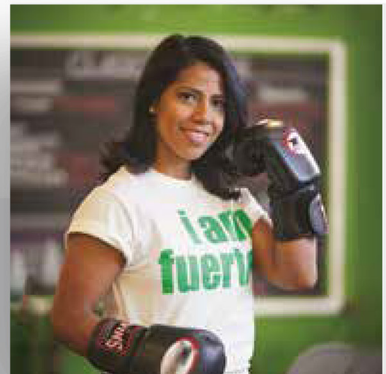
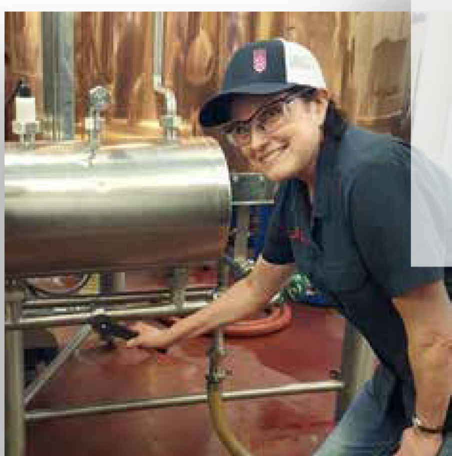
U.S. Small Business Administration





start

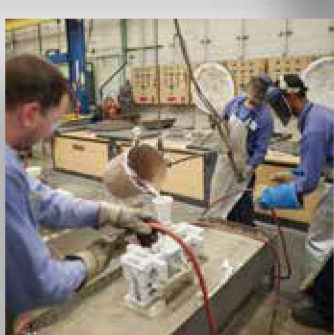
expand

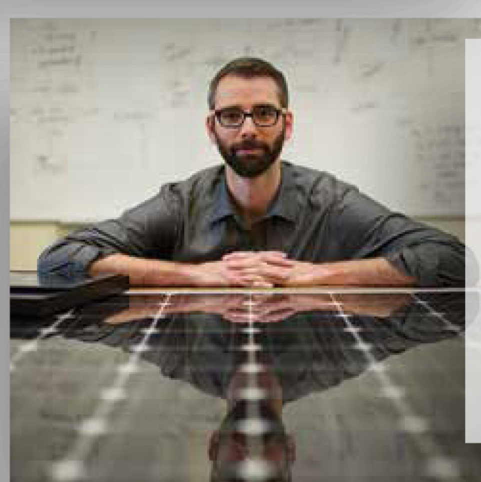
grow

AGENCY FINANCIAL REPORT

FISCAL YEAR 2019

recover





we make
SMALL BUSINESS
our business

ABOUT THIS REPORT

The U.S. Small Business Administration's Agency Financial Report (AFR) for FY 2019 provides an overview of the Agency's financial and performance data to help Congress, the President, and the public assess the SBA's stewardship over the resources entrusted to it. The AFR is the first of two required annual reports for federal agencies. The FY 2019 Annual Performance Report (APR) is the other report and is part of the FY 2021 Congressional Justification (CJ). The CJ/APR is scheduled for publication in February 2020. The reports can be found at: **www.sba.gov/performance**.

FY 2019 HIGHLIGHTS

(Dollars in Thousands)	FY 2016	FY 2017	FY 2018	FY 2019
Principal Program Portfolio[(1)]	$ 124,118,505	$ 131,814,718	$ 142,315,295	$ 143,516,446
Regular FTE Employees	1,950	1,960	1,881	1,888
Disaster FTE Employees	1,153	1,311	3,608	2,055
Total Employees[(2)]	3,103	3,271	5,489	3,943
Total Assets	$ 12,657,172	$ 13,215,919	$ 16,988,497	$ 16,718,652
Total Liabilities	$ 11,882,988	$ 11,703,589	$ 14,915,340	$ 15,085,044
Total Net Position	$ 774,184	$ 1,512,330	$ 2,073,157	$ 1,633,608
Total Net Cost of Operations	$ 339,477	$ 3,910	$ 621,675	$ 136,526
Total Budgetary Resources	$ 10,878,012	$ 12,243,154	$ 17,114,677	$ 12,342,598

(1) The total portfolio consists of guarantied business loans outstanding, guarantied debentures, direct business loans and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged off.

(2) The total excludes employees in the Offices of Advocacy and Office of Inspector General.

FOR MORE INFORMATION

Information about the SBA's programs is available at:
www.sba.gov

SBA's plans and reports are available at:
www.sba.gov/performance

Para información acerca de los programas de la SBA:
www.sba.gov → "Translate" → "Select Language"

Questions and comments regarding the content, presentation and usefulness of this report are welcome and may be addressed to:
performance.management@sba.gov

Or, you may write to:

U.S. SMALL BUSINESS ADMINISTRATION
Office of Performance Management
and the Chief Financial Officer

409 Third Street, S.W.
Washington, DC 20416

Or, you may call:

JASON BOSSIE
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Office of Program Performance,
Analysis, and Evaluation

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SBA'S MISSION

Maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.

HOW THIS REPORT IS ORGANIZED

The U.S. Small Business Administration's *FY 2019 Agency Financial Report* (AFR) provides financial and performance information for the fiscal year beginning October 1, 2018 and ending September 30, 2019. This report presents the SBA's operations, accomplishments, and challenges. Following a message from the SBA Administrator are four principal sections: Management's Discussion and Analysis, Financial Reporting, Other Information, and Appendices. "Success Stories" appear throughout the report highlighting a small business entrepreneur.

Management's Discussion and Analysis

The Management's Discussion and Analysis section provides a report of the Agency's overall financial position, program performance, and results of operations. It presents the SBA's history, organization, and principal programs. This section highlights financial results and analysis; performance results and analysis; and analysis of systems, controls, and legal compliance.

Financial Reporting

The Financial Reporting section provides a detailed report of the SBA's finances. It includes the message from the Chief Financial Officer, the audit transmittal memorandum from the Inspector General, the Independent Auditors' report, and the audited financial statements and notes. The required supplementary information provides a combined statement of budgetary resources, and the required supplementary stewardship information provides a report on stewardship investments in human capital.

Other Information

The Other Information section includes the Inspector General's report on the Agency's most serious management and performance challenges along with recommended actions. This section also includes a summary of the financial statement audit and management assurances.

Appendices

The Appendices provide supporting information—a contact list of useful websites and telephone numbers, a glossary, and a detailed report on audit follow-up activity.

MESSAGE FROM THE ACTING ADMINISTRATOR

November 15, 2019

It is my honor and privilege to present the U.S. Small Business Administration's *FY 2019 Agency Financial Report*.

This year's report highlights the SBA's key achievements in helping our nation's entrepreneurs start, grow, expand, or recover in the event of a disaster. The financial and performance data published in this report are reliable, complete, and in accordance with the Office of Management and Budget Circulars A-136 and A-11.

America's small business owners and entrepreneurs are the drivers of economic growth across our country. Our nation's small businesses often spur innovations that inspire entire new industries, as well as create and support millions of jobs. Additionally, owning a small business offers individuals a chance to pursue their dream career.

Since becoming SBA's Acting Administrator in April of 2019, I have had the opportunity to meet with many incredible small business owners. These business leaders uplift their communities and are a major reason why we have a record number of Americans working today. I am proud of the work our Agency and resource partners do to support them.

In FY 2019, the SBA continued to build upon the success of former Administrator Linda McMahon's "SBA Reimagined" and "Ignite Tour" initiatives focused on making the Agency more unified, efficient, and effective. As an Agency, we remain committed to improving outreach to small business owners and aspiring entrepreneurs who may not know about the services the SBA provides.

The SBA continues to be focused on ensuring that each of the Agency's 68 District Offices are aligned with the vision, momentum, and outreach of its headquarters in Washington, D.C. We are committed to speaking with one voice and dedicated toward a shared goal of helping small businesses thrive and succeed.

As the SBA Acting Administrator, I have personally seen the dedication, energy, and initiative that our employees commit to their jobs. We are fortunate to have so many tremendous public servants working for the Agency, and their dedication to supporting the SBA's mission of advancing entrepreneurs and small businesses is remarkable.

Access to capital is a vital aspect of economic development. At the SBA, we work with approved lenders and community development organizations to guarantee loans to small businesses that are unable to obtain credit in the conventional lending marketplace. In FY 2019, the SBA approved more than 58,000 loans in the 7(a) and 504 loan programs, providing more than $28 billion to small businesses and supporting approximately 550,000 American jobs in the process.

Minority business owners received $8.8 billion in combined 7(a) and 504 lending, or 31 percent of the SBA's loan portfolio. The SBA's 7(a) lending to women-owned businesses was nearly $6.6 billion in FY 2019. Lending from the 504 loan program to women-owned businesses was over $1.5 billion. Loans to veterans totaled nearly $1 billion for the 7(a) and 504 programs. The Small Business Investment Company program, in which the SBA partners with private investors to finance small businesses through professionally managed investment funds, supported nearly 1,200 small businesses with $5.9 billion in financing.

Entrepreneurship is truly a team effort, and the SBA ensures that our nation's small business owners have the resources to tackle the challenges that they face every day. These efforts are powered by our district offices and strong resource partner network made up of Small Business Development Centers, Women's Business Centers, Veterans Business Outreach Centers, and SCORE chapters. Our combined SBA network offers free or low-cost programs to help entrepreneurs plan their business, research market trends, expand their customer base, and secure funding. In FY 2019, hundreds of thousands of American small businesses took advantage of counseling, mentoring, and training assistance through the SBA network.

Thanks to the SBA's efforts, federal agencies collectively exceeded the federal small business contracting goal by awarding more than 25 percent of federal contracts to small businesses totaling $120.8 billion – a significant increase of nearly $15 billion from the previous fiscal year. This achievement marks the sixth consecutive year in a row that the Federal Government has exceeded this goal.

When disaster strikes, the SBA joins with our federal partners to respond by helping businesses, nonprofits, homeowners, and renters prepare for, and recover from declared disaster events. Hurricane Florence in North Carolina and South Carolina and Hurricane Michael in Florida occurred near the end of FY 2018; however, loan approval activity continued through the beginning of FY 2019. The SBA approved nearly $459 million in disaster loan assistance for Hurricane Florence and nearly $698 million for Hurricane Michael. In response to the 2018 wildfires in California, the SBA also approved over $427 million in disaster loan assistance. Low-interest loans from the SBA have enabled borrowers to replace or repair uninsured losses, whether through physical damage or economic injury. The SBA is working with federal, state, and local partners to continually improve the disaster response and ensure we are assisting the economic recovery as expediently as possible. During FY 2019, the SBA approved more than 42,300 disaster loans for over $2.2 billion.

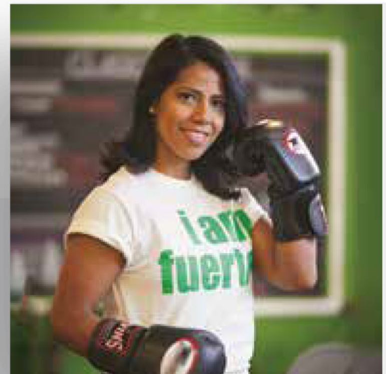
American entrepreneurs are the best in the world, and it is my privilege to serve as their advocate across the nation and as a member of President Trump's Cabinet. The SBA remains committed to being a responsible steward of taxpayer dollars and the public's trust.

The SBA is working to ensure that we are functioning as efficiently and effectively as possible for America's entrepreneurs while using modern technology and streamlined operations to eliminate waste and redundancy. As we look toward FY 2020 and a new decade of possibilities, the SBA is devoted to delivering results and the best possible service to America's small businesses.

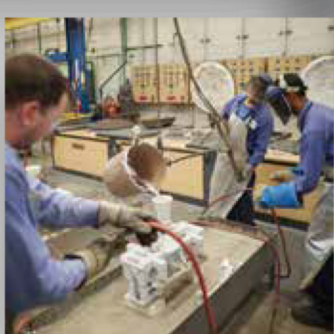
Sincerely,

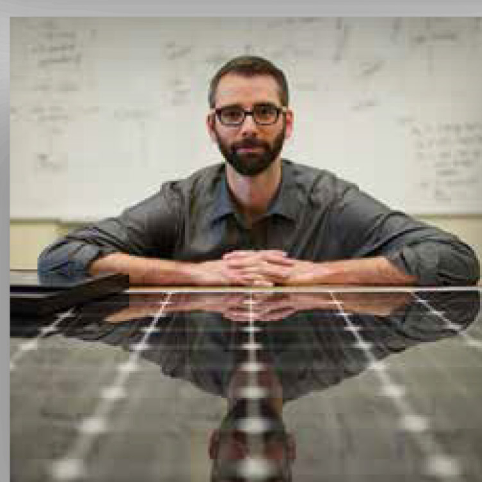
Christopher M. Pilkerton

Christopher M. Pilkerton
Acting Administrator



MANAGEMENT'S DISCUSSION AND ANALYSIS





SUCCESS STORY

START
AND GROW:

Family-owned Business Uses SBA Support to Succeed

Reynolds Welding and Fabrication

Windsor, CT

Reynolds Welding and Fabrication, LLC is a family-owned and operated business in Connecticut started by Jerado Reynolds in 2005 and later joined by his wife, Joyce, in 2015. The business specializes in structural steel cutting and welding work. A master welder, Jerado learned the trade from his uncle and earned certification from the American Welding Society. Tragedy struck when the Reynolds' eldest son, Dwayne, died in a car accident. He played an integral role in the family business, and recovering from the loss proved difficult for both the family and their business operations. Nevertheless, they continued to persevere.

When business operations reached full capacity in 2017, an SBA 504 loan helped them purchase a new building to meet growing demand and plan for future growth. Additionally, Joyce Reynolds continued to receive small business training and counseling from the SBA's Women's Business Center. The business began with 3 employees and now employs more than 15 people who work on constructing stairs, rails, structural beams, and columns throughout New England.

THE SBA'S HISTORY, GOALS, AND ORGANIZATION

In 1953, Congress created the SBA to aid, counsel, assist, and protect the interests of small business. As the nation's only go-to resource and voice for small businesses, the SBA provides programs and services that help small businesses confidently start, grow, expand, or recover. The SBA is backed by the strength of the federal government and is the only cabinet-level federal agency fully dedicated to small business. The SBA's headquarters is located in Washington, D.C., while its business products and services are delivered through field personnel and a network of private sector and nonprofit partners in every U.S. state and territory. Major SBA offices fall under one of four Agency-wide strategic goals as outlined in SBA's *FY 2018-2022 Strategic Plan:*

MISSION STATEMENT

Maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.

GOAL 1	GOAL 2	GOAL 3	GOAL 4
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
1.1 Expand access to capital **1.2** Help small business exporters succeed in global markets **1.3** Ensure federal contract and innovation set-aside goals are met and/or exceeded	**2.1** Develop small businesses through technical assistance **2.2** Build healthy entrepreneurial ecosystems **2.3** Create a small business friendly environment	**3.1** Deploy disaster assistance effectively and efficiently	**4.1** Ensure effective and efficient management of Agency resources **4.2** Build a high-performing workforce **4.3** Implement enterprise-wide information system modernization and cost-effective technology

STRATEGIC GOAL ONE — Support small business revenue and job growth

Strategic Goal One focuses on business formation, job growth, and economic expansion through capital, contracting, exporting, and innovation.

The *Office of Capital Access* assists small businesses with obtaining capital via the 7(a), 504, and Microloan programs, and bonds through the Surety Bond Guarantee program.

The *Office of Investments and Innovation* assists small businesses through initiatives such as the Small Business Investment Company, Small Business Innovation Research, Small Business Technology Transfer, and other tailored programs that drive innovation and competitiveness.

The *Office of International Trade* enhances the ability of small businesses to export and compete in the global marketplace by facilitating access to capital, providing technical assistance, ensuring the consideration of small business interests in trade negotiations, and contributing to the U.S. government's international commercial and economic agenda.

The *Office of Government Contracting and Business Development* assists small businesses in competing for federal contracting opportunities through the government-wide prime and subcontracting programs. The office also sets size standards for small businesses, which determine the size a business must be to be considered a small business.

STRATEGIC GOAL TWO — Build healthy entrepreneurial ecosystems and create business friendly environments

Strategic Goal Two focuses on business startups, growth, and expansion through technical assistance, SBA resource partners, and creating a business-friendly environment to reduce regulatory burdens.

The *Office of Government Contracting and Business Development* provides business development assistance to small businesses seeking federal contracts. This assistance includes the HUBZone, 8(a) business development, 7(j) management and technical assistance, and All Small Mentor-Protégé programs.

The *Office of Entrepreneurial Development* provides business advising, mentoring, and training assistance through its resource partner network composed of Small Business Development Centers, Women's Business Centers, and SCORE, and through Entrepreneurship Education programs.

The *Office of Veterans Business Development* ensures the applicability and usability of all the Agency's small business programs for veterans, service-disabled veterans, reserve component members, and their dependents or survivors through Veterans' Business Outreach Centers, Boots to Business, and other grant programs.

The *Office of the National Ombudsman* works with all federal agencies that regulate small businesses to provide a means for businesses to comment on federal government enforcement activity. The SBA also maintains a 5-member Regulatory Fairness Board in each of the 10 regions to hold public hearings on small business concerns.

STRATEGIC GOAL THREE — Restore small businesses and communities after disasters

Strategic Goal Three focuses on helping restore communities and return businesses to normal operations through direct loans to repair, rebuild, and recover from physical damage and economic losses.

The *Office of Disaster Assistance* provides affordable, timely, and accessible financial assistance to homeowners, renters, and businesses following a disaster. The Disaster Loan program is the only form of SBA assistance that is not limited to small businesses.

STRATEGIC GOAL FOUR — Strengthen SBA's ability to serve small businesses

Strategic Goal Four focuses on streamlining business processes and decision-making at all levels to ensure efficiency and effectiveness.

The *Office of Performance Management and the Chief Financial Officer* leads the Agency's performance management, program evaluation, financial management, and acquisition management functions.

The *Office of Executive Management, Installations and Support Services* supports resource and core administrative functions, including grant management, facilities, records management, and personnel security.

The *Office of Human Resources Solutions* provides strategic human capital solutions to workforce issues and strives to create a work environment that attracts and retains a talented and high-performing workforce.

The *Office of the Chief Information Officer* provides information technology leadership, product services, and operational support for the SBA in order to maximize internal efficiency and responsiveness to small businesses.

Other offices that support the strategic goals and objectives include the *Office of Field Operations; Office of Diversity, Inclusion, and Civil Rights; Office of Communications and Public Liaison; Office of Congressional and Legislative Affairs*; *Office of General Counsel*; and *Office of Hearings and Appeals*.

EXECUTIVE SUMMARY

America's 30 million small businesses play a critical role in job creation and retention. During the last two decades, small businesses have been responsible for creating two out of every three net new jobs. In turn, the U.S. Small Business Administration's assistance to those firms and entrepreneurs helps drive a healthy economy.

The SBA employs a variety of methods to support America's small businesses. These methods include promoting access to capital, federal contracting, counseling, and disaster assistance.

Throughout FY 2019, four goals from the SBA's *FY 2018-2022 Strategic Plan* guided the Agency's actions:

1. *Supporting small business revenue and job growth*
2. *Building healthy entrepreneurial ecosystems and creating business friendly environments*
3. *Restoring small businesses and communities after disasters*
4. *Strengthening SBA's ability to serve small businesses*

The following sections highlight financial and performance results for the Agency, including the four Agency Priority Goals. An in-depth analysis can be found in the Analysis of Financial Results and Analysis of Performance Results sections. The complete set of performance results will be reported in the Annual Performance Report, released in February 2020.

Financial Results

For FY 2019, the SBA's total budgetary resources used for staffing, operations, and loan subsidy costs were $1.7 billion. Total nonbudgetary resources for loan financing used to make direct loans and purchase guarantied loans in default were $4.8 billion. The SBA's guarantied portion of the outstanding loan principal rose 0.2 percent in FY 2019 to $105.8 billion. During FY 2019, new guaranties disbursed by SBA participating lenders were $21.2 billion, an 8 percent decrease from last year, which resulted in a net 0.2 percent increase in outstanding guaranties. In FY 2019, purchases of defaulted guarantied loans increased from $0.9 billion last year to $1.5 billion. The loans receivable portion of the SBA credit program portfolio increased in FY 2019 from $8.7 billion to $9.5 billion.

Performance Results

Capital: In FY 2019, the SBA approved $28.2 billion in loans and more than 63,500 loans to small businesses. The SBA supported nearly $5 billion in 504 loans, an increase of nearly $205 million from FY 2018. Nearly $5.9 billion was invested in 1,191 small businesses through the Small Business Investment Company program.

Contracting: The SBA continued to partner with agencies across the Federal Government to expand small business contracting opportunities. From FY 2014 through FY 2018, small businesses were awarded nearly $510 billion in federal contracts (FY 2019 contracting numbers continue to be collected and certified). The Federal Government continues to exceed its small disadvantaged and service-disabled, veteran-owned small business goals but faces challenges with HUBZone and women-owned small business goals.

Counseling: The SBA provided mentoring, business advice, and training assistance to nearly half a million entrepreneurs and small businesses this year, which helped them start and grow their businesses, and create or retain jobs. The Agency further strengthened the alignment of performance metrics with its resource partners that will be implemented in future grant agreements.

Disaster Assistance: Disaster loan applications and approvals decreased significantly compared to FY 2018, given the significant disaster response last year due to Hurricanes Harvey, Irma, and Maria. In FY 2019, the Agency worked on 280 active disaster assistance declarations and approved disaster loans totaling over $2.2 billion.

Agency Priority Goals

The Government Performance and Results Act Modernization Act of 2010 requires federal agencies to establish a set of two-year Agency Priority Goals that reflect the highest priorities of agency leadership. The SBA has established four APGs. The goals and outcomes from FY 2019 were as follows:

- **Expand capital to small businesses in socially and economically disadvantaged urban communities and rural areas.**

  Goal: *By September 30, 2019, increase the number of loans by 5 percent from the FY 2017 baseline to small businesses in* *socially and economically disadvantaged urban communities and rural areas (FY 2017 baseline of 25,475 for 7(a) loans, 504 loans, and microloans).*

Outcome: The SBA supported small business access to capital by providing 20,650 loans (7(a), 504, and microloans), to rural and urban HUBZone small businesses totaling nearly $9.4 billion. Through a strategy to train lender relation specialists in the district offices and develop new marketing materials, the SBA reached lenders with access to disadvantaged small businesses and is working to increase credit union participation.

- **Maximize small business participation in government contracting.**

Goal: *By September 30, 2019, maximize the percent of federal contracts by awarding at least 23 percent to small businesses.*

Outcome: The SBA will continue to collect and certify FY 2019 contracting numbers through the third quarter of FY 2020. The Federal Government exceeded its FY 2018 target making 25.05 percent of contracting dollars, worth $121 billion, available to small businesses. The SBA provided continuous outreach to other federal agencies to ensure that the goal was exceeded.

- **Increase federal contracts to more disadvantaged small businesses.**

Goal: *By September 30, 2019, increase by 10 percent from the FY 2017 baseline the number of 8(a)-certified firms awarded federal contracts (FY 2017 baseline of 3,421 small businesses).*

Outcome: The SBA instituted several process improvements for the 8(a) Business Development program and leveraged new online tools like **Certify.sba.gov** to decrease processing time of 8(a) applications. Through additional training of Business Opportunity Specialists in the district offices, the SBA has shifted to higher-value work, and 450 active 8(a)-certified firms received their first federal contract, exceeding the FY 2019 goal.

- **Deploy disaster assistance effectively and efficiently.**

Goal: *By September 30, 2019, increase the average number of disaster loan applications processed from three to six applications per loan specialist per day.*

Outcome: The SBA modernized its disaster credit management system, which went live in May 2018. The new system and staff training has led to the doubling of the number of applications processed by a loan specialist each day during periods of high loan application volume. The lower number of disaster loan applications in FY 2019 will prevent the SBA from meeting its goal; however, the SBA lowered the average number of days to process disaster loan applications by approximately half the time in a two-year period.

Cross-Agency Priority Goals

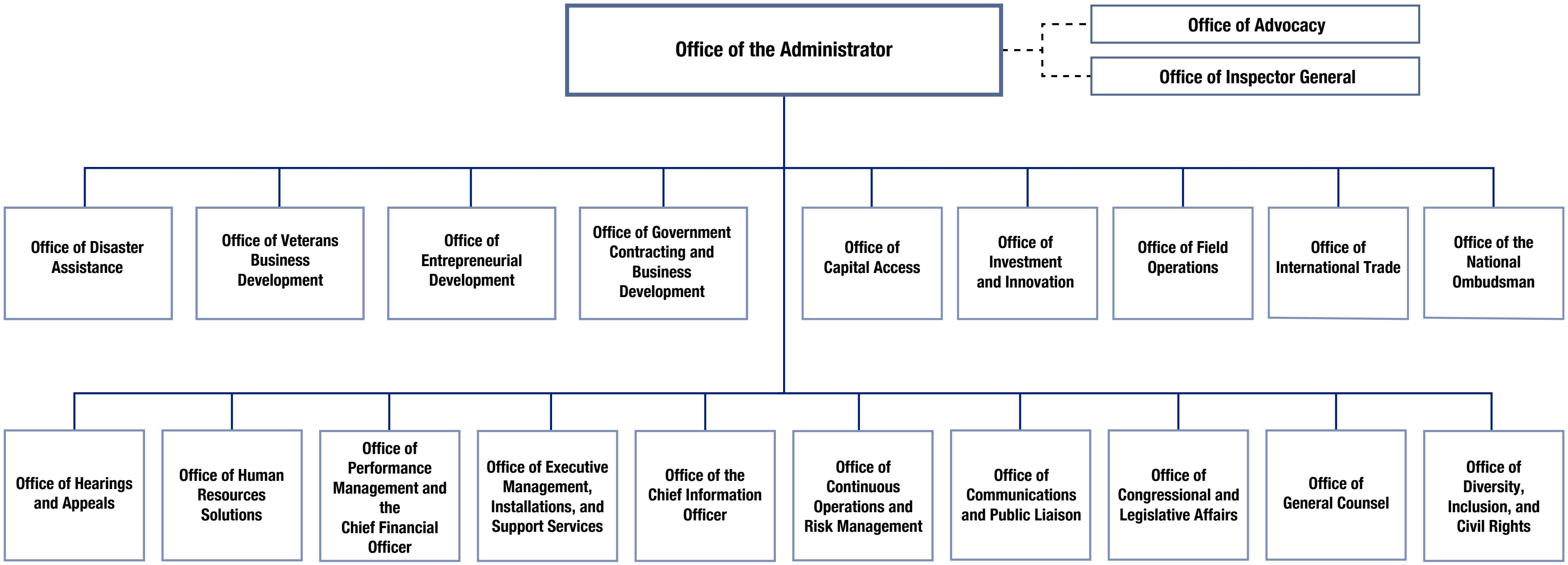
The SBA also supports the government-wide federal Cross-Agency Priority Goals. The CAP goals are Presidential priorities and are complemented by other cross-agency coordination and goal-setting efforts. The SBA serves as the co-lead for the Data, Accountability, and Transparency CAP goal.

