Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration In Fiscal Year 2014

October 31, 2013
MEMORANDUM

TO: Jeanne Hulit
   Acting Administrator

FROM: Peggy E. Gustafson /s/
      Inspector General

SUBJECT: Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2014

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General’s (OIG) Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration (SBA) in Fiscal Year (FY) 2014.

This report represents our current assessment of Agency programs and/or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, mismanagement, or inefficiencies. The Challenges are not presented in order of priority, as we believe that all are critical management or performance issues.

Our report is based on specific OIG, Government Accountability Office (GAO), and other reports, as well as our general knowledge of SBA’s programs and operations. Our analysis generally considers those accomplishments that the SBA reported as of September 30, 2013.

Within each Management Challenge, there are a series of “recommended actions” to resolve the Challenge. Each recommended action is assigned a color “status” score. The scores are as follows: Green for “ Implemented,” Yellow for “Substantial Progress,” Orange for “Limited Progress,” and Red for “No Progress.” An arrow in the color box indicates that the color score went up or down from the prior year. If a recommended action was added since last year’s report, no color score has been assigned and the recommended action has been designated as “New.”

As part of the OIG’s continuing evaluation of the Management Challenges, certain Challenges have been updated or revised. In addition, actions that were scored Green last year, which remained Green this year, have been moved up to the “history bar” above the recommended actions. The history bar highlights any progress that the Agency has made on a Challenge over the past four fiscal years (or as long as the Challenge has existed, if shorter) by showing the number of actions that have moved to Green each year. The following table provides a summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2014.
We would like to thank the SBA’s management and staff for their cooperation in providing us with information needed to prepare this report. We look forward to continuing to work with the SBA’s leadership team in addressing the Agency’s Management Challenges.
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Challenge 7. Effective tracking and enforcement would reduce financial losses from loan agent fraud

Challenge 8. The SBA needs to modernize its Loan Accounting System and migrate it off the mainframe

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Challenge 1. Procurement flaws allow large firms to obtain small business awards and agencies to count contracts performed by large firms towards their small business goals.

The Small Business Act established a government-wide goal that 23 percent of the total value of all prime contract awards for each fiscal year (FY) be to small businesses. As the advocate for small business, the SBA should strive to ensure that only small firms obtain and perform small business awards. Further, the SBA should ensure that procuring agencies accurately report contracts awarded to small businesses when representing its progress in meeting small business contracting goals.

Previous OIG audits and other governmental studies have shown widespread misreporting by procuring agencies since many contract awards that were reported as having gone to small firms have actually been performed by larger companies. While some contractors may misrepresent or erroneously calculate their size, most of the incorrect reporting results from errors made by government contracting personnel, including misapplication of small business contracting rules. In addition, contracting officers do not always review the on-line certifications that contractors enter into a governmental database prior to awarding contracts. The SBA needs to ensure that contracting personnel are adequately trained on small business procurement and are reviewing this database prior to awarding contracts.

The SBA also needs to address a loophole within General Services Administration (GSA) Multiple Awards Schedule (MAS) contracts, which contain numerous industrial codes. Currently, a company awarded such a contract can identify itself as small on individual task orders awarded under that contract even though it does not meet the size criteria for the applicable task. Thus, agencies may obtain small business credit for using a firm classified as small, when the firm is not small for specific orders under the MAS contract.

The SBA made considerable progress on this challenge. By the end of FY 2013, the SBA revised and approved its Standard Operating Procedure to ensure consistency in conducting its surveillance reviews to assess Federal agencies’ management of their small business programs and compliance with regulations and applicable procedures. The SBA also revised its regulations requiring firms to meet size standards for each specific order on multiple award contracts. Additionally, the SBA will submit this final rule on the proper classification of orders to the Federal Acquisition Regulation (FAR) Council to implement in the FAR.

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<thead>
<tr>
<th>Actions Accomplished (Green Status) During Past Four Fiscal Years</th>
<th>09-0</th>
<th>10-0</th>
<th>11-1</th>
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<tbody>
<tr>
<td><strong>Recommended Actions for Fiscal Year 2014</strong></td>
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<tr>
<td>1. Revise the surveillance review process to ensure that they are conducted in a thorough and consistent manner</td>
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<tr>
<td>2. Issue regulations that require firms to meet the size standard for each specific order they receive under a GSA schedule and Government-wide Acquisition Contract (GWAC) and show that the regulations are being followed. (Previously action 3)</td>
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<td><img src="Color/1.jpg" alt="Yellow" /></td>
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*Status at End of FY 2013: Yellow*
Challenge 2. *Weaknesses in information systems security controls pose significant risks to the Agency.*

