benefit to the State

According to Virginia Employment Commission data, small businesses account for over 97 percent of employer businesses in Virginia and 46 percent of the workforce (not including self-employed people). Given the prevalence of small businesses in the State, it appears reasonable to provide an assistance program targeting this segment.

Of the business clients served by the Virginia SBDC program, most appear to be satisfied with the services they receive and report that their businesses are enhanced by the SBDCs. In a recent "third party" survey of SBDC clients who received five or more hours of counseling assistance, clients were asked to rate their satisfaction with the services received using a six point scale (with one equaling "highly unsatisfactory" and six equaling "highly satisfactory"). Clients who responded to the survey rated the program an average score of 5.02, which reflects a generally positive view of SBDC services.

Economic Impact of Virginia SBDC Assistance Appears to Be Declining Somewhat

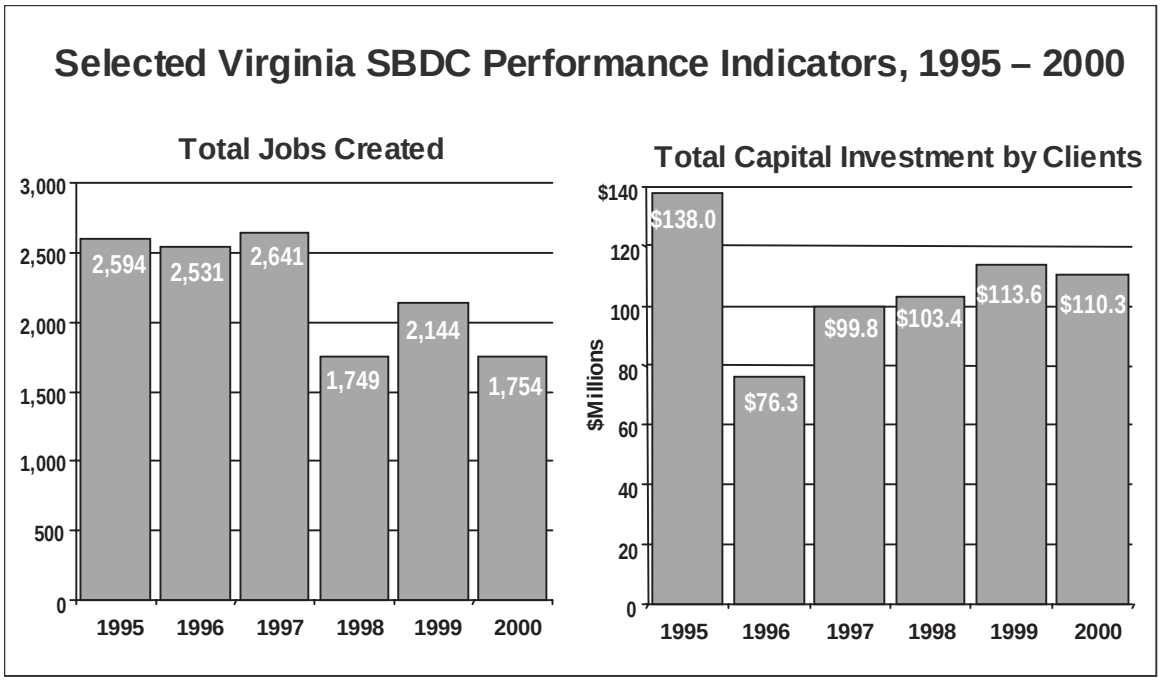
Despite the generally positive client satisfaction results, the program has shown inconsistent results in key performance measures. The Virginia SBDC stresses in various program documents that a positive economic impact is "the main priority of the SBDC program." Its annual funding proposal to the SBA notes that:

> Virginia places a strong emphasis on measuring the economic impact generated by the [Virginia] SBDC program. Economic milestones serve as the primary performance measure of the...program and are included as a part of each individual contract with the local centers.

The State office collects and reports data on the number of jobs created by clients, number of jobs retained, amount of capital investment, increase in sales, and total number of clients. JLARC staff used these measures to assess SBDC performance.

Analysis of the data suggests that the State's return on its investment in recent years has been inconsistent and even declining on some measures (see figure on the next page). The General Assembly provided the network with an additional $500,000 per year beginning in 1996. However, since 1997 there has been a decline in the number of small business jobs created and retained attributable to assistance from an SBDC. The amount of capital investment by SBDC clients has been fairly stagnant for the last few years. Further, for most SBDCs there has been a lessening of impact on client sales since 1997. In examining the economic impact data for each local service center, there are three centers for which the economic impact appears relatively low – the Lord Fairfax, Mountain Empire, and Wytheville SBDCs.

JLARC staff also examined a variety of programmatic characteristics of the local service centers to assess performance, primarily related to their counseling and training responsibilities. While there are wide variations across SBDCs, there were five SBDCs that show potential weaknesses in several counseling and training indicators – the Central Virginia, Hampton Roads, Lord Fairfax, Northern Virginia, and Roanoke Regional SBDCs. In addition, one center – the Central Virginia SBDC – has been unable to meet its funding match requirement in the past few years, which reflects a lack of adequate local support for the center. Of these



centers, only the Roanoke Regional SBDC has received a formal on-site monitoring visit from the State office since 1998. However, the State director has conducted over 40 site visits to centers in each of the past three years.

The State office needs to visit the SBDCs exhibiting potential weaknesses in their counseling and training programs and in their economic impact in the community and examine in-depth the reasons for these weaknesses. A course of action should then be developed to bring these SBDCs more in line with State performance goals. Further, if additional local funding is not forthcoming for the Central Virginia SBDC, the State office needs to begin actions to close the center and seek alternative ways of providing assistance to small businesses in the Charlottesville area.

Recommendation. *The State office should closely work with and monitor the SBDCs showing potential weaknesses in services provided and/or economic impact. Strategies should be developed jointly by the centers and State office staff to improve services and better target clients that would benefit the State's economy from SBDC assistance.*

Recommendation. *The State office should begin discussions with the host of the Central Virginia SBDC on a plan to close the SBDC unless additional local funding sources can be obtained. If adequate funds are not obtained, other options should be pursued for providing assistance to small businesses in the Charlottesville area.*

Action Needed to Improve Virginia SBDC Program Performance

While the overall goals and purpose of the Virginia SBDC program appear to be an appropriate complement to Virginia's economic development efforts, there are some systemic issues that need to be addressed to improve the program. Addressing these issues should help refocus the program to better meet its economic impact goals.

Virginia SBDC Needs to Better Target Its Clientele. While the Virginia SBDC has been serving an increasing number of clients in the past few years, the data reflect

that a corresponding increase in economic impact has not occurred. These results suggest that the network may not be targeting its services to those businesses with the most potential for economic benefit. SBDC staff report that assistance to pre-venture clients, as a group, tends to have less of a positive impact on the State's economy, since many of these clients do not ultimately decide to start a business. However, almost half of SBDC clients counseled are pre-venture clients.

The network formed two committees this year to identify ways to more efficiently serve pre-venture clients and to better market the network's services to existing businesses. Establishment of these committees is a positive step toward actively managing the Virginia SBDC's client base. The State office should assist the committees by exploring the approaches to this issue taken by various other state SBDC programs. Further, the State office should monitor the committees' efforts and encourage the completion of their work on schedule.

Recommendation. *The State office should collect information on efficient and effective methods being used by other states for addressing the needs of pre-venture clients. This information should be shared with the relevant SBDC committees.*

Changes Needed to the State Office's Oversight Activities. The State office oversees SBDCs through four primary means – programmatic and financial reviews, monitoring of economic impact measures, an annual client satisfaction survey, and review of various SBDC reports. Despite the policy that SBDCs are to be reviewed yearly, JLARC staff found that the formal programmatic and financial reviews have been conducted inconsistently since 1998. The program would benefit from more frequent financial reviews and a restructuring of the programmatic reviews, including modifying the frequency of the reviews and the types of information used to assess the SBDCs.

Another method the State uses to oversee and evaluate the performance of SBDCs is through the data collected on the economic impact of each center. The State office requires each center to annually survey its clients from the previous year to collect information on the number of jobs created, number of jobs retained, amount of capital investment during the year, and amount of sales increase. There are problems with the methods used to assess economic impact. Each center has developed its own survey instrument for collecting the data, which negatively impacts the consistency of the data collected. Further, only one of the SBDC surveys appropriately ties the information requested to the counseling provided by the center.

The State office has appropriately developed a standard survey instrument for the collection of economic impact data. However, it needs to modify the instrument to reflect that the information supplied should be based on the value of the assistance provided by the SBDC. Also, the State office needs to ensure that all centers use the standard survey.

The State office contracts with a university professor to annually survey all long-term SBDC clients concerning their satisfaction with the program. While the survey response rate produces enough respondents to reliably assess overall client satisfaction, it does not allow for an adequate assessment at the individual center level. The State office should work with the contractor to devise a strategy for increasing the response rate for these surveys.

Recommendation. *The State office should ensure that it conducts yearly financial reviews of all SBDCs. Further, it should restructure its programmatic reviews, including modifying the frequency of the reviews and the types of information used to assess the SBDCs. In particular, State office staff should get input from local hosts and business leaders concerning the effectiveness*

of the SBDCs. The review should also include an examination of the methods used to identify the economic impact of center assistance.

Recommendation. *The State office should revise its standard economic impact survey to seek the level of impact that the client believes is attributable to the SBDC's assistance. It should then require that all SBDCs use the standard form. State office staff should ensure the use of the form through its on-site monitoring process.*

Recommendation. *The State office and SBDC staffs should work together to devise a strategy for increasing the client response rate for the economic impact survey.*

Recommendation. *The State office should work with the client survey contractor to develop a strategy for increasing the response rate of the annual client satisfaction survey.*

Table of Contents

I. Introduction

In 1980, Congress enacted the Small Business Act authorizing the U.S. Small Business Administration (SBA) to establish small business development centers (SBDCs) in all states and territories. The purpose of the SBDCs was to create a broad-based system of assistance to current and prospective small business owners. Virginia was one of the last states to join the program, establishing the Virginia Small Business Development Center (Virginia SBDC) network in 1990.

The SBA contracts with the Virginia Department of Business Assistance (DBA) to operate the Virginia SBDC program. The Virginia SBDC network has grown substantially during its 11-year existence and currently consists of the lead center housed within DBA, 17 local SBDC service centers, and 11 satellite offices located across the State. These local centers are charged with providing management and technical assistance to help small businesses create and retain jobs and otherwise improve their profitability. In addition, the SBDCs provide assistance to people interested in starting a business. The Virginia SBDC program defines its client population as small- to medium-sized businesses having less than 100 employees.

Senate Joint Resolution 233 of the 2000 General Assembly directed JLARC to study the policies and procedures governing the formation of SBDCs and other local organizations structured to assist and develop small businesses, to examine the existing procedures for SBDCs to receive State and federal funding under programs administered by the DBA, and to determine the appropriate degree of control that DBA should have over the operations and personnel decisions of SBDCs (Appendix A). This report presents the results of that review.

THE HISTORY AND PURPOSE OF SMALL BUSINESS DEVELOPMENT CENTERS

The SBDC program was developed by the federal government in 1980 as a "partnership" between the private sector, the educational community, and federal, state, and local governments to assist and develop small businesses through one-on-one counseling and group training sessions. The SBDC program is administered by the U.S. Small Business Administration (SBA), which is the federal agency responsible for overseeing the interests of small businesses.

Virginia's small business assistance program became affiliated with the federal SBDC program in 1990. In developing the Virginia SBDC network, Virginia's goal was to enhance the State's economic development efforts by facilitating growth in small businesses.

SBDC Program Was Developed by the Federal Government

The federal government's involvement in small business development dates back at least to the 1940s when it considered implementing a "university-based business extension service program" at land grant universities. The idea was modeled on the cooperative extension service programs of land grant universities and was designed to combine the academic resources of the nation's land grant universities with federal financial support for management assistance to small businesses. The proposed program was not adopted, but many public universities used the idea to provide business assistance services to small businesses in their local communities.

As support for the concept grew in the 1970s**,** the federal government again explored ways to assist small businesses through government supported university-based programs. In 1977, the SBA funded eight universities to develop pilot "university business development center" programs. Interest in expanding the university business development center model into a national program increased, and Congress passed the Small Business Act in 1980. The Small Business Act established the pilot program as a national program and authorized the SBA to create a continuous funding source for the establishment of SBDCs in state and regional government organizations and in public and private institutions of higher education. Included in the Act were the concepts that the program should be a partnership between the SBA and the state SBDCs, that the priorities of the program should be focused on meeting the needs and conditions of the local community, and that each state SBDC should match the federal funds received to operate the program "one-for-one" with non-federal funds.

The number of states participating in the SBDC program grew during the 1980s, and by 1991 all states participated in the program. In 2000, the SBA established the 58th SBDC program in American Somoa. The SBDC program is currently operational in all states (Texas has four regional SBDCs), the District of Columbia, Puerto Rico, Guam, the U.S. Virgin Islands, and American Samoa. The 58 state and regional SBDCs oversee about 1,000 local SBDC service centers that provide various types of management assistance services to current and prospective small business owners.

Development of the Virginia SBDC Program

Several years after the establishment of the federal SBDC program, the Governor's Commission on Small Business and the General Assembly identified a need to better assist small businesses in Virginia. A 1988 General Assembly Task Force report noted that 70 percent of the growth in the economy is derived from small and medium sized businesses, but that the State had few programs directed at these businesses. Subsequently, the Virginia Department of Economic Development created a program to assist small businesses, with assistance centers located at Longwood College and James Madison University. Virginia's program officially became part of the federal SBDC program the following year – on January 1, 1990.

Virginia was the 49th state to enter the federal SBDC program. It is one of only nine SBDC programs to be administered by a government agency. The remaining 49 state and regional SBDCs are administered by universities.

The State's program grew quickly, reportedly attaining statewide coverage by 1994. While most of the new Virginia SBDC centers established during the program's history have resulted in increased statewide coverage, two of the current centers were established as replacements to centers previously in the network. Specifically, the Greater Richmond SBDC was established as a replacement for the Capital Area SBDC. The Capital Area SBDC, established in 1991, was not affiliated with a local host organization and had ongoing problems obtaining adequate local support. It was dissolved and a new service center was established in 1998 as part of the Greater Richmond Chamber of Commerce.

The second "replacement" center – a satellite office of the Lord Fairfax SBDC – was established as a result of the Dr. William E. S. Flory Center's withdrawal from the Virginia SBDC program. In 1999, the Flory Center, which is located in Prince William County, declined to sign a SBDC contract with the lead center due to concerns with the contract provisions. In response, the lead center established a temporary SBDC center in Manassas called the Prince William-Fauquier SBDC. It did not have a local host and was staffed with a State part-time employee. This center was eliminated in early 2000, and several months later the Lord Fairfax SBDC satellite center was established. This satellite center serves the same area as served by the Flory Center, which continues to operate as an independent business development center. Chapter II provides a more in-depth discussion about the establishment and evolution of the SBDC program in Virginia.

Purpose of the Virginia SBDC Program

The mission of the Virginia SBDC network as stated in its strategic plan is:

> To contribute to the growth and development of Virginia's economy by providing management, technical, and other assistance to existing and potential small- and medium-sized businesses throughout the Commonwealth.

To carry out its mission, the Virginia SBDC lead center set the following goals for its service centers:

- assist small business clients to create and retain jobs,
- increase the revenue and profitability of clients' operations,
- increase the success rate of client small businesses,
- increase capital investment in clients' business establishments, and
- be a recognized contributor to the State's economic development efforts.

It addresses these goals primarily through one-on-one counseling and group training of individuals in small businesses and those attempting to start a business.

