

**ANN ARBOR-YPSILANTI SMARTZONE LOCAL
DEVELOPMENT FINANCE AUTHORITY**

WASHTENAW COUNTY, MICHIGAN

**ATTESTATION OF THE ANN ARBOR SPARK
ENTREPRENEURIAL SERVICES CONTRACT**

YEAR ENDED JUNE 30, 2021



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Members of the LDFA Board
Ann Arbor-Ypsilanti SmartZone Local Development Finance Authority
Ann Arbor, Michigan

We have performed the procedures enumerated below on evaluating certain aspects of Ann Arbor SPARK's compliance with the contract agreed upon with Ann Arbor-Ypsilanti SmartZone Local Development Finance Authority (LDFA) for the year ended June 30, 2021. Ann Arbor SPARK's management is responsible for compliance with the agreed upon contract.

LDFA and Ann Arbor SPARK have agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of testing certain aspects of the contract between the LDFA and Ann Arbor SPARK. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures are outlined in the Audit Scope and Procedures section of the Executive Summary and the associated results are detailed in the Audit Results section of the Executive Summary and in applicable sections of the following report.

We were engaged by Ann Arbor-Ypsilanti SmartZone Local Development Finance Authority to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with certain aspects the contract between the LDFA and Ann Arbor SPARK. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of Ann Arbor SPARK and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of Ann Arbor-Ypsilanti SmartZone Local Development Finance Authority and Ann Arbor SPARK and is not intended to be, and should not be, used by anyone other than those specified parties.

Maner Costerisan PC

February 28, 2022

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 July 1, 2020 SPARK agreed to provide services for the period of July 1, 2020 through June 30, 2021 in the areas of:

- Business Accelerator Services
- Mobility Specialist
- Micro-Loan Fund
- Entrepreneur’s Boot Camp
- Major Events
- Sponsorship, Entrepreneurial Development and Educational Programs
- Entrepreneur Education
- Talent
- SPARK Central and East Innovation Centers (Business Incubator)
- Indirect Services

Contracts for similar services have existed each year since the 2006-07 fiscal year, but those are not considered in this report.

Payments to SPARK are made based on monthly billings sent to the LDFA. SPARK is entitled to payment under the contract when consulting hours are expended, certain activities take place, certain deliverables are completed, or for other expense reimbursements. Each of these methods of earning the payments made to SPARK, along with the internal controls necessary to provide a proper audit trail, are detailed in the contract. The contract also specifies that all aspects of these services are subject to outside audit.

Audit Scope and Procedures

In our engagement letter dated August 17, 2021 the LDFA contracted with Maner Costerisan PC to:

1. Meet with the LDFA and SPARK to obtain an understanding of the process and to obtain the input of all parties.

Executive Summary (continued)

Audit Scope and Procedures (continued)

2. Provide an independent evaluation of SPARK's:
 - Adequacy of internal control procedures that cover all key elements of the contract;
 - Ability to keep adequate records and produce accurate, complete, and useful reports as they relate to fulfilling SPARK's contractual obligations to the LDFA;
 - Monitoring processes to ensure internal control procedures are effective;
 - Procedures to check for defects in billing/reporting requirements or instances of contract non-compliance, with documentation of appropriate and corrective action where necessary;
 - Regular review protocols for individual processes and the internal control system itself for effectiveness.
3. Report to the LDFA on the results of our procedures, the internal controls currently in place, and our recommendations for improvements.

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 accounting personnel to determine the flow of accounting information and controls placed in operation. The scope of our engagement also included testing certain aspects of the operating effectiveness of such controls.

Our procedures consisted of inquiry, observation, and testing of the internal controls SPARK has put into operation with respect to the 2020-2021 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
Lisa Bies, Accounting Manager

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

Audit Results

As a result of our auditing procedures, we determined that SPARK is generally in compliance with the requirements outlined in the contract with the LDFA. A few minor recommendations were noted during our audit procedures which are detailed in the applicable sections of the following report.

General Contract Controls

Introduction

The contract calls for certain general activities and controls that are necessary in order for the LDFA to make monthly payments and assess project progress and contractor compliance.

