



# Audit Report



OIG-17-048

STATE SMALL BUSINESS CREDIT INITIATIVE  
Oklahoma's Use of Federal Funds for Its Venture Capital  
Programs

July 21, 2017

Office of  
Inspector General

Department of the Treasury

<b>Audit Report</b> .....	1
Background.....	2
Oklahoma’s Participation in SSBCI.....	3
Audit Results.....	4
Oklahoma Generally Complied with SSBCI Program Requirements and Prohibitions .....	4

**Appendices**

Appendix 1	Objective, Scope, and Methodology .....	5
Appendix 2	Oklahoma Department of Commerce Management Response .....	7
Appendix 3	Treasury Management Response .....	8
Appendix 4	SSBCI Program Background .....	9
Appendix 5	Major Contributors to This Report.....	10
Appendix 6	Report Distribution.....	11

**Abbreviations**

Act	Small Business Jobs Act of 2010
i2E	Innovation to Enterprise
Treasury	Department of the Treasury
ODOC	Oklahoma Department of Commerce
OIG	Office of Inspector General
SSBCI	State Small Business Credit Initiative

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*The Department of the Treasury  
Office of Inspector General*

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July 21, 2017

Kipp Kranbuhl  
Deputy Assistant Secretary for Small Business, Community  
Development, and Housing

As part of our ongoing oversight of the Department of the Treasury's (Treasury) State Small Business Credit Initiative (SSBCI), authorized by the Small Business Jobs Act of 2010 (Act),<sup>1</sup> we conducted audits of awards made to select States, Territories, and eligible Municipalities (hereinafter referred to as States) to support their capital access and small business credit programs. The purpose of these audits was to assess States' compliance with SSBCI program requirements and prohibitions to identify any reckless<sup>2</sup> or intentional<sup>3</sup> misuse of funds. Regarding SSBCI funds awarded to the State of Oklahoma, our audit focused on the State's compliance with respect to approximately \$13.2 million used for the State's venture capital programs.<sup>4</sup> The scope of our audit comprised approximately \$10.8 million SSBCI funds spent by the State as of December 2015.<sup>5</sup> Appendix 1 provides more detail of our audit objective, scope, and methodology.

In brief, we determined that the State generally complied with the SSBCI requirements and prohibitions governing its four venture capital programs. As such, we make no recommendations in this report.

As part of our reporting process, we provided the Oklahoma Department of Commerce (ODOC) management an opportunity to

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<sup>1</sup> Pub. L. 111-240, 124 Stat. 2568-2582 (September 27, 2010).

<sup>2</sup> Reckless misuse as defined by Treasury is a use of Allocated Funds that the Participating State or its administering entity/ies should have known was unauthorized or prohibited. A "reckless misuse of funds" is a highly unreasonable departure or willful disregard from the standards of ordinary care, and may be a single instance or a series of instances.

<sup>3</sup> Intentional misuse as defined by Treasury is a use of Allocated Funds that the Participating State and/or its administering entity/ies knew was unauthorized or prohibited. An "intentional misuse of funds" may be a single instance or a series of instances.

<sup>4</sup> Actual amount is \$13,168,350.

<sup>5</sup> Actual amount is \$10,780,090.

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comment on a draft of this report. In a written response, ODOC management concurred with our audit results. ODOC's response, in its entirety, is included as appendix 2 to this report.

In its written response to this report, Treasury management stated that it was pleased with the Report's finding that Oklahoma's venture capital programs generally complied with SSBCI program requirements. Treasury management's response, in its entirety, is included as appendix 3 to this report.

## Background

SSBCI is a \$1.5 billion Treasury program that provides participating States funding to strengthen capital access programs and other credit support programs that provide financial assistance to small businesses and manufacturers. Capital access programs provide portfolio insurance for business loans based on a separate loan loss reserve fund for each participating financial institution. Other credit support programs include collateral support, loan participation, loan guarantee, credit support, and venture capital programs.

Loans and investments made with SSBCI funds must comply with the program requirements detailed in the Act, *SSBCI Policy Guidelines*, the *SSBCI National Standards for Compliance and Oversight*, and the *Allocation Agreement*. With respect to venture capital programs, investments must have at least 20 percent private capital at risk at the time the investments are made. Venture capital programs must target loans or investments with an average principal amount of \$5 million or less and cannot extend credit for loans with principal amounts in excess of \$20 million nor participate in an investment in which the resulting equity investment instrument is in excess of \$20 million. Also, program requirements prohibit the investment of SSBCI funds in related party interests.