DIVISION OF RESPONSIBILITIES FOR THE SBDC PROGRAM

Responsibility for the SBDC program is divided among three levels. The SBA is the federal sponsor of the State's SBDC program. The SBA contracts with the Virginia Department of Business Assistance to participate in the program and receive federal funding. In turn, the Virginia DBA contracts with public and private organizations that "host" local service centers throughout the State.

The U.S. Small Business Administration (SBA)

The SBA is the federal agency responsible for aiding, counseling, assisting, and protecting the interests of small businesses. The SBA central office administers its agency's programs through a network of 71 "district offices" located across the country. In Virginia, the SBDC program is overseen by the SBA Richmond district office, which is responsible for monitoring all SBA programs around the State with the exception of the Northern Virginia area. The Washington D.C. district office is responsible for overseeing SBA programs in Northern Virginia.

The SBA is guided by the Small Business Act as well as agency regulations. The regulations cover such topics as the types of services to be provided, the required cash match, and the conditions under which fees may be imposed. In addition, SBA issues a "program announcement" on an annual basis. The program announcement identifies the specific requirements of the program for the following year, including any new initiatives that must be addressed. For example, the 2000 program announcement requires SBDC programs to target services toward small business owners who are veterans. The document also serves as the "request for proposals" to which SBDC lead centers must respond to receive federal funding. Upon approval of the proposal, the SBA and DBA enter into a contract. (The SBA does not directly contract with any SBDC service centers.)

The SBA conducts biennial program and financial reviews of the Virginia SBDC. The SBA reviews are primarily focused on the operations of the Virginia SBDC lead center, but SBA staff also review the operations of a sample of local service centers as part of their oversight efforts.

In addition to the SBA audits, the SBA contracts with the national Association of Small Business Development Centers (ASBDC) to certify state SBDC programs. The association conducts a certification review of each state SBDC program every four years. In 1999, Virginia SBDC successfully passed the most recent certification review. Federal law requires that all SBDC programs must be certified by the ASBDC to receive federal funds and continue participating in the program.

The Department of Business Assistance (DBA)

The DBA serves as a liaison agency between existing businesses and State government. DBA provides management, technical, and financial assistance to Virginia's businesses to promote economic growth and job retention in Virginia. Its Small Business Development Division functions as the Virginia SBDC lead center (referred to in this report as the State office), and its division director serves as the Virginia SBDC State director.

The Small Business Development Division consists of five full-time staff and one part-time staff person. It is responsible for maintaining a network of service centers within the State. Further, the division maintains the SBDC policy and procedures manual, conducts service center programmatic and financial reviews, prepares annual SBDC program funding proposals and semi-annual performance and financial reports for the SBA, and conducts quarterly meetings with Virginia SBDC service center directors. It also manages the Women's Business Enterprise (WBE) program. WBE is a "certification" program for women-owned businesses that allows these companies to compete for government contracts that require recipients to have this special designation. Aside from management of the WBE program, the lead center staff do not work directly with small business clients.

Virginia SBDC Service Centers

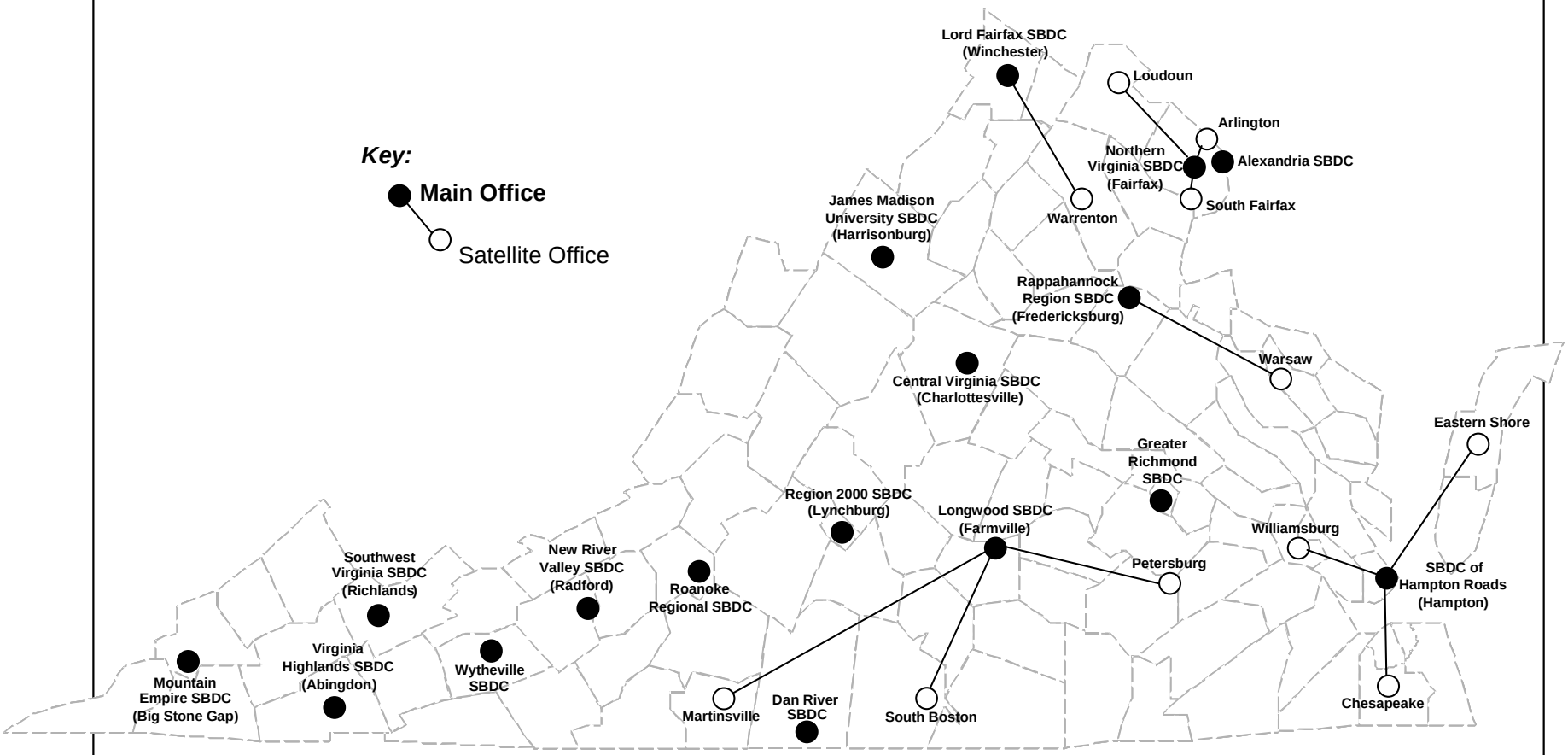
As previously mentioned, there are 17 local service centers and 11 satellite centers across the State (Figure 1). These service centers have assigned service areas; however, they are expected to serve any small business person who seeks assistance, regardless of the person's location. Service centers may establish satellite offices within their own service areas, with approval from the lead center. The satellite centers serve to minimize the distance small business owners must travel to get assistance. The service centers have relatively small staffs. Staff sizes range from 1.3 to 9.5 full-time equivalent employees. As such, centers rely extensively on volunteers to provide professional assistance. Table 1 shows the variation in basic characteristics of each SBDC.

DBA contracts annually with the host of each service center. Host institutions are organizations such as State universities, community colleges, chambers of commerce, and other nonprofit organizations that sponsor the SBDCs at the local level. Table 2 identifies the host organization for each SBDC. Hosts usually provide both direct and indirect funding to the centers and serve as contracting agents with the State office. Typically, the service center director reports to an employee of the host institution. For example, the Greater Richmond SBDC director reports to the Greater Richmond Chamber of Commerce's Executive Vice President for Programs and Services and is considered a chamber of commerce employee.

The local centers provide a variety of management and technical assistance to small business owners and individuals attempting to establish new businesses. Services provided by the centers include:

Figure 1

Virginia SBDC Office Locations



Source: JLARC graphic based on information provided by the Department of Business Assistance.

Table 1

Programmatic Characteristics of SBDCs, CY 2000

Service Center	Full-Time Equivalent Staffing	Total Clients	Training Sessions Held	Business Establishments in Service Area (1998)	Non-Employers in Service Area** (1997)	Square Miles in Service Area
Alexandria	2.5	162	5	4,571	8,760	15
Central Virginia	2.5	260	27	7,666	17,359	3,741
Dan River	1.3*	*	*	2,502	3,932	1,014
Greater Richmond	4.5	253	39	22,809	38,113	1,197
Hampton Roads	9.5	624	61	35,505	65,559	3,567
JMU	3.25	151	20	8,196	16,200	4,708
Longwood	7	337	31	10,759	19,253	8,714
Lord Fairfax	3.25	144	13	11,112	25,325	1,814
Mountain Empire	2.5	95	14	2,064	4,253	1,551
New River Valley	4.5	142	30	3,333	6,932	1,457
Northern Virginia	8.8	1,089	171	36,586	92,264	949
Rappahannock Region	5	228	36	7,372	15,847	3,120
Region 2000 (Lynchburg)	3	313	54	5,550	10,222	2,124
Roanoke Regional	3	241	20	7,220	12,081	3,120
Southwest Virginia	2	137	11	2,823	5,596	1,815
Virginia Highlands	2.5	157	9	2,061	3,569	726
Wytheville	2	107	10	2,030	4,387	1,899

* Dan River SBDC was established on February 1, 2001. Staffing data is for CY 2001.

** Non-employers are the number of establishments with no paid employees. The U.S. Census Bureau reports that "nonemployers are typically self-employed individuals or partnerships operating businesses that they have not chosen to incorporate…. Most nonemployer businesses are very small, and many are not the primary source of income for their owners."

Source: JLARC staff analysis of service center interviews, various DBA documents, and U.S. Census Bureau data.

Table 2

Virginia SBDC Host Organizations and Service Centers

Service Center	Host Organization
Alexandria SBDC	Alexandria Chamber of Commerce
Central Virginia SBDC	Piedmont Virginia Community College
Dan River SBDC	Pittsylvania County
Greater Richmond SBDC	Greater Richmond Chamber of Commerce
James Madison University SBDC	James Madison University
Longwood SBDC	Longwood College
Lord Fairfax SBDC	Lord Fairfax Community College
Mountain Empire SBDC	Mountain Empire Community College
New River Valley SBDC	Radford University
Northern Virginia SBDC	George Mason University
Rappahannock Region SBDC	Mary Washington College
Region 2000 SBDC	Lynchburg Regional Business Center
Roanoke Regional SBDC	Roanoke Regional Chamber of Commerce
SBDC of Hampton Roads	Hampton Roads Chamber of Commerce
Southwest Virginia SBDC	Southwest Virginia Community College
Virginia Highlands SBDC	Virginia Highlands Community College
Wytheville SBDC	Wytheville Community College

Source: Virginia SBDC Policy and Procedures Manual.

- business planning,
- marketing assistance,
- preliminary export assistance,
- provision of economic and business data,
- access to a business resource library,
- assistance in researching and approaching business financing sources,
- site location analysis,
- provision of licensing and regulation information,
- cash flow and tax counseling, and
- specialized training workshops.

Workshops are held on such topics as how to start a business, bookkeeping, procurement procedures and opportunities, and personnel management.

In 2000, the Virginia SBDC reported providing counseling services to 4,452 clients, and it held 551 training events. Most of the SBDCs' clients are businesses in the services and retail industries.

Generally, centers do not charge for services rendered to clients. Assistance by the counselors such as providing information, management counseling, and technical assistance are free services. However, fees may be collected to recoup costs for printing and computer time, and a nominal fee may be charged for workshop training.

In addition to the 28 "full-service" centers previously discussed, there are also two "resource" centers in the Virginia SBDC network. The Pollution Prevention Program office in Wytheville provides environmental-related assistance to businesses throughout the Commonwealth. The second resource center – the New River Valley Regional Training Program – conducts training workshops on behalf of all of the service centers in the southwestern portion of the State. Those service centers pooled their resources for training since none of the centers alone could adequately provide the required training workshops.

VIRGINIA SBDC FUNDING

The Virginia SBDC network is funded on a calendar year basis by the SBA, the Virginia DBA, and local sponsors. All SBDC programs are required to match federal dollars with a one-for-one dollar contribution obtained from sources

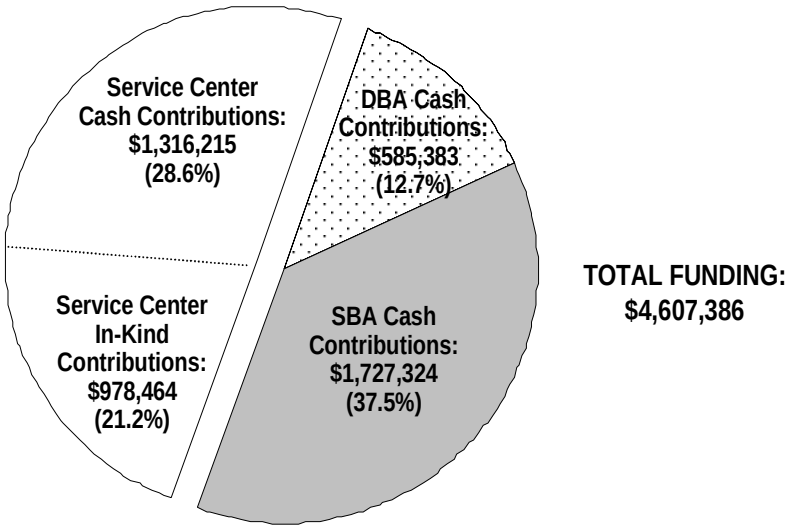
other than the federal government. At least 50 percent of the matching contribution must be cash and the remaining 50 percent may be the value of in-kind contributions of goods and services donated to the program by the host or other organizations.

In Virginia, the State office requires each service center to match its combined State and federal allocation with at least 50 percent cash and 50 percent in-kind contributions. Consequently, federal funding is overmatched by the Virginia SBDC on a statewide basis. The Virginia SBDC's CY 2000 expenditures indicate that the SBA provided approximately 37.5 percent of the network's funding and the DBA provided about 12.7 percent. The remaining 49.8 percent of the funding for the service centers came from other sources (Figure 2). These other sources include local governments, State community colleges and universities, and private organizations such as local chambers of commerce. While all centers receive State (DBA) and federal funding, the additional sources of center funding vary from center to center. For example:

> *The Longwood SBDC receives $166,515 in cash from Longwood College, the Crater Planning District Commission, and four localities. More specifically, it receives $86,515 from Longwood College (State Council for Higher Education's Center for Excellence program funds), $50,000 from the Crater Planning District Commission (Regional Competitiveness Act funds), and $30,000 from four local governments. In contrast, the Greater Richmond SBDC receives its entire match funding from one private source, the Greater Richmond Chamber of Commerce, which is its host organization.*

Figure 2

Virginia SBDC Network Expenditures for CY 2000



Note: State and federal funding amounts for the Virginia SBDC State office are not included in this chart.
Source: SBDC center year-end invoice statements to the DBA for CY 2000.

Much of the SBDCs' in-kind support comes in the form of donated office space, office supplies, and financial management from the hosts and counseling and training assistance from volunteers.

During CY 2000, expenditures for the general-purpose service centers ranged from $128,240 for the Southwest Virginia SBDC to $744,823 for the Northern Virginia SBDC. Table 3 provides a breakdown of each service center's CY 2000 expenditures according to funding source. The State office is funded by a combination of SBA and DBA funds, totaling $459,886 in CY 2000. In addition to salaries and routine office expenses, the State office budget funds a variety of activities that support the network, including the annual client surveys, network meetings, training materials and instructor certification for the NxLevel business training program, printing of network brochures and reports, video-conferencing equipment, and special outreach projects. The overall State contribution represents a relatively small investment in support of small business development in Virginia.