Contract Requirements and Internal Controls Needed

- SPARK must submit quarterly progress reports to the LDFA.
- Final program progress report due by August 29, 2021.
- Monthly invoices for work performed shall be submitted no sooner than 5 and no more than 15 business days after each month end.
- SPARK was required to maintain insurance adequate and reasonable to support its services under the contract and to provide the LDFA a certificate of this insurance, naming the LDFA as an additional insured.

Audit Results

SPARK prepared monthly billings and met with the LDFA board on a quarterly basis to discuss the contract. We also noted the following:

- SPARK submitted quarterly progress reports in accordance with the terms of the contract.
- Final program progress report was submitted on July 22, 2021.
- SPARK submitted all invoices no sooner than 5 and no more than 15 business days after the end of each month.
- SPARK provided appropriate insurance certificates to the LDFA in a timely fashion.

Business Accelerator Services

Introduction

Business Accelerator Services (BAS) is a program under which SPARK provides consulting services to start-up companies for areas such as helping define their business model and formulating marketing plans. SPARK has employees who provide these services and they also contract with consultants who help provide these services. Services are billed based on “phases” of an engagement with an entrepreneurial entity. The billings for Phase II and Phase III are based on actual time expended consulting with specific entrepreneurial entities.

General Contract Controls

Contract Agreement

The LDFA pays SPARK an annual direct staffing fee of \$832,970 for SPARK Business Accelerator Services. Payments for annual direct staffing are made in 12 equal monthly installments to be used for direct staffing at the SPARK Central and East locations. Phase II and III services are billed at actual costs. Phase II is expected to take less than 20 hours total per client and is permitted to utilize internal contractors. Phase III is expected to be completely outsourced to contractors. Bills are submitted monthly to the LDFA for reimbursement with supporting documentation attached.

Contract Requirements and Internal Controls Needed

- Tracking information to ensure that services are provided only to eligible businesses. Direct expenditure of funds is limited to businesses within the city limits of Ann Arbor for SPARK Central and Ypsilanti for SPARK East. If an early-stage business has no primary location, the requirement can be temporarily satisfied by the client business becoming a member (virtual or physical) of the SPARK business incubator.
- Signed statement of understanding from all clients that receive Phase II services. The letter must also include the following items:
 - Engagement is non-exclusive, SPARK is free to provide similar services to other clients and clients are free to obtain similar services from another provider at their own expense.
 - LDFA may audit any services provided to the client, any confidentiality agreements notwithstanding.
 - Client has been informed of SPARK’s conflict of interest policy.
 - If client moves out of the Service Area within one year of receiving Phase III services and support, client shall repay immediately the cost of those services.
- Time and billing records to support monthly billings to LDFA, including:
 - Accurate, complete, and contemporaneous record of services performed.
 - Identification of service recipient or business purpose and recipient’s business location.
 - Date and duration of services.
 - Individual performing services on behalf of SPARK.

Business Accelerator Services (continued)

Current Process

Consultant time is tracked in Salesforce and entered monthly into a spreadsheet called the “Billing Detail”. This spreadsheet is used for billing the LDFA. The Billing Detail shows contractors and which clients they worked on during the month and converts these hours to dollars that are billed. The total dollar billing for each month is invoiced to the LDFA.

SPARK determines the place of business by requiring a business address. The address provided is subsequently verified by a SPARK employee who looks up the property either on the City of Ann Arbor’s website, the City of Ypsilanti’s website or Washtenaw County’s website to determine that the property is in fact within the City of Ann Arbor or Ypsilanti City limits. If a company has no place of business, then they are asked to join the business incubator. If a company is being operated out of a client’s home, then they are also asked to join the incubator. To establish incubator membership, clients are required to sign a “SPARK Central License Agreement.”