Per the GPRA Modernization Act requirement to address Cross-Agency Priority Goals in the Agency strategic plan, the annual performance plan, and the annual performance report, please also refer to **www.Performance.gov** for more on the Agency's contributions to those goals and progress. A summary of each CAP goal follows:

- **IT Modernization:** Build and maintain more modern, secure, and resilient information technology (IT) to enhance mission delivery and productivity.
- **Data, Accountability, and Transparency:** Leverage data as a strategic asset to grow the economy, increase the effectiveness of the Federal Government, facilitate oversight, and promote transparency.
- **Developing a Workforce for the 21st Century:** Ensure effective and efficient mission achievement and improved service to America through enhanced alignment and strategic management of the Federal workforce.
- **Improving Customer Experience:** Transform the customer experience by improving the usability and reliability of our Federal Government's most critical digital services.
- **Sharing Quality Services:** Deliver technology and process improvements that will improve citizen services.
- **Shifting from Low-Value to High-Value Work:** Eliminate low-value, unnecessary, and outdated policies and requirements issued by central management agencies.
- **Category Management:** Leverage common contracts to buy common goods and services as an enterprise.

- **Results-Oriented Accountability for Grants:** Rebalance compliance efforts with a focus on results for the American taxpayer.
- **Getting Payments Right:** Reduce the amount of cash lost to the taxpayer through incorrect payments.
- **Federal IT Spending Transparency:** Improve business, financial, and acquisition outcomes.
- **Improve Management of Major Acquisitions:** Successfully achieve at least two transformational program goals over the coming year through well-managed major acquisitions supporting a transformative critical or high-risk mission priority.
- **Modernize Infrastructure Permitting:** Improve the Federal environmental review and authorization process to enable infrastructure project sponsors to start construction sooner, create jobs earlier, and fix our Nation's infrastructure faster while also ensuring that a project's potential impacts on environmental and community resources are considered and managed throughout the planning process.
- **Security Clearance, Suitability, and Credentialing Reform:** Advance security through a trusted workforce; modern clearance process; secure, modern, and mission-capable information technology; and continuous performance improvement.
- **Lab-to-Market:** Improve the transition of federally funded innovations from the laboratory to the marketplace by reducing the administrative and regulatory burdens for technology transfer and increasing private sector investment in later-stage R&D.

SBA Organization Chart



SBA Regions and Field Offices

PRIMER OF THE SBA'S PRINCIPAL PROGRAMS

CAPITAL (www.sba.gov/financialassistance)

7(a) Loans — The SBA offers government guaranties on loans (up to $5 million) made by lenders to help expand access to capital for business owners who face challenges getting approved for financing. The SBA guaranties a portion of 7(a) loans made and administered by commercial lending institutions. Loans can be guarantied for a variety of general business purposes.

504 Certified Development Company Loans — The SBA works with CDCs, which are private nonprofit corporations, and private lenders to provide long-term financing (up to $5.5 million) to support investment in major assets, such as real estate and heavy equipment. The SBA guaranties the CDC's portion of these loans.

Microloans — The SBA provides loans to nonprofit intermediary lenders, which are community-based organizations with experience in lending and providing technical assistance, that in turn make these loans (up to $50,000) to small businesses needing small-scale financing, and technical assistance for startup or expansion.

Small Business Investment Companies — SBICs are privately-owned and managed investment funds that use their capital plus funds borrowed, with an SBA guaranty (up to $150 million), to make equity and debt investments in qualifying small businesses.

EXPORTING (www.sba.gov/oit)

Export Loans — The SBA provides several types of export loans, including SBA Export Express loans (up to $500,000), Export Working Capital loans (up to $5 million), and International Trade loans (up to $5 million) that provide small businesses with enhanced export financing options to develop foreign markets, fund their export transactions, and/or support business expansion due to exporting success.

U.S. Export Assistance Centers — USEACs are generally staffed by professionals from SBA, Department of Commerce, and Export-Import Bank. Together, their mission is to help small- and medium-sized businesses compete in today's global marketplace by providing export marketing and finance assistance.

State Trade Expansion Program — STEP provides grants to states to assist small businesses with the information and tools they need to succeed in export related activities. These activities include participation in foreign trade missions, foreign market sales trips, international marketing campaigns, export trade shows, and training workshops.

CONTRACTING AND INNOVATION (www.sba.gov/contracting)

Procurement Assistance to Small Businesses — Small business contracts represent the largest form of direct monetary support for small business in the Federal Government. Within this goal are four subgoals:

- **Small Disadvantaged Businesses —** This program provides assistance through the 8(a) Business Development program and set-aside contracting for businesses owned and controlled by socially- and economically-disadvantaged individuals. Over the course of 9 years, a firm is assisted in gaining resources to compete for federal contracts and for contracts in the private sector.
- **HUBZone Small Businesses —** This program provides sole-source and set-aside contracting for firms located in designated economically disadvantaged geographical areas.
- **Service-Disabled Veteran-Owned Small Businesses —** This program allows federal agencies to set aside contracts for competition only among service-disabled veteran-owned small businesses.
- **Women-Owned Small Businesses —** This program allows federal agencies to set aside certain contracts for competition only among small businesses owned by women.

Surety Bond Guarantees — A surety bond is a type of contract that guarantees the performance of a contractor. If one party does not fulfill its end of the bargain, then the SBG program provides financial compensation to the other party. The SBA guarantees bonds issued by a surety company in order to encourage the surety company to provide bonds to small businesses, up to $6.5 million for non-federal contracts and up to $10 million for federal contracts.

Small Business Innovation Research — The SBIR program stimulates high-tech innovation by reserving a specific percentage of federal research and development funds for small businesses.

Small Business Technology Transfer — The STTR program reserves a specific percentage of federal research and development funding to award to small business and nonprofit research institution partners.

ADVISING, MENTORING, AND TRAINING (www.sba.gov/local-assistance)

Small Business Development Centers — SBDCs deliver an array of services to small businesses and prospective business owners using an extensive network of 63 lead centers managing more than 900 service delivery points throughout the United States and the insular territories.

Women's Business Centers — WBCs provide advising and training through more than 110 nonprofit educational centers across the nation. Many WBCs provide multilingual services, and a number offer flexible hours allowing mothers with children to attend training classes.

Boots to Business — B2B is an entrepreneurial education and training program offered by the SBA as part of the Department of Defense Transition Assistance Program (TAP). The course provides an overview of entrepreneurship and applicable business ownership fundamentals. Active Duty Service members (including National Guard and Reserve), veterans of all eras, and spouses are eligible to participate.

Native American Outreach — The program supports American Indians, Alaska Natives, and Native Hawaiians seeking to create, develop, and expand small businesses. It engages in outreach, technical assistance and education, formulates and administers training programs, and coordinates entrepreneurial development opportunities through co-sponsorship agreements with entities and other federal agencies.

Veterans Business Outreach Centers — The SBA's 22 VBOCs provide counseling and training services to veteran-owned and service-disabled veteran-owned small businesses and entrepreneurs, along with reserve component members who have an interest in either starting a new small business or expanding an established small business.

SCORE — SCORE is a nonprofit association comprising nearly 11,000 volunteer business mentors that serve entrepreneurs with in-person mentoring and local training workshops. As the largest volunteer business mentor network in the Federal Government, SCORE adapts its structure and services to meet the needs of small businesses.

Learning Center — The SBA Learning Center is an online portal that hosts a variety of self-paced online training courses, quick videos, web chats, and other helpful tools to assist small business owners to explore and learn about many aspects of business ownership.

DISASTER ASSISTANCE (www.sba.gov/disaster)

Disaster Assistance — The SBA is the Federal Government's primary source of financing for the long-term repair and rebuilding of disaster-damaged private property for homeowners, renters, businesses of all sizes, and private nonprofit organizations. It is the only form of SBA assistance that is not limited to small businesses.

ANALYSIS OF PERFORMANCE RESULTS

Analysis of Performance and Agency Priority Goals

The following section presents key FY 2019 performance data including the four FY 2018-2019 Agency Priority Goals that are important to the success of the SBA's mission. The presentation of the data and analysis is organized by strategic objective, which follows the SBA's *FY 2018-2022 Strategic Plan*. Detailed information on all SBA program performance data will be presented, including explanations of variances, in the *FY 2019 Annual Performance Report* to be published in February 2020. Where SBA established goals in FY 2018, the SBA has displayed two years' worth of data. All other goals include trend data from FY 2014 through FY 2019.

Strategic Objective 1.1: Expand access to capital[1]

Priority Goal: By September 30, 2019, increase the number of loans by 5 percent from the FY 2017 baseline to small businesses in socially and economically disadvantaged urban communities and rural areas (FY 2017 baseline of 25,475 for 7(a) loans, 504 loans, and microloans).

Performance Analysis: The SBA's loan programs play a critical role in providing access to capital for small businesses, including entrepreneurs in socially and economically disadvantaged urban communities and rural areas. To support this strategy, the SBA has focused on partnering with the U.S. Department of Agriculture to increase rural outreach and training its lenders and lender relations specialists in the district offices. The SBA met 77 percent of its target by approving 20,650 loans (see **Chart I**) totaling nearly $9.4 billion. With a strong economy, demand for SBA lending has decreased as traditional credit markets have expanded. Lenders, however, have been responsive to new tools like Lender Match. Outreach to local lenders continues to be a challenge as fewer of them exist due to bank mergers and acquisitions.

Performance Goal: Increase the number of jobs supported through SBA capital assistance programs to 790,500 in FY 2019.

Performance Analysis: The number of jobs supported — jobs created and retained because of SBA intervention — is an important outcome measure of the effectiveness of the SBA's programs. This measure tracks the number of jobs supported through the 7(a), 504 loan, Microloan, and Small Business Investment Company (SBIC) programs. The number of jobs supported has decreased from the prior year with more than 667,000 jobs reported in FY 2019 (see **Chart II**). The decrease is attributed to the decline

CHART I: Cumulative Number of Urban (HUBZone) and Rural Loans to Small Businesses

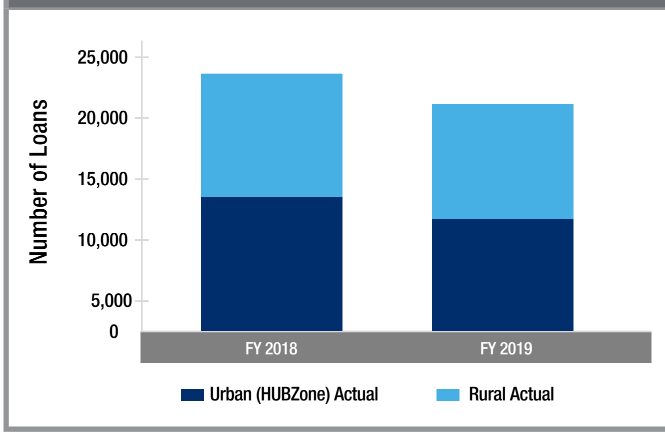
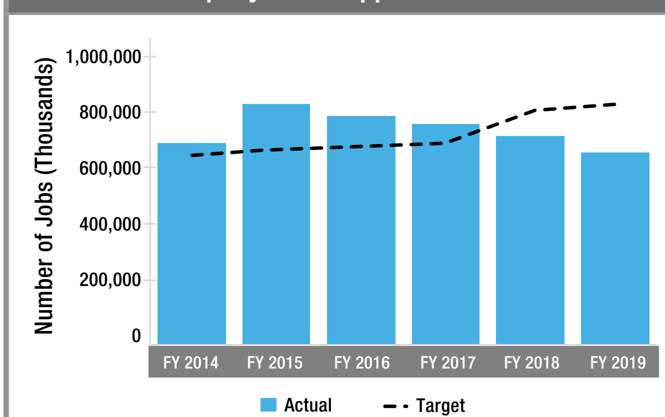


CHART II: 7(a), 504 loan, Microloan, and Small Business Investment Company Jobs Supported



1 The information being provided above is derived solely from Agency records that are submitted by the Agency's participant lenders engaged in making SBA loans. This information is collected by the lenders from SBA loan applicants who provide it on a voluntary basis. It is then forwarded by the lenders to the SBA. Since the information is provided by the loan applicants on a voluntary basis, it is not necessarily inclusive of all SBA borrowers, nor can its accuracy be verified by the Agency. Accordingly, the SBA cannot make any representation as to the completeness or accuracy of the information provided. The SBA is working with the Census Bureau to better report job creation and retention data.

in the number of 7(a) loans. As the economy grows and other economic indicators strengthen, SBA lending often decreases as lenders support more private capital. The SBA will continue to reach entrepreneurs with the greatest need who cannot access credit elsewhere.

Strategic Objective 1.2: Help small business exporters succeed in global markets

Performance Goal: Increase the value of small business export sales to $3.1 billion in FY 2019.

Performance Analysis: Increasing access to export financing, combined with trade counseling and training, contributes to the enhanced ability of small business exporters to succeed in the global marketplace. This year, the SBA approved 890 export loans totaling more than $1 billion. The State Trade Expansion Program (STEP) provided $18 million in grants to 47 states making it possible for small businesses to participate in international trade shows and trade missions. Collectively, the SBA supported over $2.9 billion in export sales (the last two quarters of STEP data are undergoing collection)[2] (see **Chart III**). The SBA trained and counseled 10,800 small businesses on export finance. In addition, the SBA partnered with the U.S. Department of Commerce to provide trade financing experts at domestic and overseas trade shows.

Strategic Objective 1.3: Ensure federal contract and innovation set-aside goals are met and/or exceeded

Priority Goal: By September 30, 2019, maximize the percent of federal contract dollars by awarding at least 23 percent to small businesses.

Performance Analysis: By law, 23 percent of federal prime contracting dollars are set aside for small businesses, which includes 5 percent of prime and subcontracts to small disadvantaged businesses and women-owned small businesses and 3 percent of prime and subcontracts to HUBZone small businesses and service-disabled veteran-owned small businesses. For the sixth consecutive year, in FY 2018 (the latest year of data available due to the data certification process), the Federal Government surpassed its prime contracting goal by awarding small businesses nearly $121 billion, or 25.05 percent (see **Chart IV**) in contracting dollars. The Federal Government surpassed its goals for service-disabled veterans (FY 2018 result was 4.3 percent) and small disadvantaged businesses (FY 2018 result was 9.7 percent). Also, in FY 2018, women-owned small businesses were awarded 4.8 percent of federal contracts, and HUBZone small businesses were awarded 2.1 percent of federal contracts (see **Chart V**). To help meet these goals, the SBA deployed a team of highly trained and skilled professional analysts, procurement center representatives (PCRs), industrial specialists for size protests (ISS), and certificate of competency and forestry management specialists to actively engage staff across the Federal Government to promote small business contracting awards. The Federal Government continues to face challenges meeting the HUBZone goal. The SBA has finalized a program evaluation that provided recommendations on ways to recruit and retain more HUBZone small businesses. As a result, the SBA has revised its regulations and is conducting

CHART III: Cumulative Value of Export Sales

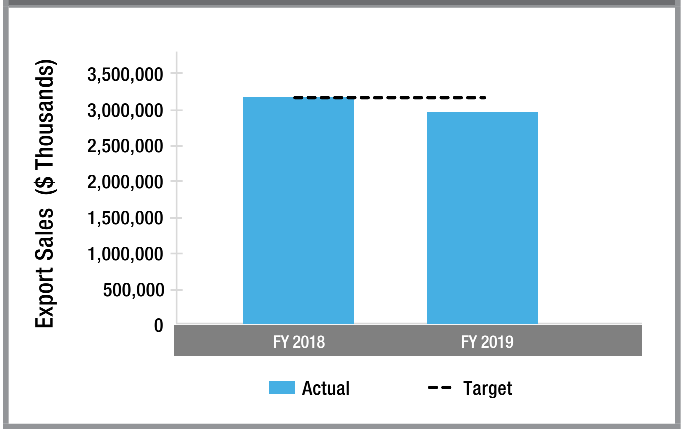
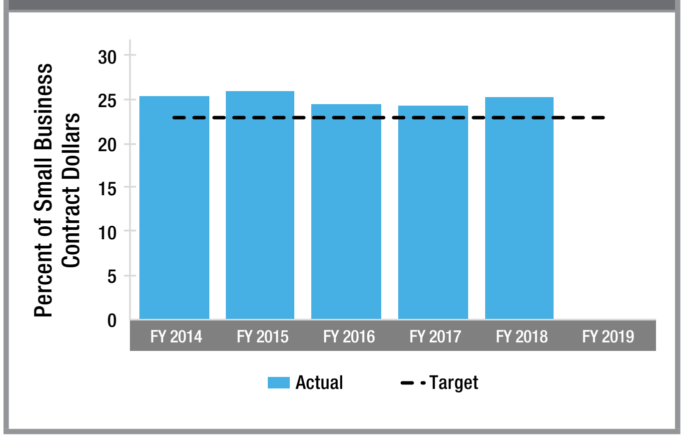


CHART IV: Percent of Federal Prime Contract Dollars Awarded to Small Businesses



2 The SBA will update STEP data for FY 2019 in the APR to be published in February 2020.

CHART V: Percent of Federal Prime Contract Dollars Awarded to Disadvantaged Small Business Goals

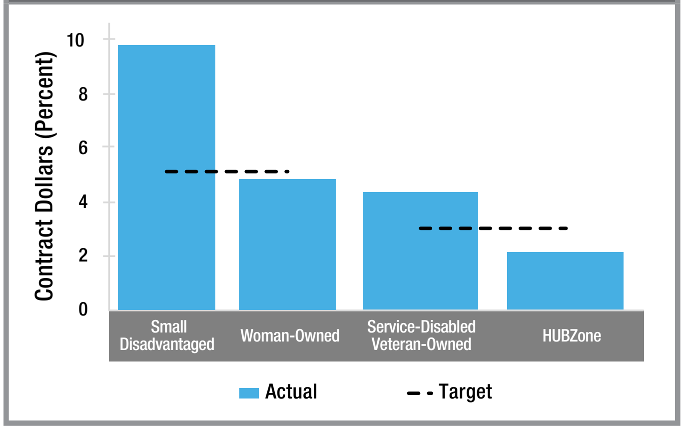
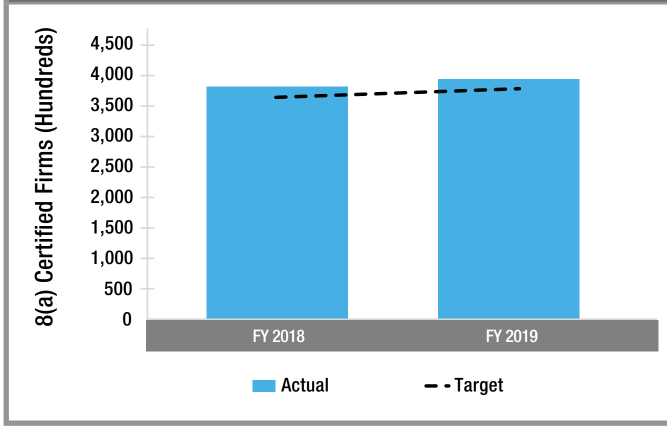


CHART VI: Number of 8(a)-Certified Firms Awarded Federal Contracts



a follow-on evaluation to develop additional evidence to support performance improvements.

Strategic Objective 2.1: Develop small businesses through technical assistance

Priority Goal: By September 30, 2019, increase by 10 percent from the FY 2017 baseline the number of 8(a)-certified small businesses awarded federal contracts (FY 2017 baseline of 3,420 small businesses).

Performance Analysis: The 8(a) program helps socially and economically disadvantaged entrepreneurs gain access to Federal Government contracts. The SBA collaborated with other federal agencies' Office of Small and Disadvantaged Business Utilization (OSDBU) to provide training and share best practices for small businesses to navigate the federal acquisition process. In addition, the SBA has developed and implemented standardized training for its Business Opportunity Specialists in its district offices to ensure consistent support of disadvantaged small businesses across the country. In prior years, small businesses had a difficult time negotiating the lengthy 8(a) certification process. Through new tools like **Certify.SBA.gov**, the SBA has exceeded its FY 2019 goal of 3,760 firms and achieved 3,871 8(a) firms with contract awards (see **Chart VI**).

Strategic Objective 2.2: Build healthy entrepreneurial ecosystems

Performance Goal: Increase the number of entrepreneurs assisted through partnerships, virtual resources, and targeted outreach. FY 2019 is a baseline year for this new performance goal.

Performance Analysis: The SBA provided mentoring, business advice, and training assistance to more than 550,000 entrepreneurs and small business owners in FY 2019. In FY 2019, the SBA implemented a new calculating methodology for the entrepreneurial ecosystem performance goal to create a single set of metrics to highlight progress towards outcomes. Due to this new methodology, historical data prior to FY 2019 are not available for comparison. The SBA continued sustaining and growing the Boots to Business (B2B) entrepreneurship training track in partnership with the U.S. Department of Defense's (DoD) Transition Assistance Program (TAP), where nearly 16,500 veterans, service members, and military spouses benefited from entrepreneurship services.

Strategic Objective 2.3: Create a small business friendly environment

Performance Goal: Increase the number of outreach events to 100 through partnerships with federal agencies, trade associations, and resource partners to reduce regulatory burdens on small businesses in FY 2019.

Performance Analysis: The SBA's Office of the National Ombudsman worked with federal agencies and the small businesses they regulate to provide a confidential and impartial channel for small businesses to comment on enforcement activities, audits, on-site inspections, compliance assistance, or other types of issues. The SBA raised awareness of its products and services through direct outreach to small business owners and entrepreneurs, and established relationships with trade association leaders, resource partners, and other federal agencies. In FY 2019, the National Ombudsman completed 45 events as it refocused outreach to be more direct and concentrated (see **Chart VII**).

Strategic Objective 3.1: Deploy disaster assistance effectively and efficiently

Priority Goal: By September 30, 2019, increase the average number of disaster loan applications processed from three to six applications per loan specialist per day.

Performance Analysis: To increase the speed of processing for disaster loan applications, the SBA modernized its Disaster Credit Management System (DCMS) in May 2018. DCMS streamlined or eliminated institutional processes and has helped loan specialists process applications more quickly for disaster survivors. In FY 2019, SBA processed over 95,600 disaster loan applications for more than $2.2 billion, which is significantly lower than the prior year given the FY 2018 surge of applications due to Hurricanes Harvey, Irma, and Maria. The SBA will not meet its priority goal because of the reduced number of disaster loan applications in FY 2019 (see **Chart VIII**), but the average number of days to process these disaster loans in FY 2019 was cut in half compared to FY 2018, from nearly 18 days to just under 9 days per application.

Performance Goal: Increase the customer satisfaction rate for disaster loan approvals to 77 percent in FY 2019.

Performance Analysis: The SBA tracks customer satisfaction for its disaster assistance program through an annual survey that uses the American Customer Satisfaction Index methodology. The index summarizes key points in the loan process, including the application, final decision, and closing of the loan. The SBA had a customer satisfaction rate of 82 percent, which is above the target of 77 percent (see **Chart IX**). The satisfaction rate is a result of several factors, including improvements to the application process and upgrades to the Disaster Loan Assistance Portal. In addition, the development of the **www.DisasterAssistance.gov** website made disaster assistance responsive, consistent, and easy for disaster survivors to find resources.

CHART VII: Number of Outreach Events Through Federal Agencies, Trade Associations, and Resource Partners

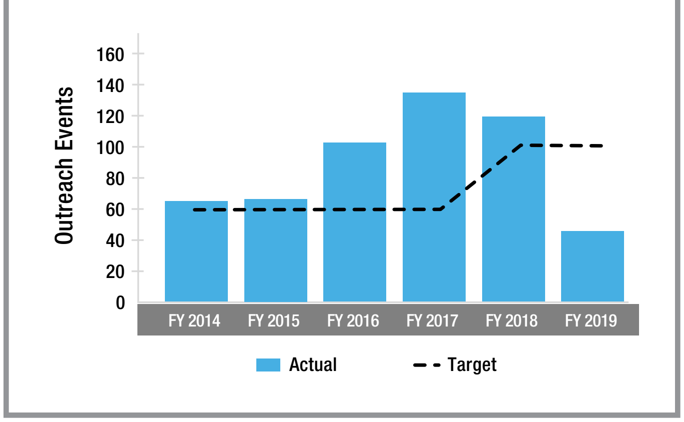


CHART VIII: Average Number of Loan Applications Processed Per Loan Specialist Per Day

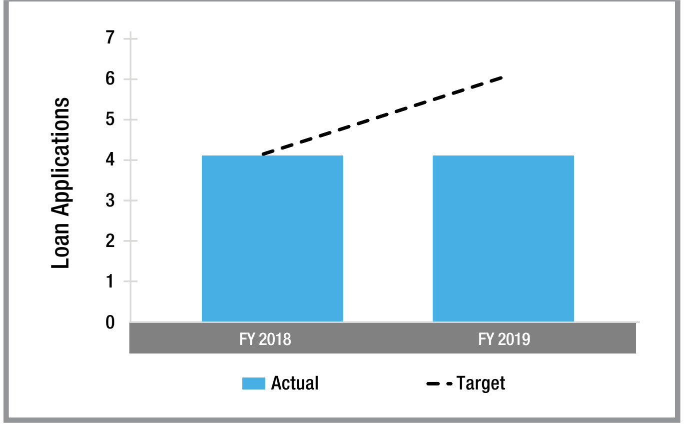
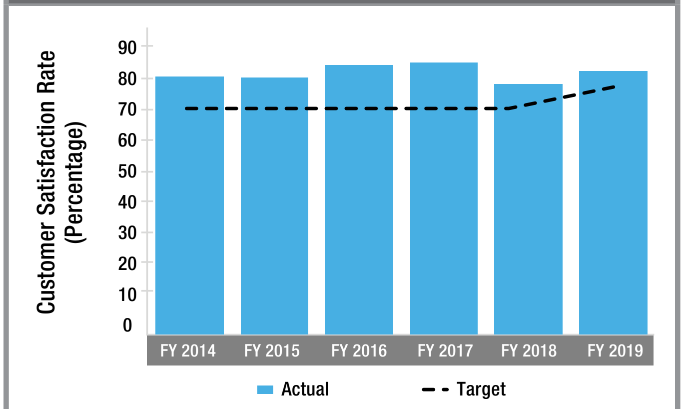


CHART IX: Customer Satisfaction Rate for Disaster Loan Approvals



Strategic Objective 4.1: Ensure effective and efficient management of Agency resources

Performance Goal: Increase the customer satisfaction rate of financial management services for the SBA's employees to 4.0.

Performance Analysis: The SBA exceeded its customer satisfaction goal for its financial management services to SBA employees, achieving an average score of 4.4 on a 5-point scale (see **Chart X**). The SBA developed the customer satisfaction baseline in FY 2018. A score of four or higher indicates superior satisfaction with financial and performance management services.

Strategic Objective 4.2: Build a high-performing workforce

Performance Goal: Increase SBA employee satisfaction scores through the Federal Employee Viewpoint Survey to 67 percent by FY 2019.

Performance Analysis: The SBA achieved its highest Federal Employee Survey (FEVS) employee engagement index score in recent years with an increase to 70 percent in FY 2019 from 68 percent in FY 2018 (see **Chart XI**). The SBA's response rate of 69.2 percent was especially positive. Through core training and professional development activities and enhanced collaboration, more employees felt engaged, which show in the data. Furthermore, higher engagement scores increase employee retention, which in turn reduces hiring and training costs.

Strategic Objective 4.3: Implement enterprise-wide information system modernization and cost-effective technology

Performance Goal: Increase IT cost savings/avoidance through the streamlining of contracting, category management, and Cloud computing to $10.8 million in FY 2019.