Fiscal Year Issued: 1999

The SBA’s computer security program operates in a dynamic and highly decentralized environment and requires management attention and resources as weaknesses are continually identified. The SBA improved its Plan of Actions and Milestones (POA&M) in FY 2013. However, the SBA needs to address long-standing security weaknesses identified in 29 open audit recommendations. These recommendations are in the following areas:

- The SBA’s System Software controls have six open recommendations averaging 682 days past their original target corrective action date. These recommendations highlight significant security vulnerabilities including the need for establishing baseline configurations of SBA’s IT platforms, establishing an effective configuration management program and timely patching of operating systems, devices, and database management systems.

- The SBA’s Segregation of Duty controls have seven open recommendations averaging 555 days past their original target corrective action date. These recommendations include restricting access to system software, and an effective review of system and application logs.

- The SBA’s IT Security Management program has eleven recommendations averaging 414 days past their original target corrective action date. Many of these vulnerabilities are statutory requirements which if remediated would improve SBA’s IT Security oversight as well as improve SBA’s compliance with FISMA guidance.

To show improvement in the above areas, SBA’s Office of Chief Information Officer, in conjunction with SBA’s Program Offices, will need to implement tools and capabilities to provide effective oversight and continuous monitoring of computer security controls.

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<tr>
<th>Recommended Actions for Fiscal Year 2014</th>
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<tbody>
<tr>
<td>1. Access controls are in place and operating effectively, and contractors are not granted system access until they have obtained the required background investigations and/or security clearances.</td>
<td>Yellow</td>
</tr>
<tr>
<td>2. System software controls are in place and operating effectively.</td>
<td>Red</td>
</tr>
<tr>
<td>3. Segregation of duty controls are in place and operating effectively.</td>
<td>Orange</td>
</tr>
<tr>
<td>4. The POA&amp;M accurately reports all computer security weaknesses and corrective actions.</td>
<td>Green</td>
</tr>
<tr>
<td>5. The IT security management program is effective to address information security in systems that support the operations and assets of the organization.</td>
<td>Yellow</td>
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</tbody>
</table>
The SBA has experienced downsizing, high turnover, reorganizations, and realignments over the last several years which seriously impacted the level and scope of services that the Office of Human Capital Management (OHCM) provided to the Agency. In October 2011, the U.S. Office of Personnel Management (OPM) completed a review that identified weaknesses in the SBA’s human capital policies and practices highlighting the serious human capital challenges facing the Agency. In late FY 2011, OHCM was restructured and the Office of Human Resource Solutions (OHRS) was established. In 2012, the Agency began reshaping by recruiting new employees with the newly identified competency sets and shifting full-time equivalent resources to meet the new priorities.

In FY 2013, OHRS took several positive steps to address and mitigate this management challenge as reflected in the improved ratings below. For example, in May 2013, OHRS closed the 70 recommendations resulting from OPM’s FY 2011 review. It also completed an assessment of the core competencies and has begun developing trainings focused on those competencies. Further, the agency established several initiatives designed to recruit and develop future leaders. The SBA also issued its Leadership Succession Plan for FYs 2013—2016.

In FY 2013, the SBA successfully implemented a process to ensure OHRS adds value to its customers, primarily through the quarterly surveying of employees about OHRS’ delivery of needed strategic support and services. Some of OHRS’ achievements were also recognized through nominations for agency awards. Substantial progress was also made in FY 2013 to update Human Capital Standard Operating Procedures.

In response to the human capital challenges identified by the Federal Employee Viewpoint Survey (EVS), OHRS established the “SBA Way” initiative to increase employee engagement and foster collaboration across the Agency, launched the Talent Management System to expand and more effectively deliver training, and the Work Life Wellness program with a special emphasis on telework.

### Challenge 3. Effective human capital strategies are needed to enable the SBA to carry out its mission successfully and become a high-performing organization.

