

State of Washington  
Joint Legislative Audit & Review Committee (JLARC)



**Microenterprise Development Program  
Meets Statutory Objectives  
But Department of Commerce  
Oversight is Inadequate**

**Report 12-1**

January 11, 2012

*Upon request, this document is available in  
alternative formats for persons with disabilities.*

---

## **Joint Legislative Audit and Review Committee**

1300 Quince St SE

PO Box 40910

Olympia, WA 98504

(360) 786-5171

(360) 786-5180 Fax

[www.jlarc.leg.wa.gov](http://www.jlarc.leg.wa.gov)

---

### **Committee Members**

#### **Senators**

Nick Harper

Jeanne Kohl-Welles

Sharon Nelson

Janéa Holmquist Newbry

Linda Evans Parlette, *Secretary*

Cheryl Pflug

Craig Pridemore, *Chair*

Joseph Zarelli

#### **Representatives**

Gary Alexander, *Vice Chair*

Cathy Dahlquist

Kathy Haigh, *Assistant Secretary*

Troy Kelley

Mark Miloscia

Ed Orcutt

Derek Stanford

Hans Zeiger

#### **Legislative Auditor**

Keenan Konopaski

### **Audit Authority**

The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more efficient and effective. The Committee is comprised of an equal number of House members and Senators, Democrats and Republicans.

JLARC's non-partisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

The statutory authority for JLARC, established in Chapter 44.28 RCW, requires the Legislative Auditor to ensure that JLARC studies are conducted in accordance with Generally Accepted Government Auditing Standards, as applicable to the scope of the audit. This study was conducted in accordance with those applicable standards. Those standards require auditors to plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. The evidence obtained for this JLARC report provides a reasonable basis for the enclosed findings and conclusions, and any exceptions to the application of audit standards have been explicitly disclosed in the body of this report.

# TABLE OF CONTENTS

---

<b>Report Summary .....</b>	<b>1</b>
<b>Committee Addendum.....</b>	<b>3</b>
<b>Report Detail .....</b>	<b>5</b>
<b>Washington’s Program Assists Microenterprise Development Organizations (MDOs) to Help Entrepreneurs and Microenterprises .....</b>	<b>5</b>
<b>Microenterprise Development Organizations (MDOs) Assist Microenterprises.....</b>	<b>5</b>
<b>2007 Legislature Created a State Program to Assist MDOs .....</b>	<b>7</b>
<b>State Program Is Assisting MDOs, in Three Ways: Business Development Services, Grants, and Leveraging of Funds .....</b>	<b>9</b>
<b>The Department of Commerce Is Not Meeting Its Statutory Obligation of Organizational Support and Oversight.....</b>	<b>13</b>
<b>Appendix 1 – Scope and Objectives .....</b>	<b>15</b>
<b>Appendix 2 – Agency Responses .....</b>	<b>17</b>
<b>Appendix 2A – Auditor’s Comment.....</b>	<b>23</b>

**Committee Approval**

On January 11, 2012, this report was approved for distribution by the Joint Legislative Audit and Review Committee.

**Microenterprise  
Development  
Program Meets  
Statutory  
Objectives But  
Department of  
Commerce  
Oversight is  
Inadequate  
Report 12-1**

January 11, 2012



STATE OF WASHINGTON  
JOINT LEGISLATIVE AUDIT AND  
REVIEW COMMITTEE

**STUDY TEAM**  
Fara Daun

**PROJECT SUPERVISOR**  
John Woolley

**LEGISLATIVE AUDITOR**  
Keenan Konopaski

Copies of Final Reports and Digests are  
available on the JLARC website at:

[www.jlarc.leg.wa.gov](http://www.jlarc.leg.wa.gov)

or contact

Joint Legislative Audit & Review  
Committee  
1300 Quince St SE  
Olympia, WA 98504-0910  
(360) 786-5171  
(360) 786-5180 FAX

## REPORT SUMMARY

### Microenterprise in Washington

Microenterprises are businesses with three key characteristics: The business: (1) has between one and five employees, including the owner; (2) requires no more than \$35,000 – \$50,000 in start-up capital; and (3) lacks access to conventional forms of financing.

Microenterprises are found in a broad range of businesses from technology to manufacturing to farming. In 2009, microenterprises in Washington employed an estimated 598,000 people, including 389,000 who were self-employed.

### Microenterprise Development Organizations (MDOs) Assist Microenterprises

Microenterprise Development Organizations (MDOs) provide services to individuals who are currently operating microenterprises, or who are interested in starting such a business. The MDOs do this work to help create businesses and jobs and to foster self-employment and self-sufficiency.

MDOs offer both business development services and financial services. Business development services include training, technical assistance, and credit counseling. Financial services include financial literacy skills, credit repair and credit building, and micro lending or loan packaging assistance. Some MDOs have their own loan funds that can be used for small loans. **MDOs do not use state money for loans.**

### Washington's Microenterprise Development Program Assists MDOs

In 2007, the Legislature established the state's Microenterprise Development program to provide support for and administer grants to local MDOs (2SSB 5652). The purpose of the program is to assist microenterprises in job creation by increasing the training, technical assistance, and financial resources available through MDOs. In the 2009-11 Biennium, the Legislature provided \$359,000 for the program.

The Legislature directed the Department of Commerce to contract with a statewide microenterprise association to "serve as the department's agent" in carrying out the state program and to provide support services to the association. Commerce contracted with the Washington State Microenterprise Association (WSMA). The 2007 legislation also directed JLARC to conduct this review.

JLARC's review indicates that the state program is assisting MDOs through WSMA in three ways that are similar to how MDOs assist businesses:

- **State Program Provides Business Development Services to MDOs** – These services include annual and regional conferences, webinars, teleconferences, technical assistance, and notices of funding opportunities.
- **State Program Provides Grants to MDOs** – Between 2008 and 2011, WSMA awarded \$276,000 in grants to Washington MDOs. MDOs used these grants for capacity building, training and technical assistance to entrepreneurs, and the purchase of technology.
- **MDOs Leverage State Grant Funds** – MDOs report that the state program enabled them to leverage an additional \$886,000 in funds from federal, local, or private sources.