Performance Analysis: In FY 2019, the SBA made significant progress in technology modernization by adopting cloud-based solutions and consolidating

CHART X: Customer Satisfaction Rate for Financial Management Services

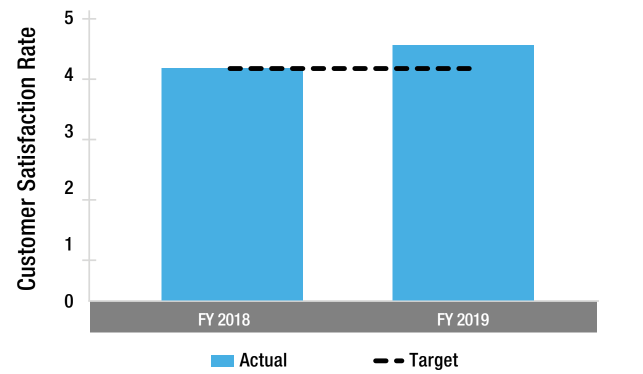
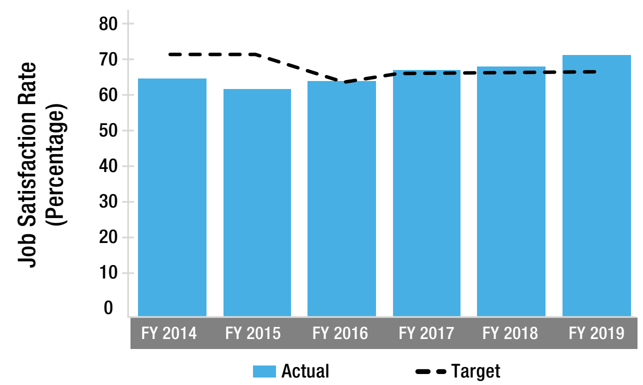
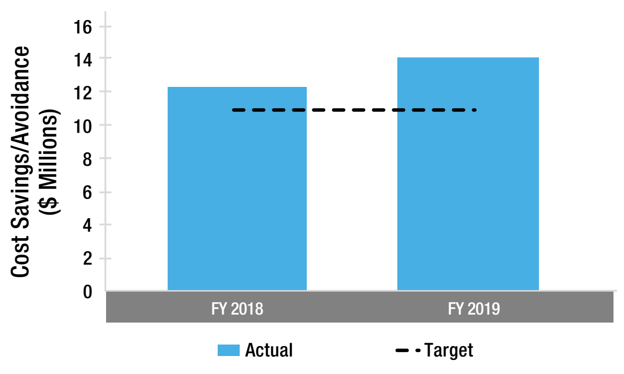


CHART XI: Federal Employee Viewpoint Survey Job Satisfaction Rate



duplicative hardware, software, and services. In addition, through innovation and testing pilots and prototypes, the SBA has achieved cost-savings by creating greater opportunities to leverage new technology. For example, the SBA Office of the Chief Information Officer partnered with the Office of Disaster Assistance to leverage Skype (Voice and Video Collaboration Software) for online training in lieu of on-site training, resulting in significant travel costs reduction for 100 Loss Verifiers. By FY 2019, such cost savings and avoidance totaled $13.7 million (see **Chart XII**) exceeding its target by nearly $3 million.

CHART XII: Cumulative Dollars of IT Cost Savings/ Avoidance



Evidence and Evaluation

The SBA continues to expand the availability and use of evidence and evaluation to understand and make decisions about SBA programs and operations. To support implementation of the Foundations for Evidence-based Policymaking Act, the SBA appointed a Chief Data Officer, Evaluation Officer, and statistical official. The Agency will establish a data governance board and identify ways to enhance staff capacity in this field.

In FY 2019, the SBA oversaw program evaluations for the Small Business Investment Companies (SBIC), 7(j) Online Technical Assistance, HUBZone, Federal and State Technology (FAST), and the Surety Bond Guarantee programs. SBA program managers will be able to use the results of these evaluations to inform management decisions, identify areas where further evidence is needed, and improve outcomes for small businesses. The SBA's leadership uses evidence in its quarterly deep dives (performance reviews) and strategic objective reviews and has woven evidence into the development of its Strategic Plan, Annual Performance Plan, and Annual Performance Report.

The Agency updated its *FY 2018-FY 2022 Enterprise Learning Agenda* (ELA) which refined key research and evaluation questions for each strategic goal and provided updates on the Agency's evidence building activities. The ELA, developed in partnership with each program office, identifies areas where evaluation would provide insights about program effectiveness, progress toward outcomes, or test pilot initiatives. Based on questions in the ELA, the SBA initiated five new centralized program evaluations for the State Trade Expansion Program (STEP), SBIC rural investments, field customer experience, acquisition management, and the All Small Mentor-Protégé program (ASMPP). Additionally, the SBA entered into an agreement with the U.S. Census Bureau to assess the impact of 7(a) and 504 loans using administrative data.

The SBA continued to increase staff capacity and knowledge of program evaluation though its Evidence and Evaluation Community of Practice and updated the Agency's *Framework and Guidelines for Program Evaluation at the US Small Business Administration*. The SBA plans to initiate new program evaluations yearly to continue building a suite of evidence that will better inform decisions. The SBA will publish evaluation results on its website to support transparency and incorporate findings into its performance management framework.

Verification and Validation of Performance Data

Managing for results and integrating performance, financial, and budgetary information requires valid, reliable, and high-quality performance measures and data. Improving data quality continues to be a priority for the SBA. The SBA's performance analysts work with program office leads across the Agency to acquire high-quality data. In addition to using output data internally from its systems, the SBA relies on data from resource partners, other federal agencies, and other government entities to assess its accomplishments and effectiveness. The SBA vigorously pursues the following strategies to ensure data quality:

- *Ensuring the validity of performance measures and data.* The SBA conducts an annual performance measure review to assess the validity of its measures and underlying data. The SBA's performance analysts meet with each office for in-depth discussions about proposed externally reported measures. The meetings help determine whether the proposed measures and underlying data are useful for demonstrating a program office's success, which is defined by the goals and objectives identified in the Agency's *FY 2018-2022 Strategic Plan*.
- *Fostering organizational commitment and capacity for data quality*. The SBA issues a monthly executive performance dashboard to apprise senior management on progress. The Agency also holds quarterly performance review meetings with the Deputy Administrator, Chief of Staff, Performance Improvement Officer, and program offices. At these

meetings, the Agency's leadership reinforces its commitment to the performance metrics and works directly with the program offices to identify best practices and mitigate challenges. Annually, each Associate Administrator must certify their program office's performance data before it is externally reported and published online.

- *Assessing the quality of existing data.* The SBA's performance analysts work with program office staff to reconcile data by creating independent performance reports and analyses and comparing the independently generated data with the data reported by the program offices. These activities verify the data and the underlying processes used for reporting.
- *Responding to data limitations*. The SBA's performance analysts work with program offices to identify data limitations and specify the necessary steps to improve data. In addition, some program offices rely on data provided by third-party resource partners, who are responsible for collecting, storing, and reporting data to the SBA. The program offices have internal processes for working closely with their resource partners to ensure that data are correctly reported.

Operational Portfolio Analysis

The Operational Portfolio Analysis provides information on the SBA's credit programs and does not reference the financial statements. The SBA is the taxpayers' custodian of small business loan guarantees and manages a direct loans portfolio of more than $143.5 billion.[3] During FY 2019, the portfolio grew by $1.2 billion, or 0.8 percent. By program, the Agency's 7(a) loan portfolio expanded by $2.7 billion, the 504 loan portfolio decreased slightly by $0.1 billion, and the SBIC portfolio decreased by $1.8 billion. The Agency's disaster loan portfolio increased by $0.6 billion, while all other portfolios declined by $0.2 billion (see **Chart XIII**).

New Guarantied Loans

The quarterly average loan volume decreased slightly in FY 2019 with an average of $7 billion. **Chart XIV** demonstrates the growth in loan approvals since FY 2014, particularly the increase between fiscal years 2014 and 2015.

At least three main factors contributed to the loan guaranty portfolio's recent growth:

Continuous Growth in the Economy — Real Gross Domestic Product in the United States grew at an average quarterly rate of 2.4 percent between 2016 to 2019 Quarter 2.[4] This increase in RGDP supports increased revenues and profits at small and large firms, which in turn increases their demand for credit.

Increase in Business Financial Stability — As the economy continues to grow, several factors continue to influence demand and increases in revenues. First, inflation remains low (on average 2.1 percent in 2018),[5] which keeps the cost

CHART XIII: Makeup of SBA's Outstanding Loan Portfolio

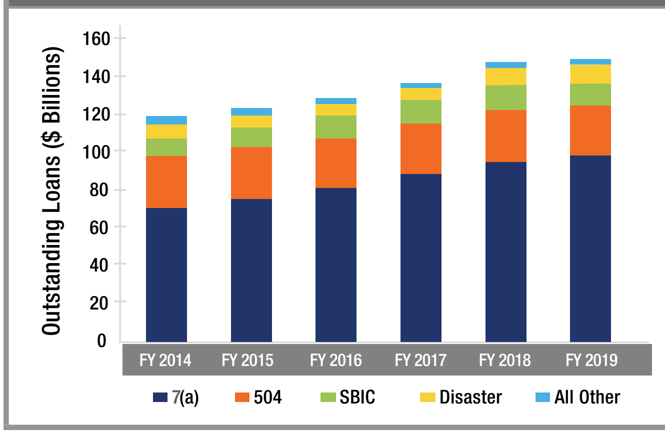
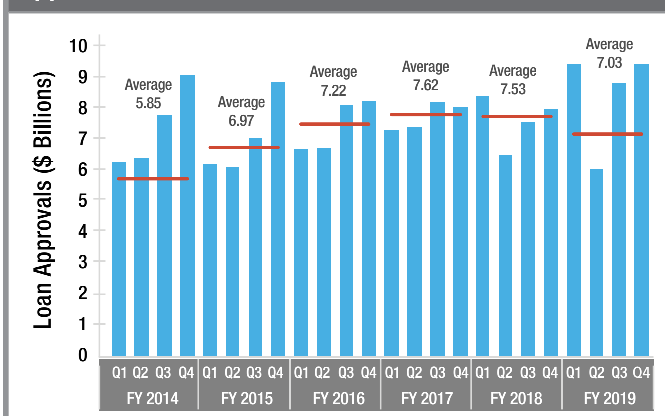


CHART XIV: Quarterly Gross 7(a) and 504 Loan Approvals



3 The total portfolio consists of guarantied business loans outstanding, guarantied debentures, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged-off.

4 U.S. Department of Commerce, Bureau of Economic Analysis: **www.bea.gov/newsreleases/glance.htm**.

5 U.S. Department of Labor, Bureau of Labor Statistics: **www.bls.gov/cpi/home.htm**.

of consumer goods and services affordable. Second, the dollar continued to maintain its strength in international exchange markets during 2018-2019,[6] which also supports the stability of U.S. prices. Finally, the unemployment rate has continued below 4 percent at pre-recession levels, which boosts consumer confidence and spending.[7]

Market for Small Business Lending — According to data from the Federal Deposit Insurance Corporation, the total market for business loans increased between 2014-2018 by 27 percent ($738 billion). However, 94 percent ($692 billion) of this increase is accounted for by loans to nonsmall businesses,[8] whereas total small business loans increased by nearly $46 billion. This means the ratio of small business loans compared with the total bank market decreased (see **Chart XV**). Furthermore, there has been a trend in the banking industry toward consolidation, which is reflected in the reduction of commercial banks between 2014-2018 by 16 percent. This makes the SBA's guaranty products even more critical for growing small businesses that may be denied credit in the private loan market.

CHART XV: Outstanding Commercial Loans to Small vs. Nonsmall Businesses

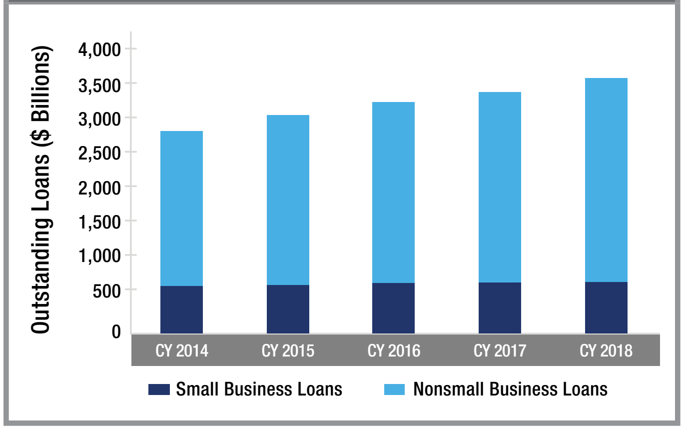
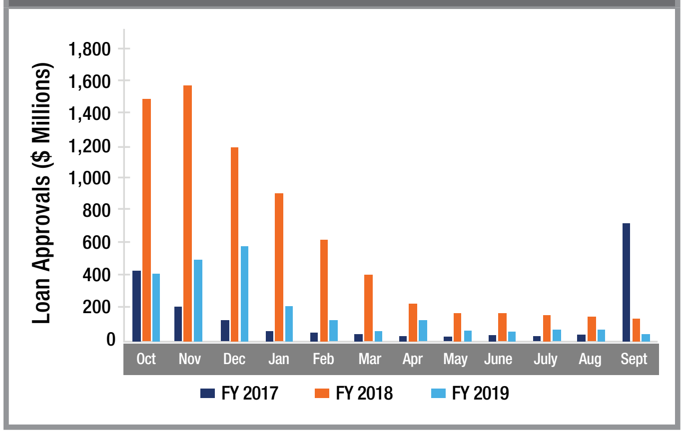


CHART XVI: Monthly Gross Disaster Assistance Loan Approvals



New Direct Loans

In FY 2019, the SBA's annual lending for the Disaster Assistance program is $2.2 billion. The magnitude of FY 2019's disaster loan activity is down 68% compared with FY 2018's total of $7 billion. FY 2018's lending total was largely driven by the SBA's response to Hurricanes Harvey, Irma and Maria (HIM). **Chart XVI** illustrates the relative size of disaster loans in FY 2019 by month, compared with the prior two fiscal years.

Most of the Disaster Assistance loan portfolio outstanding balance comprises lending from FY 2006 (Hurricanes Katrina, Rita, and Wilma), FY 2013 (Hurricane Sandy), and FY 2018 (HIM Hurricanes). The SBA will continue to make disaster loans an important recovery tool for businesses, homeowners, and renters that survive a disaster.

6 Financial Deposit Insurance Corporation: **www.macrotrends.net/1329/us-dollar-index-historical-chart**.

7 U.S. Department of Labor, Bureau of Labor Statistics: **data.bls.gov/timeseries/LNS14000000**.

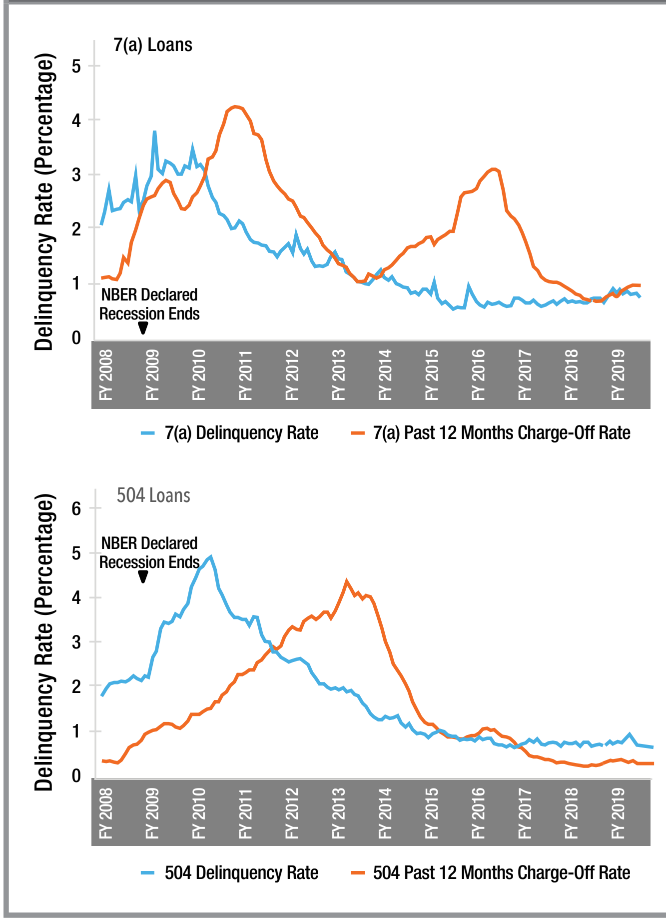
8 Nonsmall businesses are firms that have more than 500 employees.

Portfolio Performance — Delinquencies

Delinquency rates (i.e., borrowers who are late on their payments) are a leading indicator of the Agency's charge-off rate (i.e., the rate of dollars spent to cover loans that defaulted). Thus, delinquency rates are a general indicator of the Agency's and taxpayers' future liabilities for these programs. A declining delinquency rate (see **Chart XVII**) is a positive indicator for the financial performance of any loan portfolio.

Strong economic growth, strong profit performance, and tighter lending standards by financial institutions during the past several years have reduced delinquency rates for all business loans, which have been steadily declining since reaching cyclical peaks in the latter part of 2009. Delinquency rates for the Agency's major loan programs followed this national downward trend. Delinquency rates for the 7(a) loan program declined from the 3.8 percent peak in January 2009 to 0.8 percent in July 2019. Delinquency rates for the 504 loan program likewise declined from the 5 percent peak in February 2010 to 0.7 percent in July 2019.

CHART XVII: Delinquency and Charge-Off Rates for the 7(a) and 504 Loan Programs by Fiscal Year



Portfolio Performance — Charge-Offs

The 12-month charge-off rate for the 7(a) loan program sharply declined during the FY 2010-2013 period, falling from 4.3 percent during the fourth quarter of 2010 to 1.2 percent in the third quarter of 2013. However, the rate increased thereafter, until decreasing in July 2019 to 1 percent (see **Chart XVII**). The 7(a) loans not sold on the secondary market become a charge-off only after all efforts to recover a delinquent balance have been exhausted, such as liquidating the underlying collateral. The latent rise of the 7(a) charge-off rate in 2013 is attributable to recession-era loans that were charged-off after efforts to recover delinquent balances had been exhausted. Now that this effort to charge-off the recession-era loans is complete, the charge-off rate mirrors the delinquency rate for FY 2019.

The 12-month charge-off rate for the 504 loan program continuously increased from FY 2008 to FY 2013, peaking at 4.4 percent in January 2013, but dropping to 0.3 percent in July 2019. This trend is not surprising, since the 504 loan program is an economic development program with a commercial real estate focus. As such, recovery rates of defaulted 504 loans are, with some noticeable time lag, significantly impacted by the pricing trend in this sector. Real estate prices have increasing since 2009 and, as of 2019, commercial real estate prices are increasing.

Quarterly information on the status of the SBA's loan portfolio, including outstanding balances and approvals by loan program and purchase rates, is available on the SBA's website at **www.sba.gov/performance**.

FORWARD LOOKING ANALYSIS

The SBA maintains and strengthens the nation's economy by helping small businesses start, grow, expand, and recover. The Agency will ensure that it can adapt to a changing environment and deliver programs that meet the needs of America's entrepreneurs. The following areas serve as both challenges and opportunities that will factor into the SBA's strategies for delivering on its outcomes and using taxpayer resources efficiently. The Agency will continue to review these factors as it implements its programs to ensure optimal performance.

Technology

Technology has evolved so that entrepreneurs have greater access to markets and more capabilities to start and expand their businesses. However, not all entrepreneurs have access to adequate markets, and some face challenges connecting to resources. The SBA will continue adapting and developing new platforms to reach entrepreneurs in emerging markets. Virtual training platforms and online tools will allow the SBA to reach more customers. Through modernization efforts like **Certify.SBA.gov** and the Disaster Credit Management System (DCMS) 2.0, the SBA can process applications faster and electronically. Technological advancements will continue to shape how small businesses operate and how the Agency responds.

Markets

As the economy continues to grow and diversify, small businesses must be nimble to these changes and learn to adapt to new markets. With an ever-expanding global economy, small businesses will need to look toward new markets and determine how to reach new consumers. Only 1 percent of small businesses export in the global market, which poses an excellent opportunity for expansion. In the domestic market, interest rates will shape access to capital. The Agency will continue to depend on lenders, including banks, credit unions, and community development financial institutions. More than 3,000 lenders have left the market since 2002. With fewer lenders, small businesses must adapt and find new ways to access capital.

Employment

The U.S. workforce continues to transform as industries modernize with new technology and market demands. While unemployment continues to decrease, a large percentage of rural America does not have the same access to labor markets. Small businesses must be able to recruit and retain top talent and often face challenges finding the right candidates for the job. The SBA will continue to expand its programs and services in rural areas through enhanced partnerships with the U.S. Department of Agriculture. The SBA will also look for new ways to support opportunities to strengthen a more educated and skilled workforce.

Disasters

A natural disaster can destroy lives, businesses, and communities in little time. While the SBA has many capabilities to respond to hurricanes, tornadoes, forest fires, and floods, the growing threat and number of these occurrences remains a serious concern. Disaster preparedness is a key component of the SBA's Disaster Assistance program and has helped many small businesses prepare for the unexpected. The SBA continues to modernize and respond to these growing threats through updating technology and streamlining its ability to onboard staff in shorter periods of time.

SBA's Workforce

As a growing percentage of Agency employees become retirement eligible, the SBA continues to search for ways to recruit and retain the best talent. Competition with private industry and other agencies is strong and retention is challenging. The Agency has identified mission critical occupations and developed workforce plans to address gaps. At the same time, the Agency seeks to ensure that its workforce is representative of the public it serves and that it can effectively communicate with, and meet the needs of, entrepreneurs and small business owners. The SBA has developed and aligned training for its field staff to ensure that they have the tools to help small businesses succeed. By providing SBA employees with the tools and resources they need, the Agency will be able to better deliver resources to America's small businesses.

ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

Highlights of Financial Results *(as of September 30)*

(Dollars in Thousands)

At End of Fiscal Year	2019	2018	% Change
CONDENSED BALANCE SHEET DATA			
Fund Balance with Treasury	$ 7,036,675	$ 8,137,946	-13.53%
Credit Program Receivables and Related Foreclosed Property, Net	9,493,680	8,727,792	8.78%
All Other Assets	188,297	122,759	53.39%
Total Assets	**$ 16,718,652**	**$ 16,988,497**	**-1.59%**
Debt	11,810,241	11,212,607	5.33%
Downward Reestimate Payable to Treasury	1,028,472	797,694	28.93%
Liability for Loan Guaranties	2,000,420	2,662,786	-24.87%
All Other Liabilities	245,911	242,253	1.51%
Total Liabilities	**15,085,044**	**14,915,340**	**1.14%**
Unexpended Appropriations	1,779,472	2,341,412	-24.00%
Cumulative Results of Operations	(145,864)	(268,255)	45.62%
Total Net Position	**1,633,608**	**2,073,157**	**-21.20%**
Total Liabilities and Net Position	**$ 16,718,652**	**$ 16,988,497**	**-1.59%**

For the Fiscal Year	2019	2018	% Change
STATEMENT OF NET COST BY STRATEGIC GOAL			
Goal 1: Support Small Business Revenue and Job Growth			
Loan Subsidy Cost Including Reestimates	$ (981,405)	$ (1,089,432)	9.92%
All Other Costs Net of Revenue	209,960	173,997	20.67%
Goal 2: Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments	310,490	253,497	22.48%
Goal 3: Restore Small Businesses and Communities after Disasters and Tomorrow's Small Business			
Loan Subsidy Cost Including Reestimates	94,998	492,668	-80.72%
All Other Costs Net of Revenue	329,768	591,777	-44.27%
Goal 4: Strengthen SBA's Ability to Serve Small Businesses	147,190	176,416	-16.57%
Costs Not Assigned	25,525	22,752	12.19%
Net Cost of Operations	**$ 136,526**	**$ 621,675**	**-78.04%**
CONDENSED STATEMENT OF CHANGES IN NET POSITION			
Beginning Unexpended Appropriations	$ 2,341,412	$ 1,653,684	41.59%
Total Budgetary Financing Sources	(561,940)	687,728	-181.71%
Ending Unexpended Appropriations	**$ 1,779,472**	**$ 2,341,412**	**-24.00%**
Beginning Cumulative Results of Operations	(268,255)	(141,354)	-89.78%
Total Financing Sources	258,917	494,774	-47.67%
Less: Net Cost of Operations	136,526	621,675	-78.04%
Ending Cumulative Results of Operations	**$ (145,864)**	**$ (268,255)**	**45.62%**
Ending Net Position	**$ 1,633,608**	**$ 2,073,157**	**-21.20%**
CONDENSED STATEMENT OF BUDGETARY RESOURCES			
Unobligated Balance Brought Forward	$ 6,667,971	$ 5,875,912	13.48%
Other Budgetary Resources, Net	(341,751)	143,643	-337.92%
Appropriations (discretionary and mandatory)	879,605	2,499,538	-64.81%
Borrowing Authority (discretionary and mandatory)	2,231,792	4,239,563	-47.36%
Spending Authority from Offsetting Collections	2,904,981	4,356,021	-33.31%
Total Budgetary Resources	**$ 12,342,598**	**$ 17,114,677**	**-27.88%**
Obligations Incurred, Budgetary	$ 1,655,874	$ 2,768,911	-40.20%
Obligations Incurred, Nonbudgetary	4,794,658	7,677,795	-37.55%
Unobligated Balances, Available and Unavailable	5,892,066	6,667,971	-11.64%
Total Status of Budgetary Resources	**$ 12,342,598**	**$ 17,114,677**	**-27.88%**

Analysis of Financial Results

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the records of the entity in accordance with GAAP for federal entities, and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

This Analysis of Financial Results references numbers in the Highlights of Financial Results that were derived from the Financial Statements and Notes in this report. As a result, the definitions of the loan and guaranty balances used in this Analysis of Financial Results may differ somewhat from the balances in the Operational Portfolio Analysis section. For example, for the 7(a) program, the total amount of guarantied loans is used in the Portfolio Analysis, but only SBA's guarantied portion is used in the Analysis of Financial Results because it ties to balances in the financial statements.

Background

The SBA is a major federal credit reform agency of the U.S. Government. Only $1.0 billion of the SBA's $12.3 billion budgetary resources in FY 2019 were for salaries and expenses, with the rest supporting the SBA's credit programs. When apportioned by the OMB, budgetary resources are available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority and unobligated balances of budget authority provided in previous years. The loan financing funds record all the cash flow activity resulting from post-1991 direct loans and loan guaranties and are not budgetary costs. The financing accounts are reported separately in the *Budget of the United States Government* and are excluded from the budget surplus/deficit totals.

The Federal Credit Reform Act (FCRA) governs the SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under FCRA, direct loans outstanding are reported net of an allowance using the present value of forecasted cash flows in subsidy models that are OMB-approved.

A Liability for Loan Guaranties is also reported using subsidy models with forecasted cash flows from user fees and defaulted guarantied loans. The direct loan allowance and loan guaranty liability for each loan program cohort is adjusted annually under FCRA through the subsidy model reestimate process. The SBA's FCRA accounting is discussed further in this section and in Notes 1 and 6.A of the financial statements.

