



# Audit Report



OIG-18-002

STATE SMALL BUSINESS CREDIT INITIATIVE  
Arkansas' Use of Federal Funds for Venture Capital Programs

October 6, 2017

Office of  
Inspector General

Department of the Treasury

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## Abbreviations

Act	Small Business Jobs Act of 2010
ADFA	Arkansas Development Finance Authority
ACIF	Arkansas Development Finance Authority Co-investment Fund
CAP	capital access program
NRV	New Road Ventures, LLC

OCSP	other credit support program
RCM Fund	Risk Capital Matching Fund
SACN	Seed and Angel Capital Network
Treasury	Department of the Treasury
Trust	Arkansas Venture Capital Investment Trust
SSBCI	State Small Business Credit Initiative
VIC Investor Network	Virtual Incubation Company Investor Network

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*The Department of the Treasury  
Office of Inspector General*

October 6, 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 (the 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 the \$13.2 million<sup>4</sup> of SSBCI funds awarded to the State of Arkansas, our audit focused on the State's compliance with respect to funds invested in its venture capital programs.

In this report, we provide our assessment of Arkansas' compliance with the SSBCI program requirements and prohibitions with respect to approximately \$5.8 million<sup>5</sup> spent by the State for its venture capital programs as of December 2015. Appendix 1 provides more detail of our audit objective, scope, and methodology.

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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. The original *Allocation Agreement* only allocated \$13,141,748 to Arkansas' approved programs. A Letter Amendment dated February 8, 2013 reallocated the funds among the approved programs and included the entire allocation amount originally allocated to Arkansas.

<sup>5</sup> Actual amount is \$5,785,313.

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In brief, we found that not all investments fully complied with venture capital program requirements and prohibitions. Specifically, two funds in Arkansas' Seed and Angel Capital Network (SACN) venture capital program, New Road Ventures, LLC (NRV) and Virtual Incubation Company Investor Network (VIC Investor Network), recklessly misused a total of \$130,668 of SSBCI funds on four investments because the investments were in violation of conflict of interest rules in place at the time they were made, which constitutes a misuse of funds. As such, we question \$130,668 of SSBCI funds recklessly misused as this was in violation of *Regulation O: Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks (Regulation O)* as referred to in *The SSBCI Policy Guidelines* and the *SSBCI National Standards for Compliance and Oversight*. See appendix 2 for the definition of a questioned cost included as part of the schedule of questioned costs. Furthermore, we also found that Arkansas Development Finance Authority (ADFA) misreported three venture capital investments totaling \$227,495 in its *2014 SSBCI Annual Report* when the investments were actually made with non-SSBCI funds in December 2013 and January 2014.

Accordingly, we recommend that the Deputy Assistant Secretary for Small Business, Community Development, and Housing declare a specific event of default of its Allocation Agreement with Arkansas and recoup \$130,668 of SSBCI funds found to be recklessly misused by NRV in the amount of \$5,668 and by VIC Investor Network in the amount of \$125,000. We also recommend Treasury management require ADFA to amend its *2014 SSBCI Annual Report* to reflect the removal of the three investments inappropriately reported.

As part of our reporting process, we provided ADFA management an opportunity to comment on a draft of this report. In a written response, ADFA management stated that it accepted our findings and believed its staff interpreted the SSBCI rules and guidelines to the best of its abilities given the information and guidelines available at that time specifically regarding *Regulation O*. ADFA management's response, in its entirety, is included as appendix 3 of this report.

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In its written response to this report, Treasury management stated that it will declare a specific event of default under Section 6.3 of Arkansas' *Allocation Agreement* and recoup \$130,668 in reply to the first recommendation. In response to the second recommendation, management stated that it will request that Arkansas appropriately amend the State's *2014 SSBCI Annual Report* for Treasury's internal records. However, due to the timing of this amended submission, Treasury will not be able to update its reports that incorporate data from the State's *2014 SSBCI Annual Report*.<sup>6</sup> Treasury management's response, in its entirety, is included as appendix 4 of this report.