In addition to these sources of funding, the service centers receive "program income" that is generated by certain services provided by the service centers. As previously mentioned, service centers may charge fees for some of their services, such as training workshops. Program income must be used to provide additional SBDC-related services, but cannot be used as match funds. Program income from all SBDCs amounted to $134,229 in CY 2000.

JLARC REVIEW

Senate Joint Resolution (SJR) 233 of the 2000 General Assembly directed JLARC to study the policies and procedures governing the formation of SBDCs and other organizations structured to assist and develop small businesses. Specifically, SJR 233 requested JLARC to focus its review on the following three areas: (1) the policies and procedures governing the formation of SBDCs in Virginia and other locally based centers organized to assist and develop small businesses; (2) the existing procedures and criteria for such centers to receive State and federal funding under programs administered by the DBA; and (3) the appropriate degree of control over the operations and personnel decisions of such centers by the DBA.

Study Activities

Several research activities were undertaken to collect and analyze data for this study. JLARC staff collected information through structured interviews with various parties involved in the State's SBDC program. In addition, JLARC staff conducted site visits to a sample of local SBDC service centers and satellite offices and analyzed secondary data such as Virginia SBDC client satisfaction survey results, State and federal program documents, and SBDC service center and satellite office programmatic and financial data.

Structured Interviews. JLARC staff conducted numerous interviews with current and former staff from the DBA, the Virginia SBDC service centers and

Table 3

Virginia SBDC Expenditures by Source, CY 2000

Service Center	SBA Funds	DBA Funds	Center-Based Cash Funds	Center-Based In-Kind Contributions	Total Expenditures
Alexandria	$60,375	$20,750	$76,398	$13,350	$170,873
Central Virginia	$85,884	$28,629	$57,881	$61,505	$233,899
Dan River	N/A	N/A	N/A	N/A	N/A
Greater Richmond	$139,600	$46,534	$98,070	$88,642	$372,846
Hampton Roads	$210,863	$77,692	$158,138	$122,388	$569,081
JMU	$97,691	$32,564	$60,500	$60,973	$251,728
Longwood	$215,534	$71,845	$154,020	$109,650	$551,049
Lord Fairfax	$60,261	$21,473	$44,466	$13,092	$139,292
Mountain Empire	$59,475	$19,825	$43,193	$30,172	$152,665
New River Valley	$73,812	$24,604	$66,913	$58,849	$224,177
Northern Virginia	$270,068	$90,023	$226,147	$158,586	$744,823
Rappahannock Region	$99,480	$33,160	$100,949	$28,051	$261,640
Region 2000	$74,423	$24,808	$49,615	$48,000	$196,845
Roanoke Regional	$78,315	$26,105	$51,152	$79,446	$235,019
Southwest Virginia	$52,350	$16,950	$36,526	$22,414	$128,240
Virginia Highlands	$62,400	$20,800	$33,692	$46,480	$163,372
Wytheville	$56,411	$19,496	$44,916	$23,967	$144,790
New River Valley Training Consortium	$30,382	$10,127	$13,639	$12,900	$67,049
Pollution Prevention	$15,000	$5,000	$17,228	$2,772	$40,000
TOTAL	$1,727,324	$585,383	$1,316,215	$978,464	$4,607,386

N/A: Not applicable. Dan River SBDC was not in operation until CY 2001.
Note: State and federal funding for the Virginia SBDC lead center was $459,886, which includes funding for a variety of functions that support local center activities.

Source: SBDC center year-end invoice statements to the DBA for CY 2000.

satellite offices, Virginia SBDC host organizations, and the SBA. All of the SBDC service center and satellite office directors were interviewed during the course of this review. Interviews were also conducted with staff from the Center for Innovative Technology, the Association of Small Business Development Centers (ASBDC), Service Corps of Retired Executives (SCORE), the National Federation of Independent Businesses, local chambers of commerce, and the Virginia Chamber of

Commerce. The purpose of these interviews was to obtain information on the federal and State SBDC programs, the level of State oversight present in the Virginia SBDC network, the strengths and weaknesses of the Virginia SBDC program, and to determine how the State's program is perceived by other small business-related entities.

Site Visits. JLARC staff conducted site visits to 13 Virginia SBDC service centers and satellite offices during the course of the study. The site visits provided JLARC staff with additional information on the administrative structure of the State's SBDC program, the types of services that the service centers provide to customers, and their relationship with the Virginia SBDC State office and their host organizations.

Document Reviews. JLARC staff reviewed a variety of data on SBDC activities, performance levels, finances, and programmatic requirements as part of the study. More specifically, JLARC staff reviewed programmatic and financial data for each SBDC and for the overall network, the results of the Virginia SBDC annual client satisfaction surveys, SBA and ASBDC audits of the Virginia SBDC, and State office programmatic and financial audits of SBDC service centers. Further, JLARC staff conducted a systematic review of the following program documents for each of the past 11 years (since the program's establishment): Virginia SBDC annual programmatic and financial reports to the SBA; the Virginia SBDC annual proposal to the SBA; the SBA/DBA annual cooperative agreement; the annual contract between the DBA and SBDC service center hosts; and the annual SBA program announcement. Finally, information on other states' SBDC programs was reviewed.

Report Organization

This chapter has provided an overview of the federal SBDC program as well as the Virginia SBDC program. Chapter II describes how the Virginia SBDC program has evolved since its establishment a decade ago. JLARC staff's assessment of Virginia SBDC performance and operations is provided in Chapter III.

II. Development of the Virginia SBDC Program

Virginia's small business assistance program was developed in 1988 and initially administered by the Department of Economic Development (DED), which designed it as a local economic development strategy to generate jobs and enhance the State's tax base. According to staff who established Virginia's program, it was intended to target services toward small businesses that had the greatest potential to produce economic benefits, especially the creation of jobs.

While not wholly consistent with the focus of the federal small business development center (SBDC) program, the State nonetheless joined the federal program in 1990 and immediately started expanding its network of assistance centers. In fact, much of the early 1990s was spent on efforts to increase the number of local SBDC service centers. While the system grew, an effective administrative structure to oversee the program was slow in developing. A number of events occurred in the mid-1990s that highlighted the State's inadequate oversight structure. Exhibit 1 identifies key events in the development of Virginia's SBDC program.

As oversight problems became evident in the mid-1990s, the State office responded by strengthening the program structure, including increasing the requirements (most of which were of federal origin) placed on the local centers. The State office's actions facilitated the development of a more cohesive network of centers throughout the State. However, increased oversight came at the expense of some local center flexibility, and has resulted in a more "bureaucratic" program, according to some local center staff.

In particular, as the program has become more structured and regulated, the decision-making authority of the local host has lessened. To moderate this trend, the State office needs to work more closely with local program hosts to ensure that the program provides maximum local flexibility to meet the needs of the local small business community while also adhering to federal program requirements. In addition, the State should evaluate its program requirements to identify ways to minimize the administrative burden on service centers and better facilitate the sharing of information and "best practices" across centers.

THE EARLY YEARS OF THE VIRGINIA SBDC PROGRAM: PROGRAM ACCOUNTABILITY NOT A HIGH PRIORITY

In 1987, the Governor's Advisory Commission on Small Business recommended that Virginia establish a locally based small business assistance program throughout the State that would be administered by the Virginia Department of Economic Development (DED). Based upon the commission's recommendation and a subsequent General Assembly Task Force recommendation, the 1988 General Assembly provided $200,000 to DED to establish two or more assistance centers in Virginia.

Exhibit 1

Significant Events in the Development of the Virginia SBDC Network

Year	Events
1987	• The Governor's Advisory Commission on Small Business recommended to Governor Baliles that the State develop a locally based network of small business assistance centers to provide management and technical assistance to small businesses. The commission also recommended that the Department of Economic Development (DED) administer the program.
1988	• The General Assembly provided $200,000 to DED to fund at least two local centers. • The primary objective of the State's assistance program was to promote local economic development (generate jobs and increase local tax bases) by providing counseling services to existing small businesses.
1989	• The State's first small business assistance centers were established at Longwood College and James Madison University (JMU). • DED applied to the Small Business Administration (SBA) to participate in the national small business development center (SBDC) program.
1990	• DED received a $300,000 grant from the SBA to participate in the national SBDC program and transitioned into the Virginia Small Business Development Center (Virginia SBDC) network.
1994	• The total number of Virginia SBDC service centers and satellite offices increased to 21. The Virginia SBDC network reported achieving its goal of statewide coverage. • The State office formed five committees composed of SBDC directors and counselors to facilitate greater input from the local centers' staff in the development of the Virginia SBDC network.
1995	• Virginia SBDC network held its first strategic planning retreat and developed a strategic plan to guide the development of the network over the next five years.

(Exhibit continued on next page)

Exhibit 1
(continued)

1996	• The General Assembly increased its financial support of the Virginia SBDC program by $500,000 per year. • The DED was reorganized into the Virginia Economic Development Partnership and the Virginia Department of Business Assistance (DBA). The Virginia SBDC State office was housed under the DBA. • SBA conducted an audit of the Virginia SBDC network, which found that the State office needed to improve its oversight of the network. The Virginia SBDC State office informed the SBA that it would "focus attention on establishing improved reporting and monitoring procedures" for the network. • The Virginia SBDC State office director retired.
1997	• There was a high level of staff turnover in the State office, especially between 1996-1997. In particular, a new State director was hired. • The Virginia SBDC State office developed a policy and procedures manual for the network. • The Capital Area SBDC was dissolved due to a lack of adequate local financial support. A replacement center was established under a different host.
1998	• The Virginia SBDC State office underwent an Association of Small Business Development Centers (ASBDC) certification review and passed on the condition that it make two management improvements to the program: (1) refine the network's strategic plan, and (2) implement a new management information system.
1999	• The Virginia SBDC State office implemented the management improvements that the ASBDC recommended and became fully certified in October 1999. • The Dr. William E. S. Flory SBDC in Prince William County did not renew its annual contract with the State office and is no longer participating in the Virginia SBDC network (although it still operates independently).
2000	• The General Assembly added two new offices to the Virginia SBDC network; however, one was never opened due to a lack of local match funds. • With the addition of a satellite office to cover the territory of the Flory Center, the Virginia SBDC network increased to 28 SBDC service centers and satellite offices.

Source: JLARC staff analysis of Virginia SBDC Policy and Procedures Manual, the CY 1990 – CY 2000 Virginia SBDC Annual Reports, and interviews with Virginia SBDC State office staff.

The Virginia small business assistance center program was intended to be a partnership between the State and the local host organizations that sponsored the small business assistance centers. DED expected that both the State and the local host organizations would fund the small business assistance centers and that the host organizations would negotiate with the State to determine the services that would be provided by the centers in their specific geographic service areas. Thus, DED intended to provide the small business assistance centers with a degree of autonomy in deciding how to best serve their geographic areas of responsibility.

The State's small business assistance center program was also intended to serve as a local economic development strategy that communities could use to generate increased employment and tax base. To best promote this job growth, the State's original small business assistance center program was primarily targeted toward assisting existing small businesses with free counseling services and, to the extent that resources were available, to use educational services to assist potential small business owners.

As a result of this focus, the objectives of the State's original small business assistance center program were not entirely consistent with those of the federal SBDC program. Nonetheless, the State pursued and subsequently joined the federal SBDC program. Based on a review of program documents, Virginia recognized that there would be trade-offs to joining the federal SBDC program. The State would be subject to a higher level of requirements than originally envisioned with its small business assistance program. Also, the federal program placed more emphasis on assisting start-up businesses than the Virginia program preferred, and appeared to emphasize service to "traditionally underserved populations" such as women, minorities, and Native Americans, which was not a specific focus of the Virginia program. However, participation in the federal program would provide DED with financial resources it would not otherwise receive, and therefore, enable the State to expand its program statewide. The SBA accepted the State's application, and Virginia's SBDC program was officially established on January 1, 1990.

After the State was admitted into the federal SBDC program, it rapidly expanded the network, achieving its goal of full statewide coverage by 1993 (Figure 3). The State continued to add SBDCs until 2000, when the network consisted of 17 local SBDC service centers and 11 satellite offices. According to State office staff, the State has no plans to add additional local centers to the program.

The State imposed minimal requirements on its local SBDCs during the early 1990s. For example, during the first few years of the program, the local SBDC service centers were only required to submit quarterly economic impact reports to DED that provided information on the centers' "accomplishments to date" in terms of the number of jobs created, saved, or retained, capital investment, and increased sales that their clients experienced as a result of receiving assistance. Based on SBA requirements, the centers also submitted data on the number of clients served and training services held. (Since the federal SBDC program was less focused on

Figure 3

Chronology of the Service Center Network

1989	Longwood JMU
1990	Central Virginia Hampton Roads Roanoke Regional Capital Area
1991	Mountain Empire Southwest Virginia Lynchburg (now called Region 2000) New River Valley Wytheville Northern Virginia Flory
1992	Rappahannock Region
1993	Lord Fairfax Virginia Highlands
1994	none
1995	none
1996	Alexandria
1997	Capital Area center dissolved
1998	Greater Richmond
1999	Prince William-Fauquier (center in existence less than one year) Flory center left network
2000	Dan River

Source: Department of Business Assistance.

economic outcomes, it initially did not require the SBDCs that participated in its program to report economic impact data. However, the SBA began requiring state SBDCs to report economic impact data in 1996.) There is no indication that the State office conducted any program or financial reviews at the local center sites based on a review of Virginia SBDC documents.

While DED purposely wanted a program with maximum local flexibility, it appears that it did not devote adequate attention to developing a basic level of accountability from the local SBDCs. For example, as early as 1990, concerns were raised regarding DED's level of accountability over the local centers. JLARC's study of DED reported that the agency did not have standard definitions for both the services provided by the service centers and the economic impact measures monitored by the service centers. JLARC staff found that different centers counted measures differently. As a result, JLARC staff recommended that the State strengthen the accountability of the SBDCs by clarifying the definitions and reporting practices related to client services and program impacts for the small business development centers. Despite this recommendation, it appears to have taken the State office several more years before it implemented measures to improve accountability among local SBDCs.

VIRGINIA PROGRAM BEGAN TO STRENGTHEN OVERSIGHT IN LATE 1990s

A number of events occurred during the mid- to late-1990s that raised concerns about the State office's administration of the Virginia SBDC program. A review by the U.S. Small Business Administration (SBA) in 1996 concluded that the State office needed to increase its oversight of the Virginia SBDC network. The State's lack of adequate program oversight was also evident when one of the local centers was forced to dissolve in 1997 due to serious financial problems. In addition, the State office did not properly oversee the procurement of the network's management information system. During this time period, the State office also experienced turnover among its key staff members that limited its ability to manage the network effectively.

In 1998, the Virginia SBDC network undertook a number of activities to prepare for a national certification review, required as a condition of federal funding. These activities resulted in increased program structure for the Virginia SBDC network and increased State oversight.

SBA Audit Cited Problems with State Oversight of SBDC Program

In 1996, the Virginia SBDC State office was audited by the SBA's Office of Inspector General to determine if it effectively used the federal government's resources and if its activities conformed to federal regulations. The SBA found that the Virginia SBDC State office generally used its resources appropriately, but that it failed to adequately monitor the service centers' financial activities. The SBA auditors noted in the 1996 report that:

> *A lead center official stated that…[service center]…costs were not monitored because they "assumed" that the financial information submitted was correct…Due to this inadequate monitoring of…[service center]…information, SBA had no assurance that the reports submitted to them were accurate.*

The SBA auditors also stated that the State office did not compare the service centers' actual costs to their budgeted costs or verify the accuracy of the centers' use of the federal and non-federal funds.

Consequently, the SBA auditors recommended that the Virginia SBDC State office closely monitor the service centers' financial activities and that it require the local SBDCs to maintain complete and accurate financial documentation. The auditors also recommended that the State adopt procedures to ensure that all costs claimed by the service centers were allowable. As a result, in 1997 the Virginia SBDC State office created and filled a financial manager position to monitor State office and local SBDC financial activities, including on-site reviews of the centers' financial systems.