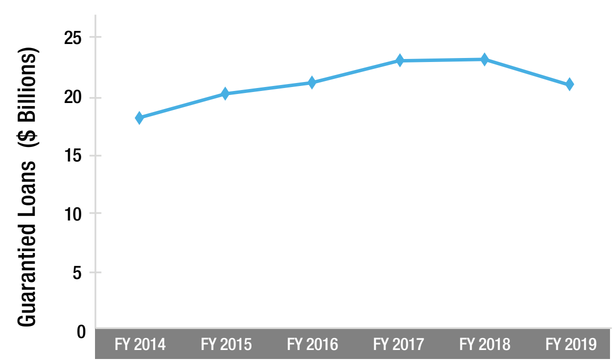
The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives budget authority annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense for non-zero subsidy loan programs.

In accordance with the FCRA, the subsidy costs are reestimated annually. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows for each annual cohort of loans. An upward reestimate occurs when the present value of expected cash outflows exceeds the present value of expected cash inflows. A downward reestimate occurs when the present value of expected cash inflows exceeds the present value of expected cash outflows.

Increased reestimated costs are funded in the following year by permanent indefinite budget authority, while decreased costs are returned by the SBA to a Treasury general fund.

The portion of the outstanding principal guaranteed by the SBA was $105.8 billion as of September 30, 2019, an increase of 0.2 percent from the $105.6 billion guaranteed as of September 30, 2018 (see Note 6.C in the financial statements). As shown in **Chart XVIII**, new guaranties disbursed by SBA participating banks during FY 2019

CHART XVIII: Guarantied Loans Disbursed



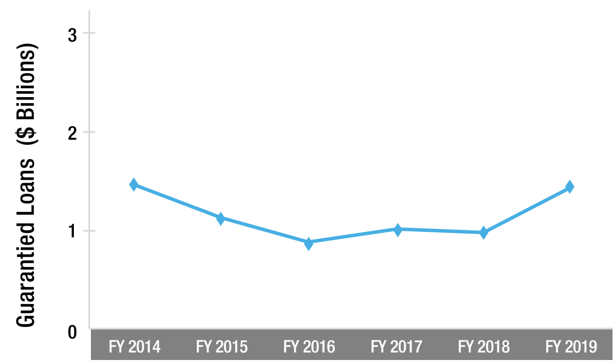
were $21.2 billion, an 8 percent decrease compared to the FY 2018 figure of $23.0 billion. This net $1.8 billion decrease resulted from a $1.7 billion decrease in 7(a) loans and a $0.1 billion decrease in SBIC Debentures in FY 2019. This net decrease in FY 2019 guaranty disbursements and increase in purchases of guarantied loans contributed to the 0.2 percent increase in outstanding guarantied principal mentioned above.

Credit program receivables for the SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of the SBA's loan guaranty programs, which are offset by an allowance for the subsidy. The allowance for the subsidy cost of the gross loans receivable is recorded as a contra asset, and the net asset is reported on the Balance Sheet. The subsidy allowance is determined by modeling the projected future cash inflows and outflows of SBA credit programs using discounted cash flow methodology. The subsidy allowance for each loan program cohort is reestimated annually. Increases are funded by Treasury, while decreases are returned to Treasury by the Agency. Loan losses, the costs of loan servicing, and loan interest rates are factors that affect the subsidy allowance.

SBA credit program receivables were valued at $9.5 billion in FY 2019, an increase of $0.8 billion from FY 2018. The change in the credit program receivables resulted from an increase of $0.6 billion in direct disaster loans. The amount of defaulted guarantied loans decreased by $0.1 billion as collections and charge-offs fell behind new guaranty purchases. The amount of direct disaster loans increased as collections and charge-offs were exceeded by disbursements of disaster loans and increased by a slightly lower subsidy allowance amount.

As reflected in **Chart XIX**, guarantied loan purchases increased $0.5 billion in FY 2019 to $1.4 billion. The increase in purchases this year contributed to the net increase in the outstanding guarantied business loans receivable.

CHART XIX: Purchases of Guarantied Loans



Financial Position

Assets

The SBA had total assets of $16.7 billion at the end of FY 2019, down 1.6 percent from FY 2018. Total assets decreased due to a $0.8 billion increase in Credit Program Receivables and Related Foreclosed Property offset with a $1.1 billion decrease in the Fund Balance with Treasury. The increase in Credit Program Receivables and Related Foreclosed Property was primarily due to the net increase in direct disaster loan disbursements. The decrease in Fund Balance with Treasury was due primarily to a decrease in appropriations and borrowings received to fund the disbursement of disaster loans, an increase in the repayment of borrowings, as well as a large transfer to the Master Reserve Fund (MRF).

Liabilities

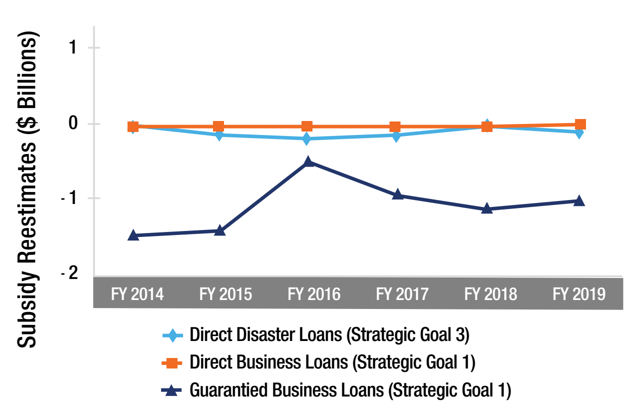
The SBA had total liabilities of $15.1 billion at the end of FY 2019, up 1.1 percent from FY 2018. Liabilities consist primarily of the Debt with Treasury, Liability for Loan Guaranties, and Downward Reestimate Payable to Treasury.

Debt with Treasury increased $0.6 billion in FY 2019 due to net borrowing activity needed to cover disaster loan programs. Note 9 in the financial statements provides additional detail on SBA's Debt with Treasury.

The Liability for Loan Guaranties is the estimate of the net present value of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guarantied loans under its guarantied loan programs. The Liability for Loan Guaranties for each loan program cohort is reestimated annually. Increases are funded by Treasury while the Agency returns the decreases to Treasury. The Liability for Loan Guaranties decreased $0.7 billion due to the net of downward reestimates of future costs for SBA's guaranty portfolio, guarantied loan purchases, and the collection of fees.

The Downward Reestimate Payable to Treasury increased $0.2 billion in FY 2019. This increase was mainly due to a change in the year-end accrual of reestimates that resulted from lower than projected purchases and higher than projected recoveries for some cohorts in the 7(a) and SBIC loan programs. Additionally, better than projected performance and updated performance assumptions for the Disaster program and revised economic assumptions for the SMG program led to the increase in the reestimate.

CHART XX: Credit Program Subsidy Reestimates



Net Position

Cumulative Results of Operations is the accumulative difference between expenditures and financing sources since the inception of the Agency. This negative balance decreased $0.1 billion because unfunded upward subsidy reestimates at year-end primarily for the 7(a) and Disaster programs were lower for FY 2019 compared with FY 2018, combined with lower Disaster administrative expenses. Upward subsidy reestimates determined at year-end are funded in the following year when they are received. **Unexpended Appropriations** decreased $0.6 billion this year primarily because the amount of appropriations used was greater than the appropriations received in FY 2019 for business, disaster, and administrative activities. This affected Budgetary Financing Sources and the Ending Net Position.

Net Costs of Operations

The Net Costs of Operations primarily reflects the costs of SBA credit programs subsidy expenses during the year for new loans and subsidy reestimates at year-end.

The primary driver of the $0.5 billion decrease in net cost is largely attributable to Goal 3, which had an overall $0.7 billion decrease. The decrease is attributable to a $0.4 billion decrease in loan subsidy costs, including reestimates combined with a decrease of $0.3 billion in other nonsubsidy related costs. These decreased costs in FY 2019 are primarily due to the FY 2018 response to Hurricanes Harvey, Irma and Maria.

Net downward reestimates for the business loan programs were slightly lower in FY 2019 than last year despite a decrease in the amount of upward reestimates, which affected Strategic Goal 1 costs. **Chart XX** reflects the change in the net subsidy reestimates for the guarantied business and direct disaster loan programs in FY 2019.

The net downward reestimate of $0.2 billion in the 7(a) programs was partially due to higher than projected recoveries in FY 2019. The reestimate was also partially due to lower projected losses in FY 2020 and beyond for cohorts 2015 through 2018 due to updated economic assumptions.

The 504 Loan, 504 Recovery Act, and 504 Jobs Act programs had a net downward reestimate of $0.4 billion due to better than projected loan performance and recoveries.

The SBIC Participating Securities and Debenture programs had a net downward reestimate of $0.3 billion in FY 2019 that was mostly attributable to actual default purchases that were lower than projected for FY 2019.

Further detail on subsidy reestimates can be found in Note 6.I of the financial statements in the Financial Reporting section of this report.

Budgetary Resources

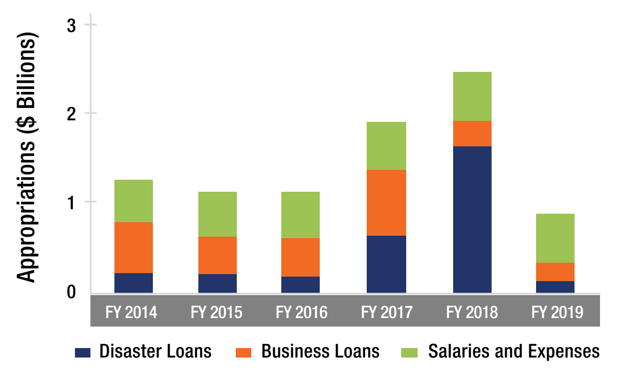
For FY 2019, Total Budgetary Resources of $12.3 billion decreased $4.8 billion. This decrease was primarily due to the net result of a decrease in borrowing authority, appropriations, and spending authority from offsetting collections as well as other factors shown in the Highlights table and following discussion. Other Budgetary Resources, Net decreased by $0.5 billion in FY 2019. This change is attributed to an increase in the amount of debt repaid from balances carried forward in FY 2019 as well as an increase in prior year recoveries.

Appropriations (discretionary and mandatory) decreased $1.6 billion in FY 2019. As shown in **Chart XXI**, the net decrease was the net effect of an increase in the amount of appropriations needed to fund the SBA's upward credit subsidy reestimates offset by a decrease in appropriations for subsidy and loan administrative expenses to fund the Agency's disaster program in FY 2019.

Borrowing Authority decreased $2.0 billion in FY 2019 due to a decrease in borrowing needed to cover disaster loan making. Borrowing authority initially granted to the SBA was $3.2 billion in FY 2019. The SBA withdrew $1.0 billion at year-end FY 2019, as the excess authority was not needed to fund future credit program operations.

Spending Authority from Offsetting Collections decreased $1.5 billion in FY 2019. This decrease is attributable to both a decrease in the amount of collections in the Salaries and Expenses fund and the amount of subsidy collected in both the disaster and business programs. This is offset by an increase in repayment of borrowings from current year authority in FY 2019.

CHART XXI: Appropriations Received



Status of Budgetary Resources

The Total Status of Budgetary Resources decreased $4.8 billion in FY 2019 to $12.3 billion. Nonbudgetary obligations decreased by $2.9 billion, mainly resulting from the decreases in direct loan obligations for disaster loan making combined with lower downward subsidy reestimates paid to Treasury in the business loan guarantee program. Budgetary obligations decreased $1.1 billion largely in part due to decreased subsidy obligations for disaster loan making combined with decreases in Salaries and Expenses. This was offset by a decrease in the upward subsidy reestimate in FY 2019 for the business loan guaranty program.

Unobligated balances as of September 30, 2019 and 2018 were $5.9 billion and $6.7 billion, which included $4.1 billion and $3.9 billion of unavailable unobligated balances. These balances were unavailable because they were unapportioned by the OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts ($4.4 billion in FY 2019 and $4.7 billion in FY 2018) from subsidy estimates and reestimates that are used primarily to pay default claims in future years.

ANALYSIS OF SBA'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Internal Control Environment

The SBA believes that maintaining integrity and accountability in all programs and operations is critical for good government, and demonstrating consistent responsible stewardship over assets and resources is a sign of responsible leadership. SBA's commitment to integrity, ethical values and an effective system of internal controls helps to ensure that every employee remains dedicated to the efficient delivery of services to customers and maximizes desired program outcomes. Accordingly, the SBA has developed and implemented management, administrative, and financial system controls to reasonably ensure that:

- programs and operations achieve intended results efficiently and effectively;
- resources are used in accordance with the mission of the Agency;
- programs and resources are protected from waste, fraud, and mismanagement;
- program and operation activities are in compliance with laws and regulations; and
- reliable, complete, and timely data are maintained and used for decision-making at all levels.

Each office within the SBA implements or maintains effective internal controls over operations, reporting, and compliance to achieve programmatic goals. Each year, the SBA conducts an assessment of internal control as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982 in accordance with the Office of Management and Budget (OMB)'s Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The FMFIA requires that the assessment results be reported to the President and Congress in a statement of assurance. The SBA Administrator provides the statement of assurance based on the self-assessment of program managers, internal control reviews, and audits and reviews done by the Government Accountability Office (GAO) and SBA's Office of the Inspector General (OIG).

SBA's Office of Internal Controls (OIC) provides training and tools, including checklists designed specifically for program support offices and district offices, to aid management in assessing and documenting the effectiveness of internal controls within their respective area of responsibility. These assessments are performed based on the five components and 17 principles of internal control framework prescribed in GAO's *Standards for Internal Control in the Federal Government*, known as the Green Book.

The SBA Senior Management Council (SMC) assesses and monitors deficiencies in internal control in accordance with OMB Circular No. A-123. The SMC, chaired by the Deputy Chief Financial Officer and comprised of SBA managers from the major program and support offices, ensures management's effort to remediate significant control deficiencies or weaknesses and recommends to the SBA Enterprise Risk Management Board which significant deficiencies are deemed to be material weaknesses for the Administrator's annual statement of assurance.

The OIC continued to perform internal control over financial reporting assessments in FY 2019, adjusting the scope of the reviews to better align with the OMB Circular No. A-123, Appendix A, *Management of Reporting and Data Integrity Risk*, published in 2018. The OIC is also working to evolve its existing internal control assessment program by adopting a risk-based approach to select the processes and systems for assessments and building connections with the SBA's risk profile. Assessments include documenting the process and key controls, evaluating and testing the design and effectiveness of controls, and presenting the results to management. Data quality testing was incorporated into each assessment as appropriate. Each office is responsible for developing and implementing corrective actions for any reported deficiencies. Based on the evaluation of business processes in FY 2019, the OIC identified a number of deficiencies in the internal control over financial reporting, including several in the SBA's key business processes. The SMC evaluated the review findings and determined that non reached the level of material weakness.

The SBA Enterprise Risk Management Board continued to oversee SBA's enterprise risk management implementation efforts led by the Office of Continuous Operations and Risk Management (OCORM). The Board is currently chaired by the Acting Administrator and is comprised of senior leaders from major programs and support offices. During FY 2019, the Board completed its annual validation of the enterprise risk profile and directed efforts to mature its ERM capability in areas such as risk identification, training, risk appetite, and fraud risk management.

During FY 2019 the SBA made significant progress in addressing significant deficiencies in information technology security controls, including access controls and change controls. The SBA continued to build a robust, adaptable, and cost-effective cybersecurity program thus strengthening the overall security posture of agency information technology systems and achieved several key milestones in the areas of cybersecurity governance, risk management, continuous monitoring, access control, event logging, and audit response.

- The SBA, through developing and publishing its FY 2019 Cybersecurity Operational Plan, further operationalized its cybersecurity strategy, which establishes the direction and priorities for cybersecurity across the Agency.
- The SBA realized significant cost savings and cost avoidance through integration of agency systems into its enterprise cybersecurity services and achieved enterprise visibility and protection.
- The SBA modernized its and the federal government's approach to continuous monitoring through its Cloud Continuous Diagnostic and Monitoring pilot program.
- The SBA updated its IT Security and Privacy Policy and formalized the procedures for implementing the National Institutes of Standards and Technology Risk Management Framework.

The above steps established clear and consistent baseline processes and requirements across the enterprise. As a result, the SBA was able to close all open OIG Federal Information Security Modernization Act audit findings and meet the target for 7 of 10 key cybersecurity performance metrics outlined in the Cross Agency Priority Goals during FY 2019, which represents a significant increase from 2 performance metrics met in FY 2018.

Financial Management Systems Strategy

The SBA's financial management systems are designed to support effective internal controls, produce reliable and timely financial information, and ensure cost-effective loan guaranty processing. Management remains focused on robust financial management systems that support the SBA's ability to comply with laws and regulations. SBA systems must also provide timely and accurate data to support management analysis and decision-making, enable the Agency to keep pace with its lending partners, and effectively use automation to achieve operational efficiency. As demonstrated throughout the *FY 2019 Agency Financial Report*, the SBA seeks to comply with all federal financial management system requirements, including the Federal Financial Management Improvement Act of 1996, which requires that the Agency's financial management systems comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level.[9]

The SBA has continued to build on incremental improvement projects designed to modernize the financial management system environment, improve financial system controls, reduce sustainment costs, provide additional functionality for external lending partners, and improve system reliability. In FY 2019, the SBA was one of three agencies that reviewed Quality Service Management Office (QSMO) proposals for Financial Management, Cybersecurity, and Human Resources Transaction Services. In support of OMB Memorandum M-19-16, the SBA will ensure all future modernization initiatives align with the effort to drive innovation, standardization, and automation. In FY 2019, the SBA began work with the U.S. Department of Health and Human Services (HHS) Grants Solutions office to move the administration of SBA grant programs to their shared service to begin in FY 2020.

The SBA has taken steps to enhance its financial system controls over lending programs and improve accessibility to common information, financial and budget management, and financial reporting. The SBA's tightly integrated financial systems allow the Agency to respond quickly to both internal and external financial information inquiries and requirements.

9 The Federal Financial Management Improvement Act of 1996 promotes more effective federal financial management by ensuring that financial management systems provide accurate, reliable, and timely financial management information to the government's managers. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, the President, Congress, and the public.

The Office of Performance Management and the Chief Financial Officer and the Office of Capital Access oversee the following three core financial management systems:

- *Oracle Federal Financials* —This system, the most current release in its implementation of the Joint Administrative Accounting Management System (JAAMS), supports the SBA's funding and expenditure of administrative funds.
- *Loan Systems* — This SBA-built system supports the lifecycle of loan guaranty processing, loan program funds control, management and accounting for loan servicing, and loan-related expenses.
- *Financial Management System* — This SBA-built system consolidates administrative and loan activity, manages cash and control funds, and supports financial reporting.

Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2019

The Small Business Administration continued to strengthen internal controls over its programs and operations during FY 2019. Creating and sustaining a culture of responsibility and accountability while eliminating and preventing waste, fraud, and abuse is critical to meeting our mission at the SBA. I am pleased to report that the SBA continues to achieve its internal control objectives, and that the Agency's independent auditor issued an unmodified opinion on the SBA's FY 2019 financial statements for the 15th year in a row.

SBA management is responsible for managing risks and maintaining effective internal controls and financial management systems to meet the objectives of Sections 2 and 4 of the Federal Managers Financial Integrity Act (FMFIA). The SBA conducted its assessment of internal controls in accordance with OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of the assessment, the SBA can provide reasonable assurance that internal controls over operations, reporting, and compliance with applicable laws and regulations were operating effectively as of September 30, 2019. Further, the Agency's financial management systems conform to the principles, standards, and related requirements prescribed by Section 4 of FMFIA.

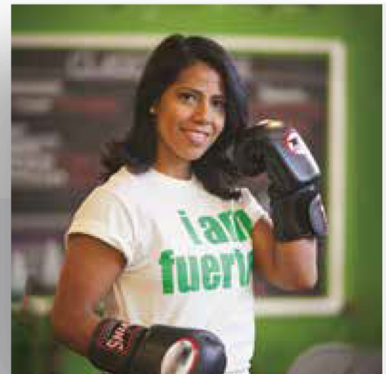
The independent auditor did report an exception in SBA internal control procedures, issuing a material weakness related to the risk assessment process for internal control over financial reporting. The auditor reported that sufficient risk assessments were not performed or adequately documented to demonstrate management's consideration of key risks in the following three areas: application and implementation of the new accounting standard for the Budget and Accrual Reconciliation (BAR) footnote, evaluation of Service Organization Control (SOC) 1 reports of two external service organizations, and documentation of risk assessments performed for planning of internal control reviews. The auditor classified the combination of these issues as a material weakness.

SBA management evaluated the auditors' findings and concluded that they did not reach the level of material weakness for the Agency's statement of assurance. Particularly, the SBA does not agree with the Auditors' assessment on the implementation of the new accounting standard. An SBA accountant was actively involved in the development of this standard as a member of the Federal Accounting Standards Advisory Board (FASAB) BAR Task Force. After the standard was published, the SBA diligently evaluated the applicability of the standard by working closely with the Treasury Working Group formed to create the crosswalk to be used by federal agencies in the creation of the BAR footnote. The Working Group validated the crosswalk using SBA's financial statement data before it was provided to the 24 agencies subject to the Chief Financial Officers Act. Subsequently, the SBA developed the BAR footnote based upon its interpretation of the standard and the implementation guidance provided by the Working Group. Furthermore, the SBA collaborated with other federal agencies affected by the Federal Credit Reform Act in developing the BAR footnote to ensure consistency across the Federal Government. Therefore, the SBA believes that it performed its due diligence in the implementation of the new accounting standard for the BAR. In addition, although not formally documented, the SBA did conduct the other risk management activities related to the evaluation of service organization controls and planning of internal control reviews. The SBA will take additional steps, including policy changes, formalization of the SOC 1 report review process, and implementation of the updated risk assessment procedures, to improve its internal control over financial reporting and to address the audit findings in FY 2020.

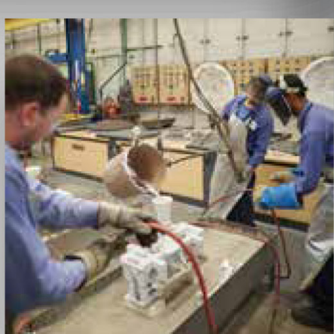
The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger. Based on the FFMIA criteria, the SBA can provide reasonable assurance that the Agency's financial management systems substantially comply with FFMIA for FY 2019.

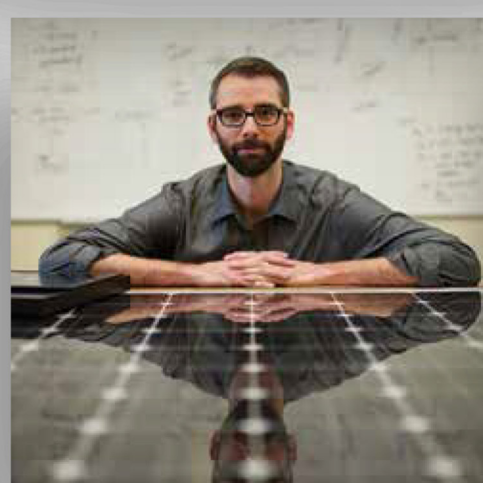
Christopher M. Pilkerton

Christopher M. Pilkerton
Acting Administrator
November 15, 2019



FINANCIAL REPORTING





SUCCESS STORY

START:

SBA Resource Partners Help Underserved Business Expand Operations

Tipping Point Solutions, Inc.
Centennial, CO

With more than 28 years of experience, Rick Schmidt started Tipping Point Solutions (TPS), Inc. in 2011 as a multimedia eLearning company that specializes in designing and developing interactive training solutions. Rick has developed a highly respected company as a Native American, service-disabled veteran-owned and SBA 8(a)-certified small disadvantaged business with 34 full-time employees.

In addition, Tipping Point Media, the film production arm of TPS, provides media services to numerous commercial and federal customers. Rick is a 2018 graduate of the SBA's Emerging Leaders program, and has set TPS apart by offering training products that provide an immersive learning experience. The company also received support from a Procurement Technical Assistance Center and a Small Business Development Center. TPS has grown rapidly by expanding business operations in Arizona and increasing its workforce. In 2018, TPS doubled the size of its office complex and opened a renovated 3,600 square-foot field office in Sault Ste. Marie, Michigan.

MESSAGE FROM THE ACTING CHIEF FINANCIAL OFFICER

November 15, 2019

I am pleased to report that the SBA received an unmodified audit opinion on its financial statements, affirming that the statements and financial operations present fairly the financial position as of September 30, 2019. I am also honored to issue the SBA's *FY 2019 Agency Financial Report* with Acting Administrator Pilkerton, who serves as a champion for the Agency and America's small businesses and ensures the Agency is operating as effectively as possible.

The auditors identified a material weakness related to the risk assessment process for internal control over financial reporting. However, SBA management evaluated the Auditors' findings and concluded that they did not reach the level of material weakness for the Agency's statement of assurance. The SBA participated in the FASAB task force on the development of the standard. Subsequently, the SBA assisted the U.S. Department of Treasury's working group in the development of the BAR crosswalk requirements in which SBA's financial statement data was utilized. The resulting template was provided to 24 CFO Act agencies. The SBA also collaborated with other agencies affected by the Federal Credit Reform Act (FCRA) in developing the BAR footnote to ensure consistency across the Federal Government. The SBA reiterates that it has proper internal controls over financial reporting and has been a leader in FCRA accounting within the Federal Government. In addition, although not formally documented, the SBA did conduct the other risk management activities referenced in the audit findings. The SBA will take the necessary steps to improve its internal control over financial reporting and to address the audit findings in FY 2020.

The auditors identified a significant deficiency related to information technology security controls and a significant deficiency related to the controls between the Disaster Credit Management System and the electronic loan repository system. The SBA will work to address the significant deficiency related to IT security controls through its Chief Information Officer and the significant deficiency with the Disaster Credit Management System through its Associate Administrator for Disaster Assistance.

This year the SBA has taken significant steps to improve its use of data analytics to support mission delivery. As co-lead for the President's Federal Data Strategy, the SBA has been building an environment that uses evidence to understand and improve program outcomes. The SBA recently completed an evaluation of its 7(j) management and technical assistance program by leveraging administrative program data, federal procurement data, and budgetary data to further understand the impacts on small business contract awards. The results have proven promising and have provided us with greater evidence to support decision making. In addition, the SBA recently completed a process evaluation of its Small Business Investment Company examination process and used the results to strengthen program management and oversight.

This year the SBA designated a Chief Data Officer and Evaluation Officer in support of the Foundations for Evidence-Based Policymaking Act. The SBA expanded its enterprise learning agenda with more research, established the structure of its data governance board, began identifying priority datasets, and developed plans to enhance staff data skills. The SBA received the President's Gears of Government award for its work on DATA Act implementation and evidence-building. This award demonstrates the SBA's innovative spirit and movement toward more analytic, evidence-based approaches to improve mission delivery for America's small businesses.

The SBA also enhanced financial management through the development of a single system, which integrates acquisition management, budget formulation, and budget execution. The new system helps SBA program managers better plan and oversee contracts, interagency agreements, purchase cards, grants, travel, reimbursable work agreements, and payroll through a single platform. These enhancements will help the SBA more efficiently answer questions and ensure optimal financial management.

Additionally, I am proud of the SBA for winning its 13th Association of Government Accountants Certificate of Excellence in Accountability Reporting award this past spring. This award, made to agencies following a thorough and independent review, has been a tremendous honor and reflects the dedication of SBA employees in exemplary financial and performance management.