## Background

SSBCI is a \$1.5 billion Treasury program that provides participating States funding to strengthen capital access programs (CAP) and other credit support programs (OCSP) that provide financial assistance to small businesses and manufacturers. CAPs provide portfolio insurance for business loans based on a separate loan loss reserve fund for each participating financial institution. OCSPs 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*, *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.

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<sup>6</sup> In accordance with the Act, the authorities and duties of the Secretary to implement and administer the SSBCI Program terminated on September 27, 2017.

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The Deputy Assistant Secretary for Small Business, Community Development, and Housing administers the SSBCI program. Details of the program are provided as appendix 5.

#### Arkansas' Participation in SSBCI

Arkansas was awarded approximately \$13.2 million of SSBCI funds upon Treasury's approval of its participation in the program in October 2011. The *Allocation Agreement*, among other things, authorized the use of SSBCI funds for the following six small business development programs.

- The Arkansas Capital Access Program provides portfolio insurance for business loans made by participating banks. When a loan is enrolled, the borrower contributes between three to seven percent of the loan amount to a reserve fund. Arkansas contributed up to 10.5 percent of the loan amount to the reserve fund using SSBCI funds. ADFA owns and controls the reserve, but it is designated for use by the bank and usually held on deposit at that bank.
- The Bond Guaranty/Loan Participation Program is a loan participation program whereby SSBCI funds represent a portion of the financing that equals the business owner's equity in the transaction. Private funds finance the remaining portion not financed by SSBCI dollars, equaling 70 to 90 percent or more of the total transaction.
- The Disadvantaged Business Enterprise/Small Business Loan Guaranty Program is a loan guarantee program that provides working loan guarantee capital to minority businesses who cannot otherwise finance their working capital needs.
- The Risk Capital Matching Fund (RCM Fund) is a venture capital fund that makes investments in technology-based companies in Arkansas.
- The Arkansas Development Finance Authority Co-investment Fund (ACIF) is a venture capital fund of funds whereby investments are held in the name of the Arkansas Venture Capital Investment Trust (Trust), a public trust formed in



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2003, created solely for the purpose of holding ADFA's equity ownership interests in private companies.

- The SACN is also a fund of funds venture capital program whereby ADFA, through the Trust, partners with several angel or seed funds<sup>7</sup> to invest in small businesses.

Arkansas designated ADFA, the State agency, to administer the approved State programs. As of December 31, 2016, Treasury disbursed all \$13.2 million of the original allocation to Arkansas, which in turn, spent or obligated all the funds. Of its \$13.2 million allocation, Arkansas used approximately \$376,000 for administrative expenses as of December 31, 2016.<sup>8</sup> Also in December 2016, Treasury disbursed an additional \$59,561 to Arkansas 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.<sup>9</sup>

## Finding

### **Two Arkansas Seed and Angel Capital Network Funds Recklessly Misused \$130,668 on Four Venture Capital Investments**

We found that all investments made by two of three of Arkansas' venture capital programs, the RCM Fund and the ACIF, generally complied with SSBCI program requirements and prohibitions. In the case of the State's third venture capital program, SACN, investments made by two of its seven funds misused \$130,668 of SSBCI funds on four investments.

The Trust invested SSBCI funds in SACN's seven seed and angel funds, which then invested the funds in beneficiary companies

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<sup>7</sup> Seed capital is money that is used for starting a new business, program or project. Angel investments are typically the earliest equity investments made in startup companies.

<sup>8</sup> Administrative expenses were not included in the scope of this audit.

<sup>9</sup> The additional allocation was not within the scope of this audit.

throughout Arkansas.<sup>10</sup> We found that two of the seven funds, NRV and VIC Investor Network, made a total of four investments that were in violation of the conflict of interest rules in place at the time the investments were made, which constituted a reckless misuse of funds. Table 1 depicts all investments we tested in each of the seven seed and angel funds as well as the investments made in Arkansas' other two venture capital programs, the RCM Fund and ACIF.