Capital Area SBDC Was Removed from the Network Amid Financial Problems

From 1990 to 1997, the Capital Area SBDC was responsible for service to the greater Richmond small business community. At the time of its establishment, it was the only SBDC that was not affiliated with a host organization. Throughout its existence, the center reportedly had trouble obtaining adequate local financial match to meet its State and federal funding allotment. This problem reached a critical stage in 1997 when it was unable to meet its monthly payroll obligations and other monthly expenses. In August 1997, the Capital Area SBDC informed the State office that it wished to terminate its contract with DBA and to cease operating as an SBDC. As of the end of August 1997, the SBDC had failed to provide approximately $57,000 in required local match contribution for that program year. In order to facilitate the Capital Area SBDC's closing, the State office provided it with an additional $34,120, in part so that it could settle its rent costs and have its financial records audited.

The State's oversight was inadequate to prevent serious financial mismanagement of the local center, necessitating a State bailout of that center. As previously noted, the SBA found that the State office was not properly monitoring local financial data to ensure it was accurate. Had the State office been properly ensuring that the local centers had adequate local match funds, the problems at the Capital Area SBDC likely would have been identified and addressed at an earlier stage.

Procurement of the Virginia SBDC Network's Management Information System Was Problematic

The federal government requires all states that participate in the SBDC program to operate a management information system (MIS) to electronically report counseling and training information to the SBA. Due to limitations of its first MIS, the State office decided in 1996 that it would procure a new MIS system. The State office paid the Northern Virginia SBDC $82,345 to procure the new system. The MIS was completed and installed throughout the network in 1996, but it soon became obvious that the system could not accurately track the information that was entered into it and the new system was abandoned.

The State office did not take responsibility for overseeing the contract or monitoring the Northern Virginia SBDC's procurement activities. The Northern Virginia SBDC made the final payment to the vendor before the system was sufficiently tested and without prior knowledge of the State office. The RFP was poorly written and did not contain all the specifications that the network needed in its MIS. Consequently, the Virginia SBDC network had to revert back to the previous MIS version that it used during the early 1990s. The complications associated with the implementation and reversion back to the older system caused the network to experience problems collecting data needed for submission to the SBA. Much time and effort was expended by the State office and network staff to address the MIS problems.

In 1998, the Virginia SBDC State office purchased an unlimited license for the Florida SBDC's MIS for about $8,000 and installed it throughout the network. This MIS appears to better meet the needs of the network. However, the Northern Virginia SBDC's mismanagement of the previous MIS contract and the State office's lack of oversight resulted in a serious distraction to the network and a substantial expenditure of funds that could have been better used toward client services.

Virginia SBDC State Office Experienced Frequent Staffing Changes During the Mid-1990s

The Virginia SBDC State office experienced frequent staffing changes during the past 11 years, with a particularly high level of staff turnover in the mid-1990s (Table 4). The program began with one State director position and a part-time administrative staff position. Since 1988, the State has created seven professional staff positions, one administrative staff position, and a part-time staff position for

Table 4

Virginia SBDC State Office Staff Positions

Staff Position	Position Created and Filled	Position Turn-Over
State Director	1988	1996 (Position filled in 1997)
Associate State Director	1991	1992, 1993, 1997,1999 (Position filled in 2000)
Operations Manager	1993	1997, 1998, 2000, 2001
Administrative Assistant	1994	1995
Information Systems Manager	1995	Eliminated in 1996
Special Projects Manager	1996	Eliminated in 1997
Planning and Development Manager	1997	Eliminated in 1998
Finance Manager	1997	1999, 2001
Program Support Technician (P-14)	1999	(Position filled in 2000)

Source: JLARC staff analysis of Virginia SBDC CY1990-2001 Continuation of Funding Proposals to the SBA and interviews with State office staff.

the Virginia SBDC State office, but it eliminated three of the professional staff positions within a year of their establishment. It appears that the State office experienced difficulty determining the staff it needed to manage the program. Currently, the State office is staffed by six employees: a State director, an associate State director, an operations manager, a finance manager, an administrative assistant, and a part-time program support technician.

In addition to the changes in positions, the State office experienced high staff turnover, especially during the 1996-1997 period. During this time period, the State director retired and the associate State director and operations manager resigned. The State director position was vacant for six months between August 1996 and February 1997. Since these staff positions were responsible for overseeing all programmatic and financial activities of the Virginia SBDC network, the State office's ability to administer the program and to strengthen its oversight function was limited. In fact, a number of the management problems cited in this chapter occurred during this time period. The new director took office in the midst of program changes, many of which he oversaw and which resulted in strained relations between him and some of the local service centers.

Certification Required for Continuation in the Federal SBDC Program

In 1995, federal regulations governing the examination and certification of the state SBDC programs were adopted. As a result, all SBDC programs were now required to become "certified" by the Association of Small Business Development Centers (ASBDC) every four years to continue to participate in the federal SBDC program. Virginia's certification was scheduled for 1998.

To implement the new federal requirement, the association developed a set of programmatic and financial management standards to which all state SBDC programs across the nation must comply in order to pass the national certification review. These standards include the following: developing a strategic plan for the network, establishing safeguards to assure confidentiality of client information, implementing a professional development program, developing a program to monitor the quantity and quality of counseling and training activities, and developing a system to analyze the needs of the small business community. The standards also define the parameters for counting various program activities, such as counseling hours and training events.

In order to pass its scheduled national certification review, the Virginia SBDC network spent a substantial part of 1998 preparing for certification. Five committees composed of State office and local center staff were assembled to address training, counseling, needs assessment, marketing, and professional development. The State office staff conducted reviews of all centers in the network and the SBA performed an "examination" of the State office and selected centers to further ensure that they were prepared for certification. The certification process was a major factor leading to greater consistency and structure across all local centers since the network was required to implement the standards established by the association.

After implementing two management improvements recommended by the certification team, the network received full certification in 1999.

VIRGINIA SBDC PROGRAM HAS BECOME MORE STRUCTURED WITH ENHANCED STATE OVERSIGHT

The Virginia SBDC network has evolved from a small collection of diverse local centers with minimal State oversight into a network of 28 service centers and satellite offices, with established policies and procedures, and increased State and federal oversight. The network's policies and procedures provide standards for the centers to follow, such as reporting and recordkeeping, budgeting and accounting, and counseling and training activities. Most of these standards originate from federal directives. The standards have helped mold the Virginia SBDC program into a network of centers that operate in a more consistent manner, but the increased level of federal and State control has also resulted in a more "bureaucratic" program according to some local SBDCs, with too much time and effort expended on administrative details. The Virginia SBDC network's increasingly structured approach partly led to the withdrawal of one of the centers from the network in 1999.

Federal SBDC Requirements Are Extensive

While the State started its small business assistance program with very few requirements imposed on the local centers, the requirements substantially increased when the State joined the federal SBDC program. From the beginning of the Virginia SBDC program, there have been detailed forms that had to be completed for client counseling sessions and training sessions and extensive procedures were required to account for program funds. Federal program requirements are included in numerous documents including: 13 *Code of Federal Regulations* Parts 130 and 143, Office of Management and Budget Circulars A-21, A-87, A-102, A-110, A-122, A-133, and various SBA administrative and policy guidelines and procedures.

The Virginia SBDC program is also subject to program requirements contained in the SBA's Annual SBDC Program Announcement and its annual cooperative agreement. The SBA's 2001 Program Announcement is a 70-page document that outlines many of the policies and procedures that the State must meet during the contract period. The document contains information on a broad range of services that SBDCs must provide to small businesses in areas such as technology transfer, government procurement, regulatory compliance, and international trade. Furthermore, the document contains requirements for the SBDCs to target counseling and training services toward veterans, service-disabled veterans, disabled people, women, Native Americans, minorities, and individuals who live in rural communities.

The SBA's cooperative agreement, which may contain additional requirements, is an annual contract that the State must sign to receive federal

funding. The Virginia SBDC network must also comply with any requirements that the SBA Richmond district office places in the cooperative agreement, such as pre-qualification loan application goals. For example, the SBA Richmond district office established a goal of 231 pre-qualification loan submissions for the Virginia SBDC to achieve during each of the past two years as part of its cooperative agreement.

The SBA also periodically issues directives during the year concerning areas it wants the Virginia SBDC to target. For example, staff from the SBA Richmond district office recently informed the State office that:

> *We have been reviewing our goals for the remainder of this year (FY 2001 for SBA) and have found that additional emphasis needs to be placed on activities in order to achieve our Native American goals. Accordingly, we would like for the service centers to give priority to counseling and for the pre-qualification loan applications of Native Americans. As a reminder, our year ends on 09/31/01 and our goals are for loans approved (either as an SBA loan or non-SBA loan) prior to SBA's year end.*

This type of directive illustrates the distinction between the focus of the federal SBDC program and the original intent behind Virginia's program, which was to target clients who had the greatest potential to economically benefit the State, regardless of demographics.

Since Virginia joined the SBDC program, there has also been an increase in federal requirements. In the 1998 SBA Program Announcement, the federal government required SBDC programs to provide nine services to the small business community such as counseling, technology transfer assistance, and conducting surveys for local small business groups. The 2001 SBA Program Announcement required SBDC programs to provide 32 services to their respective small business communities.

Several of the local SBDC directors indicated that they regard some of the federal program requirements to be onerous. In particular, the pre-qualification loan program requirement received a high level of criticism.

> *The pre-qualification loan program is designed to assist small businesses in obtaining loans by providing them with SBA-guaranty commitment letters. The SBA established a "number of loan submissions" goal for the Virginia SBDC to achieve as part of its cooperative agreement. Several center directors reported that the program is not useful to many of their clients, but because they have an established numerical goal, they feel that they are being encouraged to steer their clients to the program, without consideration for the best interests of the clients. Further, many directors said that assisting clients with preparing the loan applications is a time consuming process that takes away from counseling other clients.*

This program has been a particular source of tension between the State office and the SBA Richmond district office.

State Office Operationalizes Federal Requirements Through State Documents

The Virginia SBDC State office uses two primary documents to manage the local SBDCs: the annual agreement with the local hosts and the policy and procedures manual. These documents operationalize many of the federal requirements.

Once the State receives its annual contract with the SBA, the State sends out an annual agreement to all of the host organizations that participate in the Virginia SBDC network. The agreement contains State and federal program requirements with which local centers must comply during the contract year, such as the SBDCs' estimated cost and milestone accomplishments, State office and key personnel responsibilities, and reporting and recordkeeping requirements.

Since 1990, the Virginia SBDC State office has made significant changes to the agreement. These changes predominantly reflect an effort to more explicitly identify State office expectations for local center operations. For example, all the forms to be used by the centers in documenting their activities are now included in the agreement.

However, there also has been an increase in requirements imposed on the local centers, particularly regarding reports and recordkeeping. For example, the original annual agreement required the local centers to submit only two types of reports to the State office, but the 2001 agreement required nine types of reports (Table 5). The federal government mandates most of these reports. However, the State office places some additional State-level reporting requirements on the service centers. For example, it requires all service centers to report on the number of prequalification loan applicants.

In 1998, the State office made changes to the content and format of the agreement, including adding numerous references to the policy and procedures manual that had recently been prepared by the State office. These changes caused much concern to some SBDC directors because the State office referred to the policy and procedures manual as a "living document" that could change at any time. The perception among some SBDC directors was that signing the annual agreement was equivalent to signing an open-ended contract. Further, some local directors felt that the State office had prepared the policy and procedures manual with inadequate input from the local centers. The 1998 annual agreement also contained new State requirements such as that center directors must establish professional development plans in cooperation with the State director (as recommended by the network's professional development committee in the 1997 Professional Development Manual).

Table 5

Virginia SBDC Service Center Reporting and Recordkeeping Requirements

1990 Reporting Requirements	2001 Reporting Requirements
• Annual Performance Report*	• Annual Report*
• Quarterly Progress Reports*	• Semi-Annual Report*
	• Counseling/Training Activity Reports*
	• Training Event Reports*
	• Program Income Reports*
	• Pre-Qualification Loan Program Activity Reports
	• State Annual Report
	• Economic Impact Survey**
	• Public Appearance Reports***

* These reports are required by the U.S. Small Business Administration.

** The SBA requires the submission of economic impact data. The State office requires that the centers conduct a survey to obtain that information.

*** The SBA requires the submission of information on public appearances. The State office requires that the centers complete and submit a public appearance form for each event in which a center representative has made a presentation. Information collected includes the name of the organization addressed, location, date, sponsor, number of attendees, and length of presentation.

Source: JLARC staff analysis of the Virginia SBDC Policy and Procedures Manual, 1990-2001 SBA cooperative agreements, 1990-2001 State annual agreements, and interviews with Virginia SBDC State office staff.

Concerns raised by the Dr. William E. S. Flory SBDC are an example of the perceived problems with the requirements in the 1998 and 1999 annual agreements and are described in Exhibit 2. Relations between the Flory Center and the State office became strained during the 1998 and 1999 contract negotiations, culminating with an impasse regarding the provisions of the 1999 annual agreement. Subsequently, the Flory Center withdrew from the program. The Flory Center is still in operation as a locally funded business assistance center in Prince

Exhibit 2

Events Leading to the Withdrawal of the Dr. William E. S. Flory SBDC from the Virginia SBDC Network

The Dr. William E. S. Flory SBDC voiced strong objections to some requirements that the State placed in its 1998 annual agreement concerning the timing of audit reports, use of network logos, hiring of SBDC directors, professional development requirements, meeting attendance and communication with the State director, and conflict resolution. The Flory SBDC had several meetings with DBA and other officials concerning the contract provisions. In general, Flory Center staff asserted that the program had become unnecessarily regulated by the State office and was inconsistent with the initial provisions of the program as created in 1988.

The center's concerns carried forward into negotiations for the 1999 annual agreement. While the State office reported that it made several modifications to the agreement to reflect concerns by the SBDCs, the Flory Center's director and board did not feel that the changes adequately addressed their concerns. Ultimately, the parties were unable to reach a compromise and the Flory Center declined to sign the 1999 agreement. A significant problem ensued because, as is the typical timeframe with this program, the agreement is not signed by the State and local centers until well into the program year (due to the timing of federal funding). Hence, the Flory Center performed SBDC services for several months without re imbursement from the State. As a result of not signing the contract, the center did not receive reimbursement for the work it performed in 1999. The Flory Center filed suit against DBA to receive reimbursement for the work performed, however, the case was decided against the Flory Center.

Conflict between the Flory Center and the State office was exacerbated by a State Police investigation of the Flory Center undertaken around the time of the contract dispute. The investigation included the execution of a search warrant and "raid" on the Flory Center's office and the director's home that were initiated based on two unnamed informants. According to a Virginia Business magazine article about the raid, "Agents stayed all day, questioning employees and boxing up documents." The article further noted that the Flory Center Board Chairman stated that "police could have found what they needed in publicly available audits of the center. 'The information was available,' he says. 'There was no reason in the world for the raid and the confiscation and the secrecy'." The Flory Center director believes that the State office was involved in the State Police investigation due to the timing of the search warrant and raid. However, DBA staff reported that they were unaware of the investigation and raid until the State Police interviewed them sometime after the raid. The investigation did not lead to any charges being filed against Flory Center employees.

Regardless of the actual basis for the executed search warrant, this event greatly strained relations between the Flory Center and the State office. Flory Center personnel currently have filed five lawsuits against the State Police and the two unnamed informants based on the manner in which the search warrant and investigation were executed. State officials are reluctant to provide greater detail on this matter pending resolution of the lawsuits (See Appendix B).