Sincerely,

Dorrice C. Roth

Dorrice C. Roth
Acting Chief Financial Officer and
Associate Administrator for Performance Management

INSPECTOR GENERAL'S AUDIT REPORT

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

Final Report Transmittal
Report Number: 20-04

DATE: November 15, 2019

TO: Christopher M. Pilkerton
Acting Administrator and General Counsel

FROM: Hannibal "Mike" Ware
Inspector General

SUBJECT: Independent Auditors' Report on SBA's FY 2019 Financial Statements

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the U.S. Small Business Administration's (SBA's) consolidated financial statements as of and for the fiscal year ended September 30, 2019. This audit is an annual requirement of the Chief Financial Officers Act of 1990, as amended, and was conducted in accordance with generally accepted government auditing standards; the Office of Management and Budget Bulletin No. 19-03, Audit Requirements for Federal Financial Statements; and the U.S. Government Accountability Office's Financial Audit Manual and Federal Information System Controls Audit Manual.

The attached independent auditors' report presents an unmodified opinion on SBA's consolidated financial statements for fiscal year 2019. Specifically, KPMG reported that

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- there were no instances in which SBA's financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996 (FFMIA);
- there is one material weakness related to internal control over financial reporting where improvement is needed in SBA's risk assessment processes;
- there is a significant deficiency related to disaster loan processing controls; and
- there is also a significant deficiency related to SBA's information technology security controls, which has been identified in the past.

Details regarding KPMG's conclusions are included in attachments I and II to this report. Within 30 days of this report, KPMG expects to issue a separate letter to SBA management regarding other, less significant matters that came to its attention during the audit.

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express—and we do not express—opinions on SBA's financial statements or internal control over financial reporting or conclusions on whether SBA's financial management systems substantially complied with the three FFMIA requirements, or on compliance with laws and other matters.

KPMG is responsible for the attached auditors' report dated November 15, 2019, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

We provided a draft of KPMG's report to SBA's Acting Chief Financial Officer, who generally concurred with its findings and recommendations and agreed to implement the recommendations. The Acting Chief Financial Officer's comments are attached as attachment III of this report.

We appreciate the cooperation and assistance of SBA and KPMG during the audit. Should you or your staff have any questions, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Dorrice Roth, Acting Financial Officer and Associate Administrator for
Performance Management
Maria Roat, Chief Information Officer
James Rivera, Associate Administrator, Disaster Assistance
Martin Conrey, Attorney Advisor, Legislation and Appropriations
Kyong Chae, Auditor, Office of Internal Controls
Michael Simmons, Attorney Advisor

Attachment

INDEPENDENT AUDITORS' REPORT ON FY 2019 FINANCIAL STATEMENTS

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General
U.S. Small Business Administration

Acting Administrator
U.S. Small Business Administration

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States (U.S.) Small Business Administration (SBA), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Small Business Administration as of September 30, 2019 and 2018, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the U.S. Small Business Administration's FY 2019 Agency Financial Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Message from the Acting Administrator, Management's Discussion & Analysis, Other Information, Message from the Acting Chief Financial Officer, and the Appendices in the U.S. Small Business Administration's FY 2019 Agency Financial Report are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the fiscal year ended September 30, 2019, we considered SBA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of SBA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Attachments I and II we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in Attachment I to be a material weakness.

SBA management did not report the material weakness related to the risk assessment process for internal controls over financial reporting in its Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2019, included in the Management's Discussion and Analysis section of the accompanying FY 2019 Agency Financial Report.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Attachment II to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SBA's consolidated financial statements as of and for the fiscal year ended September 30, 2019 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which SBA's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the U. S. Government Standard General Ledger at the transaction level.

SBA's Responses to Findings

SBA's responses to the findings identified in our audit are described in Attachment III. SBA's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Our response to SBA's response is included in Attachment IV.

KPMG

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SBA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 15, 2019

Attachment I

U.S. Small Business Administration

Material Weakness

Risk Assessment

During fiscal year (FY) 2019, we noted that management did not perform an adequate risk assessment to identify, assess, and address relevant risks that could prevent the fair presentation of the consolidated financial statements to be free from material misstatement and be in accordance with U.S. generally accepted accounting principles. We further noted several internal control matters that highlighted the need for SBA management to improve their risk assessment process, particularly in relation to the evaluation of service organization controls and preparation of the financial statement disclosure related to the budget and accrual reconciliation. These matters are considered to be a material weakness in internal control.

Improvements Needed in the Agency's Risk Assessment Process

In FY 2019, SBA represented that a risk assessment related to internal controls was performed prior to initiating their annual testing in accordance with the Office and Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. However, the risk assessment was performed through informal management discussions and was not documented. As such, SBA was not able to demonstrate that a comprehensive risk identification and assessment process was performed to provide reasonable assurance that all significant reporting risks were identified, tested, or appropriately addressed. In addition, SBA did not calculate a materiality threshold to use in determining the sufficient level of internal control activities needed to manage risk related to reporting objectives.

The conditions noted were primarily caused by two main factors. First, we were informed that the FY 2019 risk assessment process was not formally documented due to an anticipated update to integrate the FY 2020 risk assessment procedures with the enterprise risk management processes. Second, based on interpretation of the updated Appendix A to OMB Circular No. A-123, *Management of Reporting and Data Integrity Risk*, management did not believe a materiality threshold was required.

Without performing a comprehensive risk identification and assessment process, management did not have reasonable assurance that all significant reporting risks were identified, tested, and appropriately addressed. In addition, by not implementing the guidance in OMB Circular No. A-123 and the updated Appendix A, SBA increases the risk of potential noncompliance with the *Federal Managers' Financial Integrity Act* (FMFIA).

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- The Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* ("Green Book"), Principle 7, *Identify, Analyze, and Respond to Risks*; Principle 8, *Assess Fraud Risk*; and Principle 9, *Identify, Analyze, and Respond to Change*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Section 3512 (c) and (d) of Title 31 of the United States Code (commonly known as FMFIA)

FMFIA provides the statutory basis for management's responsibility for, and assessment of, internal controls. OMB Circular No. A-123 provides a methodology for agency management to assess, document, and report on internal controls over reporting and is guidance to help implement the requirements of FMFIA. The Circular contains specific guidance requiring agencies to annually identify and assess risk as part of the agency's risk profile. As part of this process, management should determine materiality thresholds to ensure the level of internal control activities needed to provide reasonable assurance for reporting objectives. Management should also determine the risks for which the application of formal internal control activities is the appropriate response.

Recommendations:

We recommend that the Acting Administrator direct the Acting Chief Financial Officer to:

1. Integrate the Office of Chief Financial Officer (OCFO)'s risk identification and assessment process with its enterprise risk management processes.

2. Ensure management personnel document their interpretation with respect to applicability of requirements (e.g., such as the need to determine a materiality threshold in the risk assessment process).

3. Formally document a comprehensive risk assessment process every year, including the determination of materiality thresholds, as applicable under the requirements.

Improvements Needed in the Evaluation of Service Organization Controls

Deficiencies in the risk assessment process, as noted above, could limit management's ability to identify, analyze, and respond to significant changes impacting operations, systems and financial reporting. Specifically, during FY 2019, SBA migrated a system to the cloud using an external cloud service provider. In addition, during the prior year, SBA implemented a new loan origination system which utilizes a different external service provider. Both systems are significant IT environments for SBA's financial reporting. As part of its risk assessment process, SBA could not demonstrate the process used to adequately identify and assess the risks related to financial reporting for these changes to the relevant IT environments affected by the use of service organizations.

The process that SBA followed with respect to assessing the operations at the service organizations, in this instance, was limited to obtaining assurance for the design, implementation, and operation of relevant controls at the service organizations by obtaining a Service Organization Control (SOC) 1 Type 2 report. However, we noted that management's evaluations of the SOC 1 reports were not sufficiently documented or considered in management's assessment of Internal Controls over Financial Reporting (ICOFR) under OMB Circular No. A-123. For example, management's assessment of the SOC 1 Type 2 reports did not:

- Identify instances in which the SOC 1 reports lack sufficient information or did not cover aspects of service organization business processes and controls considered relevant to SBA's ICOFR
- Include consideration of all exceptions noted in the SOC 1 reports, to determine applicability to SBA's ICOFR, the potential impact to SBA's financial statements, and mitigating controls or other considerations made during their risk assessment
- Evaluate SBA's implementation and perform testing over the design and operating effectiveness of the complementary user entity controls (CUECs) identified in the SOC 1 reports
- Evaluate the complementary subservice organization controls (CSOCs) identified with the SOC 1 reports
- Consider an assessment of bridge letters for the period between the report dates and September 30, 2019, to determine whether coverage was provided for the entire year.

In addition, we noted that one of the service organization's SOC 1 report contained a qualification in the opinion related to the design of controls in one of the objectives. SBA did not document the consideration of the qualification and its applicability to SBA's ICOFR, potential impact to SBA's financial statements, and whether there were any mitigating controls.

The deficiencies noted above were caused by the lack of a documented policy/procedure requiring the evaluation of relevant SOC 1 reports for service organizations, in support of SBA's ICOFR evaluation. As a result, SBA's annual assessment of internal controls was incomplete because it did not consider all relevant aspects of the SOC 1 reports during its evaluation of ICOFR. The conditions noted above increase the risk that management fails to make key observations regarding the sufficiency of coverage provided by SOC 1 reports and the results that are relevant to SBA's ICOFR. This in turn could result in a failure to identify and obtain an understanding of relevant service organization controls and weaknesses that increase internal control risks that could affect the integrity of SBA's financial statements. Thus, management's assessment of ICOFR is not complete without the sufficient consideration of the adequacy and effectiveness of controls at relevant service organizations.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- GAO's Green Book, Section 4, *Additional Considerations: Service Organizations*; Principle 10, *Design Control Activities*; and Principle 16, *Perform Monitoring Activities*

- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

The Green Book states that management should identify the risks related to the entity and its objectives, including its service organizations, and design control activities to address the identified risks. In addition, OMB Circular No. A-123 states that for service organizations considered significant to the achievement of internal control objectives for reporting, management needs to consider the services provided by the service organization during its risk assessment process.

Recommendation:

We recommend the Acting Administrator require the Chief Information Officer to work with the relevant program offices to:

4. Develop, document, and implement procedures outlining the SOC 1 report evaluation process for relevant service organizations, to ensure reviews are performed in accordance with OMB and GAO guidance. The reviews should document the following considerations:

- SOC 1 reports are sufficiently scoped to address transaction processing and related control activities performed by service organizations on behalf of SBA (e.g., that services, business applications and other information technology, service organization departments and locations, control objectives and activities, and other aspects of scope that are relevant to SBA's ICOFR are included in the scope of SOC 1 reports).
- All exceptions noted in the SOC 1 reports – not just those described in the independent service auditors' report – are evaluated to determine applicability to SBA's ICOFR, the potential impact to SBA's financial statements, and mitigating controls other considerations made during the risk assessment.
- All CUECs described in the SOC 1 reports are evaluated using current information and with consideration to their applicability to SBA's ICOFR.
- Evaluation procedures include an assessment of whether CUECs and other SBA-performed controls were tested on a frequency determined by SBA, and found effective and, if they are not, the impact of such deficiencies on SBA's ICOFR.
- All CSOCs described in SOC 1 reports are evaluated to determine whether they provided services and performed controls considered relevant to SBA's ICOFR and, if relevant subservice organizations were identified, an evaluation is performed to obtain an understanding of the subservice organization(s) and their controls.
- SOC 1 reports are evaluated to determine whether:
    - The reporting periods and corresponding bridge letters provide sufficient coverage to assess impacts on SBA's ICOFR.

- Any matters require additional follow-up by SBA.

Improvements Needed in the Budget and Accrual Reconciliation (BAR) Disclosure

The deficiencies noted above relating to the risk assessment process prevented management from identifying, analyzing, and responding to risks arising from significant changes in financial reporting requirements in FY 2019, such as the implementation of a new accounting standard. Specifically, we noted deficiencies in controls over the preparation and review of the BAR disclosure.

The Statement of Federal Financial Accounting Standards (SFFAS) 53: *Budget and Accrual Reconciliation: Amending SFFAS 7, and 24, and Rescinding SFFAS 22*, is effective for periods beginning after September 30, 2018. The standard requires a budget and accrual reconciliation between budgetary and financial accounting information to be presented in a footnote that replaces the previous reconciliation of net cost of operations to budget footnote. The BAR explains the relationship between the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period. The BAR will start with the net cost of operations and will be adjusted by components of net cost that are not part of net outlays, components of net outlays that are not part of net cost, and other temporary timing differences, which reflect some special adjustments.

During our initial test work over Note 16, Reconciliation of Net Operating Cost and Net Budgetary Outlays, for the 4th quarter financial statements in SBA's FY 2019 Agency Financial Report (AFR), we identified the following deficiencies:

- Omission of significant balances from the Components of Net Outlays that are Not Part of Net Operating Cost section, including the Effect of the Prior Year Credit Reform Subsidy Reestimates, the Changes in Loans Receivable Before Allowance, the Other Changes in Liability for Loan Guaranties, the Cash Transfer to the Master Reserve Fund, and the Effect of Current Year Downward President's Budget Reestimate Transferred to the General Fund Receipt Account lines;
- Inaccurate balances in the Other Changes in Allowance Before Reestimates and the Other Changes in Liability for Loan Guaranties Before Reestimates lines due to the inclusion of balances that do not belong in the respective category, such as double counting the effect of the current year reestimate and inclusion of components not part of the Net Cost;
- Inaccurate calculation and presentation of the change in Accounts Receivable and Accounts Payable lines;
- Exclusion of the effect of elimination entries between SBA funds;
- Inaccurate captions of section headers and positive and negative signs on balances; and
- Exclusion of the required narrative explaining the purpose, nature, and line items of the reconciliation.

These deficiencies were caused by the lack of a sufficient process to identify and address risks related to the applicability and implementation of new accounting standards and the identification of processes and controls to mitigate such risks. More specifically, there were no specific internal controls over financial reporting to demonstrate how management considered the impact of SBA's transactions and balances in the BAR note, whereby a risk of material misstatement due to error and/or omissions could have been reasonably mitigated. Also, the deficiencies resulted in significant inaccuracies and incomplete presentation of the BAR note until adjusted through our audit. In addition, without performing and documenting a comprehensive analysis of the applicability and implementation of accounting standards, SBA increases the risk of material misstatements or omissions to the consolidated financial statements that would not be in accordance with generally accepted accounting principles.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- SFFAS 53, Paragraph 2, sub-paragraph 82, and Paragraph 5, including sub-paragraphs 96-100

- GAO's Green Book, Section 1, *Fundamentals Concepts of Internal Control*

- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Recommendations:

We recommend the Acting Administrator require the Acting Chief Financial Officer to:

5. Formally document a comprehensive risk assessment process, including the consideration of the applicability and implementation of new accounting standards.

6. Implement adequate internal controls to prevent or detect and correct material misstatements to the financial statements and footnotes.

Attachment II

U.S. Small Business Administration

Significant Deficiencies

Improvement Needed in Disaster Loan Processing Controls

During the FY 2019 financial statement audit, we identified one disaster loan for which the interest rate per the borrower's modified loan authorization and agreement did not agree to SBA's records within its loan processing and repository system. Specifically, the identified loan was originally obligated at a specified interest rate, then subsequently approved for a lower rate several months later. The modified interest rate was evidenced by a signed loan modification that reduced the interest rate. The loan was then subsequently disbursed; however, there was no documentation supporting the updated interest rate within the system. This ultimately resulted in an overstatement of the loans receivable and interest revenue balances in SBA's financial statements, and the borrower was overcharged.

The deficiency was caused by the Office of Disaster Assistance's (ODA's) lack of a policy/procedure that would require the consistent and timely generation of documentary evidence to support the establishment and modification of loan obligations and related terms in the system. Furthermore, ODA does not have adequate controls to ensure changes to loan terms subsequent to loan obligation are consistently processed within the system. As such, incorrect loan information in the system may lead to under or overcharges to SBA borrowers. As a result of this deficiency, ODA performed an analysis to further determine the impact of this condition on their disaster loan portfolio. ODA determined that 273 other loans had a similar condition as noted above.

The following criteria were considered with respect to the matter described in the preceding paragraph:

- GAO's Green Book, Principle 3, *Establish Structure, Responsibility, and Authority*; and Principle 10, *Design Control Activities*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Recommendations:

We recommend the Acting Administrator require the Associate Administrator for ODA to:

7. Develop and enforce a policy/procedure that requires the consistent and timely generation of documentary evidence to support the establishment and modification of loan terms subsequent to loan obligation and ensure it is readily available.
8. Implement adequate controls to ensure changes to loan terms subsequent to loan obligation are consistently and timely processed within the loan processing and repository system.

Improvement Needed in Information Technology Security Controls

During the FY 2019 financial statement audit, we found that SBA continued to implement corrective actions on some of the prior year information technology (IT) findings; however, a number of conditions persisted in FY 2019 that limited SBA's ability to effectively manage its information system risks. Collectively, these conditions increase the risk of unauthorized use, modification, or destruction of financial data, which may impact the integrity of information used to prepare the financial statements. As a result, the conditions continue to present a significant deficiency in SBA's internal control environment.

In an effort to provide additional clarity and emphasis to SBA management with respect to the corrective actions required, we continued to provide prior year recommendations where issues persisted in FY 2019 and issued additional recommendations for the new control deficiencies identified. In the sections below, we distinguish between recurring conditions and related recommendations, and those that were newly identified in FY 2019. We have omitted some technical details from the conditions and recommendations due to the sensitivity of the information. These details were communicated to management in Notices of Findings and Recommendations throughout the audit.

The following criteria were considered with respect to the matter described in the preceding paragraph:

- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*
- Federal Information Processing Standards Publication (FIPS) 200, *Minimum Security Requirements for Federal Information and Information Systems*
- SBA Standard Operating Procedure (SOP) 90 47 4, *Information Technology Security Policy*

We have summarized the IT control deficiencies that we noted during the FY 2019 audit below and have organized them by the following general IT control objectives: logical access controls and system configuration management.

Logical Access Controls

An integral part of the effectiveness of an organization's security program management efforts should be to ensure that logical access controls provide reasonable assurance that IT resources, such as data files, application programs, and IT-related facilities/equipment, are protected against unauthorized modification, disclosure, loss, or impairment.

Our audit found that the following control deficiencies identified in prior years persisted in FY 2019:

- For majority of FY 2019, the employee exit clearance and contractor off-boarding processes were not documented to ensure that access to SBA's systems was removed in a timely manner upon separation.
- Audit logs do not include sufficient detail to identify the security events that were reviewed.

Our audit identified the following new control deficiencies in FY 2019:

- Segregation of duties issues for certain developers that also have access to migrate code exist.
- User access forms were not accurately completed to document the appropriate privileges needed by certain users.

Recommendations – Logical Access Controls:

We have issued the following recommendations to address the repeat and new control deficiencies listed in the section above.

We recommend that the Administrator require the Chief Information Officer (CIO) to:

9. Consider creating an Agency-wide working group to provide effective oversight and solutions to address the entity-wide conditions cited and implement streamlined, efficient and effective user access "best practices" currently used by the private sector and other Federal agencies.
10. Develop and document procedures over the separation process that identify the roles and responsibilities for each office.

11. Create a process to identify separated contractors from their respective program office/Contracting Officer, centrally track and monitor for contractor separations, and communicate contractor separations to stakeholders that are required for the timely removal of logical access.
12. Implement a stricter policy for account suspension after inactivity to account for SBA employees who may not have been removed via the manual account removal process.
13. Continue to enhance and strengthen the audit logging and review controls to specify which events were reviewed, who performed the review, and whether issues were identified, escalated, and resolved.
14. Implement segregation of duties and implement mitigating controls to help ensure that personnel with the ability to the develop code, are restricted from migrating code into the production environment.
15. Train personnel who are responsible for the provisioning of accounts to grant access in compliance with SBA policy and procedures.
16. Evaluate and redesign user access forms to remove any redundant or unnecessary data fields.

System Configuration Management

An integral part of the effectiveness of an organization's security program management efforts should be to ensure that application change management controls provide reasonable assurance that program changes implemented to the applications are appropriate and authorized.

Our audit noted that although improvements have been made, the following new control deficiency exists in FY 2019:

- A patch to an operating system was pushed to the production environment before it was tested.

Recommendation – System Configuration Management:

To address the system configuration management condition above, we recommend that the Acting Administrator require the Associate Administrator for the Office of Capital Access (OCA) to:

17. Periodically train personnel involved with the implementation of operating system patches to follow the requirements of the patch management process in accordance with SBA and OCA policy.

CFO RESPONSE TO AUDIT REPORT ON FY 2019 FINANCIAL STATEMENTS

Attachment III

CFO Response to Audit Report on FY 2019 Financial Statements

DATE: November 15, 2019

TO: Hannibal M. Ware, Inspector General

FROM: Dorrice C. Roth, Acting Chief Financial Officer and Administrator for Performance Management

Dorrice C. Roth

SUBJECT: FY 2019 Financial Statement Audit

The Small Business Administration has reviewed the Independent Auditors' Report from KPMG that includes the auditors' opinion on the financial statements and its review of the Agency's internal control over financial reporting and compliance with laws and regulations. The independent audit of the Agency's financial statements and related processes is a core component of SBA's financial management program.

We are pleased that the SBA has again received an unmodified audit opinion from the independent auditor. We believe these results accurately reflect the quality of the Agency's financial statements and our continued efforts to further improve our budgeting, accounting, and reporting processes.

The auditors identified a material weakness related to the risk assessment process for internal control over financial reporting in the following three areas: evaluation of Service Organization Control (SOC) 1 Reports of two external service organizations, documentation of risk assessments performed for planning of internal control reviews application, and implementation of the new accounting standard for the Budget and Accrual Reconciliation (BAR) footnote.

The SBA does not agree with the assessment on the implementation of the new accounting standard and the subsequent classification of the combined audit findings as a material weakness. The SBA participated in the FASAB task force on the development of the standard. Subsequently, the SBA assisted the U.S. Department of Treasury's working group in the development of the BAR crosswalk requirements in which SBA's financial statement data was utilized. The resulting template was utilized by 24 CFO Act agencies. The SBA also collaborated with other agencies affected by the Federal Credit Reform Act (FCRA) in developing the BAR footnote to ensure consistency across the Federal Government. The SBA reiterates that it has proper internal controls over financial reporting and has been a leader in FCRA accounting within the Federal Government. The SBA will formalize the SOC 1 report review process and will document the internal control risk assessment process.

The auditors identified a significant deficiency related to information technology security controls, and a significant deficiency related to the controls between the Disaster Credit Management System and the electronic loan repository system. The SBA will work to address the significant deficiency related to IT security controls through its Chief Information Officer and the significant deficiency with the Disaster Credit Management System through its Associate Administrator for Disaster Assistance.

We appreciate your efforts and those of your colleagues in the Office of the Inspector General, as well as those of KPMG. The independent audit process continues to provide us with new insights and valuable recommendations that directly support our efforts to further enhance SBA's financial management practices. We remain committed to excellence in financial management and look forward to making more progress in the coming year.

Attachment IV

Auditors’ Response to Management’s Response

We appreciate SBA management’s response to our report, presented in Attachment III, recognize their commitment to accountability and transparency, and acknowledge management’s efforts. We note that management does not concur with the classification of the Budget and Accrual Reconciliation (BAR) issue presented in Attachment I as a component of the material weakness.

SBA management initially presented the BAR footnote that was prepared based on their interpretation of the new accounting standard using the BAR crosswalk which was developed by the Treasury Working Group, as referenced in management’s response. The crosswalk states at the top: “This crosswalk serves as a guide and is NOT all inclusive. While it presents the most common scenarios, agencies should use their discretionary and professional judgement for agency specific cases when preparing the reconciliation.” In addition, there are lines within the crosswalk that state no account mapping is available. These lines are significant for SBA’s Credit Reform activity. Furthermore, it is important to recognize that the crosswalk guide is a less authoritative source for generally accepted accounting principles as defined in the SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, than the FASAB standards.

Therefore, we assessed the BAR footnote against the requirements of SFFAS 53, *Budget and Accrual Reconciliation*, and noted material misstatements, as described in Attachment I. The material misstatements were subsequently corrected by SBA management in the accompanying FY 2019 consolidated financial statements. As a result of the material misstatements that we identified during our audit, we assessed the control deficiency as a material weakness, which by definition indicates that there is a reasonable possibility that a material misstatement of the entity’s financial statements (which include footnote disclosures) will not be prevented, or detected and corrected, on a timely basis.

FINANCIAL STATEMENTS AND NOTES

The U.S. Small Business Administration prepares its financial statements as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to the SBA. Preparation of these statements is also an important part of SBA's financial management goal of providing accurate and reliable information that may be used to assess performance and allocate resources.

SBA's management is responsible for the accuracy and propriety of the information contained in the principal financial statements and the quality of internal controls. The SBA prepares these financial statements from its records in accordance with generally accepted accounting principles in the United States as well as formats prescribed by the Office of Management and Budget. While these statements have been prepared from SBA's records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by the OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity.

The financial statements include the following reports.

The **Consolidated Balance Sheet** summarizes the assets, liabilities and net position by major category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities resulting from transactions with the public.

The **Consolidated Statement of Net Cost** shows, by strategic goal, the net cost of operations for the reporting period. Net cost of operations consists of full program costs incurred by the SBA less the exchange revenues earned by those programs.

The **Consolidated Statement of Changes in Net Position** presents SBA's beginning and ending net position by two components - Cumulative Results of Operations and Unexpended Appropriations. It summarizes the change in net position by major transaction category. The ending balances of both components of net position are also reported on the Balance Sheet.

The **Combined Statement of Budgetary Resources** provides information about funding and availability of budgetary resources, and the status of those resources at the end of the reporting period. Data on the Combined Statement of Budgetary Resources is consistent with information reflected on the Report on Budget Execution and Budgetary Resources (SF 133), with the one exception of offsetting receipts. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of the United States Government but are not reflected in the SF 133. The SBA includes offsetting receipts in this statement for the purpose of reconciling outlay information presented in the Budget of the United States Government.

Based on updated guidance in OMB Circular A-136, the SBA now records all distributed offsetting receipts as budgetary.

The **Notes to the Financial Statements** provide information to explain the basis of the accounting and presentation used to prepare the statements and to explain specific items in the statements. They also provide information to support how particular accounts have been valued and computed.

OMB Circular A-136 required a change in format to Note 16. This new note implements SFFAS 53, Budget and Accrual Reconciliation, and replaces the statement of financing note. As stated in SFFAS 53, in the initial year of implementation, the disclosure requirements applicable to prior reporting periods are not required for comparative presentations.

The **Required Supplementary Information** presents a Combining Statement of Budgetary Resources report by principal functional area.

The **Required Supplementary Stewardship Information** provides information on SBA's investment in human capital that supports the increase or maintenance of national economic productivity capacity through education and training programs.

