

**Ann Arbor-Ypsilanti SmartZone  
Local Development Finance Authority**

**Washtenaw County, Michigan**

**AUDIT OF THE ANN ARBOR SPARK  
JOB CREATION REPORTING**

**Year Ended June 30, 2014**

Ann Arbor/Ypsilanti SmartZone  
Local Development Finance Authority

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Members of the LDFA Board  
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Independent Accountant's Report on Applying Agreed-Upon Procedures

We have performed the procedures enumerated below, which were agreed to by the Ann Arbor/Ypsilanti SmartZone Local Development Finance Authority (LDFA), solely to assist them in evaluating the job creation reporting of Ann Arbor SPARK. Ann Arbor SPARK's management is responsible for reporting jobs created under a contract with the LDFA. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

To perform this task, we met with LDFA and Ann Arbor SPARK representatives to gain an understanding of the current contract. Our procedures included interviewing and observing SPARK's management and operational personnel to determine how the information is gathered and reported. The scope of our engagement also included direct confirmation of the information provided by SPARK with the companies they reported having served.

Our engagement was not designed to express an opinion on Ann Arbor SPARK's internal controls or financial statements and we do not express such an opinion. As you know, because of inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. However, we believe that Ann Arbor SPARK, in all material respects, complied with the contract during the period under audit. Projections of any evaluation of the current accounting system and controls are subject to the risk that the procedures may become inadequate because of changed conditions. Our observations and recommendations are provided throughout this report.

This report is intended solely for the use of management and the LDFA Board of the Ann Arbor/Ypsilanti SmartZone Local Development Finance Authority and is not intended to be and should not be used for any other purpose. We wish to express our appreciation for the courtesy and cooperation extended to us during our engagement. We are available to discuss any or all of these recommendations with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

February 19, 2015

## **Executive Summary**

### **Background**

Because of their expertise, interest in stimulating economic growth in the Ann Arbor/Ypsilanti area, and contacts available to them, Ann Arbor SPARK (SPARK) was contracted by the Ann Arbor/Ypsilanti SmartZone LDFA (LDFA) to provide entrepreneurial services to early-stage business owners. SPARK is a nonprofit corporation whose mission is to advance the economic development of innovation-based businesses in the Ann Arbor region by offering programs, resources, and proactive support to businesses at every stage, from start-ups to large organizations looking for expansion opportunities.

In the contract (the “contract”) dated June 18, 2013, SPARK agreed to disclose:

1. A census of the annual and cumulative number of jobs created within the Service Area (as defined) as of June 30, 2014 (with ‘jobs created’ defined as the incremental increase in the number of Full Time Equivalent employees (FTEs) beginning with the date a Business Accelerator proposal is signed, or a loan provided, or when a SPARK Central Incubator agreement is first executed, or when participation in a Boot Camp session occurs).
2. A census of the annual and cumulative number of jobs related to Business Accelerator, SPARK Central Incubator, and Boot Camp attendees that have left the Service Area because of relocation, merger, acquisition, or business failure as of June 30, 2014.
3. A census of the number and identity of current and past clients the Contractor (SPARK) deems no longer eligible for LDFA funded services as of June 30, 2014.
4. A census of the number and identity of clients for which information regarding job creation is no longer being collected as of June 30, 2014.

Additionally, “The Contractor shall track companies for a period of five years through an annual survey and make efforts to achieve as high a participation rate as possible. The survey will not only include questions that update standard economic development data but also ask companies who leave the area why.”

In its Final Program Progress Report, which was presented to the LDFA on August 30, 2014, SPARK appears to have reported substantially all of the information called for in the contract and we are aware that a survey was conducted but did not look into the content of the survey per the requirements above. Our procedures were focused on the job number creation as follows.

## **Audit Scope and Procedures**

In our engagement letter dated July 16, 2014, the LDFA contracted with Abraham & Gaffney, P.C. to:

1. Document method of collection and obtain support for annually reported job creation numbers. Perform the following with respect to this information:
  - Select a statistically relevant sample of companies reporting and independently confirm jobs created figures.
  - Provide commentary on best practices for collection of this information and any opportunities for improvement of SPARK's process.

Our procedures consisted of inquiry, observation, and independent confirmation of job numbers with respect to the 2013-2014 contract with the LDFA. Our main contacts at SPARK for this project were:

Bill Mayer, Vice President, Entrepreneurial Services  
Liz Perpich, Director of Administration and Finance  
Ben Harrington, Data Analyst

We wish to thank Bill, Liz, and Ben for their assistance during the procedures that we carried out.