Source: JLARC analysis of interviews with Flory Center staff and DBA staff, and Virginia Business magazine, February 2000.

William County. While other directors had concerns with various agreement provisions, no other centers declined to sign the annual agreement.

As previously referenced, the other major State program document besides the annual agreement is the policy and procedures manual. In 1997, the Virginia SBDC State office developed the network's first official policy and procedures manual and distributed it to all local centers. The manual established standards for the SBDCs to follow on topics such as:

- functions of the State office, SBA, local hosts, and ASBDC;
- physical site requirements and operations;
- staff and employment standards;
- counseling and training activities;
- budgeting and accounting; and
- reporting and continuation of funding proposals.

The manual incorporates a variety of SBA requirements, such as that all SBDCs must participate in the pre-qualification loan program, and all clients must complete an SBA Form 641 before they can receive assistance from an SBDC.

While the manual encompasses the federal requirements, it also moves beyond those requirements by providing more detailed direction regarding the manner in which the local centers' activities are to be accomplished and documented. The majority of these provisions are basic guidelines that are designed to assist local centers with administrative issues. The establishment of the policy and procedures manual along with a more lengthy and detailed annual agreement has brought a much higher level of accountability, as well as control over the local centers, than the program had initially.

STATE ROLE AND ASSISTANCE NEED REFINING

Sound public policy dictates that any program in which government funds are going to be expended needs to ensure a basic level of accountability for those funds. Virginia SBDC program documents revealed that the first several years of the program lacked adequate accountability. Spurred in part by the need to obtain national certification, the State office took a number of positive steps to increase program accountability. However, some of the State's actions may have resulted in an excessive level of control over service center operations. Now that the State has obtained initial certification and a more solid program structure is in place, it is appropriate to examine whether steps can be taken to increase local flexibility in administering the program, while also preparing for the next certification review in

2003. In addition, it appears that the State office needs to identify ways to better assist service centers in meeting program objectives.

The Role of the Local Host Should Be Emphasized

SBDC program documents, as well as comments by federal and State staff, repeatedly referred to the SBDC program as a "partnership" between the SBA, DBA, and local hosts. However, as previously described, the program has become more structured over time, resulting in less decision-making in the hands of the local hosts.

Local center hosts should play a major role in the direction of the centers' services for three primary reasons. First, center staff are employees of the local hosts, and therefore, have a direct reporting line with host staff. Second, local hosts provide substantial financial resources to support the centers. Third, local hosts are in the best position to understand the needs of their local small business communities.

Many of the program's basic characteristics provide for local flexibility. For example, the State office provides the local hosts with flexibility in determining how to structure their SBDC offices to best meet the needs of their communities. If an SBDC is responsible for providing business assistance to a large geographic area, its host has the option of opening satellite offices that are staffed by full-time employees or by using part-time offices that are only staffed when needed.

> *The Hampton Roads SBDC is responsible for a 4,260 square mile service area that includes 1.6 million residents and more than 35,000 small businesses. In order to serve this area, its host structured the SBDC into a main office, three satellite offices, and four part-time offices that are located throughout its service area.*

Furthermore, the program allows the local host to set the basic human resource management parameters, such as establishing the number of full- and part-time staff positions, staff titles, salary ranges, and benefit packages.

In addition, SBDCs may target their services toward particular groups of customers that are prevalent in their service areas. For example, the South Fairfax SBDC, which is located in an economically distressed urban area, concentrates its counseling and training services toward lower-income minorities and women. The Longwood SBDC, which is located in a rural area, provides targeted counseling relevant to agricultural small businesses, such as dairy and tobacco farmers.

Despite this basic level of program flexibility, there are a number of areas in which State and federal program requirements limit local flexibility. In particular, some of the host organizations interviewed for this study cited concerns with personnel requirements imposed by the State. For example:

> *Staff from several host organizations indicated that they did not feel that the State office should have approval authority in hiring local center and satellite office directors or in formulating professional development plans for center directors. The host organizations argued that since they employ the local SBDC staff, they should be the final authorities concerning issues involving their personnel. However, these host organizations said it would be appropriate for the State office to provide input concerning potential center director hires and the content of their professional development plans.*

As the program has become more structured and regulated, the decision-making role of the local host has diminished. To some extent, there appears to be an inconsistency between the levels of local authority for the program compared to the local financial contribution. To moderate this trend, the State office needs to work more closely with local program hosts to ensure that the program provides maximum local flexibility to meet the needs of the local small business community, while also adhering to federal program requirements. Ultimately, it appears that the goal of the program should center on being an asset to the local community, particularly with regard to job generation, and that program requirements should relate to that focus.

Toward this aim, the State office needs to reevaluate the specific requirements and restrictions it places upon the local hosts to determine if any can be removed or modified to be less restrictive. The State office should solicit the input of local hosts in targeting requirements for modification.

Recommendation (1). **The State office, in cooperation with local hosts, should evaluate the State requirements placed on the program with the goal of identifying requirements that could be made less restrictive to local hosts, while still maintaining an adequate level of accountability.**

State Office Should Serve a More Facilitative Role for the Local Centers

During the course of this review, JLARC staff solicited the views of local center directors concerning the appropriate role of the State office. Based on these interviews, several center directors reported that the State office should take a more active role to support local center activities. Directors reported that they would like the State office to serve as a conduit for information on "best practice" management and counseling techniques on an on-going basis and generally serve as a "network-wide information clearinghouse."

Examples of center director comments include the following:

> Under the current situation, you have to go to all [28] SBDCs to find out the approach taken on an activity and then independently decide which is the best approach. I would like to see the State say, here's a template for doing XYZ. Use it, but also tailor it to your needs.
>
> * * *
>
> We never receive any visits from the State office staff just to see how [the center is] doing. It would be helpful if they could bring ideas on how to do things more efficiently. There may be solutions out there we're not aware of.
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> * * *
>
> [The State director] comes when called, for example if you have a problem. I would like him to visit more often and bring in ideas, best practices from other centers.
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> * * *
>
> We're not getting templates from the State office – techniques to enable us to help clients better. The State office should give centers more time-savings suggestions to address [center responsibilities].
>
> * * *
>
> There has to be some additional tools that SBDCs could use to make it easier to do the work. The State office is not providing this guidance.

With limited staffing at most of the local centers, it appears appropriate, if not critical, for the State office to serve as the conduit for information on how to operate centers more efficiently and to more effectively serve clients.

There are a number of steps the State office could take to better serve this function. Currently, there are several efforts under way to improve the operation of the Virginia SBDC program. Many of the improvement efforts are identified in the network's 2000-2003 Strategic Plan. It appears that the State office could play a more involved role in implementing the activities identified in the Strategic Plan.

The network has established five committees to address various projects, such as the development of a catalog of local center resources and development of a strategy to better target existing businesses for assistance. These committees are predominantly staffed with local center staff, with relatively little committee involvement by the State office staff. Three of the committees do not include direct State office representation. Of the other two committees, the associate State office director sits on one committee and the office's administrative assistant sits on the other committee. The use of center staff to undertake the various strategies helps to establish "buy in" from the local staffs; however, it also adds to the workload of the centers and, therefore, takes time away from their primary client-based duties. It

appears that the State office should be taking more responsibility than it currently is for development of these new program initiatives.

One specific area in which the State office could be of assistance pertains to training.

> *Currently, all SBDCs are required to submit their training schedules to the State office. With that information, the State office could assist local centers in identifying possible opportunities to incorporate distance learning (a resource most SBDCs have available) into their training schedules. Essentially, one center could conduct the training on behalf of multiple centers. This would free up additional time for one-on-one counseling.*

This approach may be a particularly efficient way to offer training to pre-venture clients.

Several center directors reported that it would be helpful if the State director distributed information to the network concerning other states' practices that may be useful to implement in Virginia. For example, JLARC staff review of other states' programs revealed that at least two states – Delaware and Pennsylvania -- offer on-line courses for pre-venture business people. This could be one approach to reducing the proportion of start-up clients served by the network. There are likely to be other innovative activities undertaken by other states. The State director's role on the ASBDC certification review team places him in a particularly advantageous position to learn about useful programs in other states.

Another effort the State office could take to be of assistance to the local centers is to find ways to minimize the administrative burden of the program on the local centers. Many centers indicated that adhering to State and federal requirements is a time-consuming process that limits their ability to provide clients with quality counseling and training services. One avenue that could be taken includes identifying reporting and other administrative requirements that are not federally driven and either eliminating or streamlining them. For example:

> *As previously noted the State purchased an "off-the-shelf" MIS system for use by the Virginia SBDC network. The MIS contains approximately 150 data entry fields, a number of which are not useful to Virginia's program. For example, the MIS requires centers to subdivide information on the four economic impact measures SBDCs collect into 21 different categories. Examples of categories include: jobs created based on loans obtained, jobs created based on a sales increase, jobs created based on owner investments, and jobs created based on other investments. Once the monthly MIS report is uploaded to the State office, the State staff simply consolidate the data into the original four measures for reporting purposes. However,*

> *because the system structure cannot be modified, the State office requires local centers to fill in all applicable fields. This appears to be an inefficient use of center staff time that could be eliminated by selecting one set of categories for use in submitting the information and leaving blank or setting to zero the other categories.*

This presents an example of a relatively minor irritant, but one that could be addressed by the State office.

Another approach that the State could use to help streamline the program is to contract with the SBA on a multi-year basis. Currently, the Virginia SBDC submits annual continuation of funding proposals to the SBA. It appears that the State could reduce some paperwork requirements by contracting with the SBA on a 36-month basis.

DBA reported that State regulations prevent it from using multi-year contracts because it is a federal grant program that requires participants to furnish matching funds. However, JLARC staff confirmed with Department of Planning and Budget (DPB) staff that entering into multi-year grant contracts with the federal government is an acceptable State agency practice. In fact, DPB staff reported that many State agencies use multi-year contracts for their federal grant programs. As with the yearly grant contracts, match funding is still contingent on the General Assembly appropriations. The State office should further explore this option as a possible way to reduce the administrative burden associated with this program.

This discussion provided some examples of how the State could better support the local centers while improving the efficiency of the program. The State office should continually seek ways to more efficiently and effectively operate the program and communicate the results to the local centers. One step the State office has recently taken that is of potential benefit to the local centers is to increase the amount of information resources available through DBA's website. The website now has information on required business licenses, available counseling services, certification for women-owned businesses, a listing of upcoming SBDC training events, and information on the SBA pre-qualification loan program.

Recommendation (2). **The State office should solicit input from the local center staff regarding ways the State office could better assist the centers in accomplishing their mission. In particular, the State office should identify avenues for reducing the administrative burden of the program and identify "best practices" in other states that could be incorporated into Virginia's program.**

III. Virginia SBDC Performance and Operations

The Virginia Small Business Development Center (Virginia SBDC) program appears to provide a beneficial service for the State and is generally administered in a manner that is consistent with federal and State program objectives. As described in Chapter II, the program has faced a number of challenges in recent years, but appears to be moving forward with program improvements. It should now be well positioned to refocus its efforts on the primary goal of the program – generating a positive economic impact on the State. The need to refocus is critical, as this review found that the economic impact of the program to Virginia appears to have declined somewhat in recent years.

Consistent with a renewed focus, the Virginia SBDC program needs to better target the program's clientele. Further, the State office needs to modify its oversight methods. In particular, the program needs to revise the frequency and substance of its service center reviews and better assess the economic impact of the network's activities.

VIRGINIA SBDC PROGRAM APPEARS TO BENEFIT THE SMALL BUSINESS COMMUNITY IN THE STATE

According to Virginia Employment Commission data, small businesses account for over 97 percent of employer businesses in Virginia and 46 percent of the workforce (not including self-employed people). Most local, regional, and State economic development organizations focus their activities on recruiting new companies and in assisting large companies to expand their operations. Since these organizations normally do not focus their resources toward assisting small businesses, the State created the Virginia SBDC program to complement the economic development efforts of these organizations. Of the business clients served by this program, most appear to be satisfied with the services they receive from the SBDCs and report that their businesses are enhanced by them.

This review also found that the State office has made a number of improvements to the operation of the network in the past couple of years. These efforts suggest that the Virginia SBDC network is actively seeking ways to better serve the small business community in the State.

Virginia SBDC Network Focuses on Small Businesses Throughout the State

Given the prevalence of small businesses in the State, it appears reasonable to provide an assistance program targeting this segment. In discussions with representatives of local chambers of commerce as well as other business-related organizations, the general consensus was that there was a need for the type of services provided by the SBDCs and that the SBDCs were serving a useful purpose.

There are currently several programs that provide assistance to small businesses; however, the Virginia SBDC program is the only one to offer general business assistance statewide through a coordinated network. A stated goal in developing the network was ensuring that there would be full statewide coverage, with centers located such that no business owner would be more than one hour's drive from a local center. The State appears to have met this goal through its network of 28 service centers and satellite offices (Figure 1 of Chapter I). As illustrated by Figure 4, these centers serve a broad geographic distribution of clients across the State.

Further, SBDC client data reflect that the local centers are targeting businesses with less than 100 employees, as the program originally envisioned. Since 1999, all but 25 of the clients who reported employment size data indicated that they have less than 100 employees.

Consistent with federal and State program requirements, the local centers assist small businesses primarily through the provision of one-on-one counseling and group training. In 2000, the Virginia SBDC network spent 29,895 hours counseling 4,452 clients. Further, local centers held 551 training sessions attended by 6,958 customers. According to local center staff, clients primarily seek counseling assistance with personnel, marketing, and finance/accounting related matters.

Based on an annual survey of Virginia SBDC clients, the services provided by the SBDCs appear to benefit their small business clients. The State office contracts with Virginia Commonwealth University (VCU) to conduct an annual client satisfaction survey. The survey is designed to measure clients' satisfaction with the quality of the SBDCs' services and to provide the local centers with feedback on the needs of small businesses in their service areas.

In 2001, VCU surveyed a sample of SBDC clients who received five or more hours of counseling. Clients who responded to the survey were generally satisfied with the services they received from the SBDCs (Table 6). They also indicated that their expectations were met by the SBDCs, and their business capabilities were enhanced by the assistance they received. Most clients indicated that they would recommend the SBDCs to both experienced and inexperienced small business persons.

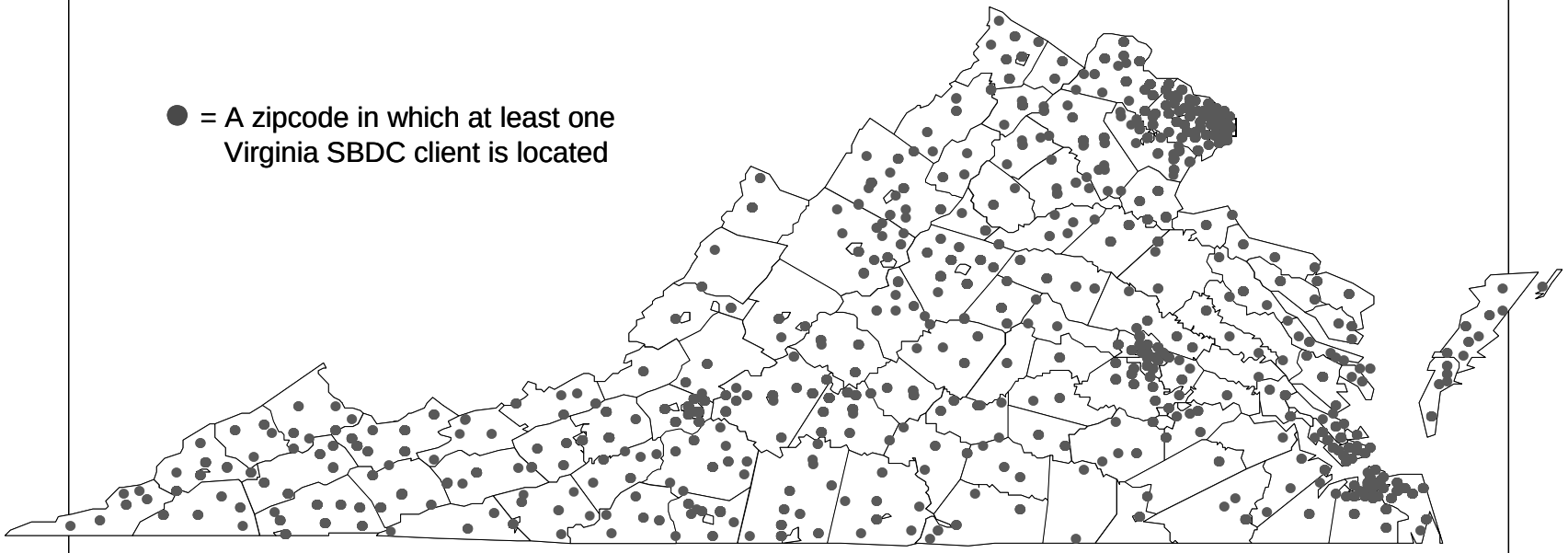
A consultant hired to conduct an economic impact analysis of Virginia's SBDC program in 1999 obtained similar client satisfaction results from a survey of SBDC clients. That study found that 86 percent of existing business survey respondents and 94 percent of the pre-venture survey respondents indicated that Virginia's SBDC services were beneficial. Approximately 93 and 94 percent of the existing business and pre-venture business respondents, respectively, reported that they would recommend the SBDCs' services to other business people.