**Table 1**

Fund Name	Total Amount of SSBCI Funds Invested	Total Number of SSBCI Investments	Amount of SSBCI Funds Misused	Number of Investments - Misused Funds
ACIF	\$2,915,513	11	0	0
RCM Fund	\$1,370,958	10	0	0
<b>SACN Funds</b>				
ARK Challenge I	\$150,000	15	0	0
ARK Challenge II	\$125,000	9	0	0
ARK Challenge 3 & 4	\$175,000	13	0	0
Fund for Arkansas' Future II	\$120,000	7	0	0
New Road Ventures	\$433,842	10	\$5,668	2
Tri-Star Technology Fund II LP	\$370,000	5	0	0
VIC Investor Network	\$125,000	2	\$125,000	2
<b>Total</b>	<b>\$5,785,313</b>	<b>82</b>	<b>\$130,668</b>	<b>4</b>

Applicable to investments made through August 2014, *SSBCI Policy Guidelines* prohibit transactions in which an investee receiving SSBCI funds is a related party interest of any executive officer, director, principal shareholder or member of the immediate family of the SSBCI investor. For the purposes of determining

<sup>10</sup> Annex One of the *Allocation Agreement* required the State to extend and apply to the Trust, the provisions of Article IV and VI of the *Allocation Agreement*. Annex One also required the Trust to require each of the network of 5 to 7 new community-based, angel investment groups and university affiliated seed funds to comply with the provisions of Article IV and Article VI of the *Allocation Agreement*.

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whether a related party interest exists, the *SSBCI Policy Guidelines* refer to *Regulation O*.<sup>11</sup> As defined in *Regulation O*, a related interest of a person means a company that is controlled by that person. Control is established when a person directly or indirectly, or acting through or in concert with one or more persons, owns, controls, or has the power to vote 25 percent or more of any class of voting securities of the company or bank.

In June 2014, Treasury updated its *SSBCI National Standards for Compliance and Oversight* to include a new conflict of interest rule that applied to investments made September 1, 2014 and thereafter. The *Rule Applicable to Independent Non-Profit and For-Profit Entities that Invest SSBCI Funds for Follow-On and Crossover Investments* prohibits for-profit entities from using SSBCI funds to make crossover investments, which are investments of SSBCI funds in a company or venture capital fund in which the entity holds any type of financial interest resulting from an investment made with non-SSBCI funds.

#### New Road Ventures, LLC

The Trust entered into a letter agreement with NRV in March 2014 whereby the Trust agreed to invest up to \$1 million in NRV in exchange for Class B membership units in NRV.<sup>12</sup> The agreement stated the Trust's investment would be combined with funding from other co-investors to make equity investments in a to-be-determined number of companies.

NRV is managed by the "Board of managers" consisting of four members. These four managing members, collectively, approved the investments made by NRV in beneficiary companies, and were also executive officers of the SSBCI investor, NRV, as defined in the *SSBCI Policy Guidelines*. NRV made 10 investments totaling \$433,842 within the scope of our audit. Of the 10 investments, we found that 2 investments in an investee company (Investee A) totaling \$5,668 were not compliant with SSBCI program

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<sup>11</sup> 12 CFR Part 215, Section 215.2.

<sup>12</sup> According to NRV's Operating Agreement, membership units entitled the holders to certain preferred distribution and liquidation rights as described within the Operating Agreement.

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requirements and prohibitions at the time the investments were made.

The two investments NRV made in Investee A occurred after the conflict of interest rule prohibiting crossover investments took effect. Prior to making these two investments in October and December 2015, NRV had already invested \$96,994 of non-SSBCI funds in Investee A in January 2014. This initial investment was made prior to NRV receiving any SSBCI funds from the Trust. As such, the 2015 investments in Investee A were considered prohibited crossover investments because SSBCI funds were used by NRV, a for-profit entity, to invest in a company in which NRV held financial interest resulting from an investment made with non-SSBCI funds.

We determined that the use of SSBCI funds described above in Investee A were recklessly misused because NRV should have known about the SSBCI requirements and prohibitions regarding conflicts of interest. The SSBCI requirements and prohibitions were incorporated into an agreement between the Trust and NRV dated March 2014, which made NRV responsible for compliance.