**Fiscal Year Issued: 2001 Revised: 2007**

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<tr>
<td>1. Ensure the Agency has an effective, comprehensive workforce and succession plan that align talent needs and capabilities with SBA’s FY 2011-2016 Strategic Plan. The SBA’s workforce and succession planning goals should reflect the need to recruit and retain the appropriate talent, and should establish appropriate metrics to gauge SBA’s success at having the right people, in the right jobs, at the right time.</td>
<td>Yellow</td>
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<tr>
<td>2. Ensure the OHRS is structured and equipped so as to add value by delivering needed strategic support and services such as continuity planning, talent management, organizational development, and strategic consulting to implement the Agency’s human capital plan and its mission.</td>
<td>Green</td>
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<tr>
<td>3. Ensure that Human Capital Management Standard Operating Procedures are updated and appropriately structured to support the Agency’s long-term goals and objectives and government-wide Human Capital Management initiatives.</td>
<td>Yellow</td>
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<td>4. Take steps to correct problems identified in the 2010 EVS. Demonstrate improvement by increasing overall scores/Agency rankings in the 2011 EVS.</td>
<td>Yellow</td>
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The initial focus of this challenge was on improving deficiencies identified in the SBA’s loan liquidation and guaranty purchase processes. Over the last decade, the agency has made significant progress to improve these processes at its loan centers, but a deficiency continues to exist in the area of quality control.

The Office of Financial Program Operations (OFPO) has made significant progress in developing a Quality Control (QC) program for all of its loan centers to verify and document compliance with the loan process, from origination to close-out, and to identify where material deficiencies may exist so that remedial action can be taken. A QC project guide has been developed and agreed upon by relevant parties within the Office of Capital Access. The QC program will assess the overall quality of the centers’ deliverables to provide confidence to its stakeholders. The SBA assigned a QC manager to oversee the development of the program and established QC specialist positions for each center. Furthermore, the SBA (1) developed and documented Quality Program Manuals and review checklists for each center, (2) assessed center functions by risk to prioritize required QC reviews, (3) refined feedback, training and reporting processes, and (4) developed new systems to improve the tracking of quality control deficiencies and corrective actions.

While the SBA has made substantial progress in its development of a quality control program, additional work remains before the SBA can demonstrate that all elements of the QC program are being completed and that the program is effective at identifying and correcting material deficiencies. For example, an audit of the SBA’s FY 2011 improper payment rate in the 7(a) loan guaranty purchase program determined that improper payment reviews executed by the QC review teams did not detect a high number of material improper payments. Further, an ongoing OIG evaluation of the quality control program determined that centers were not performing required reviews and that corrective actions were not being tracked as required. In order to demonstrate that the QC program has been fully implemented, the SBA will need to provide results showing that required QC reviews are being completed and other evidence showing the reviews are effective at identifying and correcting material deficiencies. The SBA made progress during FY 2013 to improve these identified deficiencies.
Since its inception in 1953, the SBA has loaned or guaranteed billions of dollars to finance and spur investment in small businesses. In FY 2011, approximately 66 percent of loan dollars guaranteed by the SBA were made using delegated authorities with limited oversight. Prior OIG and Government Accountability Office reports disclosed weaknesses in the SBA’s oversight of its lending participants. In a September 2012 audit report, the OIG found that during Agency onsite reviews, the SBA did not always recognize the significance of lender weaknesses and determine the risks they posed to the Agency. Additionally, the SBA did not link the risks associated with the weaknesses to the lenders’ corresponding risk ratings and assessments of operations. Further, the SBA did not require lenders to correct performance problems that could have exposed the Agency to unacceptable levels of financial risk. The risks inherent in delegated lending require an effective oversight program to (1) monitor compliance with SBA policies and procedures, and (2) take corrective actions when a material noncompliance is detected.

Since this management challenge was created in 2001, the SBA has made significant progress in its oversight of lending participants. In FY 2013, the SBA (1) developed risk profiles and lender performance thresholds, (2) developed a Select Analytical Review process to allow for virtual risk-based reviews, (3) updated its lender risk rating model to better stratify and predict risk, and (4) conducted test reviews under the new risk-based review protocol. These efforts have demonstrated that onsite reviews are now conducted of the highest risk lending participants based on expanded selection criteria. In FY 2013, the SBA also began improving its corrective action process. However, in order to fully resolve this management challenge, the SBA must implement and demonstrate the effectiveness of the process for monitoring and verifying lenders’ implementation of corrective actions.