Further, all of the local centers can provide examples of how their assistance has helped small businesses. According to the Virginia SBDC's 2000 State Annual Report:

Figure 4

Geographic Distribution of Virginia SBDC Clients, 2000

● = A zipcode in which at least one Virginia SBDC client is located



Notes: This graph plots over 4,400 clients by zipcode. Many zipcodes have multiple clients. The data set represents clients for calendar year 2000.

Source: JLARC staff graphic based on Virginia SBDC client data plotted against zipcodes using a computerized geographic information system.

Table 6

Highlights of 1999-2001 Client Satisfaction Surveys

Question Topics	Average Score 1999	2000	2001
Satisfaction with services received from local SBDC (where 1 = highly unsatisfactory and 6 = highly satisfactory)	5.20 (n = 215)	5.04 (n = 118)	5.02 (n = 231)
Expectations were met or exceeded by services performed by local SBDCs (where 1 = fell well below my expectations; 3 = met my expectations; 5 = significantly exceeded my expectations)	3.73 (n = 225)	3.62 (n = 229)	3.68 (n = 231)
Significant improvement in business capabilities due to business services received from local SBDCs (where 1 = detracted from business capabilities; 4 = significantly improved business capabilities)	3.18 (n = 222)	3.11 (n = 221)	3.16 (n = 231)

Source: JLARC staff analysis of 1999, 2000, and 2001 Virginia Small Business Development Center Client Satisfaction Survey Results.

> *One small business obtained a $25,000 loan after receiving assistance from a local SBDC, which allowed the client to start a school to train medical-related professionals in 1997. The client continued to obtain assistance from the SBDC at each juncture in the development of her small business. The client felt that the assistance she received from the SBDC benefited her business. By 2000, this small business employed 15 people, represented a $109,085 capital investment, and generated $768,825 in sales.*
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> * * *
>
> *Another small business providing logistical support to grocery stores obtained help in preparing a pro forma financial statement, business plan, and revenue projections that resulted in the company securing a loan. According to this client, the assistance that it received from the SBDC allowed the company to hire an additional eight employees and increase its annual sales from $100,000 in 2000 to a projected $500,000 for 2001.*

While these examples do not provide an indication of the overall cost-effectiveness of the program, they do show that some small businesses in the State are helped by the Virginia SBDC program.

Virginia SBDC Has Made Program Improvements in Recent Years

The Virginia SBDC network experienced a number of problems during its development that were primarily due to inadequate management of the program.

However, the State office has made several improvements to the operations of the network during the past few years. The following case examples illustrate some of the more significant improvements that were made to the program by the State office.

> *Typically, the State does not receive funding approval from the SBA until a few months into the program year. Once funding is approved, the State executes its agreement with the local center hosts – usually around March of each year. The contract's timing historically meant that local hosts must provide 100 percent of the financial support for the centers during the first few months, with no guarantee that they will be reimbursed. The State office would explicitly tell the local centers that they would only get reimbursed for that time period if they subsequently signed the agreement that DBA would issue in March. This situation had been a source of concern for local hosts. Further, it played a major role in the Flory Center not being reimbursed for the work performed without an agreement during 1999.*
>
> *While the federal funding issue is not within the State's control, the State office helped ameliorate this problem in 2000 by providing each local center with a letter authorizing them to continue their operations at the previous year's approved expenditure levels for January and February. The State began guaranteeing payment for the expenses incurred in January and February. Several of the SBDC directors indicated that the State's funding authorization letter alleviated their concerns surrounding this issue.*
>
> * * *
>
> *The State office has taken steps to improve the skills and knowledge base of the SBDC directors, counselors, and administrative staff by instituting annual professional development conferences. The most recent conference was held in August 2001. It provided local SBDC staff with information on such topics as financial planning, fundraising, customer service, and "best practice" management techniques. The August 2001 conference was well received by local SBDC staff. According to one SBDC director, it was the best professional development training the director had ever attended as part of the SBDC program.*
>
> * * *
>
> *The State office recently established a pilot video-conferencing program at 11 SBDC service centers. The objective of the program is to allow clients to obtain assistance from SBDC staff*

> *with particular expertise without having to drive to distant centers. With the videoconferencing equipment, a client can be counseled at one center by staff at another location. The equipment has the capability to transmit voice, sight, and electronic data, such as spreadsheets. The State office reported that this technique will allow the network to better support sparsely staffed centers that lack the resources needed to address all of the small business concerns in their service areas.*

Most local center staff indicated that the recent improvements made by the State office have benefited the network. These changes appear to reflect a willingness and desire on the part of network and State office staff to strengthen the program.

PERFORMANCE OF THE VIRGINIA SBDC NETWORK

Despite the generally positive client satisfaction results, the program has shown inconsistent results in key measures of performance in recent years. There are certain local centers, in particular, that demonstrate potential problems across several economic and programmatic indicators. While there are some intangible benefits to the State from having a small business assistance program, the program was established with the goal of producing tangible benefits – that is, a positive economic impact on the State's economy, particularly in terms of job creation.

The Virginia SBDC program needs to be monitored over the next few years to assess whether the recent declines in job creation and retention are an ongoing trend or simply fluctuations, with subsequent years showing improved performance. If improved economic results do not materialize, then the purpose and appropriateness of the program to the State need to be reconsidered.

Economic Impact of SBDC Assistance Has Declined Somewhat in Recent Years

The Virginia SBDC stresses in various program documents that a positive economic impact is "the main priority of the SBDC program." Its annual funding proposal to the SBA notes that:

> Virginia places a strong emphasis on measuring the economic impact generated by the [Virginia] SBDC program. Economic milestones serve as the primary performance measure of the... program and are included as a part of each individual contract with the local centers.

The State office collects and reports data on the number of jobs created by clients, number of jobs retained, amount of capital investment, increase in sales, and total number of clients. JLARC staff used these measures to assess SBDC performance.

Analysis of the data suggests that the State's return on its investment in recent years has been inconsistent and even declining on some measures (Figure 5). The General Assembly provided the network with an additional $500,000 per year beginning in 1996. However, since 1997 there has been a decline in the number of small business jobs created and retained attributable to assistance from an SBDC. The program achieved an average of less than one job created and/or retained per client served in CY 2000. Also, the amount of capital investment by SBDC clients has been fairly stagnant for the last few years. Further, for most SBDCs there has been a lessening of impact on client sales since 1997. In fact, all of the increase in client sales in 2000 is attributed to a very large increase for one SBDC; the Northern Virginia SBDC accounted for $63.3 million of the $109 million total increased sales by clients for 2000.

A portion of the declining economic impact of the program appears to be attributable to the withdrawal of the Dr. William E. S. Flory Center from the SBDC network in 1999. Prior to its withdrawal from the network, this center was a major contributor to the overall economic impact reported for the program. For example, in 1998 (the year before it left the system), the number of jobs created and retained based on the Flory Center's assistance accounted for almost 22 percent of all jobs reportedly created and retained as a result of Virginia SBDC assistance.

The relatively small impact reported by the program raises questions about its ability to meet its primary goal – job growth and retention, as well as its overall cost-effectiveness. The program should be monitored during the next few years as part of the State's performance-based budgeting process. If the documented economic impact of the program continues to decline or stagnate, the General Assembly may wish to reevaluate the purpose of the program. Specifically, there may be some value in having a program whose purpose is simply to provide general assistance to small businesses, regardless of its impact on the State's economy. However, if the General Assembly determines that economic growth, primarily through job creation, should be the paramount purpose of the program, then it may wish to reevaluate the appropriateness of continued funding of this program at current levels, if declines in measures of job growth continue.

Performance of Individual Service Centers Shows Mixed Results

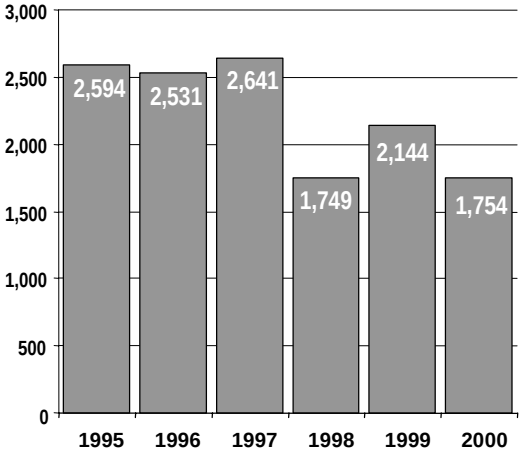
The overall trend in economic impact of the Virginia SBDC program masks some variation in impact at the local service center level. Some local centers routinely obtain significant results from their efforts. On the other hand, there are other centers that report a relatively minimal impact on their local community's economy. In addition, a few centers demonstrate weaknesses in various counseling and training performance indicators. The State office needs to more closely monitor these local SBDCs and provide technical assistance as needed to ensure that the centers are operating as effectively as possible.

Economic Impact. Table 7 provides information on the level of economic impact in relation to local center costs over the past three years. In examining the economic impact data for each local service center, there are three centers for which

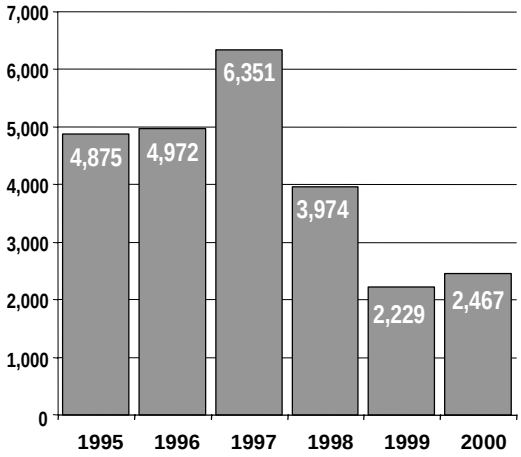
Figure 5

Virginia SBDC Performance Indicators, 1995 – 2000

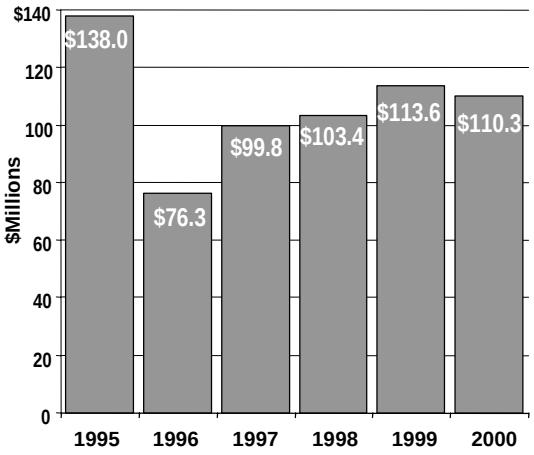
Total Jobs Created



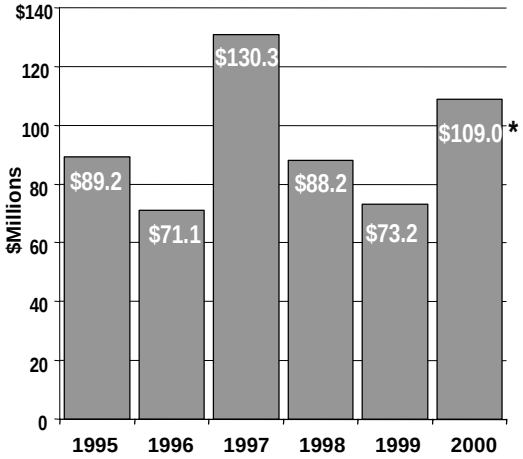
Total Jobs Retained



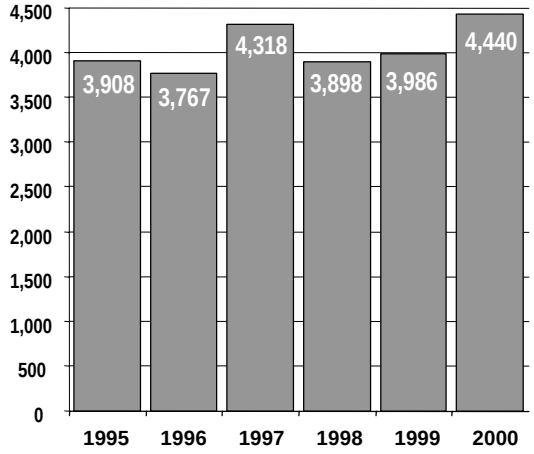
Total Capital Investment by Clients



Total Increased Sales by Clients



Total Number of Clients



*One service center (Northern Virginia SBDC) accounts for $63.3 million of this amount.

Source: Virginia SBDC Annual Report to the SBA, 1995 through 2000.

Table 7

Comparative Performance Indicators, CYs 1998 to 2000: Relative Return on Investment in SBDCs

SBDC	Dollars Expended Per Job Created and Retained	Client Capital Investment per SBDC Dollar Expended	Increase in Client Sales Per SBDC Dollar Expended
Alexandria	$657	$18	$42
Central Virginia	791	14	29
Greater Richmond	924	17	14
Hampton Roads	1,445	49	16
JMU	628	17	4
Longwood	1,570	37	8
Lord Fairfax	1,910	6	32
Mountain Empire	2,154	11	7
New River Valley	408	68	26
Northern Virginia	2,591	13	37
Rappahannock Region	1,472	14	16
Region 2000	436	12	9
Roanoke Regional	822	26	6
Southwest Virginia	465	28	39
Virginia Highlands	559	16	8
Wytheville	2,514	9	1
Statewide Average	**$923**	**$25**	**$20**

Key to Shading:

Within the "Dollars Expended Per Job Created and Retained" column, a gray shaded box identifies the local centers that were more than twice the statewide average cost over the three year period from 1998 to 2000.

Within the "Client Capital Investment per Dollar Expended" column, a gray shaded box identifies the local centers that obtained an average investment of less than $10 per year for the three year period from 1998 to 2000.

Within the "Increase in Client Sales per Dollar Expended" column, a gray shaded box identifies the local centers that were less than half the statewide average over the three year period from 1998 to 2000.

Source: JLARC staff analysis of data in Virginia SBDC Annual Reports and from DBA.

the economic impact appears particularly low in relation to the centers' expenditures – the Lord Fairfax, Mountain Empire, and Wytheville SBDCs. These local centers achieved a relatively low return on investment for at least two of three economic impact indicators.