#### Virtual Incubation Company Investor Network

The Trust executed a commitment letter with VIC Investor Network on December 31, 2012, whereby the Trust committed to invest \$250,000 of SSBCI funds. The funds were to be invested in portfolio companies created, formed, incorporated or organized by Virtual Incubation Company, LLC. VIC Investor Network, while not a separate legal entity, was formed for the general purpose of providing a centralized investing pool for investments in new portfolio companies formed pursuant to the approval of the Board of Directors of Virtual Incubation Company, LLC. The board also managed VIC Investor Network.

On October 24, 2013, VIC Investor Network invested \$62,500 of SSBCI funds in Investee B. At the time of the investment, the President, CEO, and Chairman of the Board of Virtual Incubation Company, LLC owned 44 percent of the class A common stock in Investee B. Similarly, on June 18, 2014, VIC Investor Network invested \$62,500 of SSBCI funds in Investee C. At the time of this

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investment, the President, CEO, and Chairman of the Board of Virtual Incubation Company, LLC owned 56 percent of the class A common stock in Investee C.

*SSBCI Policy Guidelines* in effect at the time these two investments were made prohibited transactions in which an investee receiving SSBCI funds is a related interest of any executive officer, director, principal shareholder or member of the immediate family of the SSBCI investor. It was established that Investees B and C were related interests of the President, CEO, and Chairman of the Board of Virtual Incubation Company, LLC because this person already owned more than 25 percent of class A common stock of both investees at the time SSBCI funds were used to invest in Investees B and C.

We determined that the misuse of \$125,000 of SSBCI funds described above in Investee B and Investee C was reckless because VIC Investor Network should have known about the SSBCI requirements and prohibitions regarding conflicts of interest. These requirements and prohibitions were incorporated into an agreement between the Trust and VIC Investor Network dated May 2013, which made VIC Investor Network responsible for compliance.

Overall, we question a total of \$130,668 of SSBCI funds found to be recklessly misused by NRV in the amount of \$5,668 and by VIC Investor Network in the amount of \$125,000.

## Recommendation

We recommend that the Deputy Assistant Secretary for Small Business, Community Development, and Housing declare a specific event of default of its *Allocation Agreement* with Arkansas and recoup \$130,668 of SSBCI funds found to be recklessly misused by NRV in the amount of \$5,668 and by VIC Investor Network in the amount of \$125,000.

### Management Response

Management responded that it will declare a specific event of default under Section 6.3 of Arkansas' *Allocation Agreement* and recoup \$130,668.

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OIG Comment

Management's response meets the intent of our recommendation.

**Finding**

**Arkansas Misreported Three Investments Totaling \$227,495 in Its *2014 SSBCI Annual Report***

We found that ADFA misreported NRV investments in its *2014 SSBCI Annual Report*. That is, ADFA reported that SSBCI funds were invested by NRV in Investee A (\$96,994) and two other investees, Investee D (\$59,960) and Investee E (\$70,541), when in fact, NRV had not yet received any SSBCI funds from ADFA.

Arkansas' *SSBCI Allocation Agreement* required the State to submit to Treasury by March 31 of each year, beginning March 31, 2012, an *SSBCI Annual Report* for the prior calendar year ending December 31. The reports included, among other things, a list of all venture capital investments made with SSBCI funds during the calendar year.

ADFA included three investments made by NRV totaling \$227,495 in its *2014 SSBCI Annual Report* as being made on April 10, 2014, with SSBCI funds. However, NRV made those investments using non-SSBCI funds in December 2013 and January 2014. According to ADFA, these investments were included because April 10, 2014 was the date NRV received SSBCI funds from ADFA. At the time of the submission of its *2014 SSBCI Annual Report*, ADFA believed this was the proper manner to account for SSBCI funds invested in NRV.