Nine MDOs provided JLARC with names of entrepreneurs and businesses they helped under state grants, which resulted in 476 records. JLARC was able to match these records to 365 businesses. Of the 365 businesses, 303 businesses were open as of August 2011 and 17 of the entrepreneurs had more than one open business. Although these results reflect only a portion of the entrepreneurs assisted by MDOs, most of those assisted by MDOs in relation to state grant funding appear to have recognized businesses.

## **The Department of Commerce Is Not Meeting Its Statutory Obligation of Organizational Support and Oversight**

In the course of JLARC's review, we identified two problems related to the Department of Commerce's obligations for the support and oversight of the state's Microenterprise Development Program. This report concludes with two recommendations to address these shortcomings.

- The Department of Commerce is not complying with its statutory obligation to provide organizational support to WSMA. While Commerce initially provided some support to WSMA, the Department no longer provides these services.

**Recommendation 1: The Department of Commerce should comply with statute and provide organizational support to the Washington State Microenterprise Association.**

- JLARC's independent review indicates WSMA has fulfilled its contractual obligations. However, the Department of Commerce's current contract reporting and verification process is inadequate to ensure that WSMA meets its contractual obligations in the future.

**Recommendation 2: The Department of Commerce should develop measureable performance targets for its contract with the Washington State Microenterprise Association and should establish a process to verify that WSMA has met the requirements of the contract.**

# COMMITTEE ADDENDUM

---

The following addendum was adopted on January 11, 2012:

The Committee is concerned that the Department of Commerce does not intend to comply with statutory direction to continue providing organizational support to the Washington State Microenterprise Association.

The Committee finds that it is necessary for the Department to either comply with statute by providing organizational support or submit agency request legislation to change the requirement.

The Committee expects the Department to communicate its response to either comply with statute or request a change in statute at a time that would allow legislative action during the 2012 Legislative Session.





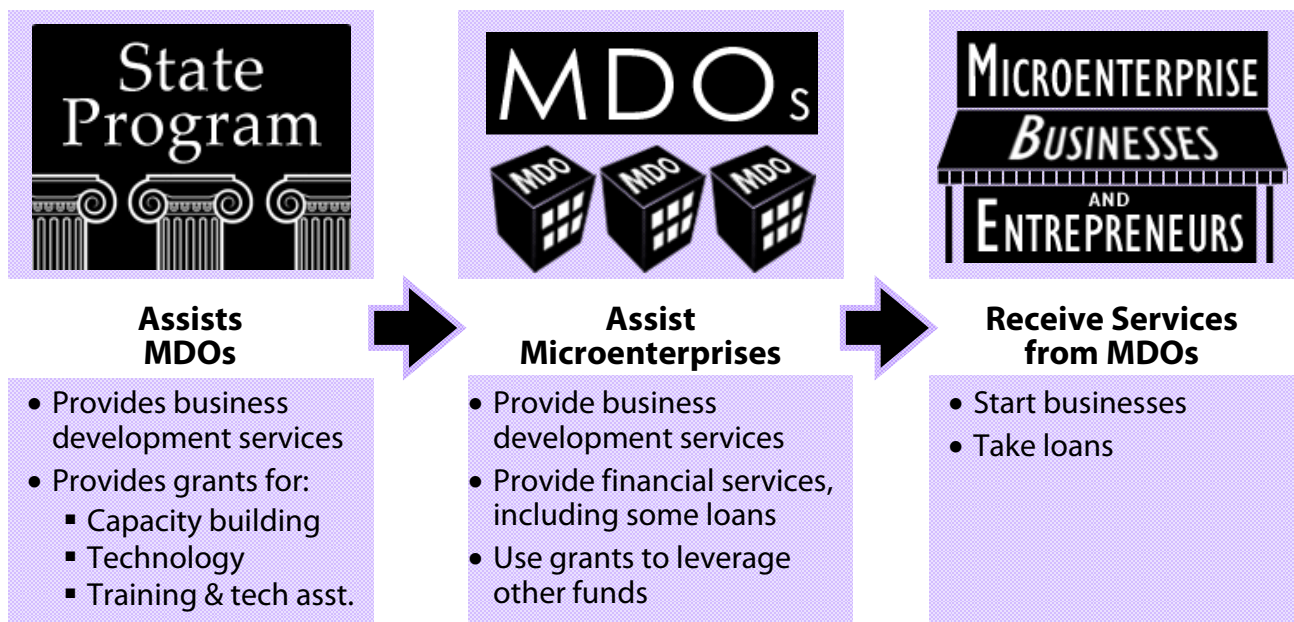
# REPORT DETAIL

## Washington’s Program Assists Microenterprise Development Organizations (MDOs) to Help Entrepreneurs and Microenterprises

Small businesses and microenterprises are an important part of the American economy. The *field of microenterprise development*, which seeks to support entrepreneurs and remove barriers to starting microenterprises, emerged in this country in the 1980s. Washington’s microenterprise development program was established in 2007.

Washington’s program was designed to strengthen and improve the state’s Microenterprise Development Organizations (MDOs), which, in turn, provide assistance to entrepreneurs and their microenterprises. Exhibit 1 provides an overview of the state program.

**Exhibit 1 – The State’s Microenterprise Development Program Assists MDOs to Help Entrepreneurs and Microenterprises**



Source: JLARC analysis of statutes, literature, and program information.

## Microenterprise Development Organizations (MDOs) Assist Microenterprises

In recent years there have been between 20 and 30 MDOs in Washington assisting low-income entrepreneurs. MDOs often focus on specific industries or specific training markets, such as women, minorities, immigrants, or persons with disabilities. For example, in Washington, the Jump

Start Fund in Seattle focuses on refugees, with Enterprise for Equity in Olympia providing specialized "Agri-preneur" training for agricultural microenterprises.

MDOs may be focused exclusively on microenterprise development or they may be part of a larger organization that provides economic development, community development, employment, or related services.