In the case of the Mountain Empire and Wytheville SBDCs, the rural nature of their service areas coupled with the minimum office requirements for an SBDC may limit somewhat their ability to show a substantial impact in relation to the cost of operation. However, there may still be steps that could be taken to increase their economic impact. In particular, the centers, in consultation with their hosts and the State office, should evaluate the appropriateness of the mix of clients served. Both the Mountain Empire and Wytheville centers serve a relatively large proportion of pre-venture clients. Depending on the needs of their communities, the centers may need to increase their efforts to assist existing businesses.

Programmatic Characteristics. JLARC staff also examined a variety of programmatic characteristics of the local service centers to assess performance, primarily related to their counseling and training responsibilities. The State office sets as a goal that each center should average eight hours of counseling time per client. (Counseling time includes direct contact with the client as well as preparation and travel time of the counselor.) The State office reported finding that centers that spend an average of more than eight hours per client tend to have a greater economic impact than those that spend less time per client. The State office also differentiates between short- and long-term clients, with long-term clients having received at least five hours of counseling from the SBDC. Local centers are encouraged to maximize the number of long-term clients they counsel.

In practice, SBDCs range from an average of 3.2 hours per client in the Northern Virginia and Lord Fairfax SBDCs to a high of 18.3 hours per client at JMU SBDC (Table 8). As of CY 2000, only five centers met the State office's target of an average of eight counseling hours per client – the JMU, Longwood, Mountain Empire, New River Valley, and Southwest Virginia SBDCs. Four SBDCs had particularly low average counseling hours per client; the Central Virginia, Lord Fairfax, Northern Virginia, and Roanoke Regional SBDCs averaged less than five hours per client in CY 2000.

Another measure examined was the proportion of SBDC clients who are characterized as long-term clients – those receiving five or more hours of counseling. There were six centers for which less than 25 percent of their clients were considered long-term – the Central Virginia, Hampton Roads, Lord Fairfax, Northern Virginia, Rappahannock Region, and Roanoke Region SBDCs. This low level of counseling hours per client raises concerns about how much of a positive impact the centers could have on a client in such a short period of time and whether the centers are appropriately targeting their limited resources toward clients that have the most potential to positively impact the State's economy. (The next section discusses in more detail the targeting of clients.)

JLARC staff also examined the average attendance per training event held by SBDCs. There were three SBDCs that averaged less than ten attendees per

Table 8

Client Counseling and Training Performance Indicators, CY 2000

SBDC	Average Counseling Hours Per Client	Proportion of Clients Who Received More Than Five Hours of Counseling	Average Number of Attendees per Training Session
Alexandria	5.8	31.5%	25.4
Central Virginia	3.3	13.1%	10.0
Greater Richmond	7.6	30.8%	16.8
Hampton Roads	6.9	22.9%	8.5
JMU	18.3	36.4%	12.5
Longwood	11.4	49.6%	13.9
Lord Fairfax	3.2	13.2%	10.2
Mountain Empire	9.4	53.7%	18.1
New River Valley	18.1	33.1%	9.7
Northern Virginia	3.2	11.6%	12.0
Rappahannock Region	5.5	21.9%	10.9
Region 2000	6.2	43.8%	9.2
Roanoke Regional	4.9	22.0%	17.6
Southwest Virginia	13.0	32.1%	28.7
Virginia Highlands	6.0	28.0%	33.8
Wytheville	6.3	29.9%	11.5
Statewide Average	**6.7**	**25.5%**	**12.6**

Key to Shading:

Within the "Average Counseling Hours Per Client" column, a gray shaded box identifies the local centers that counseled clients less than five hours on average.

Within the "Proportion of Clients Who Received More Than Five Hours of Counseling" column, a gray shaded box identifies the local centers for whom less than 25 percent of their clients were considered long-term clients (more than five hours of counseling).

Within the "Average Number of Attendees per Training Session" column, a gray shaded box identifies the local centers that had on average less than ten attendees per session.

Source: JLARC staff analysis of data in Virginia SBDC Annual Reports and from DBA.

training session in CY 2000 – the Hampton Roads, New River Valley, and Region 2000 SBDCs. Most of these centers tended to hold a relatively high number of training sessions. It is possible that these centers could increase the efficiency of their training programs by having fewer training sessions, with sufficient marketing to promote higher attendance at each event.

While there are wide variations across SBDCs, there were five SBDCs that show potential weaknesses in at least two of the three counseling and training indicators – the Central Virginia, Hampton Roads, Lord Fairfax, Northern Virginia, and Roanoke Regional SBDCs. Of these centers, only the Roanoke Regional SBDC has received a formal on-site monitoring visit from the State office since 1998. However, the State director reported conducting over 40 site visits to centers in each of the past three years.

One additional concern pertains to the Central Virginia SBDC. This center has been unable to meet its funding match requirement in the past few years, which reflects a lack of adequate local support for the center. If additional funding is not forthcoming, the State office needs to begin actions to close the center. It should then issue a request for proposals from other entities that may wish to host a service center in the Charlottesville area. Alternatively, the State office may want to work with existing service centers to incorporate the Central Virginia SBDC's service area into the service areas of the other centers.

Further, the State office needs to visit all of the SBDCs exhibiting potential weaknesses in their counseling and training programs and in their economic impact in the community and examine in-depth the reasons for these weaknesses. A course of action should then be developed to bring these SBDCs more in line with State performance goals.

Recommendation (3). **The State office should closely work with and monitor the SBDCs showing potential weaknesses in services provided and/or economic impact. Strategies should be developed jointly by the centers and State office staff to improve services and better target clients that would benefit the State's economy from SBDC assistance.**

Recommendation (4). **The State office should begin discussions with the host of the Central Virginia SBDC on a plan to close the SBDC unless additional local funding sources can be obtained. If adequate funds are not obtained, other options should be pursued for providing assistance to small businesses in the Charlottesville area. Specifically, the State office should either issue a request for proposals from other entities that may wish to host a service center in the Charlottesville area, or work with existing service centers to incorporate the Central Virginia SBDC's service area into the service areas of the other centers.**

SYSTEMIC ISSUES NEED TO BE ADDRESSED

As previously described, the overall goals and purpose of the Virginia SBDC program appear to be an appropriate complement to Virginia's economic development efforts. However, there are some systemic issues that need to be addressed to improve the program. In particular, in keeping with the original focus of Virginia's program, efforts to focus on existing businesses need to be

strengthened. In addition, the State office needs to restructure its oversight efforts to maximize the value of these efforts.

Virginia SBDC Needs to Better Target Its Clientele

While the Virginia SBDC has been serving an increasing number of clients in the past few years, it appears that a corresponding increase in economic impact has not occurred. These results described previously suggest that the network may not be targeting its services to those businesses with the most potential for economic benefit.

The original program proposal called for a primary focus on existing small businesses with between five and 100 employees. It was felt that improvements in those businesses would generate the greatest benefit for the State's economy. In practice, however, SBDCs primarily serve very small businesses – those with only one or two employees. Further, almost half of their clientele are not currently in business (termed "pre-venture" clients).

SBDC staff throughout the network noted that they want to minimize the number of pre-venture clients they counsel because many of these clients ultimately decide not to go into business and, therefore, do not have a positive impact on the economy. As noted in recent years' Virginia SBDC proposals to the SBA, "Centers will enhance economic impact through increased focus and marketing efforts geared towards clients with existing businesses." Efforts have been under way in the past few years to try to direct pre-venture clients to training seminars that explain the basics of how to start a business rather than provide this information in counseling sessions. Since pre-venture clients tend to need the same basic information, the network has determined that group training is the most efficient way to dispense this information.

While the SBDCs and State office staff reported that this approach has been taken, it appears that these efforts have shown limited success to date. In fact, statewide the proportion of SBDC clients that are not currently in business has grown slightly in the past three years. In 1999, 45 percent of SBDC clients were pre-venture clients. For the first six months of 2001, 48 percent of clients were not currently in business.

The following two case examples illustrate potential problems with the Virginia SBDC's client mix.

> *The Northern Virginia SBDC serves substantially more clients than any other local center in the network, counseling 1,089 clients in 2000. While the center had an increase in its measure of increased client sales in 2000 compared to previous years, it has consistently had one of the lowest rates of job creation and retention per client served in the network. In 2000, it averaged only one-half of one job created and/or retained per client*

> *served. Examination of the center's client mix shows that the majority of its clients are not currently in business.*
>
> * * *
>
> *The Hampton Roads SBDC has been counseling an increasing number of clients during the past few years. In 1998, the center counseled 350 clients, while in 2000, it counseled 624 clients. However, as its number of clients has increased, the economic impact per client served has generally declined. For example, the average number of jobs created and/or retained per client was 1.2 in 1998, and it was 0.3 in 2000. This may be due, in part, to the fact that most of the growth in clients has come from assistance to pre-venture clients rather than existing businesses.*

While still providing a useful service to pre-venture clients, Virginia SBDC network staff consistently reported that their most substantial economic impact comes from assistance to existing businesses.

The Virginia SBDC network formed two committees this past year to identify ways to effectively serve pre-venture clients and to better market their services to existing businesses. The goal of the "60/40" committee is to shift the Virginia SBDC's client base to reflect an existing business client base of 60 percent and a 40 percent pre-venture client base. The 2000-2003 Strategic Plan identifies the strategies of this committee as the following:

> We will develop a statewide policy to establish guidelines and give credit for handling requests from start-up clients and allow centers to more effectively utilize precious counseling time.
>
> We will identify and implement standard start-up screening methods and assessment tools geared toward minimizing the use of one-on-one counseling. We will explore start-up training programs to evaluate potential standards for use across the Network.
>
> We will develop standard e-counseling policies and procedures for the network that meet the guidelines as stated in the [Association of Small Business Development Centers] Certification Standards.

The goal of the second committee, "Marketing and Marketeers," is to increase the number of existing business clients and partners, with a primary strategy of developing a "statewide plan to more effectively market our services to existing businesses." The committees are expected to complete their work by mid-2002.

Establishment of these committees is a positive step toward actively managing the Virginia SBDC's client base. The work of these committees is important to maximizing the long-term economic benefit of the SBDC program to Virginia. Equally important will be the cooperation of all the centers in implementing the results of the committees' work. It appears that other states have addressed this issue in varying ways. For example, the Delaware SBDC will not counsel any pre-venture clients until they have completed a course in how to start a business. The State office should assist the committees by exploring the approaches to this issue taken by various other state SBDC programs. Further, the State office should monitor the committees' efforts and encourage the completion of their work on schedule.

Recommendation (5). **The State office should collect information on efficient and effective methods being used by other states for addressing the needs of pre-venture clients. This information should be shared with the relevant SBDC committees.**

Changes Needed to the State Office's Oversight Activities

The State office oversees SBDCs through four primary means – periodic on-site monitoring, monitoring of economic impact measures, an annual client satisfaction survey, and review of various SBDC reports. The State office needs to modify its oversight efforts to better assess service center performance and economic outcomes.

On-Site Monitoring Process Needs to Be Strengthened. The State office conducts two types of on-site monitoring. According to the Virginia SBDC Policy and Procedures Manual:

> The State office will perform a financial and programmatic review at Local Centers once a year to ensure compliance with guidelines set in the annual Agreement, Federal Regulations, OMB Circulars and ASBDC Certification standards. Problem areas will be communicated in writing to the local director. Should problems persist, the State Director will meet with the local director and host institution representative to plan immediate improvements.

The State office financial manager is responsible for conducting the financial reviews and the associate State director is responsible for conducting the programmatic reviews. JLARC staff examined the schedule and results of the programmatic and financial reviews conducted since 1998.

Financial and programmatic reviews have not been conducted routinely in the past few years. All SBDCs received programmatic reviews and most received financial reviews by the State office in 1998 in preparation for the certification review process that year. However, despite the policy that SBDCs are to be

reviewed yearly, the reviews have been conducted inconsistently since that time. Table 9 shows that only three financial reviews and no programmatic reviews were conducted in 1999. While financial reviews were conducted at most SBDCs in 2000, only six programmatic reviews were performed. No reviews have been performed to date in 2001. The State director reported that the limited number of reviews is due to staff turnover as well as other work priorities.

Table 9

On-Site Monitoring Reviews Conducted by the State Office Since 1998

SBDC	Dates of Financial Reviews				Dates of Programmatic Reviews			
	1998	1999	2000	2001	1998	1999	2000	2001
Alexandria	✓		✓		✓		✓	
Central Virginia			✓		✓			
Dan River*								
Greater Richmond			✓		✓		✓	
Hampton Roads	✓	✓			✓			
JMU	✓		✓		✓		✓	
Longwood		✓**			✓			
Lord Fairfax	✓				✓			
Mountain Empire	✓		✓		✓			
New River Valley			✓		✓			
Northern Virginia	✓				✓			
Rappahannock Region	✓		✓		✓		✓	
Region 2000	✓		✓		✓			
Roanoke Regional	✓	✓	✓		✓		✓	
Southwest VA	✓		✓		✓		✓	
Virginia Highlands	✓		✓		✓			
Wytheville CC	✓		✓		✓			

Note: Grey shading highlights SBDCs that exhibit weaknesses in their counseling, training, and/or economic impact performance.

* Dan River SBDC became operational on February 1, 2001.

** State office staff conducted a financial review but did not prepare a written report of the findings nor communicate their findings to the local center.

Source: JLARC staff review of Virginia SBDC financial and programmatic reviews, 1998 through 2001.

State staff reported that they do not have established criteria for selecting SBDCs for reviews. Without set criteria, it appears that some inappropriate decisions have been made as to which SBDCs were and were not reviewed from year to year. For example, although the State office became aware of financial difficulties related to matching funds at the Central Virginia SBDC beginning in 1998, that center was one of only a few centers that did not receive a financial review in 1998. In fact, the State office did not conduct a formal financial review of that center until 2000. However, there were several meetings between the State director, the host, and the management committee to address this issue.

In addition, the State office cited a number of problems at the Central Virginia SBDC during its programmatic review in 1998. However, no follow-up review was conducted to determine if improvements had been made. The JLARC review of program data suggests that some of the same problems found in 1998 persist at that center.

Because of limited staff resources at the State office, the State office should reconsider its approach to on-site reviews. To ensure accountability for public funds, it is important to conduct yearly financial reviews of the SBDCs. However, the program would benefit from a restructuring of the programmatic reviews. First, it appears that since the State office collects ample programmatic data on a routine basis, annual on-site programmatic reviews of all SBDCs are less critical. To better use limited staff resources, the State office should give priority to programmatic reviews of centers that appear to be experiencing problems with service. The State office could develop a schedule whereby all SBDCs have programmatic reviews at least once every two years, with some receiving more frequent reviews depending on the SBDC's prior performance. In this way the State would ensure closer monitoring of SBDCs with a history of problems. It would also enable the State office to offer technical assistance to the centers before the performance problems reached a critical stage.

Another area that needs to be addressed is the substance of the programmatic reviews. State staff primarily rely on interviews with center staff and a review of a sample of client files in making their on-site assessment. The programmatic reviews should also be used to discuss the performance of the center with the local host and other local business leaders. The State office should use the review to gauge the extent to which the local center is meeting the needs of the local host and to get the host's input into actions that could be taken to strengthen the center or the statewide program.

Since center staff are supposed to develop links to other business resources in their communities, State office staff should also contact local business groups, such as the local chambers of commerce, to determine their views on the SBDCs' contributions to the business community. Broadening the programmatic reviews to include discussions with these other entities would result in a more well-rounded assessment of each SBDC.