Audit Results

Based on our audit procedures, SPARK appears to have met the contractual requirements regarding the BAS program. We selected a sample of 36 time entries and noted that all entries met the above criteria. Each time entry selected contained a business that was within the City of Ann Arbor or City of Ypsilanti limits, when applicable. We were able to obtain a signed statement of understanding for all Phase II and Phase III (from Phase II) clients and that letter met all requirements as noted above. All records submitted to the LDFA for reimbursement appeared to contain accurate, complete, and contemporaneous record of services performed, identification of service recipients and the business purposes as well as the location of the business, date, and duration of services, and the individual performing the services.

We also noted the following:

- Amount billed for Phase II & III was \$20 greater than actual expenses incurred for November 2020.

Mobility Specialist

Introduction

The Mobility Specialist section of the contract calls for the employment of two 'mobility specialists' who will focus on opportunities specifically related to mobility.

Contract Requirements and Internal Controls Needed

- The duties and responsibilities of the mobility specialists include:
 - Mining university IP
 - Give direct assistance to mobility technology companies
 - Build relationships and make connections between universities, startups and industry leaders
 - Create events and educational programs, attend other organizations events, specific to mobility
 - Refer and prepare mobility startups for appropriate Business Accelerator services
- The budget for Mobility support activity shall be \$246,500.

Audit Results

Based on our audit procedures, SPARK appears to have met the contractual requirements regarding the Mobility Specialist positions. We obtained a copy of the job postings and noted that all key duties and responsibilities were listed in the job postings. Additionally, we obtained the offer letters and confirmed two positions were filled - "Director of Mobility Programs" and "Mobility Specialist". The Director of Mobility Programs position was occupied during the entire engagement period; the Mobility Specialist position was partially filled during the engagement period, with a gap between December 2020 and February 2021. Finally, we obtained the billing detail for the account noting that \$219,008 was spent for these positions during the fiscal year under audit, which is within budget.

Micro-Loan Fund

Introduction

SPARK was required under the contract to administer a micro-loan fund. This fund was to be used to make interest-bearing, non-recourse, subordinated loans to start-up and early stage growth companies to use for operations and other activities not provided under Business Accelerator Phase III engagement. Microloans are no longer part of the LDFA contract, but SPARK continues to collect and report on outstanding loans.

Contract Agreement

SPARK is no longer permitted to provide loans to entrepreneurs or companies with LDFA funds and must adhere to the contract requirements listed below for reporting on the remaining micro-loans that are outstanding from when SPARK was permitted to provide micro-loans.

Contract Requirements and Internal Controls Needed

- SPARK is to provide the LDFA board on a quarterly basis at the first LDFA board meeting following the end of each calendar quarter a report that identifies for the quarter jobs retained and created during the term of the loan for companies remaining in the loan portfolio, and aggregate amount of loans repaid and written off.
- All amounts received by Contractor in repayment of micro-loans shall be deposited into the segregated micro-loan fund bank. Contractor shall pay the LDFA all proceeds from loans received during the contract year in June, less the minimum balance required to maintain the full fund bank account.
- All micro-loan funds shall be maintained in a separate bank account and not comingled with other funds.

Current Process

Payments on loans closed in previous periods are received by SPARK and are maintained in separate bank accounts for the Micro-Loan Fund. The separate bank accounts are reconciled on a monthly basis and are provided to the LDFA board. Quarterly reports are also prepared and provided to the LDFA board.

Audit Results

Based on our procedures, SPARK appeared to comply with the contractual requirements for the Micro-Loan Fund, with one exception. For the year ended June 30, 2021, SPARK provided reports for the quarters ending September 30, 2020, December 31, 2020, March 31, 2021, and June 30, 2021 to the board in a timely manner as required under the contract and the reports provided to the board contained all required information. We noted one instance where the amount of outstanding micro-loans did not agree to the amount reported in the annual report. The difference noted was \$1,658 and was the result of a clerical error. It is noted that the amount was reported accurately in the quarterly report issued to LDFA.

We also noted that SPARK was maintaining separate bank accounts for the Micro-Loan Fund. We selected a sample of five loans to confirm the balance outstanding as well as use of the loan proceeds. We received four of the five confirmations noting no exceptions in comparison to the information reported to the LDFA board. One of the five confirmations that were sent was not returned due to the company going out of business subsequent to June 30, 2021. We also inquired and were provided a listing of loan approval committee members and noted that the makeup of the committee mirrored the contract requirements.

