



**HANNIBAL "MIKE" WARE  
INSPECTOR GENERAL  
U.S. SMALL BUSINESS ADMINISTRATION**

**BEFORE THE**

**COMMITTEE ON SMALL BUSINESS  
U.S. HOUSE OF REPRESENTATIVES**

**October 16, 2019**

## INTRODUCTION

Chairwoman Velázquez, Ranking Member Chabot, and distinguished members of the Committee, thank you for inviting me to testify before you today and for your continued support of the Office of Inspector General (OIG). Since 2001, OIGs across the government have prepared a report that documents what they consider to be the most serious management and performance challenges facing agencies, including a brief assessment of the respective agency's progress in addressing those challenges.<sup>1</sup> OIG publishes its report annually by October 15, providing OIG's independent assessment of the top management challenges facing the U.S. Small Business Administration (SBA). Most recently, OIG published Report 20-01, *Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in FY 2020*.

## BACKGROUND

OIG provides auditing, investigative, and other services to support and assist SBA in achieving its mission. As a result of its oversight efforts, OIG provides dozens of recommendations each year to SBA leadership aimed at improving the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. In doing so, OIG provides taxpayers with a significant return on investment as it roots out fraud, waste, and abuse in SBA programs. During fiscal year (FY) 2018, OIG achieved more than \$224.5 million in monetary recoveries and savings—an elevenfold return on investment to the taxpayers—and in FY 2019, OIG achieved \$110.9 million in monetary recoveries and savings—a fivefold return on investment to the taxpayers.

The mission of SBA under the Small Business Act, as amended, is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and assisting in the economic recovery of communities after disasters. The Agency's strategic plan for FYs 2018–2022 has four core strategic goals:

- Support small business revenue and job growth.
- Build healthy entrepreneurial ecosystems and create business friendly environments.
- Restore small businesses and communities after disasters.
- Strengthen SBA's ability to serve small businesses.

SBA is organized around four key functional assistance areas: financial, contracting, entrepreneurial development, and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman.

SBA's programs are essential to strengthening America's economy; however, the Agency faces a number of challenges in carrying out its mission. Challenges include fraudulent schemes affecting all SBA programs, significant losses from defaulted loans, procurement flaws that

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<sup>1</sup> 35 U.S.C. § 3516(d)

allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems. OIG plays a critical role in addressing these and other challenges by conducting audits to identify wasteful expenditures and program mismanagement; investigating fraud and other wrongdoing; and taking other actions to deter and detect fraud, waste, abuse, and inefficiencies in SBA programs and operations.

OIG's annual report on the most serious management and performance challenges facing SBA is a key component of the oversight framework. Our work informs our key stakeholders—the Congress, the Administrator, and the public—of the top challenges, and the work also complements OIG's oversight plans. OIG publishes its annual Audits Division Oversight Plan in January, and most of our discretionary oversight reviews are focused on programs and operations identified as being part of the top management challenge areas. Among other considerations, hotline complaints and congressional interests factor strongly in our planning processes. The remainder of our planned work is conducted pursuant to statutory mandates, such as the Federal Information Security Modernization Act and the Chief Financial Officers Act of 1990.

### **SUMMARY OF THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING SBA IN FY 2020**

OIG approaches its top management challenges reporting mandate with an overall goal to focus attention on significant issues with the objective of working with Agency managers to enhance the effectiveness of SBA's programs and operations. Within each management challenge is a series of recommended actions to meet this objective. Each recommended action is assigned a color score to indicate its status. The scores are as follows: green for "implemented," yellow for "substantial progress," orange for "limited progress," and red for "no progress." If a recommended action was added since last year's report, no color score is assigned, and the recommended action is designated as "new." In addition, an arrow in the color box indicates that the color score went up or down from the prior year.

The following table provides a summary of the most serious management and performance challenges facing SBA in FY 2020.

Color Scores							
Status at End of FY 2019						Change From Prior Year	
	Challenge	Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting		2				
2	IT Leadership	1	5			1	
3	Human Capital	1				1	
4	SBA Loan Program Risk Management and Oversight	2				1	
5	8(a) Business Development Program		3	2			2
6	Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers	1					
7	Disaster Assistance Program	1	3			1	
8	Grant Management Oversight	3	1				
	TOTAL	9	14	2		4	2

Overall the Agency made progress addressing this year’s management challenges. We believe this progress is in large part attributable to the Agency’s concerted effort to address outstanding internal control recommendations that are reflected in many component challenge corrective action areas. As a result, the above table identifies 23 of 25 challenge areas as “fully implemented” or having shown “substantial progress.” Notwithstanding these efforts, our audits and investigations continue to find the Agency facing significant risks in loan program oversight and controls, oversight of its statutory programs to promote small business development and government contracting, and deploying information technology and related cybersecurity controls.

### **MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES IN ACTION**

OIG’s report on management challenges has been recognized by the Association of Government Accountants (AGA). The Certificate of Excellence in Accountability Reporting Program was established by the AGA to improve accountability and impact of an Agency Financial Report (AFR). In 2013, the AGA recognized both the Office of the Chief Financial Officer (OCFO) and the Office of the Inspector General. The OCFO received an award for its AFR, and OIG received the prestigious Special/Best in Class Certificate for the “Inspector General’s Summary of Management and Performance Challenges.” To attain this award, OIG had to effectively illustrate and communicate program performance, related accomplishments, and future challenges facing SBA.

A critical component of the IG Act of 1978 is to provide vehicles for continuous improvement in agencies’ management and program operations. To facilitate improvement, OIG aligns its

oversight plans with high risk areas identified in the previous year’s management challenges. This effort, coupled with the Agency’s efforts, accelerates resolution of the challenges, as corrective actions to close recommendations associated with audit and evaluation reports also assist in addressing the broader identified management challenges.

Another important OIG oversight control is monitoring the status of open recommendations. OIG initiates approximately 80–100 recommendations annually to ensure that the risks identified through its audits and evaluations are adequately addressed. Recently, the Agency enhanced its audit resolution process by actively monitoring and correcting identified improvement areas. As illustrated below, the Agency has reduced its open backlog of audit recommendations in a 5-year period from 199 to 76. To its credit, SBA has prioritized remediation of control weaknesses. The impact of these efforts includes reducing the possibility of fraud and waste, improving operational efficiency, increasing financial reliability and integrity, improving compliance with laws and statutory regulations, and increasing the effectiveness of management oversight.

FY	Beginning Balance	New	Closed	Ending Balance
2014	190	101	92	199
2015	199	80	145	134
2016	134	81	85	129
2017	129	72	119	82
2018	82	111	117	76
2019	76	94	99	71

## CONCLUSION

OIG’s mission is to provide independent, objective oversight to improve the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Our focus is to keep SBA leadership, our congressional stakeholders, and the public currently and fully informed about the problems and deficiencies in the programs as identified through our work and to promote corrective action in fulfillment of our mission. The management challenge process is an important tool that we hope assists the Agency in prioritizing its efforts to improve program performance and enhance its operations. We also value our relationship with the Congress and note its important role in leveraging our work to oversee SBA. We look forward to continuing to work with the Congress and SBA’s leadership in addressing the most serious management and performance challenges facing SBA.