### Challenge 5. The SBA needs to further strengthen its oversight of lending participants.

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<th>09</th>
<th>10</th>
<th>11</th>
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<tbody>
<tr>
<td>7a Program</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
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<tr>
<td>504 Program</td>
<td>0</td>
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### Recommended Actions for Fiscal Year 2014

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<th>Status at End of FY 2013—7a</th>
<th>Status at End of FY 2013—504</th>
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<tbody>
<tr>
<td>1. Expand the scope of lender oversight and improve the process for reviewing lenders and Certified Development Companies.</td>
<td>Green</td>
<td>Green</td>
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<tr>
<td>2. Implement guidance providing for effective supervision and enforcement.</td>
<td>Green</td>
<td>Green</td>
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<tr>
<td>3. Monitor and verify implementation of corrective actions to ensure effective resolution prior to close-out.</td>
<td>Orange</td>
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**Legend:**
- **Green**: Implemented
- **Yellow**: Substantial Progress
- **Orange**: Limited Progress
- **Red**: No Progress
The SBA’s 8(a) Business Development (BD) program was created to assist eligible small disadvantaged business concerns to compete in the American economy through business development. Previously, the Agency did not place adequate emphasis on business development to enhance the ability of 8(a) firms to compete, and did not adequately ensure that only 8(a) firms with economically disadvantaged owners in need of business development remained in the program. Companies that were “business successes” were allowed to remain in the program and continue to receive 8(a) contracts, causing fewer companies to receive most of the 8(a) contract dollars and many to receive none.

The SBA had made progress towards addressing issues that hinder the Agency’s ability to deliver an effective 8(a) program. For example, the SBA expanded its ability to provide assistance to program participants through its resource partners—Small Business Development Centers, SCORE, and Procurement Technical Assistance Centers. Further, the SBA revised its regulations, effective March 2011, to ensure that companies that are “business successes” are graduated out of the program. However, the Agency has not yet completed updating its standard operating procedure for the Business Development program to reflect these regulatory changes. These revised regulations also establish additional standards to address the definition of “economic disadvantage,” however; the Agency has not provided an economic analysis to justify these standards. In December 2011, the SBA also awarded a contract to develop and deploy a new Information Technology system by December 2012 to assist the SBA in monitoring 8(a) program participants. However, the new system has not been deployed and its delivery date and capabilities are undetermined at this time.
For years, OIG investigations have revealed a pattern of fraud by loan packagers and other for-fee agents in the 7(a) loan guaranty program. These schemes have involved hundreds of millions of dollars, yet SBA’s oversight of loan agents has been limited, putting taxpayer dollars at risk. The Agency could reduce this risk through effective loan agent disclosure requirements, a database or equivalent means to track loan agent activity, updated regulations, new guidance for lenders, and a registration system.

**Tracking Loan Agent Data.** In response to this Management Challenge, the SBA has proposed various methods of tracking loan agent activity. The SBA eventually decided to capture the data by having lenders fax a loan agent disclosure form (Form 159) to the SBA’s Fiscal and Transfer Agent (FTA) and requiring the FTA to enter the data into a database accessible to the SBA. The Agency also began to link Form 159 information with its loan data. Although there are some data problems, quality is improving. Moreover, the new FTA contract is expected to emphasize data quality.

**Updating Regulations.** Critical features of any government enforcement program are effective regulations and procedures. The SBA regulations governing enforcement actions against loan agents were last revised in 1996 and are out of date. The SBA has advised that it is drafting new regulations.

**Guidance Regarding Webpage.** The Agency’s website now lists the names of loan agents and others that have been named in SBA enforcement actions. However, the Agency has not provided guidance to lenders to consult with this list in order to keep problematic loan agents from participating in the 7(a) program. The SBA has stated that the issue will be resolved with the issuance of an SOP update.

**Registration System.** Although the SBA has developed a loan agent tracking system, this system is hampered by loan agents not having been assigned unique identifiers. Thus, an agent suspended or revoked by the SBA can easily change his or her business name or even personal name, and lenders would not be able to verify the agent’s suspended or revoked status. Consequently, the SBA needs to develop a system to assign a unique identifier to loan agents that participate in the 7(a) program. According to the Agency, its Office of Credit Risk Management is exploring registration options. This could include using an identifying number assigned by outside organizations such as the National Mortgage Licensing System and requiring loan agents that are not part of this system to apply to the SBA for a registration number.

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<tr>
<td>1. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.</td>
<td>Yellow</td>
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<tr>
<td>2. Update regulations (13 CFR Part 103) regarding loan agents to provide effective enforcement procedures.</td>
<td>New</td>
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<td>3. Issue guidance that lenders must (1) review SBA’s webpage list of loan agents that have been subject to an enforcement action and (2) refrain from doing business with any agent appearing on the list during the time that an agent is suspended or revoked from the 7(a) program.</td>
<td>New</td>
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<tr>
<td>4. Implement a loan agent registration system, including the issuance of a unique identifying number for each agent.</td>
<td>New</td>
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In November 2005, the SBA initiated the Loan Management and Accounting System (LMAS) project to update the agency’s Loan Accounting System and migrate it off of the mainframe. An OIG report in 2005 noted that the system was close to the end of its expected useful life, relied on obsolete technology, contained major security vulnerabilities that could not be addressed until the system was moved to a new operating platform, and was costly to operate.