Entrepreneur's Boot Camp

Introduction

SPARK hosts two Entrepreneurs Boot Camps (EBC) each year. The EBC is a two day program during which Entrepreneurs receive training on how to start and run a business. During the EBC, attendees listen to lectures from successful entrepreneurs and college professors and are given an opportunity to practice some of the new skills they have learned during those lectures and discussions.

Contract Agreement

The LDFA pays SPARK \$12,500 prior to each qualifying EBC and a maximum of two EBC's during the contract year. The LDFA also pays an additional \$1,250 for each Boot Camp attendee having their principal place of business within the service area, up to \$12,500 per EBC. SPARK shall consider tuition discounts for attendees based on their financial need. There is a \$50,000 limit on amounts paid under this section for the contract year.

Contract Requirements and Internal Controls Needed

- The \$12,500 payment from the LDFA may not be received by SPARK more than 30 days before the EBC occurs.
- SPARK must have between 8 and 15 firms attend each of the EBC's in order for them to be eligible to bill the LDFA.
- SPARK shall maintain records identifying attendees, the location of their principal offices, and the nature of their businesses.

Current Process

The date of the EBC is scheduled five months in advance. This allows SPARK to determine which month to bill the \$12,500 to the LDFA. SPARK verifies that the principal place of business is within the service area when determining which attendees are eligible for the additional \$1,250 provided by the LDFA. In some cases, SPARK offers some firms a "scholarship", so they pay less (or no) tuition.

Audit Results

Based on our procedures, SPARK appeared to comply with the requirements established within the Entrepreneurs Boot Camp portion of the contract. SPARK has complied with the contract maximum fees and has not exceeded these amounts. SPARK has maintained a recording of attendees, tracking the identification of attendees, location of principal office, and nature of the business. Based on our procedures, it also appeared that SPARK appropriately submitted reimbursement to the LDFA based on allowable contract terms.

Major Events

Introduction

SPARK creates and executes programs to showcase the local technology and mobility ecosystems in an effort to raise the visibility of the Ann Arbor region and its attractiveness and value to companies considering relocation to the region, talent attraction, and general awareness of the technology and mobility ecosystems.

Contract Agreement

SPARK shall create and execute a program in downtown Ann Arbor that showcases the local Technology Ecosystem through events as well as the opportunity for the general public to tour Technology Company offices in downtown Ann Arbor. SPARK shall market this program nationally to raise the visibility of the Ann Arbor region and its attractiveness and value to companies considering relocating to the region, talent attraction and general awareness of the Technology Ecosystem. Expenses for this program should not exceed an annual amount of \$260,000.

Additionally, SPARK shall create and execute a program to showcase the Ann Arbor Mobility Ecosystem at the North American International Auto Show in downtown Detroit. This will facilitate useful business connections and talent related activities during the industry portion of the show. This effort shall be referred to as the “Ann Arbor House”. Expenses for this program should not exceed an annual amount of \$75,000.

Contract Requirements and Internal Controls Needed

- SPARK must submit invoices monthly to the LDFA.
- SPARK must market the program nationally to raise awareness.
- SPARK must create and furnish a summary report of the June 2020 Ann Arbor House effect to the LDFA in the first quarter of the 2020-2021 fiscal year.

Current Process

Tech Trek and A2Tech360 are combined into a week of events. The program was reauthorized in 2020 along with funding for A2Tech360 under the Major Events line item. Invoices related to the A2tech360 events are expensed as incurred. The expenses are submitted by invoice or on an employee credit card. Once submitted, the Accounting Manager verifies the expense is related to the event, and then adds it to the spreadsheet for the month to be submitted to the LDFA as part of the monthly invoice.

The North American International Auto Show was not held during the year due to the COVID-19 pandemic.

Audit Results

Based on our procedures, SPARK appeared to comply with the contract requirements established within the Major Programs section of the contract. Total expenses related to downtown Ann Arbor event were \$240,862, which is within the allowed amounts. The North American International Auto Show was cancelled due to the COVID-19 pandemic, therefore, no expenses related to the Ann Arbor House program were incurred. We sampled invoices for expenses related to Major Events to determine reasonableness without exception.