## **MDOs Provide Business Development Services and Financial Services to Microenterprises**

### ***MDOs Provide Business Development Services***

MDOs in Washington provide a range of business development services, including:

- Training
- Financial Literacy
- Tax Preparation
- Technical Assistance
- Credit Counseling
- Mentoring
- Technology
- Lending and Loan Packaging
- Networking

Training is usually provided in a group setting and is often formal and curriculum-based. The core training at MDOs has focused on training entrepreneurs to prepare and present a business plan. Core training may start with an orientation to business ownership and culminate in a formal business plan. In some MDOs, entrepreneurs who complete the core series of business planning classes and produce a business plan receive a certificate. This certificate may be required to qualify for lending through that MDO's microenterprise loan fund.

MDOs provide additional, or more advanced, training in such areas as strategic planning, marketing, business operations, cash flow projections, and technology.

MDOs typically provide entrepreneurs who have developed a business plan with technical assistance, including one-on-one business counseling and other services. In contrast to training, technical assistance tends to be one-to-one assistance focused on the specifics of a particular microenterprise.

MDOs may also provide formal networking structures for their clients, through formal peer learning or peer advising groups where entrepreneurs meet in a structured setting to receive some training and assist each other with business issues.

MDOs that are also federally chartered Small Business Development Centers (SBDCs) offer their business development services free of charge. Other MDOs may also offer free business development services. Those MDOs that do charge a fee for their core trainings may set the fee on a sliding scale, have scholarships or waivers, or charge only for course materials. MDOs that charge a fee for their core trainings may then provide ongoing technical assistance or business counseling services at no charge.

### ***MDOs Provide Financial Services, Including Some Loans***

MDOs also offer a range of financial services. These services may include: fundamental financial literacy skills, credit repair and credit building, and micro lending or loan packaging assistance.

Entrepreneurs begin with different levels of financial sophistication, and MDOs tailor their financial services accordingly. For example, MDOs that work with refugees and immigrants may first

provide financial literacy training aimed at such fundamentals as how to use a check and how to open a bank account before they provide more typical financial literacy topics such as how to establish and build good credit. Financial education and credit building tools are important tools for MDOs because clients may be inexperienced with the effective use of credit, have no credit, or have poor credit. Other entrepreneurs may have good credit and some resources, but lack access to business capital for a variety of reasons and need assessment and support to access adequate capital.

Some MDOs have their own loan funds that can be used for microloans. MDOs may award microloans as small as \$500 and may cap their loans at no more than \$5,000. Other MDOs have the resources to provide microloans up to the federal Small Business Administration limit of \$50,000 or may be part of larger organizations that can transition a company through many phases of growth.

MDOs without loan funds and MDOs assisting an entrepreneur whose loan needs exceed the MDO's loan caps may provide loan packaging services. Loan packaging services include reviewing applications to assure that they are complete, assessing the strengths and weaknesses of the application, providing loan presentation tools, and providing advice on which lenders to approach because not all lenders make the same kinds of loans.

### **MDOs Get the Money They Lend From a Variety of Sources**

MDOs acquire their lending capital from a variety of sources including the federal or local governments, philanthropic organizations, foundations, individuals, corporate donations, or a combination of these sources. **MDOs do not use state grant money for loans.**

Loan funds are replenished primarily by repayment. They may also receive a portion of the interest and fees charged on the loans to entrepreneurs and may be built by additional donations.

## **2007 Legislature Created a State Program to Assist MDOs**

In 2007, the Legislature established the state's Microenterprise Development Program to provide organizational support and administer grants to local Microenterprise Development Organizations. The purpose of the program is to increase access to training, technical assistance, and capital for entrepreneurs (2SSB 5652). The legislation also directed JLARC to conduct this review.

The Department of Commerce is required under statute to contract with a statewide microenterprise association to be its agent to operate the program. Commerce contracted in 2008 with the Washington State Microenterprise Association (WSMA) to be its agent.

WSMA is a non-profit association whose mission is "to strengthen economic development systems that support the growth of strong and effective Microenterprise Development Organizations." MDOs provide entrepreneurs business development and loan programs; WSMA provides similar services to MDOs.

Specifically, the program is to:

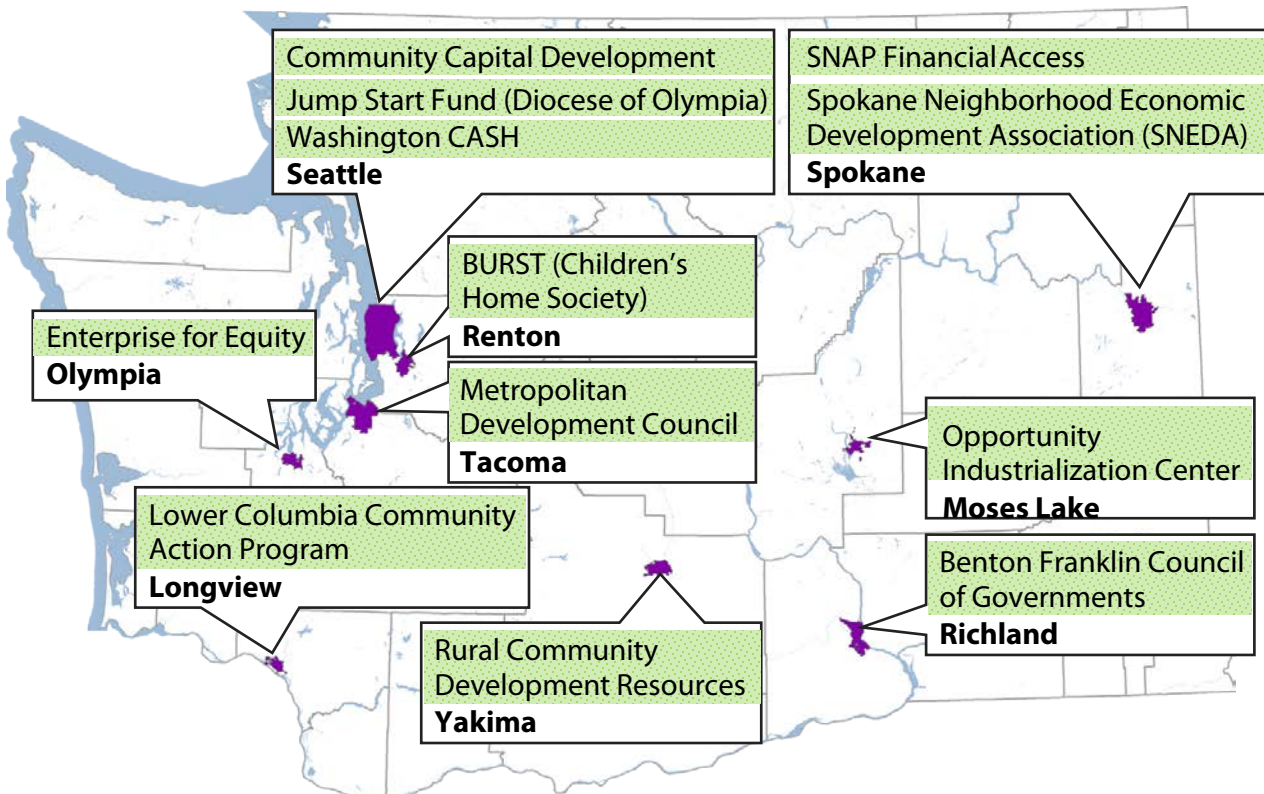
- Provide funds for capacity building for WSMA and MDOs throughout the state;
- Provide grants to MDOs for the delivery of training and technical assistance services and jointly develop criteria for these grants with WSMA;