## **Audit Results**

As a result of our auditing procedures, we determined that:

1. The job creation numbers reported by SPARK are compiled and reported through what appeared to be a reliable and consistent methodology.
2. Our confirmation procedures revealed some significant differences in the numbers reported by the companies and SPARK, which seems to point out some inherent issues with the self-reporting system that is in use. As a result, it appears that the job creation numbers should be regarded by users as an approximation and not necessarily an exact figure.
3. The job creation numbers maintained and reported by SPARK are the most accurate figures available on a "best efforts" basis. The data being captured changes rapidly.

Documentation of the system used, our confirmation procedures, and related commentary are detailed in the applicable sections of the following report.

## **Jobs Created Tracking and Reporting Methodology**

SPARK reports job creation numbers through a self-reporting process using Salesforce Customer Relationship Management (CRM) software that works in two basic ways:

1. Manual updates as personal contact is made with companies
2. Annual survey

SalesForce CRM software is a browser based tool customized to SPARK's use. Salesforce is used to track all interactions with Business Accelerator (BA) and other companies and also to produce the reports used for monthly billings to the LDFA as well as quarterly and annual reporting.

Each company SPARK works with has an "Account" page in Salesforce. This Account page contains general information about each company including name, address (according to the Michigan Department of Licensing and Regulatory Affairs - LARA), phone number, website, etc. The Account page also includes a data field called "Current FTE Jobs" which is either updated manually based on personal contact of some kind or automatically from the survey. This "Current FTE Jobs" field is used to report the number of jobs as of any given time that the Account page is viewed or a report is run.

Within each Account page in Salesforce, there is an area for "Opportunities". These are used to track the various tasks or activities taking place with each of the companies such as proposals (Business Accelerator grants), investment (grant), contract phases, loans, etc. Inside each Opportunity is a field called "Retained FTE Jobs". This number is a "snapshot" of Full Time Equivalent jobs (FTE's) that the company has at the time of each specific activity. When this field is viewed across Opportunities, a history of job numbers can be seen. This field does not update and is not linked to the previously described field "Current FTE Jobs".

The annual survey (which covers the previous fiscal year period July 1 through June 30 each year) was done using "Clicktools", which is a plug-in to Salesforce. For this year, the survey went out on July 14, 2014 to 565 companies. The survey was sent out electronically (by email) and each question is linked back to (and updates on response) the company information in Salesforce. One of the questions is Current FTE Jobs. 122 companies (22%) responded to the survey.

Soon after the survey closed, which would have been in mid-August 2014, SPARK ran a report in Salesforce that compared "Retained FTE Jobs" to "Current FTE Jobs" and computed the difference between those two as "New Jobs", which totaled 169. This report was furnished to Abraham & Gaffney, P.C. and was used in our confirmation procedures that are described in the next section of this report.

## **Jobs Created Tracking and Reporting Methodology - continued**

### **Observations Regarding Tracking and Reporting Methodology**

- SPARK appears to be using a system that contains data points that are used consistently and produce reliable reports on demand.
- The Retained FTE Jobs is a field which defines how many jobs were present as of the time that SPARK first worked with a given company. For this reason, the job creation numbers cannot be construed to apply to any easily defined period of time.
- The Current FTE Jobs field is updated either manually or through the survey. This number is a “snapshot” as of the time that it is updated and does not represent any specific period of time. This number is current as of the time the annual reporting was done, which may or may not correspond to the end of the contract period June 30, 2014.
- We found that SPARK accurately compiled and reported the jobs created numbers that were generated from their system.



## Confirmation Procedures and Results

### Introduction

As stated above, Abraham & Gaffney, P.C. selected a statistically relevant sample of companies to directly confirm the number of FTE jobs they had as of July 1, 2013 and June 30, 2014. The July 1, 2013 data point was selected as an approximate measure of the onset of entrepreneurial engagements and would not necessarily line up with “Retained FTE Jobs” as described above. It was thought that using the July 1, 2013 data point would provide some consistency in the reporting rather than asking companies how many FTEs they had when SPARK commenced with their services. FTE jobs as of June 30, 2014 should line up with “Current FTE Jobs” as described above.