In 2013, the SBA continued its implementation of web-based user interface screens and has reduced processing individual transactions on the mainframe by 92 percent and moved these transactions to SBA’s web-based IT infrastructure. The SBA also completed converting its COBOL computer code for its nightly accounting update cycle into COBOL code, which can be processed on a more modern platform. The SBA also has a Funds Control IIP, which is part of the LMAS effort.

Previous OIG and GAO reports on the LMAS identified concerns about SBA’s management of the project and the project’s noncompliance with the agency’s System Development Methodology in key areas that impacted SBA’s ability to control project costs and quality. The reports also addressed the lack of an enterprise-wide or project-level Quality Assurance (QA) functions to ensure that LMAS deliverables met the SBA’s requirements and quality standards.

The SBA had hired a QA contractor in 2011; however, QA reports were not submitted to the LMAS Executive Steering Committee until FY 2013. In 2012, the SBA hired an Independent Verification and Validation (IV&V) entity to ensure that LMAS deliverables met SBA requirements and quality standards. However, the SBA did not fully stand-up its IV&V effort until 2013. In both QA and IV&V, improvement has been identified in both quantity and quality of deliverables to LMAS project managers, as well as reports to the LMAS Executive Steering Committee.

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<tr>
<th>Actions Accomplished (Green Status) During Past Four Fiscal Years</th>
<th>N/A</th>
<th>10-0</th>
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<tr>
<td><strong>Recommended Actions for Fiscal Year 2014</strong></td>
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<tr>
<td>1. Migrate the Loan Accounting System to a new operating platform before the current mainframe contract expires in 2013.</td>
<td>Yellow</td>
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<tr>
<td>2. Modify the LMAS QA/IV&amp;V contract and establish an effective QA process which provides senior management independent assurance that LMAS development activities and related project deliverables meet SBA quality standards.</td>
<td>Orange</td>
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<tr>
<td>3. Establish a process for reviewing and accepting LMAS deliverables that complies with QA and Systems Development Methodology requirements. This includes hiring or fully staffing an IV&amp;V entity to validate deliverable acceptance.</td>
<td>Orange</td>
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<td>4. Implement a QA process in LMAS in accordance with the SBA’s Enterprise QA Plan.</td>
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- **Green** - Implemented
- **Yellow** - Substantial Progress
- **Orange** - Limited Progress
- **Red** - No Progress
Previous OIG audits have determined that reported improper payment rates for 7(a) loan approvals and purchases were significantly understated. In FY 2011, the SBA’s reported improper payment rate for 7(a) purchases was 1.73 percent, or $40.7 million, when the rate could have been as high as 20 percent, or about $472 million. Furthermore, in FY 2011, the SBA reported no improper payments for 7(a) loan approvals. However, a FY 2011 OIG audit estimated that at least 1,196 Recovery Act 7(a) loans were not originated and closed in compliance with SBA requirements, resulting in at least $869.5 million in inappropriate or unsupported loan approvals. The SBA’s improper payment rates were understated because the Agency did not adequately review loans, used flawed sampling methodologies, and did not accurately project review findings.

Further, recent OIG audits have identified 7(a) loans that were ineligible, lacked repayment ability, or not properly closed. In 2012, we reported that the limited reviews of lender underwriting performed during guaranty purchase reviews were contrary to SBA procedures, resulting in improper payments. We also reported that high-dollar early-defaul ted loans were not reviewed with the scrutiny required to identify improper payments. In 2013, we reported that the SBA made $4.6 million of improper payments on high-dollar early-defaul ted 7(a) loans.

The Office of Capital Access (OCA) has taken actions to correct many of these deficiencies. The OCA has (1) formalized its improper payment sampling; (2) demonstrated that its review process is effective for 7(a) loan approvals; (3) formalized its process to review disputed cases; (4) formalized the recovery process and time standards for 7(a) purchases; and (5) developed appropriate corrective action plans for 7(a) loans. However, additional actions are needed. The OCA needs to establish repayment ability review requirements that are effective at identifying improper payments. Additionally, OCA needs to demonstrate that its process over disputed cases is ensuring adequate and timely resolution. Finally, OCA needs to demonstrate that it is adhering to recovery time standards and that corrective action plans for the 7(a) loan program are effective.