- Require WSMA to identify and facilitate the availability of state, federal, and private sources of funds which may enhance microenterprise development in the state;
- Require WSMA and any MDO receiving funds through the microenterprise development program to provide non-state matching funds equaling 25 percent of the amount received from the program; and
- Require WSMA to provide an annual accounting of program outcomes, including job creation, access to capital, leveraging of non-state funds, and other outcome measures specified by the department.

The legislation establishing Washington's program is clear that the state program is directed to MDOs, not individual microenterprises. By directing the program funding and services to WSMA and MDOs, **the legislation excludes direct services and funding from the state program to individual entrepreneurs.** As designed, WSMA provides direct services and funds to MDOs and MDOs provide direct services to entrepreneurs. No state funds are loaned or granted to entrepreneurs.

In order to evaluate WSMA's services to MDOs, JLARC visited 12 MDOs around the state that received both grants and business development services from WSMA between 2008 and 2011. Exhibit 2, below, identifies the MDO's JLARC interviewed.

**Exhibit 2 – Microenterprise Development Organizations Receiving Grants under Washington's Program**



Source: JLARC analysis.

Based on JLARC's review of WSMA and Commerce files and interviews with MDOs, JLARC concluded the state program is assisting microenterprise development organizations as envisioned in the 2007 legislation.

## **State Program Is Assisting MDOs, in Three Ways: Business Development Services, Grants, and Leveraging of Funds**

### **WSMA Provides Business Development Services to MDOs**

Similarly to MDOs providing business development services to entrepreneurs, WSMA provides business development services to MDOs. These services represent the largest part of WSMA's work, in terms of time and funding. JLARC's interviews with the 12 MDOs indicated that the organizations receive business development services from WSMA in a variety of ways, including:

- Annual conferences
- Training sessions, including webinars and teleconferences
- Technical assistance
- Regional meetings
- Presenting conference or seminar sessions
- Networking opportunities
- Learning clusters
- Notice of funding opportunities
- Information dissemination

#### **Annual and Regional Conferences and Networking**

WSMA puts together one statewide and several regional conferences each year. Conferences include skill building sessions, and provide formal networking, and peer learning opportunities to connect organizations. The annual conference helps provide MDOs with a statewide perspective for their work. Regional conferences focus on regional issues and support. WSMA also provides MDOs with opportunities to present information to others at conference sessions. One MDO reported that being a presenter benefits both the presenting organization and the other participants.

#### **Learning Clusters**

Learning clusters provide intensive technical assistance to a small group of MDOs focused on a single product or a single issue. The cluster format is designed to allow MDOs to learn from each other, help connect them to organizations and resources they may not have known about and provide training on specific tools. For example, one cluster worked with emerging MDOs to access support from other organizations in their communities and obtain guidance from experienced, successful MDOs as they developed their MDO programs. This training also provided training on the "One Page Business Plan" tool.

#### **Webinars, Teleconferences, and other Training Sessions**

WSMA provides regular webinars. Topics have included: MicroMentor; WSMA Grant Applications; The Development Plan; the 2010 Microenterprise Outcome Survey Report; and Credit Building Training (by Credit Builders Alliance).

#### **Technical Assistance**

WSMA provides technical assistance to individual MDOs. MDOs indicated that this assistance has helped them keep their skills honed in the help provided to entrepreneurs; structure their programs and services using local expertise; and set up micro lending funds.

## Information Dissemination and Notice of Funding Opportunities

WSMA provides MDOs with notices of funding opportunities such as federal grants and provides support and technical assistance to MDOs on various funding applications. WSMA also tracks MDO activities and reports the information to national researchers and MDOs so that MDOs have a broader context of what is happening in the field both statewide and nationally.

## WSMA Provides Grants to MDOs

WSMA also provides grants to MDOs for capacity building, outreach, training and technical assistance, and building the MDO's technology capacity. Exhibit 3, below, shows the grants by recipient and year and indicates the purpose of each grant.