Sponsorships, Entrepreneurial Development and Educational Programs

Introduction

SPARK shall conduct educational, networking and job fair events for startups, early and growth stage companies along with vendors, service providers, consultants, investors and advisors to be held within the Service Area throughout the Project Service Term. SPARK shall also sponsor events that are hosted by other area entrepreneurial support organizations (e.g., Ann Arbor Area Chamber of Commerce, MI-SBTDC, and GLEQ) that service current and potential Business Accelerator clients. These events are similar to seminars for entrepreneurs and investors, and there is a speaker at each one who gives a presentation to the attendees.

Contract Agreement

SPARK may bill the LDFA for events held within the City of Ann Arbor, subject to annual maximums of \$100,000 for hosted events and sponsored/partnered events, as well as entrepreneur education events, which are discussed in the next section.

Contract Requirements and Internal Controls Needed

- SPARK is to maintain records on a “best efforts” basis of who attends these events, where the attendees’ businesses are located, the company name, and whether or not the attendee is an entrepreneur.
- SPARK bills for business networking events based on reimbursement of actual expenses. SPARK is required to maintain certified invoices with supporting detail to backup these billings.

Current Process

Normally there is no charge to attend business networking events. Attendees are asked to register for these events online through the SPARK website, but sometimes walk-ins are allowed to attend. Online registration consists of a standard form, which includes a place for attendees to identify themselves, whether they are an entrepreneur or not, where their place of business is, and the nature of their business. Attendees are asked to sign in when they arrive at the event. SPARK usually hosts more of these events than they claim reimbursement for. Reimbursement is not claimed for all of these events because some of them are not located within the City of Ann Arbor.

Audit Results

Based on our procedures, SPARK appeared to comply with the contractual requirements in this area with no exceptions noted. For the year ended June 30, 2021, SPARK billed the LDFA a total of \$67,728 for hosted events and sponsored/partnered events, which is within the allowed amount (this also includes the total for entrepreneurial education events, which are discussed in the next section). We found SPARK’s efforts to document attendees at the hosted events to be reasonable and consistent with the “best efforts” basis specified in the contract. We also sampled invoices claimed for reimbursement of various events, finding no exceptions or invoices that appeared to be unreasonable or unrelated to the applicable event.

Entrepreneur Education

Introduction

Entrepreneur Education consists of various classes hosted by SPARK that are either in person or online and include a variety of topics such as sales training, transitioning industries, human resource development and team building, and strategic planning. Entrepreneur Education operates similar to Business Networking Events except that the Entrepreneur Education events are generally by registration/ invitation only and not open to walk-ins.

Contract Agreement

SPARK shall submit on a monthly basis reimbursement for development and delivery of entrepreneurial classes. Annual expenses submitted to the LDFA should not exceed \$100,000 (this limit also includes costs associated with the Business Networking Events, which were described in the previous section).

Contract Requirements and Internal Controls Needed

- For entrepreneurial classes SPARK shall maintain records of expenses incurred and supporting documentation, including any course material provided to participants.
- For development classes, SPARK shall maintain records of attendees which include location of principal office and the nature of the attendee's business.

Current Process

Attendees are asked to register for Entrepreneur Education online through SPARK's website. Attendees then sign-in upon arrival to verify their attendance. Revenues and expenses are tabulated for each event, then the Vice President determines which events are eligible for reimbursement. The Accounting Manager compiles information on eligible events from the financial accounting software and submits the billings to the LDFA.

Audit Results

Based on our procedures, SPARK appeared to comply with the requirements established within the Entrepreneur Education portion of the contract, with three exceptions. We selected a sample of entrepreneurial classes and noted that SPARK had maintained a listing of expenses along with adequate supporting documentation, as well as kept relevant course materials provided to participants. We also sampled development classes and noted that for 4 of the 5 events tested, records including a listing of the attendees' businesses and location of principal office had not been maintained. Additionally, SPARK did not document the nature of the business for participants attending the Entrepreneur Education classes for 4 of the 5 events tested. Furthermore, 1 of the 5 events the number of attendees did not agree to what was reported.