### Challenge 9. The SBA needs to accurately report, significantly reduce, and strengthen efforts to recover, improper payments in the 7(a) loan program.

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<tbody>
<tr>
<td>7a Loan Approvals</td>
<td>N/A</td>
<td>N/A</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7a Loan Purchases</td>
<td>N/A</td>
<td>N/A</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Recommended Actions for Fiscal Year 2014**

1. Ensure that processes used to calculate the improper payment rates for 7(a) loan approvals and purchases are designed and implemented to effectively identify improper payments as defined by Office of Management and Budget (OMB) Circular A-123.

<table>
<thead>
<tr>
<th>Status at End of FY 2013—Approvals</th>
<th>Status at End of FY 2013—Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green</td>
<td>Yellow</td>
</tr>
</tbody>
</table>

2. Reassign responsibility for final approval of disputed denial, repair, and improper payment decisions from the Office of Financial Assistance to the Office of Credit Risk Management to ensure an adequate and timely resolution of disputes.

<table>
<thead>
<tr>
<th>Status at End of FY 2013—Approvals</th>
<th>Status at End of FY 2013—Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Yellow</td>
</tr>
</tbody>
</table>

3. Establish a process and time standards to expeditiously recover improper payments identified during Agency reviews and OIG audits.

<table>
<thead>
<tr>
<th>Status at End of FY 2013—Approvals</th>
<th>Status at End of FY 2013—Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Yellow</td>
</tr>
</tbody>
</table>

4. Demonstrate that corrective action plans are effective in reducing improper payments in the 7(a) loan program.

<table>
<thead>
<tr>
<th>Status at End of FY 2013—Approvals</th>
<th>Status at End of FY 2013—Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yellow</td>
<td>Yellow</td>
</tr>
</tbody>
</table>
Previous OIG audits of the SBA’s Disaster Loan program determined that the improper payment rates reported for this program were significantly understated. The SBA estimated that improper payments in the Disaster Loan program were about $4.5 million, or 0.55 percent of loans approved in FY 2007, while the OIG reported that it was at least 46 percent, or approximately $1.5 billion. The SBA’s improper payment rates were understated because the Agency did not adequately review sampled loans, used flawed sampling methodologies, and did not accurately project review findings for the program.

Previously, Management Challenge 9 included both the Disaster Loan program and 7(a) program. There were three recommended actions applicable to the Disaster Assistance Program. Of the three recommended actions, one was implemented during FY 2010 and the two remaining actions were implemented during FY 2011. One recommended action was to develop and implement a corrective action plan to reduce improper payments. Although the Office of Disaster Assistance (ODA) implemented the recommended action, the Agency has not achieved its reduction targets since implementation. Specifically, the Agency missed its target goals of 16.7 percent for FY 2010, 20.0 percent for FY 2011, and 17.0 percent for FY 2012, instead reporting rates of 34.2 percent, 28.4 percent, and 17.9 percent, respectively.

At the end of FY 2011, a new recommended action was added requiring the SBA to demonstrate that the corrective action plan is effective in reducing improper payments in the Disaster Assistance Program.

The Agency has implemented an improved corrective action plan that specifically addresses root causes and provides specific remedies, such as targeted training and inclusion of improper payments in personal business commitment plans for employees. If properly implemented, we believe this course of action should effectively reduce the improper payment rate in future years. The Agency’s internal improper payment assessment for FY 2013 indicated a rate of 18.4 percent. This rate is higher than the 17 percent target rate necessary to achieve a rating of Green. Therefore, the color status for FY 2013 is Yellow.

<table>
<thead>
<tr>
<th>Actions Accomplished (Green Status) During Past Four Fiscal Years</th>
<th>N/A</th>
<th>N/A</th>
<th>NEW</th>
<th>12-0</th>
</tr>
</thead>
</table>

### Recommended Actions for Fiscal Year 2014

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Status at End of FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Demonstrate that corrective action plans are effective in reducing improper payments in the Disaster Loan program.</td>
<td>Yellow</td>
</tr>
</tbody>
</table>