### Exhibit 3 – From 2008-2011 WSMA Awarded Grants Totaling \$276,358 to 15 MDOs

Fiscal Year	MDO Grantee	Purpose	Grant
2008	BURST (Children's Home Society)	Technology Capacity Building	\$13,191
	Community Capital Development	Technology Capacity Building	\$15,000
	Jump Start Fund (Diocese of Olympia)	Training & Technical Assistance	\$15,000
	Kitsap County Community Dev. Corp	Capacity Building	\$10,000
	Lower Columbia Econ. Dev. Council	Capacity Building	\$10,000
	Metropolitan Development Council	Training & Technical Assistance	\$14,000
	North Columbia Community Action Council (Now OIC)	Training & Technical Assistance	\$15,000
	Northwest Center	Capacity Building	\$14,000
	Rural Community Dev. Resources	Technology Capacity Building	\$14,809
	SNAP (Spokane Neighborhood Assets)	Capacity Building	\$14,000
	Washington CASH	Training & Technical Assistance	\$15,000
2009	Lower Columbia Econ. Dev. Council	Training & Technical Assistance	\$5,000
	North Columbia Community Action Council (Now OIC)	Training & Technical Assistance, Capacity Building	\$15,000
	Rural Community Dev. Resources	Training & Technical Assistance	\$15,000
	SNAP (Spokane Neighborhood Assets)	Capacity Building	\$11,358
	SNEDA (Spokane Neighborhood Economic Development Alliance)	Training & Technical Assistance	\$15,000
	Washington CASH	Technology Capacity Building	\$15,000
2010	Benton Franklin Council of Governments	Capacity Building	\$5,000
	Enterprise for Equity	Outreach, Capacity Building	\$10,000
	Lower Columbia Community Action	Capacity Building	\$10,000
2011	Benton Franklin Council of Governments	Capacity Building	\$5,000
	Enterprise for Equity	Outreach, Capacity Building	\$10,000
	Lower Columbia Community Action	Capacity Building	\$10,000
<b>2008-11 Total</b>			<b>\$276,358</b>

Source: JLARC analysis of WSMA grant files and reports.

**Capacity Building Grants** (including outreach) are designed to help MDOs expand their target markets or their target populations or assist them with adding more services to the markets they currently serve. For example, two MDOs used grants to expand services into towns in Eastern Washington where no MDO services had previously been available.

**Training and Technical Assistance Grants** are designed to assist MDOs in expanding their ability to provide training and technical assistance to entrepreneurs. For example, when one MDO expanded into the Russian language market, the organization contracted with a business lending expert who also spoke Russian and had ties in the local Russian community.

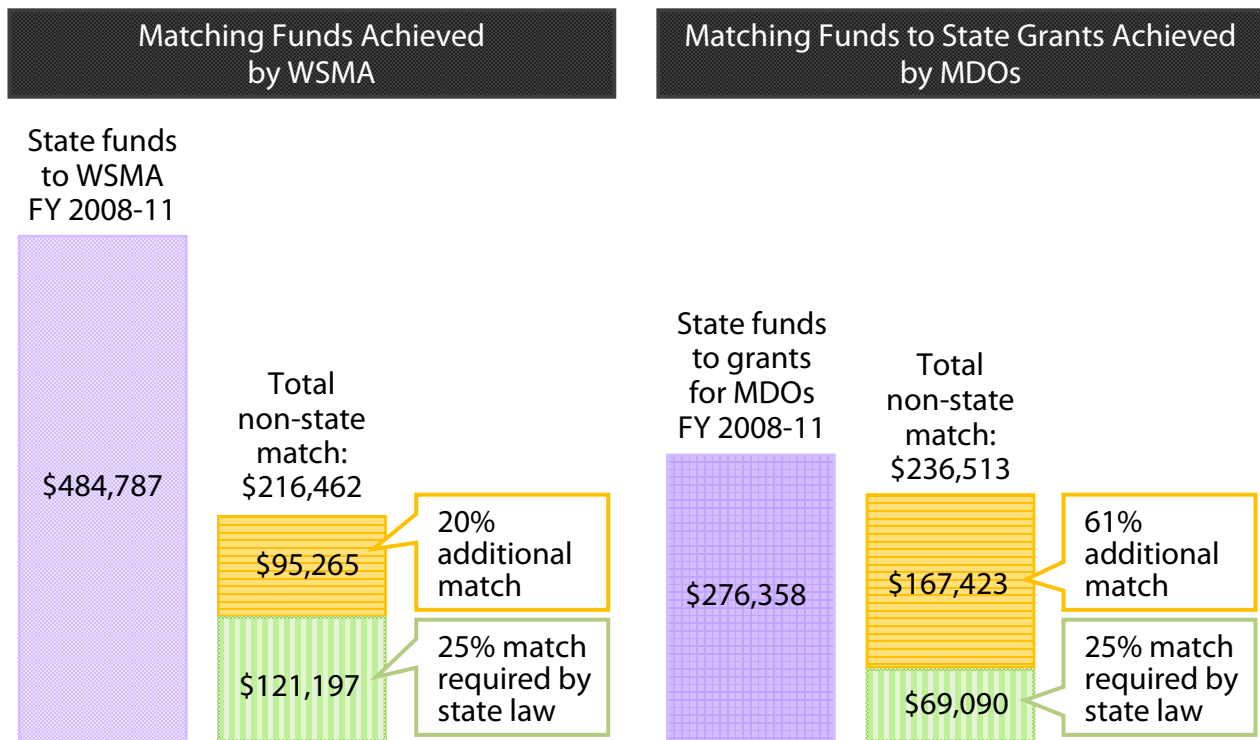
**Technology Grants** generally provide computers, software, projection equipment, website development, and/or network infrastructure. MDOs use technology to provide services, such as reaching funders' minimum standards for online loan processing, or to expand services, such as providing a computer lab and classes for entrepreneurs.

**Multiple Purpose Grants** are used for more than one purpose. For example, some grants were used to put in place the administrative capacity, technology, and staffing to provide microloans to entrepreneurs, although the grant funding itself was not used as lending capital.

**WSMA and MDO Grantees Are Exceeding the State Match Requirements**

In order to receive a grant, the statute requires recipients to provide a 25 percent match. WSMA is also required to provide a 25 percent match to state funds it receives. Actual match amounts ranged from 25 percent to 493 percent.

**Exhibit 4 – WSMA and MDOs Provided More Matching Funds Than State Law Requires**



Source: JLARC analysis of WSMA contract and grant files.

## **MDOs Also Report That WSMA's Grants and Services Helped Them Leverage an Additional \$866,000 In Funds From Other Sources**

Leveraging is the use of one source of resources, including funds, to attract other resources.

JLARC asked each MDO to identify the quantifiable funds it considered to be leveraged, and explain what that leverage was. MDOs that received grants reported leveraging \$886,000 of non-state funds, related to those grants or the experience gained under the grants. These funds are in addition to the non-state matching funds used to obtain the WSMA grants funds. For example, one MDO reported using the experience they gained through the support of WSMA and their grants to successfully compete for and obtain a later \$73,000 federal grant.