Talent

Introduction

The contract calls for SPARK to create programs that are designed to attract local talent, including and especially university graduates, and encourage them to build a career in Ann Arbor. The Talent program consists of three (3) different areas: Internship program (including the Youth Talent program), Entrepreneur-in-residence (EIR) program, and C-level talent program. The Internship and EIR programs are intended to expose people to the benefits, resources, and quality of place that exist in Ann Arbor. The C-level talent program is intended to engage experienced talent from other geographic locations looking to relocate in Ann Arbor or experienced individuals transitioning out of a company who are willing to work with SPARK client companies in Ann Arbor until they find a new company to be involved with full time.

The contract additionally calls for SPARK to sponsor, facilitate and identify startups for the Digital Engagement Center program. This program provides faculty training of student team to help startups companies grow.

The contract additionally calls for SPARK to sponsor, facilitate and identify startups for an Augmented/Virtual Reality program that provides faculty training of students to help startup companies grow their businesses.

The contract additionally calls for SPARK to sponsor, facilitate and identify other programs to support the talent needs of the Ann Arbor tech ecosystem as the budget allows.

Contract Agreement

SPARK shall submit actual expenses on a monthly basis with the annual expense not to exceed a gross amount of \$590,000. SPARK must have program to develop and retain C-level talent. Additionally, SPARK must facilitate and identify startups for the Digital Engagement Center program. Furthermore, SPARK must have a program to facilitate the training of students to assist startups in Augmented/Virtual Reality fields to grow their businesses as well as facilitate and identify other programs to support the talent needs of the Ann Arbor tech ecosystem as the budget allows.

Contract Requirements and Internal Controls Needed

- Companies engaged in the Internship and EIR programs shall be in the Service Area.
- SPARK shall provide in the written quarterly summary a description of the program(s), companies participating, number of employees engaged in the program, and type of work or experience the talent received.

Current Process

SPARK verifies that the companies engaged in the Internship and EIR programs are within the Service Area before approving their participation. These companies submit invoices or requests for reimbursement to SPARK on a regular period basis in accordance with their respective agreements for most expenses. However, interns are paid directly by SPARK, and participating companies are in turn invoiced for their portion of the payments made to interns as outlined in the respective agreement. The Accounting Manager then compiles these invoices from the financial accounting software and submits the appropriate billings to the LDFA. Quarterly reports are also prepared and provided to the LDFA board.

Talent (continued)

Audit Results

Based on our procedures, SPARK appeared to comply with the requirements established within the Talent portion of the contract, with one exception. For the year ended June 30, 2021, SPARK provided reports for the quarters ending September 30, 2020, December 31, 2020, March 31, 2021, and June 30, 2021 to the board in a timely manner as required under the contract. SPARK maintains records of the companies engaged in the Internship and EIR programs to ensure that they are located within the Service Area. Additionally, quarterly reports provided information on Digital Engagement Clinic program events. Through our audit procedures we viewed invoices for the Digital Engagement Clinic and Youth Talent programs noting expenditures appeared to comply with the requirements within the applicable sections of the contract. Furthermore, quarterly reports, in the Innovation Center section, provided information on the Virtual/Augmented Reality program. Through our audit procedures we viewed invoices for applicable programs noting expenditures appeared to comply with the requirements within the talent portion of the contract, with one exception. We noted one instance where there was a \$1,000 difference in the amount of expenses incurred and the amount billed.

SPARK incurred a total of \$560,435 in expenses related to the Talent program, which is within the allowed amount.

Business Incubator

Introduction

The Business Incubator is a program that provides office space and other services to companies that are just starting out for a reduced rate compared to the market average. The SPARK Central Innovation Center is located at 330 East Liberty Street in Ann Arbor while the SPARK East Innovation Center is located at 215 W. Michigan Ave. Ypsilanti , MI 48197.