The Deputy Assistant Secretary for Small Business, Community Development, and Housing administers the SSBCI program. More details of the SSBCI program are provided in appendix 4 of this report.

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## Oklahoma's Participation in SSBCI

The State of Oklahoma was awarded approximately \$13.2 million of SSBCI funds upon Treasury's approval of its participation in the program in September 2011. The *Allocation Agreement* authorized the use of SSBCI funds for the following venture capital programs: Start OK Accelerator Fund, Grow OK Fund, and Oklahoma Angel Sidecar Fund. In December 2014, a Letter Amendment revised Annex 1 of the *Allocation Agreement*, effectively merging all three programs into a new venture capital program, the Accelerate Oklahoma Fund and reapportioned all allocated funds to the Accelerate Oklahoma Fund.<sup>6</sup> At the time of the amendment, Oklahoma had already invested approximately \$7.33 million in the three funds.

In December 2016, Treasury disbursed an additional \$59,561<sup>7</sup> to Oklahoma in accordance with Section 3008(b) of the Act, which provides for the deallocation and reallocation of funds across the States participating in the SSBCI program. Oklahoma's revised allocation of \$13.2 million<sup>8</sup> was disbursed in its entirety by Treasury as of December 31, 2016. Oklahoma, in turn, obligated or spent all the funds. Of this amount, \$455,719 was for administrative expenses.

ODOC is the State entity responsible for administering Oklahoma's SSBCI programs.

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<sup>6</sup> In accordance with Annex 1 of the State of Oklahoma State Small Business Credit Initiative Allocation Agreement for Participating States, dated July 18, 2011, Article IV, "Covenants And Agreements of the Participating State" and Article VI, "Termination for Cause and Other Remedies" of that Agreement shall be specifically applicable to the individual venture capital fund(s) selected. The Allocation Agreement was amended by Letter Amendment on December 4, 2014.

<sup>7</sup> The additional allocation was not within the scope of this audit.

<sup>8</sup> Actual amount is \$13,227,911.

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## Audit Results

### **Oklahoma Generally Complied with SSBCI Program Requirements and Prohibitions**

We found that Oklahoma generally complied with SSBCI program requirements and prohibitions governing its four venture capital programs. ODOC contracted with the private non-profit corporation, Innovation to Enterprise (i2E), to administer its venture capital programs that included services such as access to capital, venture capital advisory services, and entrepreneurial development to early and growth stage businesses. iE2 made 46 investments totaling \$10,780,090 of SSBCI funds as of December 2015.

We tested all 46 investments and found that at least 20 percent private capital was at risk at the time the investments were made. Furthermore, the investments did not exceed the maximum dollar amount of \$20 million. Our testing did not identify any prohibited use of SSBCI funds or related party interests. As such, we make no recommendations.

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We would like to extend our appreciation for the cooperation and courtesies extended to our staff during the audit. Major contributors to this report are listed in appendix 5. A distribution list for this report is provided as appendix 6. If you have any questions, please contact me at (202) 927-1011.

Theresa Cameron /s/  
Audit Director, Financial Assistance Audits

Pursuant to Section 3003 of the *Small Business Jobs Act of 2010* (Act), we conducted audits of awards made to select States, Territories, and eligible Municipalities (hereinafter referred to as States) as part of our ongoing oversight of the Department of the Treasury's (Treasury) State Small Business Credit Initiative (SSBCI), authorized by the Act, to support their capital access and small business credit programs. The objective of these audits was to assess States' compliance with SSBCI program requirements and prohibitions to identify any reckless or intentional misuse of funds. Regarding SSBCI funds awarded to the State of Oklahoma, our audit focused on the State's compliance with respect to approximately \$13.2 million awarded for the State's venture capital programs.

The scope of our audit comprised \$10,780,090 of SSBCI funds spent by the State as of December 2015 on its venture capital programs. As of this time period, Oklahoma spent an additional \$393,242 of SSBCI funds on administrative expenses related to the State's venture capital programs; however these expenses were not within the scope of our audit as our audit focus was on Oklahoma's venture capital programs. To accomplish our audit objective, we tested all 46 investments made by the State's contractor, Innovation to Enterprise (i2E), from October 2011 through December 2015.

We conducted fieldwork at the Oklahoma Department of Commerce (ODOC) and i2E offices in Oklahoma City, Oklahoma; and the Treasury Office of Inspector General office in Washington, D.C., from April 2016 to December 2016. We performed the following steps.