## **Entrepreneurs Receiving Services From MDOs Under State Grants Appear to be Operating Microenterprises**

Nine MDOs provided JLARC with a list of individuals and businesses they assisted in relation to their grants under the state program, which resulted in 476 records. JLARC compared these records to business license and other information to determine whether these participants had open businesses.

Of these 476 participants, 365 have or have had a business. Of these 365:

- 303 had open businesses as of August 2011 and 17 entrepreneurs had more than one open business.
- 139 had taxable revenue in FY 2010, and 74 opened businesses in 2010 or 2011 and may not yet have been required to report income.
- 135 received services after their businesses had already opened, indicating MDOs also assist entrepreneurs with enhancing their skills in operating or expanding a microenterprise that has already opened.

The data that JLARC received did not reflect all of the entrepreneurs helped by the nine reporting MDOs, and because MDOs vary greatly in size and in target population, it is not generalizable.



## **The Department of Commerce Is Not Meeting Its Statutory Obligation of Organizational Support and Oversight**

In the course of its review, JLARC identified two problems and makes two recommendations related to the Department of Commerce's obligations for the support and oversight of the state Microenterprise Development Program.

### **Commerce Is Not Providing Required "Organizational Support" to WSMA**

The legislation establishing Washington's Microenterprise Development Program makes WSMA the Department of Commerce's agent to deliver program services and grants. It requires Commerce to provide "organizational support" to WSMA. The statute does not identify what this support should be.

Commerce initially provided organizational support by having the Department's Business Services Manager participate in WSMA board meetings, be available to address WSMA's program related inquiries, and provide technical assistance to WSMA. Commerce has not provided any organizational support since June 2010. Beginning in fiscal year 2011, the only Commerce staff assigned to WSMA has been the person who handles quarterly reimbursements.

#### **Recommendation 1**

**The Department of Commerce should comply with the statute and provide organizational support to the Washington State Microenterprise Association.**

<b>Legislation Required:</b>	None.
<b>Fiscal Impact:</b>	Commerce should determine the level of resources necessary to provide organizational support to WSMA.
<b>Implementation Date:</b>	July 1, 2012

### **WSMA has Met Contractual Obligations, But Commerce's Reporting and Verification Processes Are Inadequate to Monitor Compliance**

JLARC's independent review indicates WSMA has fulfilled its contractual obligations and that its actions are consistent with the purposes of the state program. However, the Department of Commerce's current contract reporting and verification processes are inadequate.

Commerce requires quarterly reports from WSMA for payment. However, under existing contract language it is difficult to determine whether performance requirements have been met. The language identifies no minimum performance threshold and the terms are undefined. For example, contracts require WSMA to "Initiate technical assistance resource development for capacity building activities to include education and training, program development, funding and data collection." The main directive is undefined and the examples given are so broad that WSMA could claim almost any activity was included.

In addition, progress reports required by Commerce are largely descriptive. WSMA enters one or more descriptive statements about each activity into a table and may provide some supporting documentation to Commerce. However, Commerce has not required WSMA to provide adequate supporting documentation. For example, where WSMA has stated that it provided trainings, Commerce has not required any documentation such as agendas, course materials, or attendance rosters to support the statements.

**Recommendation 2**

**The Department of Commerce should develop measurable performance targets for its contract with the Washington State Microenterprise Association and should establish a process to verify that the WSMA has met the requirements of the contract.**

<b>Legislation Required:</b>	None.
<b>Fiscal Impact:</b>	JLARC assumes that this can be completed within existing resources.
<b>Implementation Date:</b>	July 1, 2012

# APPENDIX 1 – SCOPE AND OBJECTIVES

## MICROENTERPRISE DEVELOPMENT: EVALUATION OF WASHINGTON'S PROGRAM

### SCOPE AND OBJECTIVES

JUNE 23, 2011



STATE OF WASHINGTON  
JOINT LEGISLATIVE AUDIT  
AND REVIEW COMMITTEE

#### STUDY TEAM

Fara Daun

#### PROJECT SUPERVISOR

John Woolley

#### LEGISLATIVE AUDITOR

Keenan Konopaski

Joint Legislative Audit &  
Review Committee  
1300 Quince St SE  
Olympia, WA 98504-0910  
(360) 786-5171  
(360) 786-5180 Fax

#### Website:

[www.jlarc.leg.wa.gov](http://www.jlarc.leg.wa.gov)

e-mail: [barbara.neff@leg.wa.gov](mailto:barbara.neff@leg.wa.gov)

## Why a JLARC Study of Microenterprise Development?

In 2007, the Legislature passed Second Substitute Senate Bill 5652, establishing the state's microenterprise development program to "assist microenterprises in job creation by increasing the training, technical assistance, and financial resources available to microenterprises."

The Washington Department of Commerce, through a contract with the Washington State Microenterprise Association, is to provide organizational support and grants to local microenterprise development organizations and to leverage additional funds from sources other than the state general fund.

The legislation requires JLARC to evaluate the program by January 1, 2012.

## What is Microenterprise?

Microenterprise development is rooted in the international community. In the 1970s, the Grameen Bank in Bangladesh began to provide minimal loans (\$10-\$50) to women to purchase things like weaving and beading materials and livestock for food production. These raw materials could be used to generate income for their families.

In the United States, a microenterprise is usually defined as a company with between one and five employees including the owner, which requires no more than \$35,000 in start-up capital.

Microenterprises generally lack access to conventional forms of financing. Most microenterprises are home-based businesses. Microenterprises are found in a broad range of business types, including professional services, technology, trades, crafts and arts, manufacturing, child care, in-home catering, and small agricultural and farming businesses.

Microenterprise development organizations typically help low-income entrepreneurs develop the skills and gain access to the capital needed to start or improve their business and achieve economic self-sufficiency. Microenterprise development organizations usually focus on specific markets. These markets may be defined by the industry type, geographic regions (including rural or urban distinctions), or the population of entrepreneurs they typically serve.