### Sampling Methodology

SPARK submitted to Abraham & Gaffney, P.C. a spreadsheet that listed all companies that had received entrepreneurial services, their Retained FTE Jobs, and the Current FTE Jobs. There was also a column on the spreadsheet that computed the difference between Retained FTE Jobs and Current FTE Jobs, New Jobs. The total New Jobs per this spreadsheet was 169, which corresponds to the number reported on the Final Program Progress Report.

We sorted the spreadsheet by New Jobs, in ascending order. We selected the companies with the largest numbers of New Jobs until we had selected 88.5, which is more than half of the 169 reported. This amounted to 10 companies that would be confirmed. Confirmations were prepared by Abraham & Gaffney, P.C. and signed by SPARK. The confirmations were mailed by Abraham & Gaffney, P.C. asking companies to respond directly to us.

### Confirmation Results

All 10 confirmations were returned. The table below shows the detailed results of our confirmation procedures. This table contains only the companies that were selected for confirmation and all totals refer to the sample only except that the highlighted 169 is a grand total.

		Confirmed 7/1/2013		Confirmed 6/30/2014	
Account	Retained FTE Jobs		Current FTE Jobs		New Jobs
Dynamic Perception LLC	2	6	7	7	5
Root3 Technologies, Inc.	2	2	7	2	5
AirBlade, LLC	4	0	10	1.5	6
AMF-Nano Corporation	1	1	7	6	6
Ornicept, Inc.	2	5	9	13	7
Seelio, Inc.	8	7	16	17	8
Flock Tag LLC	2	10	10.5	14	8.5
Backyard Brains Incorporated	4	10	14	13	10
Avegant Corporation	2	6	17	9	15
Think Tech Labs, LLC	7	10	25	24	18
<b>Totals</b>	<b>34</b>	<b>57</b>	<b>122.5</b>	<b>106.5</b>	<b>169</b>
<b>Difference (confirmed - reported)</b>		<b>23</b>		<b>-16</b>	

## **Confirmation Procedures and Results - continued**

### **Additional Procedures**

In order to more fully understand the differences between the FTEs confirmed and what was reported, Abraham & Gaffney, P.C. conducted telephone interviews with 4 of the companies that reported the largest differences. It should be noted that 2 of the 4 companies selected for further follow-up had not responded to SPARK's survey. Based on further probing, none of these companies changed their response from what was confirmed; all indicated that FTEs were accurate to the best of their knowledge. Feedback obtained from these interviews supports the observations below.

### **Observations Regarding Confirmation Results**

- The difference between the July 1, 2013 confirmed FTE jobs and Retained FTE Jobs (23 more confirmed than Retained) suggests that services for these organizations were ongoing as of that date. Further investigation and inquiry of SPARK indicates that 4 of the 10 companies confirmed had onset of services before July 1, 2013. These 4 companies account for 15 of the 23 FTEs reported above as a difference. It is important to note that the job reporting requirement is not tied to the contract year (SPARK indicated this in the Final Program Progress Report), but we point this out since it would be easy to infer that 169 jobs were created in 2013-14 based on the way other items are reported.
- The difference between the June 30, 2014 confirmed FTE jobs and Current FTE Jobs appears to be due to four main factors:
  - Differences in definitions of what constitutes an FTE and whether this includes contractors/seasonal help or not.
  - A different person may have completed the confirmation vs. the survey.
  - Timing of when the Current FTE Jobs was updated (either manually or in the survey) and June 30, 2014.
  - Rapid changes in headcount of early-stage companies. The differences noted for Airblade, LLC and Avegant Corporation appear to fall into this category. The two companies were undergoing major changes at the time of the survey and audit which are reflected in the results.

### **Conclusion**

SPARK does compile and report the job creation numbers based on a system that contains readily identifiable data points and repeatable, accurate calculations. However, based on the differences observed in our confirmation procedures and due to the factors considered above, it appears that the number of jobs created and reported is an approximation and should not be otherwise interpreted by users.

## Best Practices

As noted above, part of the task Abraham & Gaffney, P.C. performed was to gather information on best practices and provide commentary and any recommendations for improvement of SPARK's processes. Toward that end, we contacted two similar organizations and made inquiries of senior management representatives to gather information on how they capture and report job creation data. We would like to acknowledge and thank Ben Keller from JumpStart, Inc. (Cleveland, OH) and Wayne Embree from Tech Columbus (Columbus, OH) for their time and contributions to this report.