**Legend:**
- **Green**: Implemented
- **Orange**: Limited Progress
- **Red**: No Progress
In October 2010, the SBA realigned its acquisition program to address several significant deficiencies that included compliance with laws and regulations, application of funding principles, contractor oversight, high staff turnover, and measuring performance through validated metrics. Since that realignment, the SBA has taken steps to improve the acquisition process, such as providing training to acquisition personnel, conducting annual Advanced Acquisition Strategy planning, and using the Contract Review Board to inform acquisition decisions. While the SBA has made limited progress, continuing challenges exist, including: (1) poorly defined requirements (2) internal control deficiencies, (3) improper funding of contracts, (4) inadequate oversight and monitoring of contractor performance, (5) high improper payments rate for contracting activities, and (6) an incomplete acquisition standard operating procedure (SOP). For example, we identified instances where the SBA inadequately planned and defined its requirements for the procurement of IT products and services. In addition, while the SBA interfaced the contract management system, PRISM, with the financial system, JAAMS, users still continue to experience system operations issues – exposing an internal control deficiency. The SBA also ratified unauthorized commitments without determining whether unobligated funds were available when the unauthorized commitment occurred, putting the SBA at risk for Anti-Deficiency Act violations. Moreover, the SBA continued to inadequately monitor contract performance, which did not provide assurance that products and services were delivered according to contract requirements. We also determined that the information presented in the SBA’s FY 2012 Agency Financial Report was inaccurate and the reported improper payment rate for FY 2012 disbursements and contracting was incomplete. Furthermore, while the SBA updated its acquisition SOP, it does not include procedures to use modular contracting for major system acquisitions or define post award contract administration requirements, among other things.

Finally, while the SBA conducted an internal control review of its acquisition function consistent with OMB Circular A-123, Appendix A, the Agency has not completed the acquisition assessment required in OMB’s Memorandum for Chief Acquisition Officers: Conducting Acquisition Assessments under OMB Circular A-123, May 21, 2008. This memorandum requires the use of a template to help agencies conduct a comprehensive and standardized assessment. Use of the template further enables the SBA to leverage existing resources by implementing an integrated management approach to internal control that focuses equally on the financial, program, operational and administrative functional areas of the SBA, including acquisition.

<table>
<thead>
<tr>
<th>Actions Accomplished (Green Status) During Past Four Fiscal Years</th>
<th>N/A</th>
<th>N/A</th>
<th>N/A</th>
<th>NEW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommended Actions for FY 2013</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Complete an assessment of the Agency’s acquisition activities using the OMB’s Guidelines for Assessing the Acquisition Function.</td>
<td>Orange</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Create and implement a comprehensive improvement plan — based on the results of the acquisition function assessment — that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the organizational alignment and leadership assessment area.</td>
<td>Orange</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Create and implement a comprehensive improvement plan — based on the results of the acquisition function assessment — that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the acquisition policies and processes assessment area (i.e. acquisition management SOP).</td>
<td>Orange</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Create and implement a comprehensive improvement plan — based on the results of the acquisition function assessment — that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the acquisition workforce assessment area.</td>
<td>Orange</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Create and implement a comprehensive improvement plan — based on the results of the acquisition function assessment — that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the knowledge management and information systems assessment area.</td>
<td>Orange</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix: Relevant Reports

Most of the SBA OIG Reports listed can be found at [http://www.sba.gov/office-of-inspector-general](http://www.sba.gov/office-of-inspector-general).

**Challenge 1:**

**Challenge 2:**

**Challenge 3:**
• OIG, Adequacy of Procurement Staffing and Oversight of Contractors Supporting the Procurement Function, ROM 10-13, issued April 9, 2010.
• GAO, Agency Should Assess Resources Devoted to Contracting and Improve Several Processes in the 8(a) Program, GAO-09-16, issued November 2008.
• GAO, Opportunities Exist to Build on Leadership’s Efforts to Improve Agency Performance and Employee Morale, GAO-08-995, issued September 2008.
• OIG, Non-Native Managers Secured Millions of Dollars from 8(a) Firms Owned by Alaska Native Corporations through Unapproved Agreements that Jeopardize the Firms’ Program Eligibility, Report 8-14, issued August 7, 2008.
• GAO, Opportunities Exist to Improve Oversight of Women’s Business Centers and Coordination Among SBA’s Business Assistance Programs, GAO-08-49, issued November 2007.