U.S. SMALL BUSINESS ADMINISTRATION

Consolidated Balance Sheet

As of September 30, 2019 and 2018

(Dollars in Thousands)

	2019	2018
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$ 7,036,675	$ 8,137,946
Advances (Note 1)	18,476	22,331
Total Intragovernmental Assets	7,055,151	8,160,277
Assets - Public and Other		
Cash (Note 3)	3,030	2,130
Accounts Receivable, Net (Note 5)	163,827	93,523
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	9,493,680	8,727,792
General Property and Equipment, Net (Note 7)	203	354
Advances (Note 1)	2,761	4,421
Total Assets - Public and Other	9,663,501	8,828,220
Total Assets	**$ 16,718,652**	**$ 16,988,497**
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 1)	$ 4,816	$ 6,000
Debt (Note 9)	11,810,241	11,212,607
Net Assets of Liquidating Funds Due to Treasury (Note 10)	8,732	4,518
Downward Reestimate Payable to Treasury (Note 1, Note 13)	1,028,472	797,694
Other (Note 11)	16,481	15,592
Total Intragovernmental Liabilities	12,868,742	12,036,411
Other Liabilities - Public		
Accounts Payable (Note 1)	14,130	19,882
Accrued Grant Liability (Note 1)	66,502	68,687
Liability for Loan Guaranties (Note 6)	2,000,420	2,662,786
Federal Employees' Compensation Act Actuarial Liability (Note 1, Note 8)	28,794	34,854
Surety Bond Guarantee Program Future Claims (Note 8)	57,255	49,609
Other (Note 11)	49,201	43,111
Total Other Liabilities - Public	2,216,302	2,878,929
Total Liabilities	**15,085,044**	**14,915,340**
NET POSITION		
Unexpended Appropriations (Note 1)	1,779,472	2,341,412
Cumulative Results of Operations (Note 1)	(145,864)	(268,255)
Total Net Position	**1,633,608**	**2,073,157**
Total Liabilities and Net Position	**$ 16,718,652**	**$ 16,988,497**

The accompanying notes are an integral part of these statements.

U.S. SMALL BUSINESS ADMINISTRATION

Consolidated Statement of Net Cost

For the Years Ended September 30, 2019 and 2018

(Dollars in Thousands)

	2019	2018
STRATEGIC GOAL 1:		
Support Small Business Revenue and Job Growth		
Gross Cost	$ (559,864)	$ (704,345)
Less: Earned Revenue	211,581	211,090
Net Cost of Strategic Goal 1	**(771,445)**	**(915,435)**
STRATEGIC GOAL 2:		
Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments		
Gross Cost	310,490	253,497
Net Cost of Strategic Goal 2	**310,490**	**253,497**
STRATEGIC GOAL 3:		
Restore Small Businesses and Communities after Disasters		
Gross Cost	757,683	1,398,258
Less: Earned Revenue	332,917	313,813
Net Cost of Strategic Goal 3	**424,766**	**1,084,445**
STRATEGIC GOAL 4:		
Strengthen SBA's Ability to Serve Small Businesses		
Gross Cost	147,190	176,416
Net Cost of Strategic Goal 4	**147,190**	**176,416**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	25,525	22,752
Net Cost Not Assigned to Strategic Goals	**25,525**	**22,752**
Net Cost of Operations	**$ 136,526**	**$ 621,675**

The accompanying notes are an integral part of these statements.
See Note 14.

U.S. SMALL BUSINESS ADMINISTRATION

Consolidated Statement of Changes in Net Position

For the Years Ended September 30, 2019 and 2018

(Dollars in Thousands)

	2019	2018
Beginning Unexpended Appropriations	**$ 2,341,412**	**$ 1,653,684**
Budgetary Financing Sources		
Appropriations Received	932,917	2,504,824
Rescissions	(50,000)	(2,600)
Adjustment - Cancelled Authority	(21,640)	(11,582)
Return of Unrequired Liquidating Fund Appropriation	(3,312)	(2,686)
Other Adjustments	(253)	5
Appropriations Used	(1,419,652)	(1,800,233)
Total Budgetary Financing Sources	**(561,940)**	**687,728**
Ending Unexpended Appropriations	**$ 1,779,472**	**$ 2,341,412**
Beginning Cumulative Results of Operations	**$ (268,255)**	**$ (141,354)**
Budgetary Financing Sources		
Appropriations Used	1,419,652	1,800,233
Donations of Cash and Cash Equivalents	112	2
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others	21,503	25,428
Other - Current Year Liquidating Equity Activity	(6,324)	(3,991)
Other - Non-entity Activity	(1,176,026)	(1,326,898)
Total Financing Sources	**258,917**	**494,774**
Less: Net Cost of Operations	**136,526**	**621,675**
Net Change	**122,391**	**(126,901)**
Ending Cumulative Results of Operations	**$ (145,864)**	**$ (268,255)**
Ending Net Position	**$ 1,633,608**	**$ 2,073,157**

The accompanying notes are an integral part of these statements.

U.S. SMALL BUSINESS ADMINISTRATION

Combined Statement of Budgetary Resources

For the Years Ended September 30, 2019 and 2018

(Dollars in Thousands)

	September 30, 2019		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 2,035,305	$ 4,290,915	$ 6,326,220
Appropriations (discretionary and mandatory)	879,605	-	879,605
Borrowing Authority (discretionary and mandatory)	-	2,231,792	2,231,792
Spending Authority from Offsetting Collections	207,470	2,697,511	2,904,981
Total Budgetary Resources	**$ 3,122,380**	**$ 9,220,218**	**$ 12,342,598**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	$ 1,655,874	$ 4,794,658	$ 6,450,532
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	393,225	1,401,684	1,794,909
Unapportioned, unexpired accounts	1,024,370	3,023,876	4,048,246
Unexpired Unobligated Balance, end of year	1,417,595	4,425,560	5,843,155
Expired Unobligated Balance, end of year	48,911	-	48,911
Unobligated Balance, end of year (total)	1,466,506	4,425,560	5,892,066
Total Status of Budgetary Resources	**$ 3,122,380**	**$ 9,220,218**	**$ 12,342,598**
OUTLAYS, NET			
Net Outlays (discretionary and mandatory)	$ 1,402,893	$ 1,152,612	$ 2,555,505
Distributed Offsetting Receipts	(946,587)	-	(946,587)
Agency Outlays, net (discretionary and mandatory)	**$ 456,306**	**$ 1,152,612**	**$ 1,608,918**

The accompanying notes are an integral part of these statements.

See Note 15.

U.S. SMALL BUSINESS ADMINISTRATION

Combined Statement of Budgetary Resources

For the Years Ended September 30, 2019 and 2018

(Dollars in Thousands)

	September 30, 2018		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 1,412,891	$ 4,606,664	$ 6,019,555
Appropriations (discretionary and mandatory)	2,499,538	-	2,499,538
Borrowing Authority (discretionary and mandatory)	-	4,239,563	4,239,563
Spending Authority from Offsetting Collections	811,012	3,545,009	4,356,021
Total Budgetary Resources	**$ 4,723,441**	**$ 12,391,236**	**$ 17,114,677**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	$ 2,768,911	$ 7,677,795	$ 10,446,706
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	1,154,820	1,568,448	2,723,268
Unapportioned, unexpired accounts	749,494	3,144,993	3,894,487
Unexpired Unobligated Balance, end of year	1,904,314	4,713,441	6,617,755
Expired Unobligated Balance, end of year	50,216	-	50,216
Total Unobligated Balance, end of year	1,954,530	4,713,441	6,667,971
Total Status of Budgetary Resources	**$ 4,723,441**	**$ 12,391,236**	**$ 17,114,677**
OUTLAYS, NET			
Net Outlays (discretionary and mandatory)	$ 1,790,480	$ 2,794,727	$ 4,585,207
Distributed Offsetting Receipts	(1,744,077)	-	(1,744,077)
Agency Outlays, net (discretionary and mandatory)	**$ 46,403**	**$ 2,794,727**	**$ 2,841,130**

The accompanying notes are an integral part of these statements.
See Note 15.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Small Business Act of 1953 created the Small Business Administration as an independent federal agency. SBA's mission is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters. The SBA operates through the execution of a congressionally approved budget that funds its programs.

Basis of Accounting and Presentation

The SBA prepares financial statements to report its financial position, and results of its operations, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements are prepared from the Agency's records in accordance with generally accepted accounting principles using formats prescribed by the Office of Management and Budget. As a federal agency, the SBA cannot incur obligations without authority from the Congress and an apportionment by the OMB.

These financial statements reflect transactions recorded on both a proprietary accrual accounting basis and a budgetary obligation basis in accordance with concepts and guidance provided by the OMB, the Federal Accounting Standards Advisory Board, and the Department of the Treasury. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting recognizes the legal commitment or obligation of funds in advance of the proprietary accruals and facilitates compliance with legal constraints and controls over the use of federal funds.

The Federal Credit Reform Act of 1990 governs SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under the FCRA, the liability for loan guaranties is determined as the summarized discounted present value of the estimated future net cash inflows and outflows for each fiscal year's cohort of guaranties. For direct loans, the allowance is the current outstanding FCRA loans receivable balance less the discounted present value of the estimated future net cash flows for all the loan cohorts. A cohort of loans receivable or guarantied loans is all the direct loans obligated, or loan guaranties committed, in a given fiscal year. Increases to individual loans in a cohort that are made in a subsequent fiscal year are accounted for in the subsequent year's loan cohort. Cohort cash flows include loan repayments, recoveries on defaulted guaranties and loan fees received by the SBA that are due from the lenders and borrowers when the loan is made and during the life of the loan cohort, as well as expenditures by the SBA for defaulted guaranties, loan servicing expenses, and other required SBA expenditures. An initial allowance or liability for loan guaranties is established in the original year of the loan cohort. The initial amount of the allowance and liability for each cohort is reestimated annually at fiscal year-end, and the adjusted amount is included in SBA's annual financial statements. Note 6 further describes FCRA accounting.

Use of Estimates

SBA's management makes assumptions and uses estimates to prepare the financial statements based upon the facts that exist when the statements are prepared. The SBA also uses economic assumptions provided by the Office of Management and Budget in preparing the estimates. Actual results may differ from those assumptions and estimates. The most significant differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guaranties under guidelines in FCRA. The SBA recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial statements.

Budgets and Budgetary Accounting for Loan Programs

SBA's loan disbursements are financed by appropriations for long-term loan subsidy cost and borrowings from the Treasury's Bureau of the Fiscal Service for the remaining nonsubsidized portion of the loans. The Congress may provide one-year, multiyear or no year appropriations to cover the estimated long-term costs of the loan programs. The non-subsidized portion of each loan disbursement, financed initially under permanent indefinite authority to borrow funds from the Treasury, is repaid from collections of loan fees, repayments, and default recoveries. The Congress authorizes the dollar amount of obligations that can be made for the cost of direct loans and loan guaranties and establishes the maximum amount of loans the SBA can guarantee in its annual Appropriation Act.

A permanent indefinite authority is available to fund any reestimated increase of subsidy costs that occurs after the year in which a loan is disbursed. Reestimated reductions of subsidy costs are returned to the Treasury and are unavailable to the SBA. As required by the FCRA, the SBA uses budgetary "program accounts" to account for appropriations in its credit programs and nonbudgetary "financing accounts" to account for credit program cash flow. Estimates and reestimates of credit program subsidy expenses are recorded in SBA's program accounts. Financing accounts are used to account for Treasury borrowings, the collection of loan fees, repayments and default recoveries, and the disbursement of loans and loan expenses.

Advances

The SBA has both intragovernmental advances and advances to the public. Intragovernmental advances are primarily to the Interior Business Center of the Department of the Interior for contracting assistance on work not yet performed. Advances to the public represent prepaid grants to counseling and training partners.

Accounts Payable

Accounts Payable are amounts that will be liquidated during the next operating cycle. Included in the liability are payables to SBA lenders for their share of loan collections and to vendors for goods and services.

Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. However, some grant recipients incur expenditures prior to initiating a request for disbursement based on the nature of the expenditures. The SBA accrues a liability for expenditures incurred by grantees prior to receiving grant funds for the expenditures. The accrual is determined through an analysis of historic grant expenditures. The Small Business Development Center program and several other grant programs are subject to this treatment.

Contingencies

The SBA is a party in various administrative proceedings, legal actions, environmental suits, and claims brought against the Agency. In the opinion of SBA's management and legal counsel, the ultimate resolution of these proceedings, actions, suits and claims will not materially affect the financial position or results of SBA's operations. The likelihood of loss to the SBA ranges from remote to a reasonably possible amount of $3.0 million.

Cumulative Results of Operations

The Cumulative Results of Operations, presented on the Balance Sheet and on the Statement of Changes in Net Position, is the accumulated difference between expenses and financing sources since the inception of the Agency. The amounts reported reflect timing differences between the recording of expenses and the recognition of resources. Most of this timing difference results from subsidy reestimates which are funded in the following year.

Unexpended Appropriations

Unexpended Appropriations is the portion of SBA's appropriations received which are either undelivered or unobligated. Delivered orders result in expended appropriations and reduce the total reported as Unexpended Appropriations. Undelivered orders are the amount of orders of goods or services which have not been actually or constructively received.

Other Financing Sources

The Statement of Changes in Net Position contains a line item under Other Financing Sources titled Other - Non-entity Activity. This amount is the offset to non-entity collections to the general fund of the Treasury for downward subsidy reestimates that are payable to the Treasury under Federal Credit Reform requirements.

Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Fiduciary Activities

Fiduciary activities are the receipt, management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-federal entities have an ownership interest that the Federal Government must uphold. Fiduciary cash and other assets are not assets of the government, and are not recognized on SBA's proprietary statements, but they are required to be disclosed in the notes to SBA's financial statements. SBA's fiduciary balances are on deposit in commercial banks. SBA's fiduciary activities are discussed in Note 4.

Employee Benefits

Leave

A liability for employee annual leave is accrued as it is earned and reduced as leave is taken. Each year the balance of accrued annual leave is adjusted to reflect current pay rates as well as forfeited "use or lose" leave. Annual leave earned but not taken, within established limits, is funded from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

Employee Health and Life Insurance Benefits

SBA employees may choose to participate in the contributory Federal Employees Health Benefits and the Federal Employees Group Life Insurance programs. The SBA matches a portion of the employee contributions to each program. Such matching contributions are recognized as current operating expenses.

Employee Pension Benefits

SBA employees participate in either the Civil Service Retirement System or the Federal Employees Retirement System and Social Security. These systems provide benefits upon retirement and in the event of death, disability or other termination of employment and may also provide pre-retirement benefits. They may also include benefits to survivors and their dependents, and they may contain early retirement or other special features. SBA's contributions to both retirement plans, as well as to the government-wide Federal Insurance Contribution Act administered by the Social Security Administration, are recognized on the Consolidated Statement of Net Cost as current operating expenses.

Federal employee benefits also include the Thrift Savings Plan. For FERS employees the SBA matches employee contributions to the plan, subject to limitations. The matching contributions are recognized as current operating expenses.

Imputed Financing Costs

The SBA recognizes the full cost of providing all employee benefits and future retirement benefits, including life and health insurance, at the time employee services are rendered. Eligible retired SBA employees can continue to participate in health and life insurance plans. The cost of these benefits is funded through Agency contributions, employee compensation to the extent withheld from employee and retiree pay, from matching of employee withholding for Thrift Savings Plan and FICA, and by the Office of Personnel Management, which administers the retirement programs for SBA employees.

The OPM calculates imputed costs as the actuarial present value of future benefits attributed to services rendered by covered employees and eligible retired SBA employees during the accounting period, net of the amounts contributed by employees, retirees, and the Agency. The SBA recognizes these imputed costs in the Statement of Net Cost and imputed financing in determining SBA's net position.

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection to covered federal civilian employees injured on the job and to beneficiaries of employees whose deaths are attributable to job-related injury or disease. The FECA program is administered by the Department of Labor.

The DOL pays valid claims as they occur, which are billed to the SBA annually and funded and paid approximately 15 months later. The DOL also calculates an estimated actuarial liability for future benefits based upon historical experience and other economic variables. Projected annual benefit payments are then discounted to present value using the forecasted interest rates for 10-year Treasury notes and bonds published by the OMB in its economic assumptions for the federal budget. The SBA recognizes a current unfunded cost for the actual claims paid and the change in the FECA actuarial liability each year.

NOTE 2 FUND BALANCE WITH TREASURY

The Department of the Treasury processes cash receipts and disbursements on SBA's behalf to pay liabilities and finance loan program costs. Cash receipts are deposited into SBA's account at the Treasury. SBA's fund balances with the Treasury are available to make expenditures to liquidate allowable obligations, except for the Non-entity Fund Balance which is not available to the SBA to obligate or expend. Separate records are maintained for SBA's program, financing, liquidating, suspense/budget clearing accounts, and other accounts. Fund balances at the Treasury include expired year amounts, which are unavailable for obligation, as well as amounts currently available for new obligations.

(Dollars in Thousands)

As of September 30,		2019		2018
Appropriated Funds	$	1,886,997	$	2,436,393
Financing Funds		5,047,017		5,601,996
Liquidating Funds		652		1,229
Revolving Fund		100,464		97,835
Trust Fund		221		166
Total Entity Fund Balance with Treasury		**7,035,351**		**8,137,619**
Budget Clearing Account Balance		1,324		327
Total Fund Balance with Treasury	**$**	**7,036,675**	**$**	**8,137,946**
Status of Fund Balance with Treasury				
Apportioned, unexpired accounts	$	1,794,909	$	2,723,268
Unapportioned, unexpired accounts		4,048,246		3,894,487
Obligated Balance Not Yet Disbursed		1,143,285		1,692,976
Expired Unobligated Balance		48,911		50,216
Borrowing Authority Not Converted to Funds		-		(223,328)
Nonbudgetary		1,324		327
Total Fund Balance with Treasury	**$**	**7,036,675**	**$**	**8,137,946**

Unobligated balances become available when OMB approves SBA's request to apportion funds for obligation in the current fiscal year. Obligated balances not yet disbursed include unpaid obligations offset by uncollected customer payments from other federal government accounts. The unobligated and obligated balances are reflected on the Statement of Budgetary Resources.

NOTE 3 CASH

The SBA field offices deposit collections from borrowers in SBA's account at the Treasury using an electronic deposit system. At the end of the fiscal year, collections temporarily held by SBA field offices pending deposit are recorded as Undeposited Collections - Cash in Transit and totaled $3.0 million and $2.1 million as of September 30, 2019 and 2018.

NOTE 4 FIDUCIARY ACTIVITIES: MASTER RESERVE FUND AND MASTER RESERVE ACCOUNT

Fiduciary activities are the receipt, management, protection, accounting, investment, and disposition by the federal government of cash or other assets in which non-federal entities have an ownership interest that the federal government must uphold. Fiduciary cash and other assets are not assets of the government, and are not recognized on SBA's proprietary statements, but are required to be disclosed in the notes to SBA's financial statements. SBA's fiduciary balances are on deposit in commercial banks.

The Master Reserve Fund is a fiduciary activity administered by SBA's fiscal transfer agent, Colson Services Corp., a subsidiary of the Bank of New York Mellon. The balance in the MRF is invested, according to SBA policy, entirely in Treasury securities and repurchase agreements that are backed by Treasury securities. The MRF is an integral part of SBA's 7(a) secondary market program. The MRF was authorized by the Small Business Secondary Market Improvement Act of 1984 to facilitate the pooling of 7(a) guarantied loans that are purchased by secondary market investors. The MRF receives monthly payments from SBA guarantied borrowers and disburses monthly to 7(a) secondary market pool investors based on a schedule of amounts due. In FY 2019, the MRF also received a $380 million transfer from the SBA to support select cohort available balances, which have absorbed an increase in distributions of prepaid principal to pool certificate holders. The 7(a) secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 7(a) secondary market investors. The MRF supports $33.9 billion and $33.4 billion of outstanding SBA guarantied 7(a) secondary market pool principal as of September 30, 2019 and 2018.

The Master Reserve Account is an SBA fiduciary activity that is administered for the SBA by PwC. The balance in the MRA is invested entirely in Treasury securities. The MRA facilitates the operation of the 504 Certified Development Company secondary market program. The MRA was authorized by Section 505 of the Small Business Investment Act of 1958 as amended, as a vehicle to receive, temporarily hold, and distribute 504 program cash flows. The MRA receives monthly payments from 504 borrowers and retains the payments until a semi-annual debenture payment is due to secondary market investors. The 504 secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 504 secondary market investors. The MRA supports $26.5 billion and $26.7 billion of SBA guarantied 504 debentures outstanding in the secondary market as of September 30, 2019 and 2018.

The composition of the MRF and MRA and a reconciliation of the changes in the assets are included in the following table.

Master Reserve Fund and Master Reserve Account

(Dollars in Thousands)

FIDUCIARY ASSETS

As of September 30,	2019			2018		
	MRF	MRA	Total	MRF	MRA	Total
Cash	$ 3,060	$ -	$ 3,060	$ -	$ -	$ -
Short Term Securities						
Money Market Funds	30,084	722,797	752,881	20,836	673,079	693,915
Treasury Bills	179,222	-	179,222	44,930	-	44,930
Repurchase Agreements	510,101	-	510,101	643,006	-	643,006
Total Cash and Short Term Securities	**722,467**	**722,797**	**1,445,264**	**708,772**	**673,079**	**1,381,851**
Long Term Securities						
Treasury Notes/Bonds Including Interest	2,317,380	-	2,317,380	2,750,655	-	2,750,655
Total Long Term Securities	**2,317,380**	**-**	**2,317,380**	**2,750,655**	**-**	**2,750,655**
Net Assets	**$ 3,039,847**	**$ 722,797**	**$ 3,762,644**	**$ 3,459,427**	**$ 673,079**	**$ 4,132,506**

RECONCILIATION OF FIDUCIARY ASSETS

For the Years Ended September 30,	2019			2018		
	MRF	MRA	Total	MRF	MRA	Total
Beginning Net Assets	**$ 3,459,427**	**$ 673,079**	**$ 4,132,506**	**$ 4,255,865**	**$ 686,925**	**$ 4,942,790**
Receipts						
Earned Income	63,004	19,566	82,570	58,480	12,168	70,648
Contributions	9,501,440	14,522,564	24,024,004	7,706,535	14,898,852	22,605,387
Net Realized Gain (Loss)	3,015	-	3,015	6,890	-	6,890
Total Receipts	**9,567,459**	**14,542,130**	**24,109,589**	**7,771,905**	**14,911,020**	**22,682,925**
Less Disbursements						
Payments to Investors	9,987,039	14,492,412	24,479,451	8,568,343	14,924,866	23,493,209
Total Disbursements	**9,987,039**	**14,492,412**	**24,479,451**	**8,568,343**	**14,924,866**	**23,493,209**
Ending Net Assets	**$ 3,039,847**	**$ 722,797**	**$ 3,762,644**	**$ 3,459,427**	**$ 673,079**	**$ 4,132,506**

Note: Contributions for FY 2019 shown for the MRF include a $380 million cash transfer from the SBA (Note 6.E).

NOTE 5 ACCOUNTS RECEIVABLE

Accounts receivable include amounts owed by the public for guaranty fees in SBA's loan and surety bond programs, refunds due from employees and others, as well as other amounts owed by lenders for guarantied loan purchases that lack the required documents. An Allowance for Loss on uncollectible Surety Bond Guaranty fees is based on an aging of delinquent balances. The uncollectible amount for refunds and loan guaranty fees is not significant and no allowance is provided. Amounts over 180 days past due on guarantied loans purchased by the SBA are written off for financial reporting purposes. The amount shown in "Other" consists primarily of receivables due from lenders and guaranty purchase repairs.

(Dollars in Thousands)

As of September 30,		2019		2018
Public				
Guaranty Fees Receivable	$	78,631	$	75,434
Refunds		1,002		1,427
Other		84,820		17,317
Total Public		**164,453**		**94,178**
Allowance For Loss		(626)		(655)
Net Public	**$**	**163,827**	**$**	**93,523**

Accounts Receivable - Other increased due to fourth quarter activity related to the booking of miscellaneous receivables due from lenders for the purchase of defaulted loans. As stated above, only amounts over 180 days past due on guarantied loans purchased by the SBA are written off for financial reporting purposes. This increase in activity created balances that were well within the 180 day write off period.

NOTE 6 CREDIT PROGRAM RECEIVABLES AND LIABILITY FOR LOAN GUARANTIES

A. Loan Program Descriptions and Accounting

Loan Program Descriptions

The SBA provides guaranties that help eligible small businesses obtain loans from participating lenders and licensed small business investment companies to make investments in qualifying small businesses. The SBA also makes loans to microloan intermediaries and provides direct loans that assist homeowners, renters, businesses of all sizes, and private nonprofit organizations recover from disasters.

Major Direct Loan and Loan Guaranty Programs

Program group	Program type	Program
Disaster	Direct	Disaster Assistance Loans
Business	Guarantied	7(a) Loan Guaranty
Business	Guarantied	504 Certified Development Company
Business	Guarantied	Small Business Investment Company Debentures
Business	Direct	7(m) Microloan

SBA's Disaster Assistance Loan program makes direct loans to disaster survivors under four categories: (1) physical disaster loans to repair or replace damaged homes and personal property; (2) physical disaster loans to businesses of any size; (3) economic injury disaster loans to eligible small businesses and nonprofit organizations without credit available elsewhere; and (4) economic injury loans to eligible small businesses affected by essential employees called up to active duty in the military reserves. The maximum interest rate is 4 percent for loan applicants without credit available elsewhere and 8 percent for applicants with credit available elsewhere.

SBA's business loan programs include its flagship 7(a) Loan Guaranty program in which the SBA guarantees up to 90 percent of the amount of loans made by participating banks and other lending institutions to eligible small businesses not able to obtain credit elsewhere.

The 504 Certified Development Company program guarantees 100 percent of the principal and interest payments on debentures issued by development companies for loans to eligible small businesses secured by real estate or equipment.

The Small Business Investment Company program guarantees principal and interest payments on debentures issued by small business investment companies, which in turn make investments in qualifying small businesses.

The 7(m) Microloan program provides direct loans to nonprofit intermediaries, which use these funds to make loans up to $50,000 to eligible small businesses.

Credit Subsidy Modeling

The SBA estimates future cash flows for direct and guarantied loans using economic and financial credit subsidy models. These estimated cash flows are used to develop the subsidy funding required under the Federal Credit Reform Act of 1990. The SBA has developed a customized credit subsidy model for each of its major loan programs.

SBA's models vary in the specific methodologies employed to forecast future program cash flows. In general, however, models for all major credit programs use historical data as the basis for assumptions about future program performance and then translate these assumptions into nominal cash flow estimates by applying rules about program structure. Nominal cash flow forecasts are discounted using the OMB's Credit Subsidy Calculator that has both forecasted and actual Treasury interest rates.

Historical data are used as the basis for program performance assumptions. The historical data undergo quality review and analysis prior to its use in developing model assumptions.

Key input to the subsidy models varies by program. Input includes items such as:

- Contractual terms of the loan or guaranty such as loan amount, interest rate, maturity and grace periods
- Borrower characteristics
- Loan origination methods
- Economic indicators such as gross domestic product growth and unemployment rate
- Loan performance assumptions, for example: conditional purchase and prepayment rates and recovery rates
- Loan fee rates

Subsidy Funding under the Federal Credit Reform Act

FCRA requires that the credit subsidy costs of direct loans and loan guaranties be expensed in the year loans are disbursed. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The cost expressed as a percentage of loans disbursed is termed the subsidy rate. The SBA receives appropriations to fund its credit programs based on the subsidy rate that applies to the credit program level approved by Congress. The SBA records subsidy expenses when loans are disbursed. In accordance with FCRA, subsidy costs are reestimated annually.

Credit Program Receivables and Related Foreclosed Property, Net

FCRA governs direct loans made after FY 1991. FCRA direct loans are valued at the present value of expected future cash flows discounted at the interest rate of marketable Treasury securities. The subsidy allowance represents the difference between the outstanding loans receivable balance and the net present value of the estimated cash flows of the loans over their remaining term. The subsidy allowance is subtracted from the outstanding loans receivable balance to obtain the net loans receivable balance.

Guarantied loans purchased by the SBA upon borrower default are established as loans receivable and are valued in a similar manner as direct loans under FCRA.