- We reviewed the following documents:
  - *SSBCI National Standards for Compliance and Oversight* (last revision June 20, 2014);
  - *SSBCI Policy Guidelines* (last revision April 16, 2014);
  - SSBCI Frequently Asked Questions;
  - SSBCI Fact Sheet;
  - *Regulation O: Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks*;
  - Beneficiary intake forms;
  - Beneficiary capitalization tables and purchase agreements;



- SSBCI Quarterly Reports;
  - SSBCI Annual Reports; and
  - SSBCI Investee and Investor Certifications.
- We conducted interviews of key officials from ODOC and i2E.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



May 11, 2017

Ms. Theresa Cameron  
Audit Director  
Department of the Treasury  
Office of Inspector General  
850 15th Street, NW  
Washington, DC 20005

Dear Ms. Cameron:

Thank you for the opportunity to review and comment on the Office of the Inspector General's draft audit report (Report) of the State of Oklahoma's compliance with the program requirements of the State Small Business Credit Initiative (SSBCI). We concur with the Report's findings that the State of Oklahoma generally complied with the SSBCI program requirements and prohibitions governing its four venture capital programs.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Hackler, Jr.'.

Donald R. Hackler, Jr.  
Deputy Director/General Counsel



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

June 13, 2017

Theresa Cameron  
Department of the Treasury  
Office of Inspector General  
875 15th Street, NW  
Washington, DC 20005

Dear Ms. Cameron:

Thank you for the opportunity to review the Office of the Inspector General's (OIG) draft report regarding Oklahoma's use of SSBCI funds (the Report). This letter provides the official response of the Department of the Treasury (Treasury). We are pleased with the Report's finding that Oklahoma's venture capital programs generally complied with SSBCI program requirements.

It is our understanding that OIG transmitted a copy of the Report to Oklahoma program officials and Oklahoma provided you with a response.

Treasury appreciates our work together throughout the course of the SSBCI program.

Sincerely,

A handwritten signature in black ink, appearing to read "Kipp Kranbuhl".

Kipp Kranbuhl  
Deputy Assistant Secretary for Small Business,  
Community Development, and Housing Policy

Under the State Small Business Credit Initiative (SSBCI), States were allocated funds based on formulas that measured the States' unemployment rates between 2007 and 2009. The Department of the Treasury (Treasury) disburses SSBCI funds allocated to each participating State in three increments referred to as tranches. The first tranche was disbursed upon Treasury's approval for participation in the SSBCI program. Disbursements of the second and third tranches are dependent upon the participating State's certification that it has obligated, transferred, or spent at least 80 percent of the previous tranche and has complied with all applicable program requirements.

Each participating State is required to designate specific departments, agencies, or political subdivisions to administer the funding. The designated entity distributes SSBCI funds to public and private institutions, which may include a subdivision of another State, a for-profit entity supervised by the State, or a non-profit entity supervised by the State. These entities use funds to make loans or provide credit access to small businesses.

Primary oversight of the use of SSBCI funds is the responsibility of each State's designated entity. To ensure that funds are properly controlled and expended, the Small Business Jobs Act of 2010 required that Treasury execute an Allocation Agreement with participants setting forth internal controls and compliance and reporting requirements before receiving SSBCI funds.

Appendix 5  
Major Contributors to This Report

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Theresa Cameron, Audit Director  
Anita Smith, Auditor-In-Charge  
Lynette M. Feliciano Del Valle, Auditor  
Usman Abbasi, Referencer  
Michael Levin, Referencer

**Department of the Treasury**

Deputy Secretary  
Deputy Assistant Secretary for Small Business, Community  
Development, and Housing  
Office of Strategic Planning and Performance Improvement  
Office of the Deputy Chief Financial Officer, Risk and Control  
Group

**Office of Management and Budget**

OIG Budget Examiner

**Oklahoma Department of Commerce**

Secretary of Commerce and Tourism  
General Counsel

**United States Senate**

Committee on Agriculture, Nutrition, and Forestry  
Committee on Appropriations  
Committee on Banking, Housing, and Urban Affairs  
Committee on the Budget  
Committee on Finance  
Committee on Small Business and Entrepreneurship

**United States House of Representatives**

Committee on Agriculture  
Committee on Appropriations  
Committee on the Budget  
Financial Services Committee  
Small Business Committee  
Committee on Ways and Means



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