## Study Scope

The evaluation will identify how microenterprise development fits within economic development generally and define the state's role in microenterprise development. Although the state program does not work directly with entrepreneurs, this evaluation will examine the state's role in job creation, improving access to capital, and the leveraging of non-state funds from 2007 through 2011.

## Study Objectives

The evaluation will address the following questions:

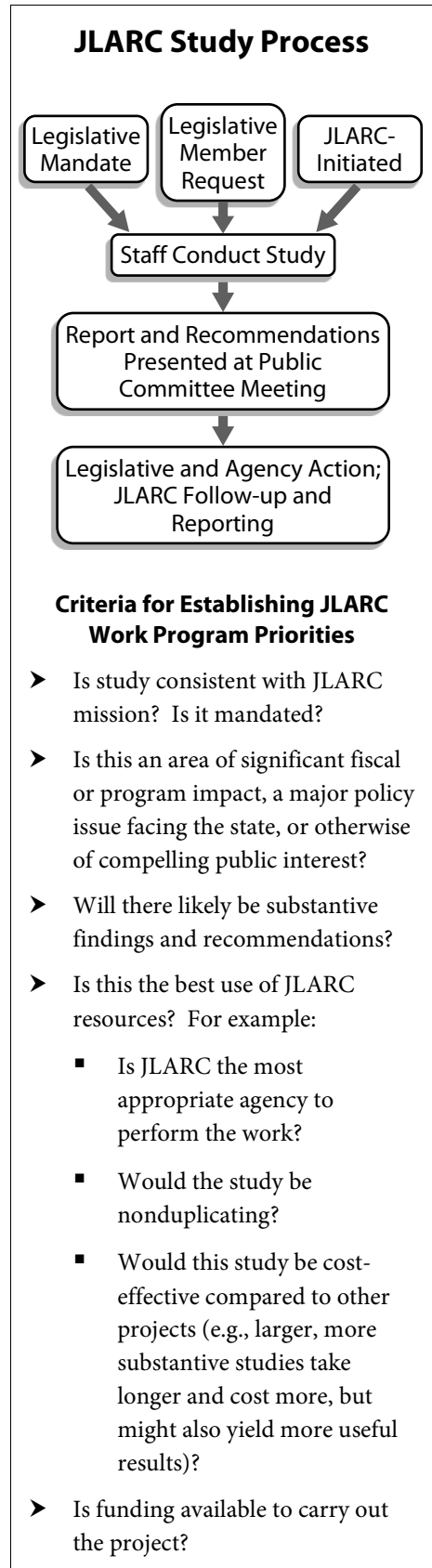
- 1) What is the state's role in microenterprise development?
- 2) What is the Washington State Microenterprise Association doing to assist microenterprise development organizations?
- 3) How are microenterprise development organizations benefiting from the Washington State Microenterprise Association's services and funding?

## Timeframe for the Study

Staff will present its preliminary and final reports at the JLARC meetings in November 2011 and January 2012.

## JLARC Staff Contact for the Study

Fara Daun (360) 786-5174 f.daun@leg.wa.gov



## APPENDIX 2 – AGENCY RESPONSES

---

- Department of Commerce
- WSMA

Note: JLARC also requested a response from the Office of Financial Management (OFM). OFM responded that they did not have comments on this report.





STATE OF WASHINGTON

DEPARTMENT OF COMMERCE

1011 Plum St SE • PO Box 42525 • Olympia, Washington 98504-2525 • (360) 725-4000  
www.commerce.wa.gov

December 5, 2011

Mr. Keenan Konopaski  
Legislative Auditor  
Joint Legislative Audit and Review Committee  
PO Box 40910  
Olympia, WA 98504-0910

RE: Commerce Response to JLARC’s Preliminary Report: “Microenterprise Development Program Meets Statutory Objectives but Department of Commerce Oversight is Inadequate”

Dear Mr. Konopaski:

Thank you for the opportunity to respond to the above-referenced preliminary report.

RECOMMENDATION	AGENCY POSITION	COMMENTS
<p>Recommendation: Commerce should determine the level of resources necessary to provide organization support to WSMA.</p>	<p>Do not concur with the recommendation.</p>	<p>Commerce provided organization support in the initial stages of the program (the first three years). As budget cuts were implemented, rather than cut deeper into the grant Commerce chose to cut the administrative funding supplied for the purpose of organization support. <b>Commerce continues to provide contract support and grant resources to the organization at the level Commerce deems necessary to support the organization.</b> The support provided is comparable to the support we provide to our other economic development grants, similar to WSMA. Given all these factors we believe we have done this.</p>

Appendix 2 – Agency Responses

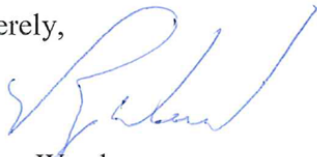
Mr. Keenan Konopaski  
 Page 2  
 December 5, 2011

RECOMMENDATION	AGENCY POSITION	COMMENTS
<p>Recommendation 2: Commerce should develop measurable performance targets for its contract with WSMA and should establish a process to verify that the WSMA has met the requirements of the contract</p>	<p>Partially concur with the recommendation.</p>	<p>Commerce currently requires WSMA to provide quarterly reports on the status of outputs and an annual report on outputs negotiated with WSMA. Prior to contracting we perform a risk assessment. We review all information received from WSMA before processing invoices for payment and request additional information as we deem necessary.</p> <p>Should the Legislature continue to fund the program in the next fiscal year, Commerce will add additional performance targets and procedures for verification.</p>

As requested in our response to the technical draft report, we continue to ask that the phrase “but Department of Commerce Oversight is Inadequate” be struck from the report title. The evidence gathered by the auditor does not support this conclusion. To the contrary, organizational support was provided at the formation of the organization when it was most necessary and then was scaled back as the organization matured. Our oversight including risk assessment, monitoring, and invoice review comports with our standard agency procedures. The auditor found that the program met all statutory requirements indicating that Commerce’s oversight was sufficient. In a time of scarce state resources, Commerce endeavors to manage contracts efficiently and effectively. We have done so with WSMA.

If you have any questions, please do not hesitate to contact Karen McArthur at 360-725-4027.