Direct loans and defaulted guaranties made prior to FCRA are valued at the current receivable balance net of an allowance for uncollectible amounts calculated using historical loss experience.

The SBA advances payments semiannually to honor SBA's timely payment requirement of principal and interest due for debentures in SBA's 504 Certified Development Company and Small Business Investment Company programs. The advances are liquidated by receipt of the payments due from borrowers in these programs. Advance balances are reported as Other Loans Receivable.

Interest receivable is comprised of accrued interest on loans receivable and purchased interest related to defaulted guarantied loans. Interest income is accrued at the contractual rate on the outstanding principal amount and is reduced by the amount of interest income accrued on nonperforming loans in excess of 90 days delinquent. SBA's purchase of accrued interest is limited to 120 days on the defaulted guaranty unless the loan has been sold in the secondary market. Purchased interest is carried at cost, and an allowance is established for amounts in excess of 90 days delinquent.

Foreclosed property is comprised of real and personal property acquired through foreclosure on direct loans and defaulted loan guaranties. Properties acquired as a result of defaulted loans committed after FY 1991 are shown at recoverable value, which is adjusted to the present value of expected future cash flows for financial statement presentation through the allowance for subsidy. Other foreclosed property is shown at the appraised value. At September 30, 2019 SBA's foreclosed property was $24.7 million related to 83 loans. The properties had been held for an average of 1,275 days. At September 30, 2018 foreclosed property was $20.7 million related to 67 loans. The properties had been held for an average of 904 days.

Valuation Methodology for the Liability for Loan Guaranties under FCRA

FCRA also governs loan guaranties made after FY 1991. A liability for outstanding guaranties is included on SBA's Balance Sheet. The liability for guarantied loans committed after FY 1991 is based on the net present value of their expected future cash flows, including guaranty fee inflows and the net cash outflows of defaulted guarantied loans purchased by the SBA.

Valuation Methodology for Pre-FCRA Liability for Loan Guaranties

The SBA values pre-credit reform direct and defaulted guarantied loans by estimating an allowance for loan losses. This allowance is offset against gross loan receivables to obtain SBA's expected net collections from these assets. The SBA establishes a 100 percent allowance for pre-credit reform direct and guarantied loans that are past due more than 180 days.

B. Credit Program Receivables and Related Foreclosed Property, Net

(Dollars in Thousands)

As of September 30, 2019	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 6,736	$ 191,712	$ 198,448
Interest Receivable	-	550	550
Foreclosed Property	2,608	-	2,608
Allowance	(6,719)	(19,501)	(26,220)
Total Direct Business Loans	**2,625**	**172,761**	**175,386**
Direct Disaster Loans			
Disaster Loans Receivable	523	9,568,423	9,568,946
Interest Receivable	154	42,071	42,225
Foreclosed Property	-	3,715	3,715
Allowance	(126)	(1,265,374)	(1,265,500)
Total Direct Disaster Loans	**551**	**8,348,835**	**8,349,386**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	3,823	3,269,080	3,272,903
Other Loans Receivable (see note below)	-	76,758	76,758
Interest Receivable	-	26,820	26,820
Foreclosed Property	1,894	16,489	18,383
Allowance	(3,259)	(2,422,697)	(2,425,956)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**2,458**	**966,450**	**968,908**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 9,493,680**

As of September 30, 2018	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 961	$ 190,963	$ 191,924
Interest Receivable	2,607	389	2,996
Foreclosed Property	2,606	-	2,606
Allowance	(5,124)	(20,504)	(25,628)
Total Direct Business Loans	**1,050**	**170,848**	**171,898**
Direct Disaster Loans			
Disaster Loans Receivable	878	8,994,698	8,995,576
Interest Receivable	147	64,027	64,174
Foreclosed Property	-	2,697	2,697
Allowance	(166)	(1,325,326)	(1,325,492)
Total Direct Disaster Loans	**859**	**7,736,096**	**7,736,955**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	30	3,123,087	3,123,117
Other Loans Receivable (see note below)	-	78,859	78,859
Interest Receivable	249	25,975	26,224
Foreclosed Property	1,868	13,504	15,372
Allowance	(1,782)	(2,422,851)	(2,424,633)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**365**	**818,574**	**818,939**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 8,727,792**

Note: Other Loans Receivable includes payments advanced by the SBA against future reimbursements in the SBIC and 504 loan programs.

C. Loans Disbursed and Outstanding Loan Obligations

(Dollars in Thousands)

DIRECT LOANS

New Loans Disbursed During the Year Ended September 30,	2019	2018
Business Direct Loan Program	$ 35,263	$ 37,724
Disaster Loan Program	1,518,101	3,590,561
Total Direct Loans Disbursed	**$ 1,553,364**	**$ 3,628,285**

Outstanding Loan Obligations as of September 30,	2019	2018
Business Direct Loan Program	$ 42,191	$ 37,772
Disaster Loan Program	636,888	1,203,018
Total Direct Loan Obligations	**$ 679,079**	**$ 1,240,790**

GUARANTIED LOANS

New Loans Disbursed During the Year Ended September 30,	2019	2018
Total Principal Disbursed at Face Value	$ 26,790,570	$ 29,269,593
Total Principal Disbursed Guarantied by the SBA	21,188,429	23,028,188

Outstanding Loan Obligations as of September 30,	2019	2018
Business Guarantied Loan Programs	$ 15,845,258	$ 16,741,515

Loans Outstanding as of September 30,	2019	2018
Total Principal Outstanding at Face Value (see note below)	$ 129,717,116	$ 128,765,704
Total Principal Outstanding Guarantied by the SBA (see note below)	105,827,203	105,574,381

Note: SBA's guarantied loan servicing agent provides data to the SBA on the unpaid principal balance of guarantied loans within a precision of less than 1 percent due to timing.

D. Subsidy Cost Allowance Balances

(Dollars in Thousands)

For the Years Ended September 30,	2019	2018
Post-1991 Business Direct and Purchased Guarantied Loans		
Beginning Balance of Allowance Account	**$ 2,443,355**	**$ 2,842,337**
Current Year's Subsidy (see 6.G for breakdown by component)	3,136	3,407
Loans Written Off	(864,737)	(831,015)
Subsidy Amortization	(2,558)	(2,626)
Allowance Related to Guarantied Loans Purchased This Year	736,242	277,050
Miscellaneous Recoveries and Costs	128,364	153,179
Balance of Subsidy Allowance Account before Reestimates	2,443,802	2,442,332
Technical Assumptions/Default Reestimates	(1,604)	1,023
Ending Balance of Allowance Account	**$ 2,442,198**	**$ 2,443,355**

Note: The Business Direct reestimate includes an Interest Rate Reestimate of ($1,759) thousand for FY 2019 and $307 thousand for FY 2018.

Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	**$ 1,325,326**	**$ 899,235**
Current Year's Subsidy (see 6.G for breakdown by component)	188,230	456,849
Loans Written Off	(197,254)	(108,281)
Subsidy Amortization	(14,700)	(13,097)
Miscellaneous Recoveries and Costs	57,004	54,801
Balance of Subsidy Allowance Account before Reestimates	1,358,606	1,289,507
Technical Assumptions/Default Reestimates	(93,232)	35,819
Ending Balance of Allowance Account	**$ 1,265,374**	**$ 1,325,326**

Note: The Disaster Direct reestimate includes an Interest Rate Reestimate of ($27,228) thousand for FY 2019 and ($34,794) thousand for FY 2018.

E. Liability for Loan Guaranties

(Dollars in Thousands)

For the Years Ended September 30,	2019	2018
Pre-1992 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**$ 1**	**$ 8**
Adjustment to Expected Losses, Guaranties Outstanding	(1)	(7)
Ending Balance of Liability for Loan Guaranties	**-**	**1**
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**2,662,785**	**2,556,360**
Current Year's Subsidy (see 6.G for breakdown by component)	668	2,338
Fees	1,325,782	1,378,849
Interest Accumulation Factor	68,076	79,454
Claim Payments to Lenders	(1,495,093)	(988,670)
Adjustment Due to Reestimate & Guarantied Loan Purchases	758,851	711,620
Miscellaneous Recoveries and Costs	(337,044)	19,034
Balance of Liability for Loan Guaranties before Reestimates	2,984,025	3,758,985
Technical Assumptions/Default Reestimates	(983,605)	(1,096,200)
Ending Balance of Liability for Loan Guaranties	**2,000,420**	**2,662,785**
Total Ending Balance of Liability for Loan Guaranties	**$ 2,000,420**	**$ 2,662,786**

Note: The Business Loan Guaranties reestimate includes an Interest Rate Reestimate of ($20,303) thousand for FY 2019 and ($3,386) thousand for FY 2018. Also, the large flux showing on the "Miscellaneous Recoveries and Costs" line is primarily attributable to the transfer of $380 million to the MRF (Note 4).

F. 2019 Subsidy Rates by Program and Component

Loan Program	Total Subsidy	Financing	Default	Other	Fee
Guaranty					
7(a)	**0.00%**	0.00%	4.34%	0.00%	-4.34%
504 CDC	**0.00%**	0.00%	4.41%	0.46%	-4.87%
504 Refi	**0.00%**	0.00%	4.51%	0.47%	-4.98%
SBIC Debentures	**0.00%**	0.00%	3.50%	0.06%	-3.56%
Direct					
Disaster	**12.29%**	2.56%	12.74%	-3.01%	0.00%
Microloan	**8.77%**	6.76%	2.31%	-0.30%	0.00%

The subsidy rates in Table F pertain only to loans obligated in the current year. These rates cannot be applied to the loans disbursed during the current year to yield the subsidy expense because loans disbursed during the current year include loans obligated in prior years. Subsidy expenses reported in Note 6.G result from the disbursement of loans obligated in the current year as well as in prior years and include reestimates.

G. Subsidy Expense by Component

(Dollars in Thousands)

For the Years Ended September 30,	2019	2018
Business Loan Guaranties		
Defaults	$ 5,696	$ 23,202
Fees	(5,556)	(22,888)
Other	528	2,024
Subsidy Expense Before Reestimates and Loan Modifications	668	2,338
Reestimates	(983,605)	(1,096,200)
Total Guarantied Business Loan Subsidy Expense	**$ (982,937)**	**$ (1,093,862)**
Business Direct Loans		
Interest	$ 2,469	$ 2,727
Defaults	803	829
Other	(136)	(149)
Subsidy Expense Before Reestimates	3,136	3,407
Reestimates	(1,604)	1,023
Total Business Direct Loan Subsidy Expense	**$ 1,532**	**$ 4,430**
Disaster Direct Loans		
Interest	$ 44,700	$ 131,525
Defaults	194,774	467,879
Other	(51,244)	(142,555)
Subsidy Expense Before Reestimates	188,230	456,849
Reestimates	(93,232)	35,819
Total Disaster Direct Loan Subsidy Expense	**$ 94,998**	**$ 492,668**

H. Administrative Expense

The SBA received appropriations to administer its credit programs, including the making, servicing and liquidation of its loans and guaranties. The decrease in disaster loan administrative expense is due to additional funding and disaster activity in FY 2018. Amounts expensed in the Statement of Net Cost are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,	2019	2018
Disaster Direct Loan Programs	$ 333,058	$ 544,590
Business Loan Programs	155,349	152,828
Total Administrative Expense	**$ 488,407**	**$ 697,418**

I. Credit Program Subsidy Reestimates

Reestimates are performed annually on a cohort-by-cohort basis. The purpose of reestimates is to update original program cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on additional information about historical program performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods. Financial statement reestimates were performed using a full year of FY 2019 performance data for SBA's large loan programs and 9 months of actual and 3 months of projected performance data for the Secondary Market Guaranty, Microloan, and the small loan programs.

Business Guarantied Loan Programs

Net subsidy reestimates for the business guarantied loan programs are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,	2019	2018
7(a)	$ (245,591)	$ (430,734)
7(a) - Recovery Act	4,982	6,616
7(a) - Jobs Act	2,011	180
504 CDC	(338,453)	(411,673)
504 CDC - Recovery Act	(14,670)	(10,590)
504 CDC - Jobs Act	(6,833)	(3,588)
504 CDC - Debt Refinancing	(20,425)	(19,198)
504 First Mortgage Loan Pooling - Recovery Act	(2,871)	(4,326)
SBIC Debentures	(202,875)	(109,542)
SBIC Participating Securities	(56,467)	(96,413)
Secondary Market Guaranty Program	(100,648)	(6,541)
ARC - Recovery Act	(444)	(584)
All Other Guaranty Loan Programs	(1,321)	(9,807)
Total Guarantied Loan Program Subsidy Reestimates	**$ (983,605)**	**$ (1,096,200)**

The 7(a) Loan Guaranty program, SBA's flagship and largest program, had a net downward reestimate in FY 2019 of $245.6 million. The reestimate is partially due to higher than projected recoveries in FY 2019. The reestimate is also partially due to lower projected losses in FY 2020 and beyond for cohorts 2015 through 2018 due to updated economic assumptions. The updated economic assumptions project further economic strengthening.

The 7(a) Recovery Act program had a net upward reestimate of $5.0 million. The reestimate is partially due to higher than projected losses in FY 2019 and partially due to higher projected losses in FY 2020 and beyond.

The 7(a) Jobs Act cohort had a net upward reestimate of $2.0 million. The reestimate is partially due to higher than projected losses in FY 2019 and partially due to higher projected losses in FY 2020 and beyond.

The 504 Certified Development Company program had a net downward reestimate of $338.5 million. The reestimate is primarily due to better than projected FY 2019 loan performance. Actual defaults were less than projected for FY 2019, while actual recoveries were significantly higher. The program also realized larger fee revenue than projected for FY 2019. Part of the reestimate is due to an increase in recovery projections in FY 2020 and beyond, but this is partially offset by increased projections of defaults.

The 504 Recovery Act program had a net downward reestimate of $14.7 million. The reestimate is primarily due to lower than projected losses in FY 2019.

The 504 Jobs Act program had a net downward reestimate of $6.8 million. The reestimate is primarily due to lower than projected losses in FY 2019.

The 504 Debt Refinancing program had a net downward reestimate of $20.4 million. The reestimate is primarily due to better than projected FY 2019 loan performance. Actual purchases in the 504 Debt Refinancing program were less than those projected.

The Section 504 First Mortgage Loan Pooling program had a net downward reestimate of $2.9 million. The downward reestimate is primarily due to higher than projected recoveries in FY 2019 and expectations for fewer projected loan prepayments which contributes to an increase in expected fee collections.

The SBIC Debentures program had a net downward reestimate of $202.9 million. The SBA updated the credit subsidy model for the SBIC Debentures program in FY 2019. The new econometric model considers past loan performance as well as variables that historically have been correlated with SBIC performance. For example, changes in the national unemployment rate are predictive in forecasting SBIC program defaults. The downward reestimate is primarily driven by lower than projected defaults in FY 2019 and a decrease in projected losses for cohorts with outstanding debenture leverage nearing maturity.

The SBIC Participating Securities program had a net downward reestimate of $56.5 million. The reestimate is primarily due to higher than projected recoveries and profit participation cash inflows in FY 2019.

The Secondary Market Guaranty program had a net downward reestimate of $100.6 million. The reestimate for cohorts 2004 - 2018 is driven by updated economic assumptions and higher than projected loan terminations in FY 2019. The downward reestimate for the 2019 cohort is due to compositional differences between actual pools issued in FY 2019 and those assumed when the cohort was formulated.

The America's Recovery Capital program had a net downward reestimate of $0.4 million. The reestimate is primarily due to higher than projected recoveries in FY 2019.

All Other Guaranty Loan programs include the New Market Venture Capital program that had a net downward reestimate of $1.3 million. The downward reestimate was driven by updates to projections of future recoveries on repurchased NMVC debentures.

Business Direct Loan Programs

Net subsidy reestimates for the business direct loan programs are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,		**2019**		**2018**
7(m) Microloan	$	(1,113)	$	1,675
7(m) Microloan - Recovery Act		(539)		(379)
Intermediary Lending Pilot Program		125		(270)
All Other Direct Loan Programs		(77)		(3)
Total Direct Loan Program Subsidy Reestimates	**$**	**(1,604)**	**$**	**1,023**

The 7(m) Direct Microloan program had a downward reestimate of $1.1 million. The reestimate is primarily due to higher than projected loan repayments in FY 2019.

The 7(m) Direct Microloan Recovery Act program had a net downward reestimate of $0.5 million. The reestimate is primarily due to lower than projected defaults in FY 2019.

The Intermediary Lending Pilot program had a net upward reestimate of $0.1 million. The reestimate is primarily due to lower than projected net cash inflows in FY 2019.

Disaster Direct Loan Program

Net subsidy reestimates for the disaster direct loan programs are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,		**2019**		**2018**
Disaster	$	(93,232)	$	35,819
Total Disaster Direct Loan Program Subsidy Reestimates	**$**	**(93,232)**	**$**	**35,819**

The Disaster Assistance program had a net downward reestimate of $93.2 million. Most cohorts experienced a downward reestimate due to enhancements in recovery projection methodology, better than projected performance in FY 2019, and updated performance assumptions. The enhancements to the recovery methodology include an added functionality to project recoveries on loans that were already charged off by the time of reestimate. The back testing of the change (including it in the prior year's reestimate model) shows an improvement in the accuracy of recoveries forecast for FY 2019. The upward reestimate for the 2018 cohort was due to worse than projected performance in FY 2019. The upward reestimate for the 2019 cohort was due to a lower actual average borrower's interest rate than was originally projected.

NOTE 7 GENERAL PROPERTY AND EQUIPMENT, NET

The SBA capitalizes equipment with a cost of $50,000 or more per unit, and a useful life of 2 years or more, at full cost and depreciates using the straight-line method over the useful life. The SBA expenses equipment not meeting the capitalization criteria.

Leasehold improvements with modifications of $50,000 or more and a useful life of 2 years or more are capitalized and amortized using the straight-line method over the useful life of the improvement or the lease term, whichever is shorter. Leasehold improvements not meeting the capitalization criteria are expensed.

Software intended for internal use, whether internally developed, contractor developed, or purchased is capitalized at cost if the unit acquisition cost is $250,000 or more and service life is at least 2 years. Capitalized software costs include all direct and indirect costs incurred, including overhead to develop the software. Software for internal use is amortized using the straight-line method over its useful life, not to exceed 5 years. Amortization begins when the software is put into production. The costs of enhancements are capitalized when it is more likely than not that the enhancements will result in significant additional capabilities. Costs that do not meet the capitalization criteria are expensed when incurred.

Assets meeting the capitalization thresholds are detailed in the following table.

(Dollars in Thousands)

As of September 30,		**2019**		**2018**
Leasehold Improvements	$	1,811	$	1,811
Amortization of Leasehold Improvements		(1,608)		(1,457)
Net		**203**		**354**
Total General Property and Equipment, Net	**$**	**203**	**$**	**354**

NOTE 8 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

These liabilities consisted of the following categories, as shown in the following table.

(Dollars in Thousands)

As of September 30,	2019	2018
Intragovernmental Liabilities - Other		
Employment Taxes Payable	$ 5,232	$ 3,080
Federal Employees' Compensation Act Payable	5,724	5,897
Total Intragovernmental Liabilities - Other	**10,956**	**8,977**
Federal Employees' Compensation Act Actuarial Liability	**28,794**	**34,854**
Surety Bond Guarantee Program Future Claims	**57,255**	**49,609**
Other Liabilities		
Prior Liens on Real Estate Payable	-	59
Accrued Unfunded Annual Leave	29,081	29,110
Total Other Liabilities	**29,081**	**29,169**
Total Liabilities Not Covered by Budgetary Resources	**126,086**	**122,609**
Total Liabilities Covered by Budgetary Resources	14,957,535	14,792,334
Total Liabilities Not Requiring Budgetary Resources	1,423	397
Total Liabilities	**$ 15,085,044**	**$ 14,915,340**

The liability for Surety Bond Guarantees is an estimate of future claims in the SBG Program for guaranties outstanding at year-end.

NOTE 9 DEBT

Borrowings payable to the Treasury result from loans provided by the Treasury to fund the portion of direct loans not covered by subsidy appropriations, and to fund the payment of downward subsidy reestimates, and other credit program disbursements (see Note 15). The SBA makes periodic principal repayments to the Treasury based on the analysis of its cash balances and future disbursement needs.

All debt is intragovernmental and covered by budgetary resources. Debt transactions and resulting balances are shown in the following table.

Intragovernmental Debt

(Dollars in Thousands)

As of September 30,	2019	2018
Beginning Balance	**$ 11,212,607**	**$ 7,693,059**
New Borrowing	2,231,792	4,426,583
Repayments	(1,634,158)	(907,035)
Ending Balance	**$ 11,810,241**	**$ 11,212,607**

NOTE 10 NET ASSETS OF LIQUIDATING FUNDS DUE TO TREASURY

Unobligated balances of liquidating funds are transferred to the Treasury general fund at the end of the fiscal year. Net Assets of Liquidating Funds Due to Treasury is the residual of the book value of assets less liabilities in the Liquidating Funds for loans made prior to FY 1992 that is not yet available for transfer.

(Dollars in Thousands)

As of September 30,		2019		2018
Disaster Loan Fund	$	552	$	861
Business Loan and Investment Fund		8,180		3,657
Total Due To Treasury	**$**	**8,732**	**$**	**4,518**

NOTE 11 OTHER LIABILITIES

Other liabilities are shown in the following table.

(Dollars in Thousands)

As of September 30,		2019		2018
OTHER LIABILITIES - INTRAGOVERNMENTAL				
Entity				
Current				
Employment Taxes Payable	$	3,792	$	5,926
Advances from Other Agencies		1,727		683
Total Current		**5,519**		**6,609**
Non-current				
Employment Taxes Payable		5,232		3,080
Federal Employees' Compensation Act Payable		5,724		5,897
Total Non-current		**10,956**		**8,977**
Total Entity		**16,475**		**15,586**
Non-entity				
Current				
Payable to Treasury		6		6
Total Other Liabilities - Intragovernmental	**$**	**16,481**	**$**	**15,592**
OTHER LIABILITIES - PUBLIC				
Entity				
Current				
Accrued Funded Payroll and Benefits	$	18,657	$	13,505
Accrued Unfunded Annual Leave		29,081		29,110
Other Liabilities		40		40
Suspense Accounts		1,423		397
Total Current		**49,201**		**43,052**
Non-current				
Prior Liens on Real Estate Payable		-		59
Total Non-current		**-**		**59**
Total Entity		**49,201**		**43,111**
Total Other Liabilities - Public	**$**	**49,201**	**$**	**43,111**

NOTE 12 LEASES

The SBA leases all of its facilities from the General Services Administration. The SBA enters into an Occupancy Agreement with the GSA for each facility. The GSA, in turn, leases commercial facilities or provides space in federal buildings. Agreements for space in federal buildings can be vacated with 120 to 180 days' notice. However, the SBA anticipates continuing the same or similar facilities leases in the future. These leases with the GSA are operating leases and are expensed in the Statement of Net Cost when incurred. FY 2019 and 2018 historical facilities lease costs were $48.0 million and $48.0 million. Future lease payments are based on FY 2020 GSA base year estimates. Projections after the base year assume a 3 percent inflation factor. Payments after 5 years reflect only current leases that will still be in effect, projected to the end of each lease term. Lease Projections after 2024 increased due to the increase in the total number of Occupancy Agreements still in effect until 2034.

Future Facilities Operating Lease Payments

(Dollars in Thousands)

Fiscal Year		Lease Projections
2020	$	48,612
2021		50,070
2022		51,572
2023		53,120
2024		54,713
After 2024		66,864
Total	**$**	**324,951**

NOTE 13 NON-ENTITY REPORTING

Non-entity Assets are assets held by the SBA but not available to the SBA. The primary non-entity asset is for SBA's downward subsidy reestimates in its loan programs. Because the loan programs are discretionary, the downward reestimates are not available to the SBA and they are returned to the Treasury in the fiscal year following the accrual of the reestimates. During the year, these general fund accounts contain SBA's prior year reestimates. At year-end, the funds are swept by the Treasury. Also, at year-end the SBA accrues the current year's reestimates, including downward reestimates as applicable. For the downward reestimates in the loan financing funds, the SBA records an accrual adjustment that records a transfer out to the non-entity fund, a reduction of subsidy allowance or loan guaranty liability, and an account payable to the non-entity fund. In the loan program funds, the SBA records a reduction of loan subsidy expense and the associated impact on the net cost. The non-entity Treasury general funds contain a corresponding account receivable in anticipation of the receipt of the downward reestimates in the following year and a Downward Reestimate Payable to the Treasury.

For consolidated financial statement presentation, the SBA eliminates the payable to the non-entity fund and the non-entity Treasury general fund receivable from the financing funds; since both are included in SBA's reporting entity. The Downward Reestimate Payable to the Treasury in the non-entity Treasury general fund is not eliminated and is reflected on the Balance Sheet as a liability line item.

(Dollars in Thousands)

As of September 30,		2019		2018
Entity				
Financing Fund Payable	$	(1,028,472)	$	(797,694)
Non-entity				
Miscellaneous Receipts Fund Receivable		1,028,472		797,694
Downward Reestimate Payable to Treasury		(1,028,472)		(797,694)
Balance Sheet Reported Payable	**$**	**(1,028,472)**	**$**	**(797,694)**

NOTE 14 CONSOLIDATED STATEMENT OF NET COST

Federal cost accounting standards require the SBA to report operating costs by strategic goal activity. Full costs include all direct and indirect costs for a strategic goal. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost.

Operating Cost

The full and net operating costs of SBA's major strategic goals are presented in the Consolidated Statement of Net Cost. Full costs are comprised of all direct costs for the strategic goals and those indirect costs which can be reasonably assigned or allocated to the strategic goals, including employee pension and other retirement benefit costs paid by the OPM and charged to the SBA.

Earned Revenue

Earned revenue arises from exchange transactions and is deducted from the full cost of SBA's major strategic goals to arrive at net strategic goals costs. The SBA recognizes earned revenue when reimbursements are payable from other federal agencies and the public as a result of costs incurred or services performed. A major source of earned revenue includes interest earned on SBA's outstanding business and disaster loan portfolios, and interest earned on uninvested funds in the credit reform financing accounts.

Reporting by Strategic Goal

The SBA reports net costs consistent with its four strategic goals on a full cost allocation basis. Strategic Goal 1 (Support Small Business Revenue and Job Growth) includes expanding access to capital for small businesses through SBA's loan and other assistance programs, research set-asides for innovative entrepreneurship, and the small business contracting set-aside program. Strategic Goal 2 (Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments) works to develop small businesses through technical assistance provided through SBA's resource partner network, online learning, and other specialized assistance programs like 8(a) Business Development, 7(j) Management and Technical Assistance, and All Small Mentor-Protégé. It also includes SBA's efforts to create a small business friendly environment. Strategic Goal 3 (Restore Small Businesses and Communities after Disasters) includes disaster preparedness and direct disaster loans. Strategic Goal 4 (Strengthen SBA's Ability to Serve Small Businesses) ensures effective and efficient management of Agency resources. Agency administrative overhead costs are fully allocated to the programs in Strategic Goals 1, 2, 3, and 4. The Management's Discussion and Analysis section of SBA's annual Agency Financial Report includes additional detail on SBA's strategic goals. Costs Not Assigned to Strategic Goals are costs associated with the Office of the Inspector General. The OIG's mission and funding are a separate and independent part of the SBA and is therefore not assigned.