In many ways, the systems employed by the three organizations (SPARK, JumpStart, Inc., and Tech Columbus) were similar. Significant areas in which these similarities stood out were:

- All employ self-reporting systems that use Salesforce to track and report the employment numbers. All stated their desire for a more objective measure, but none had found a way to make this a reality.
- All three organizations reported using Salesforce in a customized environment to track and report on jobs data.
- All three organizations indicated that the job creation numbers were reported based on a concept of FTEs and not simply a generic number of jobs.
- The methods of compiling and reporting the numbers in Salesforce appear to be similar.
- All three organizations use a survey to gather information on jobs from client companies.

There were also ways in which the three were not similar. It is important to note that these differences are reported for information only, not to be construed as recommended changes. Those included:

- Both JumpStart, Inc. and Tech Columbus reported that their surveys were done twice per year.
- Both JumpStart, Inc. and Tech Columbus reported that their ratios of companies surveyed to staff working with engaged companies was about 10:1. SPARK's ratio is about 100:1.
- Both JumpStart, Inc. and Tech Columbus reported that companies who did not respond to the survey were excluded from the ongoing jobs numbers.
- Tech Columbus reported that their definition of an FTE extended only to positions that are paid, which would exclude early-stage entrepreneurs or key employees who are working for no pay or will be paid in future equity.
- Both JumpStart, Inc. and Tech Columbus reported that their surveys specifically delineate between persons being reported as contractors and those who are employees.
- Tech Columbus reported that they had increased survey response rates by going through a database "cleansing" process to remove companies that had been sold or gone out of business and also by narrowing their definition of what constitutes an engaged company.
- Both JumpStart, Inc. (over 90%) and Tech Columbus (99.5%) reported response rates for their surveys well in excess of that reported by SPARK (22%). This higher response rate can be explained by two factors, which are described above - higher ratios of staff to engaged companies and the removal of companies that do not respond from the survey.

## **Recommendations for Improvement - SPARK**

Based on our observations and the information obtained and detailed above, we would recommend the following to enhance the accuracy of job number reporting for SPARK:

1. SPARK should consider conducting the survey more often, possibly twice per year.
2. SPARK experienced a higher response rate (22%) in 2014 than in the past. Possible strategies to continue this improvement include:
  - a. More robust and frequent communication with client companies regarding the importance of responding to the survey.
  - b. Consider including in the Statement of Understanding for Phase II companies an assurance that the company will respond to the surveys, including possible negative consequences for non-responsive companies.
  - c. Increased follow-up after the survey goes out to make sure that the intended recipients were reached and the response is submitted.
3. SPARK should consider expanding the questions that are asked in the survey to encompass more information such as delineations between contractors, non-payroll key employees, outside contributors, and part-time employees. This may require some modifications of the Salesforce database but may serve to reduce errors due to differences in definition or perception.

## **MEDC**

The final portion of our examination of best practices involved contacting the Michigan Economic Development Corporation (MEDC) for their views and suggestions on the subject. We spoke to Roselyn Zator, Entrepreneurial Service Provider Managing Director, to obtain this information.

Ms. Zator stated that MEDC oversees nineteen (19) SmartZone LDFA's and other grantees across the state. As part of this oversight, SPARK reports jobs created to MEDC on a monthly basis. MEDC also annually visits its grantees and audits the records of jobs created, but these audits are not as extensive as the procedures that were performed in this report. MEDC does not attempt to go past the audited organization and confirm job numbers as was done in this engagement. MEDC has had no issues with SPARK's job creation reporting based on these annual visits and the self-reporting system currently in place. Ms. Zator stated that this engagement to audit SPARK's job creation reporting was the first of its kind in the State to her knowledge. MEDC is considering requiring similar audits in the future for organizations similar to SPARK.

Six (6) organizations similar to SPARK also report monthly job creation numbers to MEDC. Those organizations are in Grand Rapids, Houghton/Hancock, Troy, Lansing, Detroit, and Kalamazoo. According to Ms. Zator, all of these organizations are using a self-reporting system such as the one that SPARK is employing. Also, the same Salesforce software is widely used to compile the numbers. She pointed out some of the same issues we have noted that affect the accuracy of the job reporting data that we have - timing, perception/knowledge of the person responding, rapid changes of early stage companies, and also the cost/benefit of expending additional resources to improve these numbers. She suggested that the job creation numbers could be improved if organizations such as SPARK started to require some sort of backup such as payroll information to be included with the job reporting, but also recognized that MEDC has not found a way to include this level of consistent verification while also maintaining the level of confidentiality that is necessary under the circumstances. MEDC is open to suggestion on this subject.