Sincerely,



Rogers Weed  
 Director

cc: Daniel Malarkey, Deputy Director  
 John Thomas, Internal Auditor  
 Kathy Carlson, Commerce Specialist, BSD  
 Karen McArthur, Operations Manager, BSD





Washington State Microenterprise Association

500 South 336<sup>th</sup>, Suite 208  
Federal Way, WA 98003

December 8, 2011

Keenan Konopaski, Legislative Auditor  
Joint Legislative Audit & Review Committee  
P.O. Box 40910  
Olympia, WA 98504

RE: Formal Response to JLARC Review of Microenterprise Development Program

Dear Mr. Konopaski and JLAR Committee Members:

Thank you for the opportunity to comment on the Joint Legislative Audit & Review Committee Report on the Microenterprise Development Program in Washington. The Washington State Microenterprise Association (WSMA) is pleased to continue our work under contract with the Department of Commerce (Department) to facilitate capacity building and support to Microenterprise Development Organizations (MDO's) to increase access to capital, training and technical assistance for low-income entrepreneurs. The report findings represent the real and potential impact this work has on building entrepreneurial support at the community level, leveraging resources and improving access to services for those wishing to start, grow and expand their businesses.

Microenterprise as defined in the report represents 86% of all business in Washington and employs 19% of the labor force (much greater in some rural communities). Although sizeable, this group as a whole has not typically been included in economic development strategies. The Microenterprise Development Program was designed to target this often overlooked sector in our state's economic landscape.

WSMA was formed by a group of microenterprise development practitioners to address challenges, share best practice, and identify opportunities to build capacity by working together. Formed prior to the legislation that enacted the Microenterprise Development Program, WSMA worked with national partners to create a state association that could coordinate resources and develop capacity building initiatives for practitioners. Those providing microenterprise and/or micro-lending activity include community based nonprofits, educational institutions, economic development organizations, financial institutions, community development financial institutions, and others.

The Microenterprise Development Program calls for the disbursement of grants to MDO's and requires both WSMA and its grantees to provide a match contribution equal to 25% of state funding. In this instance WSMA and its grantees contributed significantly more than the required match and leveraged additional resources. It is important to note that match and leverage numbers provided in the report are only that of WSMA and its sub-grantees as a direct result of state funding. Therefore it is not a representation of the total investment and impact that all microenterprise development organizations have in business creation, expansion, access to capital and leveraged resources.

Business development support, or “capacity building” as called out in the legislation is a significant element in building and expanding micro-business assistance in the state. This has been delivered in many forms and is a role played by WSMA to increase small-scale enterprise development and self-employment services. Organizations (grantees and non-grantees) have benefitted from education, training, networking, events, development and programmatic consulting, and other services offered by WSMA. WSMA has worked with a number of organizations to create services and resources in communities previously underserved or where no services previously existed. These outcomes are not fully articulated in the report; however they speak greatly to the interest and need in deepening support for entrepreneurial development.

### Findings and Recommendations

*Commerce is not providing required organizational support to WSMA*

Recommendation 1:

Agency Position: Concur

Comments: WSMA enjoyed a positive relationship with the Department in the formative years of this program. Unfortunately with reductions in budget and staffing along with changes in leadership at various levels within state government, WSMA has had a difficult time maintaining a partnership with the Department. Without a strong connection with the Department, we feel we have lost opportunities to leverage federal funding and have suffered from a lack of access to state resources and networks that would propel this work forward. It is our hope that we can revisit this issue; re-define roles and the level of organizational support needed by the Department. That said, consistent budgetary reductions have lessened the resources for this effort; therefore the WSMA and the Department should jointly discuss fiscal impact and appropriate organizational support given the fiscal resources at hand.

*WSMA has met contractual obligations but commerce’s reporting and verification processes are inadequate to monitor compliance*

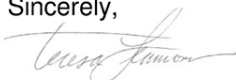
Recommendation 2:

Agency Position: Concur

Comments: At the onset of this contract, WSMA and the Department worked closely to develop the program elements as legislated. Roles for each entity were identified but not specified explicitly, offering both the flexibility to develop the systems and processes necessary to implement the program. The Scope of Service has remained fairly broad to enable WSMA to be responsive to the capacity building needs of MDO’s. After this audit and review process, it is understood that this approach may be less than optimal from a contract monitoring perspective. However, it should be understood that WSMA has consistently been compliant with all reporting and contracting requests by the Department. Further defining deliverables is indeed possible in cooperation with the Department. While WSMA has successfully met its statutory objectives and performed well under this contract, we are happy to discuss process improvements for performance reporting and contract monitoring with the Department.

The Washington State Microenterprise Association has worked hard to ensure we are following legislative intent throughout the implementation of the Microenterprise Development Program and are proud of the accomplishments as outlined and validated via this audit and review process.

Sincerely,



Teresa Lemmons, Executive Director

# APPENDIX 2A – AUDITOR’S COMMENT

---

## **Auditor’s Response to The Department of Commerce’s Comments on JLARC Report**

### ***Organizational Support:***

The Department of Commerce has stated they do not intend to provide organizational support to the Washington State Microenterprise Association (WSMA), despite a statutory requirement to do so.

While we understand the budget challenges facing many state agencies, JLARC staff are very concerned when an agency states that it will not comply with the law. JLARC recognizes that the Department initially provided organizational support to WSMA and acknowledges that in the report. However, the statutory requirement to provide organizational support, as currently enacted, is an ongoing requirement. The Department’s response indicates that they neither intend to implement JLARC’s recommendation that they comply with the statute nor ask the Legislature to change the statute.

### ***Contract Oversight:***

JLARC appreciates that Commerce has committed to additional performance targets and procedures for verification, as recommended in our report.

JLARC concluded that the Washington State Microenterprise Association met its contractual requirements. However, we disagree with Commerce’s statement that this finding indicates the Department’s contract oversight is sufficient. The fact that JLARC’s extensive audit work showed the program met requirements reflects on the integrity and commitment of the contractor, not the adequacy of the Department’s oversight. Commerce did not dispute any of the facts in the report related to minimal contract oversight. Consequently, JLARC’s conclusion from these facts that, “Department of Commerce Oversight is Inadequate” is a correct statement.