Contract Agreement

SPARK submits monthly invoices for reimbursement of expenses related to operating the Business Incubators. The annual maximum for fees reimbursed by the LDFA for the Business Incubator is \$300,000 and \$110,000, for Central and East, respectively. Expenses which are eligible for reimbursement include lease subsidy, administrative support, utilities and taxes, operating expenses, insurance, and incubator infrastructure.

Contract Requirements and Internal Controls Needed

- Amounts submitted for reimbursement are not to exceed the actual amount expended by SPARK and are subject to the submission of an approved operating plan.
- Each invoice from SPARK to the LDFA must include line item accounting for each of the elements being reimbursed.
- SPARK must maintain copies of all paid invoices and supporting documentation for all elements of the Business Incubator billings and agrees that these records are subject to independent audit and verification.

Current Process

Monthly invoices sent to the LDFA by SPARK contain the line items to be reimbursed. A spreadsheet is maintained by the Accounting Manager to verify each monthly bill does not exceed the maximum allowed. All invoices from vendors are maintained by the Accounting Manager, a separate class in the computer system is used to maintain incubator services. This separate class allows the Accounting Manager to separate the bills for the rest of SPARK and isolate the bills related to the Business Incubator so they can be submitted for reimbursement.

Audit Results

Based on our procedures, SPARK appeared to comply with the requirements established within the Business Incubator portion of the contract. We selected a sample of SPARK's monthly invoices submitted to the LDFA for reimbursement and obtained support for the line items billed. We noted that the items billed and selected agreed to supporting documentation without exception. For SPARK Central, expenses billed to the LDFA for the 12 month period ended June 30, 2021, totaled \$282,764, which was within the \$300,000 budgeted amount. For SPARK East, expenses billed to the LDFA for the 12 month period ended June 30, 2021, totaled \$84,808, which was within the \$110,000 amount.

Indirect Services

Introduction

SPARK provides indirect services under the contract in the areas of Accounting and Marketing services, and Licensed Software. The Marketing services are provided under a Marketing Services Plan approved by the LDFA board which addresses public relations, collateral materials, and internet initiatives that support, compliment, or advance LDFA funded programs or objectives. Licensed software provides reimbursement for products or services that allow for improved data collection or metric reporting, and/or offer clients improved productivity tools.

Contract Agreement

Accounting services are billed a flat amount each month with an annual total of \$143,500. Marketing services are billed monthly based on reimbursement of actual expenses and is subject to a maximum of \$225,000 for the contract year. Licensed software is billed monthly for actual costs and is not to exceed an annual gross amount of \$43,000.

Contract Requirements and Internal Controls Needed

- No special controls are required for the Accounting services billings.
- For the Marketing services, SPARK is required to maintain copies of all paid invoices and supporting documentation. The contract also specifies these records are subject to independent audit and verification.
- For the Licensed Software, SPARK is required to report the program or service acquired in the next following quarterly report including the type and purpose. Additionally, a summary of usage shall be included in the Final Program Progress Report.

Current Process

Monthly invoices sent to the LDFA by SPARK contain the line items to be reimbursed. As vendor invoices are paid, a separate class in the computer system is used to track Marketing services. This separate class allows the Accounting Manager to isolate the bills related to the Marketing services so they can be submitted for reimbursement.

Audit Results

Based on our procedures, we have determined that SPARK appeared to comply with the requirements established within the Indirect Services portion of the contract, with one exception. We obtained a detail of all charges to the LDFA for the audit period and agreed these charges to the monthly invoices for Marketing services with one exception. We noted one month where the marketing expenses were double billed at an amount of \$203. We sampled the expenses claimed for reimbursement, noting that all were properly supported by applicable paid invoices and supporting documentation. We also noted that all items were reasonable and appeared to be consistent with the objectives of the contract. Accounting Services totaled \$143,500 for the 12 month period ended June 30, 2021 which was within the allowed amount. Marketing Services totaled \$225,670 for the 12 month period ended June 30, 2021 which exceeded the \$225,000 but was within the 10% reallocation allowed. Licensed software expenses totaled \$41,467 for the 12 month period ended June 30, 2021 which was within the allowed amount.