Finally, the programmatic reviews should include an assessment of the methods and assumptions used in identifying the economic impact of each center's

assistance on its clients. The Virginia SBDC Policy and Procedures Manual notes that the attribution of economic impacts requires subjective determinations by the center directors. State office staff should spot-check the decisions made by center directors as to whether or not to include a client impact. For example, State office staff should check the extent to which centers are taking credit for substantial impacts from short-term clients. As noted in the manual, it would be "unusual" for a one-hour consultation with a client to result in a significant economic impact. Staff should also spot-check whether or not centers are including client impact data from surveys in which the client responded that the SBDC was not helpful to the client. Further, the State office should follow-up with centers not meeting their economic impact goals to determine why. These activities would help improve the consistency of the program's economic impact measures across SBDCs. However, as will be discussed in the next section, additional changes are needed as well to improve the soundness of these measures.

Recommendation (6). **The State office should ensure that it conducts yearly financial reviews of all SBDCs. Further, it should restructure its programmatic reviews, including modifying the frequency of the reviews and the types of information used to assess the SBDCs. In particular, State office staff should get input from local hosts and business leaders concerning the effectiveness of the SBDCs. The review should also include an examination of the methods used to identify the economic impact of center assistance.**

Economic Impact Measures Need Improvement. Another method the State uses to oversee and evaluate the performance of SBDCs is through the data collected on the economic impact of each center. The State requires each center to annually survey its clients from the previous year to collect information on the number of jobs created, number of jobs retained, amount of capital investment during the year, and amount of sales increase.

There are several problems with the methods used to assess economic impact. First, each center has developed its own survey instrument for collecting the data. These surveys vary in their wording and substance. Some of these surveys contain questions that are difficult to understand and use poorly structured response categories. All of them lack definitions for the information requested, such as "jobs retained."

According to the Virginia SBDC Policy and Procedures Manual, a standard survey form has been developed and was supposed to have been implemented this year. However, when JLARC staff requested from each center a copy of the survey they use, only two of them provided surveys that were consistent with the new format prescribed by the State office.

Albeit in different forms, all of the surveys collect information on clients' job creation and retention, capital investment, and increased sales. However, only the survey used by the Longwood SBDC appropriately ties the information requested to the counseling provided by the center. This survey states, in part, "please share with us any economic impact you attained as a result of SBDC

counseling." In contrast, the other surveys typically ask for the total amount of capital investment and increased sales and jobs by that client for the previous year, regardless of the extent to which the SBDC's assistance was instrumental in the client attaining that impact. Another question typically asks whether the SBDC's assistance was helpful. In many cases, SBDC staff reported that if the survey respondent stated that the assistance was helpful, then the total amount of that client's economic impact is attributed to the center.

This approach to measuring the centers' impact does not appear reasonable. For example, a client may have received assistance from an SBDC to set up the company's financial spreadsheets, while the client developed and implemented a new marketing plan on his or her own. However, the increased sales from implementation of the marketing plan would be attributed to the assistance of the SBDC. With regard to job creation and retention, the Virginia SBDC Policy and Procedures Manual states that:

> The different categories of Job Impact are very important in terms of marketing the [Virginia] SBDC program and evaluating center effectiveness. In general, the employees of every client truly assisted by the SBDC should be counted in one of the two categories ["jobs created" or "jobs retained"], allowing the program to track how many employees/people were impacted by [Virginia] SBDC assistance.

Attributing these broadly defined types of impacts to the SBDCs appears to simply provide a way to maximize the reported economic impact to better "sell" the Virginia SBDC program, rather than an attempt to determine the true impact of the SBDCs' services. Virginia SBDC staff defend this approach by noting that the generous counting of impacts is offset by the fact that the surveys have relatively low response rates (typically 20 to 30 percent), and thus, not all client impacts are identified. While clearly not all impacts are counted, a more reasonable approach would be to endeavor to improve the client response rate.

The State office has appropriately developed a standard survey instrument for the collection of economic impact data. However, it needs to modify the instrument to reflect that the information supplied should be based on the value of the assistance provided by the SBDC. Further, the State office needs to ensure that all centers use the standard survey.

Recommendation (7). **The Virginia SBDC State office should revise its standard economic impact survey to seek the level of impact that the client believes is attributable to the SBDC's assistance. It should then require that all SBDCs use the standard form. State office staff should ensure the use of the form through its on-site monitoring process.**

Recommendation (8). **The State office and SBDC staffs should work together to devise a strategy for increasing the client response rate for the economic impact survey.**

Response Rate for Annual Client Satisfaction Survey Needs to Be Improved. In the early years of the Virginia SBDC program, local centers were expected to annually survey their clients to determine clients' satisfaction with the services provided. Four years ago the State took over responsibility for conducting the annual survey. The State office contracts with a university professor to survey all long-term SBDC clients and report the results. The response rates for these surveys range from 18.5 to 22 percent. While this response rate produces enough respondents to reliably assess overall client satisfaction, it does not allow for an adequate assessment at the center level. For example, there were no centers for which more than 20 long-term clients responded to the 2000 survey. Over two-thirds of the centers received fewer than ten responses each. These low response levels preclude a meaningful assessment of client satisfaction at each SBDC. The State office should work with the contractor to devise a strategy for increasing the response rate for these surveys.

Recommendation (9). **The Virginia SBDC State office should work with its contractor to develop a strategy for increasing the response rate of the annual client satisfaction survey.**

Review of SBDC Reports. As described in Chapter II, there are several reports that centers submit to the State office, which detail their counseling, training, and other activities. State office staff reported that they review this information on an on-going basis.

In addition, the State office recently added a new module to the network's management information system (supplied by the Florida SBDC – the licensing agent), which allows the centers and State office to track various performance measures on an on-going basis. The measures include: counseling hours per client; total counseling hours; the number of clients, training events, and attendees compared to the center's goals; and various cost measures in relation to counseling and training activities (for example, budget per client served). This change will allow the State office to identify SBDCs with potential performance problems that may warrant an on-site programmatic review. It also provides the local centers with a convenient way to track their own progress without adding an administrative burden.

Appendixes

Appendix A

Study Mandate

SENATE JOINT RESOLUTION NO. 233, 2000 Session

Directing the Joint Legislative and Audit Review Commission to study small business development centers in Virginia and other locally based centers organized to assist and develop small businesses.

WHEREAS, in order to promote a positive environment for small business development, it may be in the best interest of the Commonwealth, small businesses, and small business development centers and other locally based centers to study the existing procedures and criteria for small business development centers to receive state and federal funding under programs administered by the Department; and

WHEREAS, certain small business development centers and locally based centers are concerned with the timing and levels of reimbursement from the Virginia Department of Business Assistance; and

WHEREAS, certain small business development centers and locally based centers are concerned with the level of control exercised by the Virginia Department of Business Assistance over their operations and personnel decisions; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Joint Legislative Audit and Review Commission be directed to study small business development centers in Virginia and other locally based centers organized to assist and develop small businesses. In conducting the study, the Commission shall examine (i) the policies and procedures governing the formation of small business development centers in Virginia and other locally based centers organized to assist and develop small businesses; (ii) the existing procedures and criteria for such centers to receive state and federal funding under programs administered by the Virginia Department of Business Assistance; and (iii) the appropriate degree of control over the operations and personnel decisions of such centers by the Department. The Commission shall provide specific case studies of small business development centers affected by reimbursement decisions and operational and personnel control decisions by the Department of Business Assistance. The Commission shall make recommendations, as necessary, concerning the appropriate relationships between small business development centers and the Department to help the parties maintain cooperative working relationships and to provide the greatest opportunity for the growth and economic prosperity of small businesses in the Commonwealth.

All agencies of the Commonwealth shall provide assistance to the Commission, upon request.

The Commission shall complete its work in time to submit its findings and recommendations to the Governor and the 2002 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Appendix B

Correspondence Regarding the Dr. William E. S. Flory Small Business Development Center

This appendix contains correspondence from the Office of the Attorney General and the Department of State Police, regarding JLARC's request for information about the Dr. William E. S. Flory Small Business Development Center.

AUG 29 2001

COMMONWEALTH of VIRGINIA

Office of the Attorney General
Richmond 23219

Randolph A. Beales
Attorney General

900 East Main Street
Richmond, Virginia 23219
804 - 786 - 2071
804 - 371 - 8946 TDD

August 28, 2001

Philip A. Leone, Director
Joint Legislative Audit and Review Commission
General Assembly Building, Suite 1100
Capitol Square
Richmond, Virginia 23219

Re: Dr. William E. S. Flory Small Business Development Center

Dear Director Leone:

I write to confirm the substance of the telephone conversation Greg Lucyk and I had with you on August 28, 2001, concerning JLARC's study of the Virginia Small Business Development Center program. As a part of this study, you have asked the State Police to provide information concerning its investigation of the Dr. William E. S. Flory Small Business Development Center. Currently, the State Police are involved in litigation initiated by two Flory Center principles, Linda Donovan Decker and Donna Decker Flory. Ms. Decker and Ms. Flory have filed the following lawsuits and related appeals:

- *Linda Donovan Decker v. Jonathan A. Watson and John Doe and Richard Roe*
  Prince William County Circuit Court, Case No. LA 51283

- *Donna Decker Flory v. Jonathan A. Watson and John Doe and Richard Roe*
  Prince William County Circuit Court, Case No. LA 51284

- *Linda Donovan Decker and Donna Decker Flory v. Jonathan A. Watson*
  Supreme Court of Virginia, Record No. 011226

- *Linda Donovan Decker and Donna Decker Flory v. Jonathan A. Watson and John Doe and Richard Roe*
  United States District Court for the Eastern District of Virginia, Alexandria Division
  Civil Action No. 00-1873-A

- *Linda Donovan Decker and Donna Decker Flory v. Jonathan A. Watson*
  United States Court of Appeals for the Fourth Circuit
  Record No. 01-1440

The defendants in each of the various cases are Jonathan A. Watson, John Doe and Richard Roe. Mr. Watson is a special agent accountant with the State Police. The unknown defendants are confidential informants who provided information to the State Police concerning possible criminal conduct by Ms. Decker and Ms. Flory.

The state court cases are defamation actions. The Prince William court dismissed Special Agent Watson. Assistant Attorney General Sydney E. Rab represents Special Agent Watson and the interests of the State Police in the state court litigation. The circuit court cases are still pending against the unknown defendants.

Following the dismissal of their cases against Special Agent Watson in state court, Ms. Decker and Ms. Flory filed a complaint against him in federal court, alleging the violation of their constitutional rights. The federal court dismissed the complaint against Special Agent Watson. Ms. Decker and Ms. Flory have noted an appeal of this decision to the Fourth Circuit. I represent Special Agent Watson and the State Police's interests in the federal litigation.

It is important to note that Ms. Decker and Ms. Flory have attempted to discover the contents of the State Police investigative files and the identities of the confidential informants. They have vigorously litigated these issues in both their state and federal cases; however, the courts have, for various reasons, refused to order Special Agent Watson or the State Police to divulge this sensitive information. In fact, the petition before the Supreme Court of Virginia requests an appeal of a protective order entered by the Prince William court denying Ms. Decker and Ms. Flory access to this information.

In light of the state and federal law suits discussed above, you have agreed to defer any interviews of State Police personnel regarding JLARC's study of the Small Business Development Center program until the litigation is fully resolved. If you have any questions concerning this letter, please telephone me at (804) 786-1586. With best personal regards, I am

Sincerely,

Kevin O. Barnard
Assistant Attorney General

cc: Sydney Rab, AAG
Col. W. Gerald Massengill
Thomas Lambert, Esquire

Col. W. Gerald Massengill
Superintendent

(804) 674-2000

SEP 2001

COMMONWEALTH of VIRGINIA

DEPARTMENT OF STATE POLICE

P. O. BOX 27472, RICHMOND, VA 23261-7472

August 29, 2001

Mr. Philip A. Leone, Director
Joint Legislative Audit & Review Commission
Suite 1100, General Assembly Building
Capital Square
Richmond, Virginia 23219

Dear Mr. Leone:

Thank you for your correspondence of August 22, 2001 requesting information relating to a criminal investigation conducted in 1999 of the Dr. William E. S. Flory Small Business Development Center.

I have been informed that you are withdrawing the request due to pending federal and state civil litigation.

Thank you for your cooperation in this matter.

With kind regards,

Sincerely,

W. Massengill

Superintendent

WGM/DES/cwc

c: Darrel E. Stilwell, Director
Kevin O. Barnard, Assistant Attorney General

C:\My Documents\Correspondence 2001\August 2001\Leone,Philip-Flory SmBusDevCtr.Doc

Appendix C

Agency Response

As part of an extensive data validation process, the major entities involved in a JLARC assessment effort are given an opportunity to comment on an exposure draft of the report. Appropriate technical corrections resulting from the written comments have been made in this revision of the report. This appendix contains the written response from the Department of Business Assistance.

DEPARTMENT OF
Business
Assistance

707 EAST MAIN STREET, SUITE 300, RICHMOND, VIRGINIA 23219
804-371-8200

OCT 2 - 2001

October 2, 2001

Mr. Philip A. Leone
Director
Joint Legislative and Audit Review Commission
General Assembly Building, Suite 1100
Capitol Square
Richmond, VA 23219

Dear Mr. Leone:

The JLARC research staff is to be commended for its fair examination of Virginia's Small Business Development Center program. We are pleased with the examiners' recognition of the positive direction this program has taken since being placed within the Department of Business Assistance. The study makes the following observations:

> "Virginia SBDC program documents revealed that the first several years of the program lacked accountability. Spurred in part by the need to obtain national certification, the State office took a number of positive steps to increase accountability."

> "The review also found that the State office has made a number of improvements to the operation of the network in the past couple of years. These efforts suggest that the Virginia SBDC network is actively seeking ways to better serve the small business community in the state."

> "Most local staff indicated that the recent improvements made by the State office have benefited the network."

> "...the State office took steps to strengthen the program structure, including increasing the requirements placed on the local centers. The State office's actions facilitated the development of a more cohesive network of centers throughout the State."

The JLARC staff has made nine recommendations to further strengthen the Virginia SBDC network. In the spirit of continuous improvement, we will address each recommendation in a positive manner. We believe each of the recommendations are reasonable and have the potential to increase both the effectiveness and accountability of the VSBDC network.

One important topic relative to the delivery of the nine recommendations is the need for additional resources by the State office and the network. The study does report, "The overall State contribution represents a relatively small investment in support of small businesses in Virginia." To place this statement in perspective, Virginia has over 190,000 business establishments, approximately 200,000 self-employed people and numerous pre-venture entrepreneurs. In response, Virginia has 28 local service centers (including satellites) having the full-time equivalent of 67 local employees, or 2.4 staff per center. Centers need to have a more robust staffing complement in order to address the disparate needs encountered. The workload being asked of the State office also needs to be addressed. We are going to assess whether our current staffing level will be able to adequately address the work required by the new recommendations. The small business development center network is an excellent platform from which to address the business community's legitimate needs. However, we need to provide resources for more complete capabilities.

The success of this program, as structured, depends on balancing the objectives of both the State and the SBA. Virginia's overarching interest lies in the economic development goals of job creation and retention, capital investment, and increased sales. The SBA has other interests as expressed each year in their Program Announcement, which presents numerous stipulations, which must be met for Virginia to receive SBA funding. We are not talking about a handful of objectives but rather 21 required items plus another 12 objectives, which can be required of us by the local Richmond SBA District Office. Between the Small Business Act, the Congressional Federal Register, several OMB circulars, the annual Program Announcement and our award contract with SBA, Virginia's SBDC program is "swimming" in Federal rules, which in turn impacts our local centers. What is needed in Abingdon and the Eastern Shore can be different from the Northern Virginia and Richmond areas. We need to find the ability to provide the flexibility and discretion to address small business concerns throughout the Commonwealth.

In closing, we have the opportunity to turn this effort into a more effective economic tool throughout the Commonwealth. Hopefully, this study is a beginning toward that improvement.

Sincerely,

David G. Dickson
Director

DGD/bth

JLARC Staff

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