ADFA stated that NRV's investments in the three investees should not be included in the *2014 SSBCI Annual Report* and that no SSBCI funds should have been allocated to these investments as no SSBCI funds were actually deployed. ADFA also stated that it intends to make a request to Treasury to amend its *2014 SSBCI Annual Report*, to remove the three investments from the report. ADFA will further seek to re-allocate the SSBCI funds disbursed to NRV among investments made by NRV subsequent to its receipt of SSBCI funds. Even though NRV had not received SSBCI funds from

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ADFA until after the three investments were made, ADFA received retroactive ownership interest in each of the three investees.

Given that NRV made noncompliant investments in Investee A during 2015 as described above, we caution ADFA that re-allocating the \$227,495 among NRV's investments subsequent to its receipt of SSBCI funds could result in a violation of conflict of SSBCI interest rules.

## Recommendation

We recommend that the Deputy Assistant Secretary for Small Business, Community Development, and Housing request that ADFA amends its *2014 SSBCI Annual Report* to remove the three NRV investments totaling \$227,495 that were inappropriately included.

### Management Response

Management responded that it will request that Arkansas appropriately amend the State's *2014 SSBCI Annual Report* for Treasury's internal records. However, due to the timing of this amended submission, Treasury will not be able to update its reports that incorporate data from the State's *2014 SSBCI Annual Report*.

### OIG Comment

Management's response meets the intent of our recommendation.

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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 6. A distribution list for this report is provided as appendix 7. If you have any questions, please contact me at (202) 927-1011.

/s/

Theresa Cameron  
Audit Director, Financial Assistance Programs



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 Arkansas, our audit focused on the State's compliance with respect to funds invested in its venture capital programs.

Of the \$13,168,350 SSBCI funds allocated to Arkansas, \$7,474,792 was spent on the State's three venture capital programs: the Risk Capital Matching Fund (RCM), the Arkansas Development Finance Authority Co-investment Fund (ACIF), and the Seed and Angel Capital Network (SACN) as of December 31, 2016. Of that amount, our original audit scope comprised all 79 investments totaling \$5,746,295 made by the three venture capital programs from December 2011 through December 2014. In March 2017, we expanded our audit scope to include three investments totaling \$39,018 made in 2015 by one SACN fund, the New Road Ventures, LLC, because we identified non-compliant investments made by this fund within our original audit scope. We tested all 82 investments which totaled \$5,785,313.

To accomplish our audit objective, we performed the following steps.

- We reviewed applicable laws, regulations, and other relevant documents as follows:
  - Small Business Jobs Act of 2010 (Public Law 111-240; September 27, 2010);
  - *SSBCI National Standards for Compliance and Oversight* (January 23, 2014, and June 20, 2014);
  - *SSBCI Policy Guidelines* (October 21, 2011);
  - SSBCI Frequently Asked Questions;
  - SSBCI Fact Sheet;
  - State of Arkansas SSBCI Application;
  - State of Arkansas *SSBCI Allocation Agreement*;

- *Regulation O: Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks;*
  - Investee capitalization tables and stock purchase agreements;
  - SSBCI Quarterly Reports;
  - SSBCI Annual Reports (2012-2015); and
  - SSBCI Investee and Investor Certifications.
- We tested documentation supporting all 82 investments made by RCM, ACIF, and SACN to determine that:
    - at least 20 percent capital was at risk for each investment;
    - each investment was not greater than \$20 million,
    - investee and investor certifications were obtained prior to the investment; and
    - no conflicts of interest existed between the investor and beneficiary company.
  - We interviewed key officials at the Arkansas Development Finance Authority (ADFA); the ARK Challenge I, II, 3 and 4; the Fund for Arkansas' Future II; New Road Ventures, LLC; Tri-Star Technology Fund II LP; and VIC Incubation Company Investor Network.
  - We also reviewed the Sex Offender Registry for Arkansas to verify that no principal of the investees was convicted of a sex offense against a minor (as such terms are defined in section 111 of the Sex Offender Registration and Notification Act (42 U.S.C. 16911)).

We conducted fieldwork at ADFA headquarters in Little Rock, Arkansas; and the Treasury Office of Inspector General office in Washington, D.C. between October 2014 and May 2017.