Challenge 4:
• OIG, High-Dollar Early-Defaulted Loans Require an Increased Degree of Scrutiny and Improved Quality Control at the National Guaranty Purchase Center, Report 12-11R, issued March 23, 2012.
• OIG, Origination and Closing Deficiencies Identified in 7(a) Recovery Act Loan Approvals, ROM 11-07, issued September 30, 2011.
• OIG, Material Deficiencies Identified in Five 7(a) Recovery Act Loans Resulted in $2.7 Million of Questioned Costs, ROM 11-06, issued August 25, 2011.
• OIG, Banco Popular Did Not Adequately Assess Borrower Repayment Ability When Originating Huntington Learning Center Franchise Loans, Report 11-16, issued July 13, 2011.
• OIG, Material Deficiencies Identified in Four 7(a) Recovery Act Loans Resulted in $3.2 Million of Questioned Costs, ROM 11-05, issued June 29, 2011.
• OIG, Review of Key Unresolved OIG Audit Recommendations in Program Areas Funded by the American Recovery and Reinvestment Act and Related Activities Need to Safeguard Funds, ROM 09-1, issued April 30, 2009.
• OIG, Audit of the Liquidation Process at the National Guaranty Purchase Center, Report 9-08, issued January 30, 2009.
• OIG, Audit of Six SBA Guaranteed Loans, Report 8-18, issued September 8, 2008.
• OIG, Audit of Loan Classifications and Overpayments on Secondary Market Loans, Report 8-09, issued March 26, 2008.
• OIG, Audit of UPS Capital Business Credit’s Compliance with Selected 7(a) Lending Requirements, Report 8-08, issued March 21, 2008.
• SBA OIG, Audit of the Guarantee Purchase Process for Section 7(a) Loans at the National Guaranty Purchase Center, Report 7-23, May 8, 2007.
• OIG, Audit of an SBA Guaranteed Loan, Report 7-17, issued March 12, 2007.
• OIG, Audit of an SBA Guaranteed Loan, Report 7-05, issued December 20, 2006.
• OIG, Audit of an SBA Guaranteed Loan, Report 7-02, issued October 23, 2006.

Challenge 5:
• OIG, SBA’s Oversight of SBA Supervised Lenders, Report 8-12, issued May 9, 2008.
• OIG, UPS Capital Compliance with Selected 7(a) Lending Requirements, Report 8-08, issued March 21, 2008.
• GAO, Small Business Administration: Additional Measures Needed to Assess 7(a) Loan Program’s Performance, GAO-07-769, issued July 13, 2007.
• GAO, Small Business Administration: Improvements Made, But Loan Programs Face Ongoing Management Challenges, GAO-06-605T, issued April 6, 2006.
• OIG, SBA’s Administration of the Supplemental Terrorist Activity Relief (STAR) Loan Program, Report 6-09, issued December 23, 2005.
• GAO, Continued Improvements Needed in Lender Oversight, Report 03-90, issued December 2002.
• OIG, Improvements needed in SBLC Oversight, Advisory Memorandum Report 2-12, issued March 20, 2002.
• OIG, SBA Follow-up on SBLC Examinations, Report 1-16, issued August 17, 2001.

Challenge 6:
• OIG, Section 8(a) Program Continuing Eligibility Reviews, Report 4-3-H-006-021, issued September 30, 1994.
Challenge 7:
- OIG, Summary Audit of Section 7(a) Loan Processing, Report 0-03, issued January 11, 2000.
- OIG, Operation Clean Sweep, Memorandum, issued August 21, 1996.

Challenge 8:
- OIG, SBA Needs to Implement a Viable Solution to its Loan Accounting System Migration Problem, Report 5-29, issued September 20, 2005.

Challenge 9:
- OIG, Origination and Closing Deficiencies Identified In 7(a) Recovery Act Loan Approvals, ROM 11-07, issued September 30, 2011.
- OIG, Material Deficiencies Identified in Five 7(a) Recovery Act Loans Resulted in $2.7 Million of Questioned Costs, ROM 11-06, issued August 25, 2011.
• OIG, Material Deficiencies Identified in Four 7(a) Recovery Act Loans Resulted in $3.2 Million of Questioned Costs, ROM 11-05, issued June 29, 2011.

Challenge 10:

Challenge 11:
• OIG, SBA’s Procurement of Information Technology Hardware and Software through Isika Technologies, Inc., Report 11-08, issued February 25, 2011.
• OIG, SBA’s Planning and Award of the Customer Relationship Management Contracts, ROM 10-16, issued June 29, 2010.
• OIG, SBA’s Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System, Report 10-08, issued February 26, 2010.
• OIG, Adequacy of Procurement Staffing and Oversight of Contractors Supporting the Procurement Function, ROM 10-13, issued April 9, 2010.
• OIG, The SBA FY 2012 Reported Improper Payment Rate for Disbursements and Contracting was Inaccurate and Incomplete, Report 14-02, issued October 24, 2013.