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.

A questioned cost is a cost that is questioned by the auditor because of an audit finding: (1) which resulted from an alleged violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. Questioned costs are to be recorded in the Joint Audit Management Enterprise System (JAMES). The questioned costs will also be included in the next Office of Inspector General Semiannual Report to Congress.

<u>Recommendation Number</u>	<u>Questioned Cost</u>
Recommendation 1	\$130,668

The questioned cost relates to funds that Treasury awarded to the State of Arkansas under the SSBCI Program. As discussed in the audit report, the questioned cost of \$130,668 is comprised of (1) two investments totaling \$5,668 made by New Road Ventures, LLC and (2) two investments totaling \$125,000 made by Virtual Incubation Company Investor Network. All four investments were found to be a reckless misuse of funds because the investments were in violation of SSBCI conflict of interest rules as stipulated in *Regulation O: Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks* as referred to in *The SSBCI Policy Guidelines* and the *SSBCI National Standards for Compliance and Oversight*.

Appendix 3  
Arkansas Development Finance Authority Management Response

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Aaron S. Burkes  
President

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September 25, 2017

Theresa Cameron  
Director, Financial Assistance Audits  
Treasury – Office of Inspector General  
875 15<sup>th</sup> Street, NW  
Washington, D.C. 20005

Re: Office of Inspector General Draft Audit Report – State Small Business Credit Initiative  
Arkansas Development Finance Authority

Dear Ms. Cameron:

Thank you for providing a draft copy of the Office of Inspector General (OIG) Audit Report concerning the \$13.2 million award of the State Small Business Credit Initiative (SSBCI) to the State of Arkansas and Arkansas Development Finance Authority ("ADFA").

The Audit Report provided the OIG's assessment of ADFA's SSBCI Venture Capital programs compliance with the SSBCI program requirements and prohibitions. The OIG identified two findings, which ADFA accepts.

However, ADFA believes its staff interpreted the SSBCI rules and guidelines to the best of its abilities given the information and guidelines available at that time. Specifically, it is ADFA's opinion that ADFA staff appropriately interpreted the rules regarding Regulation O.

We appreciate the professionalism of the OIG team that conducted the audit. If you need any further assistance, please do not hesitate to contact us.

Regards,

A handwritten signature in blue ink that reads "Aaron S. Burkes".

Aaron S. Burkes  
President

Appendix 4  
Treasury Management Response

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 29, 2017

VIA ELECTRONIC MAIL

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 Arkansas' use of SSBCI funds. This letter provides the official response of the Department of the Treasury (Treasury).

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

In response to the first recommendation, Treasury will declare a specific event of default under section 6.3 of Arkansas' Allocation Agreement and recoup \$130,668. In response to the second recommendation, Treasury will request that Arkansas appropriately amend the State's 2014 SSBCI Annual Report for Treasury's internal records. However, due to the timing of this amended submission, Treasury will not be able to update its reports that incorporate data from the State's 2014 SSBCI Annual Report.

Thank you once again for the opportunity to review the report. Treasury appreciates our work together throughout the course of the SSBCI program.

Sincerely,

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

cc: Katherine Reilly, Office of General Counsel, Banking and Finance  
Jeff Stout, Director of the State Small Business Credit Initiative

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) disbursed 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 were 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 was required to designate specific departments, agencies, or political subdivisions to administer the funding. The designated entity distributed SSBCI funds to public and private institutions, which could also 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 were to 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 6  
Major Contributors to This Report

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Theresa Cameron, Audit Director  
Anita Smith, Auditor-in-Charge  
Jeff Dye, 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

**Arkansas Development Finance Authority**

President

**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



## **Treasury OIG Website**

Access Treasury OIG reports and other information online:

<http://www.treasury.gov/about/organizational-structure/ig/Pages/default.aspx>

## **Report Waste, Fraud, and Abuse**

**OIG Hotline for Treasury Programs and Operations** – Call toll free: 1-800-359-3898

**Gulf Coast Restoration Hotline** – Call toll free: 1-855-584.GULF (4853)

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