Intragovernmental Gross Cost is incurred by the SBA in exchange transactions with other federal agencies. Gross Cost with the Public is incurred in exchange transactions with the public. Intragovernmental Earned Revenue is earned by the SBA in exchange transactions with other federal agencies. Earned Revenue from the Public is earned in exchange transactions with the public. The General Services Administration and the Treasury are SBA's primary intragovernmental trading partners.

The classification as Intragovernmental Cost or Gross Cost with the Public relate to the source of goods and services received by the SBA and not to the classification of related revenue. The classification of revenue, or cost being defined as "intragovernmental" or "public" is defined on a transaction by transaction basis. The purpose of this classification is to enable the federal government to provide consolidated financial statements, and not to match the public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

SBA's Gross Cost with the Public in Strategic Goals 1 and 3 is largely determined by estimates and reestimates of its credit program costs (See Note 6.I).

Intragovernmental Gross Cost and Exchange Revenue

(Dollars in Thousands)

For the Years Ended September 30,	2019	2018
STRATEGIC GOAL 1:		
Support Small Business Revenue and Job Growth		
Intragovernmental Gross Cost	$ 122,576	$ 117,805
Gross Cost with the Public	(682,440)	(822,150)
Total Strategic Goal 1 Gross Cost	**(559,864)**	**(704,345)**
Intragovernmental Earned Revenue	92,156	92,478
Earned Revenue from the Public	119,425	118,612
Total Strategic Goal 1 Earned Revenue	**211,581**	**211,090**
STRATEGIC GOAL 2:		
Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments		
Intragovernmental Gross Cost	$ 73,069	$ 57,010
Gross Cost with the Public	237,421	196,487
Total Strategic Goal 2 Gross Cost	**310,490**	**253,497**
STRATEGIC GOAL 3:		
Restore Small Businesses and Communities after Disasters		
Intragovernmental Gross Cost	$ 410,525	$ 446,982
Gross Cost with the Public	347,158	951,276
Total Strategic Goal 3 Gross Cost	**757,683**	**1,398,258**
Intragovernmental Earned Revenue	81,592	96,217
Earned Revenue from the Public	251,325	217,596
Total Strategic Goal 3 Earned Revenue	**332,917**	**313,813**
STRATEGIC GOAL 4:		
Strengthen SBA's Ability to Serve Small Businesses		
Intragovernmental Gross Cost	$ 34,639	$ 39,675
Gross Cost with the Public	112,551	136,741
Total Strategic Goal 4 Gross Cost	**147,190**	**176,416**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Intragovernmental Gross Cost	$ 6,007	$ 5,117
Gross Cost with the Public	19,518	17,635
Total Gross Cost Not Assigned to Strategic Goals	**25,525**	**22,752**
Net Cost of Operations	**$ 136,526**	**$ 621,675**

NOTE 15 STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources presents information about total budgetary resources available to the SBA and the status of those resources as of September 30, 2019 and 2018. SBA's budgetary resources were $3.1 billion and $4.7 billion for the fiscal years ended September 30, 2019 and 2018. Additionally, $9.2 billion and $12.4 billion of nonbudgetary resources (including borrowing authority and collections of loan principal, interest, and fees in financing funds) were reported for the fiscal years ended September 30, 2019 and 2018.

Permanent Indefinite Appropriations

The SBA receives permanent indefinite appropriations annually to fund increases in the projected subsidy costs of loan programs, as determined by the reestimation process required by the FCRA. The appropriations are received initially in the SBA Program Funds, and then transferred to the Financing Funds, where they are used to fund obligations. SBA's Liquidating Funds also receive permanent indefinite appropriations to fund obligations. The Financing Funds are used to account for credit program obligations made subsequent to FY 1991. Liquidating Funds are used to account for credit program obligations made prior to FY 1992.

Decreases in projected subsidy costs in the Financing Funds are returned to the Treasury through SBA's annual reestimation process. The prior year's ending unobligated balances in SBA's Liquidating Funds are also transferred to the Treasury annually.

Borrowing Authority and Terms of Borrowing

The SBA is authorized to borrow from the Treasury's Bureau of the Fiscal Service when funds needed to disburse direct loans and purchase guarantied loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2019 and FY 2018, the SBA received $2.2 billion and $4.2 billion of borrowing authority from the OMB. At the end of FY 2019, the SBA had no borrowing authority carried over. However, at the end of FY 2018, the SBA had $0.2 billion in borrowing authority carried over to fund direct loans and default claims to be disbursed in the future. The SBA pays interest to the Treasury based on Treasury's cost of funds. The rate at which interest is paid to the Treasury on the amounts borrowed (or received from the Treasury on uninvested cash balances) in a loan financing fund for a particular cohort is a disbursement-weighted average discount rate for cohorts prior to FY 2001 and a single effective rate for cohorts beginning with FY 2001. The SBA calculates and repays borrowings not needed for working capital at mid-year and at year-end for prior year cohorts. The SBA uses the loan principal, interest, and fees collected from the borrowers in its loan financing funds to repay its Treasury borrowings. The repayment maturity dates for borrowings from the Treasury are based on the loan maturities used in the subsidy calculation. The maturities range from 16 years for direct business loans, 25 years for guarantied business loans and 30 years for disaster loans.

Apportionment Categories of Obligations Incurred

During FY 2019 and FY 2018, the SBA incurred $6.4 billion and $10.4 billion of direct and reimbursable obligations, of which $0.0 billion and $0.4 billion were apportioned in category A, and $6.4 billion and $10.0 billion were apportioned in category B. Category A apportionments are restricted by quarter and program, while category B apportionments are restricted by purpose and program.

Unobligated Balances

Unobligated balances at September 30, 2019 and 2018 are $5.9 billion and $6.7 billion, which include $4.1 billion and $3.9 billion of unavailable unobligated balances. These balances are unavailable primarily because they are unapportioned by the OMB. The SBA accumulates the majority of the unobligated balances in its nonbudgetary financing accounts during the fiscal year ($4.4 billion in FY 2019 and $4.7 billion in FY 2018) from fees and subsidy to fund default claims in future years. In addition, unobligated balances are accumulated in budgetary accounts from appropriations ($1.5 billion in FY 2019 and $2.0 billion in FY 2018) that are used to finance SBA's ongoing program operations. The SBA requests OMB apportionments as needed, and after OMB approval, apportioned amounts are available for obligation.

Undelivered Orders

Undelivered orders consist of goods or services ordered and obligated which the SBA has not received. This includes any orders that have been paid in advance, but for which delivery or performance has not yet occurred. Total undelivered orders for the periods ended September 30, 2019 and 2018 were $1.3 billion and $2.3 billion. Unpaid undelivered orders for the periods ended September 30, 2019 and 2018 were $1.1 billion and $1.8 billion. Paid undelivered orders for the periods ended September 30, 2019 and 2018 were $0.2 billion and $0.5 billion. For FY 2019 total undelivered orders consist of

$1.0 billion non-federal and $0.3 billion federal. For FY 2018 total undelivered orders consist of $2.2 billion non-federal and $0.1 billion federal.

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

There was no material difference between the FY 2018 Statement of Budgetary Resources and the President's FY 2020 budget submission. The President's FY 2021 Budget with actual numbers for FY 2019 has not yet been published. The SBA expects no material differences between the President's Budget "actual" column and the FY 2019 reported results when the budget becomes available in February 2020.

NOTE 16 RECONCILIATION OF NET OPERATING COST AND NET OUTLAYS

Statement of Federal Financial Accounting Standards 53 amends requirements for a reconciliation between budgetary and financial accounting information established by SFFAS 7. SFFAS 53 provides for the budget and accrual reconciliation to replace the statement of financing. The BAR explains the relationship between the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period.

Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash. Financial accounting is intended to provide a picture of the government's financial operations and financial position and presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relations between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis illustrates this reconciliation by listing the key differences between net cost and net outlays.

As noted in SFFAS 53, in the initial year of implementation, the disclosure requirements applicable to prior reporting periods are not required for comparative presentations.

Reestimate expense is recorded at the end of the fiscal year and funded in the following fiscal year. SBA's annual reestimate process updates program costs based upon actual cash flow experience and forecasts of future cash flow. Additional discussion of reestimates is in Note 6.I and referenced throughout Note 6.

Changes in assets recognize the timing differences between the recognition of income and the receipt of funds. A major component of changes in assets is related to changes in the subsidy allowance before reestimates. The portion of the change in subsidy allowance include changes in the allowance related to current year subsidy, receipts, costs, and subsidy amortization. For additional information see Note 6.D.

Changes in liabilities recognize the timing difference between the recording and payment of expenses. A component of changes in liabilities unique to credit agencies is the change in other loan guaranties before reestimate, which includes the current year subsidy, interest accumulation factor, and miscellaneous receipts, excluding the transfer to MRF, which is separately stated. For additional information see Note 6.G.

Other financing sources include SBA's imputed cost for retirement benefits. This is an expense for the agency that is funded by the OPM.

Components of budget outlays that are not part of net operating cost include disbursements and receipts that are not a revenue or expense. The major components included in this section are financing fund outlays that do not contribute to net cost. Included in this category is the effect of the downward reestimate to Treasury from the prior year which was expensed in the prior year and disbursed during the current fiscal year. The change in loan receivable before allowance represents the receipts and disbursements that impact loan balances that are not expenses or revenue. Other changes in liability for loan guaranties are the outlays for payments to lenders and fees collected as discussed in Note 6.E. The transfer to the MRF is discussed in Note 4 and 6.E. The effect of the current year downward reestimate transferred to GFR account represents the adjustment to the reestimate associated with the President's Budget expensed and funded during the current year. Additional information is included in the detail displayed in Note 6.B, 6.D and 6.E. The transfer to the MRF is discussed further in Note 4.

Budget and Accrual Reconciliation

(Dollars in Thousands)

For the Year Ended September 30, 2019	Intragov	Public	Total
Net Operating Cost	**$ 473,069**	**$ (336,540)**	**$ 136,529**
Components of Net Operating Cost Not Part of the Net Outlays			
Property, plant and equipment depreciation	-	(151)	**(151)**
Year-end credit reform subsidy reestimates	-	1,078,441	**1,078,441**
Increase/(decrease) in assets:			
Accounts Receivable	-	70,274	**70,274**
Other Changes in Allowance Before Reestimates	-	(359,476)	**(359,476)**
Other assets	(3,855)	(759)	**(4,614)**
(Increase)/decrease in liabilities not affecting Net Outlays:			
Accounts Payable	139	5,752	**5,891**
Salaries and Benefits	2,134	(5,152)	**(3,018)**
Other Changes in Liability for Loan Guaranties Before Reestimates	-	(111,700)	**(111,700)**
Other Liabilities	(1,978)	660	**(1,318)**
Other Financing Sources:			
Federal employee retirement benefit costs paid by OPM and imputed to Agency	(21,503)	-	**(21,503)**
Total Components of Net Operating Cost Not Part of the Net Outlays	**(25,063)**	**677,889**	**652,826**
Components of the Net Outlays That Are Not Part of Net Operating Cost			
Effect of Prior Year Reestimate Paid to General Fund Receipt (GFR) Account	797,694	-	**797,694**
Changes in Loans Receivable Before Allowance	-	274,709	**274,709**
Other Changes in Liability for Loan Guaranties	-	169,311	**169,311**
Cash Transfer to the Master Reserve Fund	-	380,000	**380,000**
Effect of Current Year Downward President's Budget Reestimate Transferred to GFR Account	147,554	-	**147,554**
Other	-	(3,118)	**(3,118)**
Total Components of the Net Outlays That Are Not Part of Net Operating Cost	**$ 945,248**	**$ 820,902**	**$ 1,766,150**
Net Outlays Before Distributed Offsetting Receipts	**$ 1,393,254**	**$ 1,162,251**	**2,555,505**
Distributed Offsetting Receipts			**(946,587)**
Net Outlays			**$ 1,608,918**
Related Amounts on the Statement of Budgetary Resources			
Net Outlays (discretionary and mandatory)			**2,555,505**
Distributed Offsetting Receipts			**(946,587)**
Agency Outlays, net (discretionary and mandatory)			**$ 1,608,918**

NOTE 17 RECLASSIFICATION OF BALANCE SHEET, STATEMENT OF NET COST, AND STATEMENT OF CHANGES IN NET POSITION FOR FR COMPILATION PROCESS

To prepare the Financial Report of the U.S. Government, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows SBA's financial statements and SBA's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items.

The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

Reclassification of Financial Statements

(Dollars in Thousands)

FY 2019 SBA Balance Sheet			Line Items Used to Prepare FY 2019 Government-Wide Balance Sheet
ASSETS			**1. ASSETS**
Intragovernmental Assets			3. Federal
Fund Balance with Treasury (Note 2)	$ 7,036,675	$ 7,036,675	3.1 Fund Balance with Treasury (RC40)
Advances (Note 1)	18,476	18,476	3.10 Advances to Others and Prepayments (RC23)
Total Intragovernmental Assets	7,055,151	7,055,151	3.14 Total Federal Assets
Assets - Public and Other			2. Non-Federal
Cash (Note 3)	3,030	3,030	2.1 Cash and Other Monetary Assets
Accounts Receivable, Net (Note 5)	163,827	163,827	2.2 Accounts and Taxes Receivable
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	9,493,680	9,493,680	2.3 Loans Receivable
General Property and Equipment, Net (Note 7)	203	203	2.5 Property, Plant and Equipment
Advances (Note 1)	2,761	2,761	2.8 Other Assets
Total Assets - Public and Other	9,663,501	9,663,501	2.9 Total Non-Federal Assets
Total Assets	**$ 16,718,652**	**$ 16,718,652**	**4. Total Assets**
LIABILITIES			**5. LIABILITIES**
Intragovernmental Liabilities			
Accounts Payable (Note 1)	$ 4,816	$ 4,435	7. Federal
		8,732	7.1 Accounts Payable (RC22)
		381	7.2 Accounts Payable - Capital Transfers (RC12)
Debt (Note 9)	11,810,241	11,810,241	7.5 Interest Payable - Loans and Otherwise not Classified (RC04)
Net Assets of Liquidating Funds Due to Treasury (Note 10)	8,732	13,710	7.6 Loans Payable (RC17)
		1,727	7.8 Benefit Programs Contributions Payable (RC21)
			7.9 Advances From Others and Deferred Credits (RC23)
Downward Reestimate Payable to Treasury (Note 1, Note 13)	1,028,472	1,028,478	7.10 Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity (RC46)
Other (Note 11)	16,481	1,038	7.12 Other Liabilities (Without Reciprocals) (RC29)/1
Total Intragovernmental Liabilities	12,868,742	12,868,742	7.15 Total Federal Liabilities
Other Liabilities - Public			6. Non-Federal
Accounts Payable (Note 1)	14,130	14,130	6.1 Accounts Payable
Accrued Grant Liability (Note 1)	66,502	29,358	6.3 Federal Employee and Veteran Benefits Payable
Liability for Loan Guaranties (Note 6)	2,000,420	2,000,419	6.6 Loan Guarantee Liabilities
Federal Employees' Compensation Act Actuarial Liability (Note 1, Note 8)	28,794		
Surety Bond Guarantee Program Future Claims (Note 8)	57,255		
Other (Note 11)	49,201	172,395	6.9 Other Liabilities
Total Other Liabilities - Public	2,216,302	2,216,302	6.10 Total Non-Federal Liabilities
Total Liabilities	**15,085,044**	**15,085,044**	**8. Total Liabilities**
NET POSITION			**9. NET POSITION**
Unexpended Appropriations (Note 1)	1,779,472	1,779,473	9.2A Unexpended Appropriations
Cumulative Results of Operations (Note 1)	(145,864)	(145,865)	9.2B Cumulative Results of Operations
Total Net Position	1,633,608	1,633,608	**10. Total Net Position**
Total Liabilities and Net Position	**$ 16,718,652**	**$ 16,718,652**	**11. Total Liabilities and Net Position**

Reclassification of Financial Statements

(continued)

(Dollars in Thousands)

FY 2019 SBA Statement of Net Cost		Line Items Used to Prepare FY 2019 Government-Wide Statement of Net Cost	
STRATEGIC GOAL 1:			
Support Small Business Revenue and Job Growth			1. Gross Cost
Gross Cost	$ (559,864)	$ 34,207	2. Non-Federal Gross Cost
Less: Earned Revenue	211,581	**34,207**	6. Total Non-Federal Gross Cost
Net Cost of Strategic Goal 1	**(771,445)**		
STRATEGIC GOAL 2:			7. Federal Gross Cost
Build Healthy Entrepreneurial Ecosystems and Create		90,021	7.1 Benefit Program Costs (RC26)
Business Friendly Environments		21,503	7.2 Imputed Cost (RC25)
Gross Cost	310,490	107,383	7.3 Buy / sell Cost (RC24)
Net Cost of Strategic Goal 2	**310,490**	400,625	7.6 Borrowing and Other Interest Expense (RC05)
		27,284	7.8 Other Expenses (without Reciprocals) (RC29)
STRATEGIC GOAL 3:			
Restore Small Businesses and Communities after Disasters			
Gross Cost	757,683	**646,816**	8. Federal Gross Cost
Less: Earned Revenue	332,917		
Net Cost of Strategic Goal 3	**424,766**	**681,023**	9. Total Gross Cost
STRATEGIC GOAL 4:			10. Earned Revenue
Strengthen SBA's Ability to Serve Small Businesses		370,749	11. Non-Federal Earned Revenue
Gross Cost	147,190		12. Federal Earned Revenue
Net Cost of Strategic Goal 4	**147,190**	1,258	12.2 Buy/Sell Revenues (RC24)
		172,490	12.5 Borrowing and other interest revenue (RC05)
COST NOT ASSIGNED TO STRATEGIC GOALS		**173,748**	13. Total Federal Earned Revenue
Gross Cost	25,525		
Net Cost Not Assigned to Strategic Goals	**25,525**	**544,497**	14. Total Earned Revenue
Net Cost of Operations	**$ 136,526**	**$ 136,526**	15. Net Cost of Operations

Reclassification of Financial Statements

(Dollars in Thousands)

FY 2019 SBA Statement of Changes in Net Position		Line Items Used to Prepare FY 2019 Government-Wide Statement of Changes in Net Position	
Beginning Unexpended Appropriations	**$ 2,341,412**	**$ 2,073,156**	1. Net Position, beginning of period
		2,073,156	4. Net Position, beginning of period - adjusted
Budgetary Financing Sources			
Appropriations Received	932,917		
			5. Non-Federal Non-Exchange Revenue
Rescissions	(50,000)	454	5.7 Other Taxes and Receipts
Adjustment - Cancelled Authority	(21,640)	**454**	5.9 Total Non-Federal Non-Exchange Revenue
Return of Unrequired Liquidating Fund Appropriation	(3,312)		
Other Adjustments	(253)		7. Budgetary Financing Sources
Appropriations Used	(1,419,652)	857,713	7.1 Appropriations Received as adjusted (rescissions and other adjustments) (RC41)
Total Budgetary Financing Sources	**(561,940)**	(1,419,652)	7.2 Appropriations Used (RC39)
		1,419,652	7.3 Appropriations expended (RC38)
Ending Unexpended Appropriations	**$ 1,779,472**	6,000	7.6 Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (RC08)
		(12,324)	7.7 Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources (RC08)
		851,389	7.20 Total Budgetary Financing Sources
Beginning Cumulative Results of Operations	**$ (268,255)**		
Budgetary Financing Sources			8. Other Financing Sources
Appropriations Used	1,419,652	21,503	8.3 Imputed Financing Sources (RC25)
Donations of Cash and Cash Equivalents	112	(945,590)	8.4 Non-Entity Collections Transferred to the General Fund of the U.S. Government (RC44)
Other Financing Sources		(230,778)	8.5 Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government (RC48)
Other Financing from Costs Absorbed by Others	21,503	**(1,154,865)**	8.11 Total Other Financing Sources
Other - Current Year Liquidating Equity Activity	(6,324)		
Other - Non-entity Activity	(1,176,026)		
Total Financing Sources	**258,917**		
Less: Net Cost of Operations	**136,526**		
Net Change	**122,391**		
Ending Cumulative Results of Operations	**$ (145,864)**	**136,526**	9. Net Cost of Operations
Ending Net Position	**$ 1,633,608**	**$ 1,633,608**	10. Ending Net Position

REQUIRED SUPPLEMENTARY INFORMATION

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2019 (Unaudited)

(Dollars in Thousands)	BLIF		DLF		SBGRF
	Budgetary	Nonbudgetary Financing	Budgetary	Nonbudgetary Financing	Budgetary
BUDGETARY RESOURCES					
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 83,873	$ 4,058,429	$ 1,282,638	$ 232,486	$ 101,167
Appropriations (discretionary and mandatory)	194,314	-	139,071	-	-
Borrowing Authority (discretionary and mandatory)	-	296,688	-	1,935,104	-
Spending Authority from Offsetting Collections	-	2,237,190	-	460,321	18,219
Total Budgetary Resources	**$ 278,187**	**$ 6,592,307**	**$ 1,421,709**	**$ 2,627,911**	**$ 119,386**
STATUS OF BUDGETARY RESOURCES					
New Obligations and Upward Adjustments (total)	$ 244,301	$ 2,943,213	$ 311,847	$ 1,851,445	$ 19,066
Unobligated Balance, end of year:					
Apportioned, unexpired accounts	13	625,218	214,359	776,466	15,021
Unapportioned, unexpired accounts	33,873	3,023,876	895,503	-	85,299
Unexpired Unobligated Balance, end of year	33,886	3,649,094	1,109,862	776,466	100,320
Expired Unobligated Balance, end of year	-	-	-	-	-
Unobligated Balance, end of year (total)	33,886	3,649,094	1,109,862	776,466	100,320
Total Status of Budgetary Resources	**$ 278,187**	**$ 6,592,307**	**$ 1,421,709**	**$ 2,627,911**	**$ 119,386**
OUTLAYS, NET					
Net Outlays (discretionary and mandatory)	$ 242,090	$ 664,727	$ 326,785	$ 487,885	$ (2,630)
Distributed Offsetting Receipts	(852,053)	-	(93,195)	-	-
Agency Outlays, net (discretionary and mandatory)	**$ (609,963)**	**$ 664,727**	**$ 233,590**	**$ 487,885**	**$ (2,630)**

(Dollars in Thousands)	SE	OIG	ADVOCACY	EDP	BATF	TOTAL	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES								
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 496,323	$ 14,169	$ 2,266	$ 54,703	$ 166	$ 2,035,305	$ 4,290,915	$ 6,326,220
Appropriations (discretionary and mandatory)	267,500	21,900	9,120	247,700	-	879,605	-	879,605
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	2,231,792	2,231,792
Spending Authority from Offsetting Collections	188,140	1,000	-	-	111	207,470	2,697,511	2,904,981
Total Budgetary Resources	**$ 951,963**	**$ 37,069**	**$ 11,386**	**$ 302,403**	**$ 277**	**$ 3,122,380**	**$ 9,220,218**	**$ 12,342,598**
STATUS OF BUDGETARY RESOURCES								
New Obligations and Upward Adjustments (total)	$ 793,722	$ 22,936	$ 10,697	$ 253,192	$ 113	$ 1,655,874	$ 4,794,658	$ 6,450,532
Unobligated Balance, end of year:								
Apportioned, unexpired accounts	126,104	9,285	689	27,590	164	393,225	1,401,684	1,794,909
Unapportioned, unexpired accounts	9,694	-	-	1	-	1,024,370	3,023,876	4,048,246
Unexpired Unobligated Balance, end of year	135,798	9,285	689	27,591	164	1,417,595	4,425,560	5,843,155
Expired Unobligated Balance, end of year	22,443	4,848	-	21,620	-	48,911	-	48,911
Unobligated Balance, End of Year (total)	158,241	14,133	689	49,211	164	1,466,506	4,425,560	5,892,066
Total Status of Budgetary Resources	**$ 951,963**	**$ 37,069**	**$ 11,386**	**$ 302,403**	**$ 277**	**$ 3,122,380**	**$ 9,220,218**	**$ 12,342,598**
OUTLAYS, NET								
Net Outlays (discretionary and mandatory)	$ 574,079	$ 21,151	$ 10,094	$ 231,379	$ (55)	$ 1,402,893	$ 1,152,612	$ 2,555,505
Distributed Offsetting Receipts	(1,339)	-	-	-	-	(946,587)	-	(946,587)
Agency Outlays, net (discretionary and mandatory)	**$ 572,740**	**$ 21,151**	**$ 10,094**	**$ 231,379**	**$ (55)**	**$ 456,306**	**$ 1,152,612**	**$ 1,608,918**

See accompanying auditors' report.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
STEWARDSHIP INVESTMENTS IN HUMAN CAPITAL

(Unaudited)

Human Capital investments are expenses included in net cost for education and training programs that are intended to increase or maintain national economic productive capacity, and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. The definition excludes education and training expenses for federal personnel.

Small Business Development Centers deliver an array of services to small businesses and prospective business owners using an extensive network of lead centers and outreach locations. SBDCs deliver professional business advising and training in key management areas to small business clients throughout the United States, which generates business revenue, creates and retains jobs, and enhances local and regional economies.

SCORE is a nonprofit association comprised of over 11,000 volunteer business mentors that serve entrepreneurs with in-person mentoring, local training workshops, and online resources. SCORE adapts its structure and services to meet the needs of specific small businesses.

Women's Business Centers provide advising and training primarily to women entrepreneurs through over 100 nonprofit educational centers across the nation. Many of the training courses focus on business and financial planning that help women entrepreneurs gain financial literacy. They also provide direct advising to clients and help them access loans, federal contracts, and exporting opportunities.

Microloan Program helps the smallest of small businesses become established and achieve success. Community-based intermediary lenders provide business-based training and technical assistance to microbusinesses. The program is an important source of training assistance for low-income, women, veteran, and minority entrepreneurs.

SBA's Consulting and Training Programs includes SBA's work to develop or expand consulting and training programs focused on key areas, including underserved markets, procurement, exports, and emerging and expanding technological sectors. These small business advising and training programs are provided by or facilitated through an SBA district office, which delivers knowledge, information, or experience on a business-related subject. Training is available on a number of subjects of interest to a small business person and may be delivered to an individual, a class, or online.

Veterans Outreach includes comprehensive outreach through Veterans Business Outreach Centers and technical assistance and training to transitioning veterans that are interested in starting a new or growing an existing business through programs such as Boots-to-Business, Veteran Women Igniting the Spirit of Entrepreneurship, and Entrepreneurship Boot Camp for Veterans with Disabilities.

Entrepreneurship Education includes a variety of educational online tools to promote active learning for aspiring entrepreneurs and small businesses. The SBA also provides high-growth small businesses and opportunity to strengthen and enhance their local entrepreneurial ecosystem through intensive, cohort-based business education programs.

All Other Training and Assistance Programs not separately detailed include PRIME Technical Assistance, Native American Outreach and the 7(j) program.

Performance results are provided in the Management's Discussion and Analysis section of SBA's annual *Agency Financial Report*.

See accompanying auditors' report.

Significant Human Capital investments occur within the following programs.

(Unaudited)

(Dollars in Thousands)

For the Five Years Ended September 30,	2019	2018	2017	2016	2015
Small Business Development Centers	$ 129,929	$ 110,400	$ 118,839	$ 94,196	$ 89,225
SCORE	15,169	16,038	11,737	2,749	19,615
Women's Business Centers	24,375	23,995	24,300	17,135	18,658
Microloan Technical Assistance	25,944	28,595	23,658	28,864	19,216
SBA's Consulting and Training Programs	34,941	22,005	22,191	52,871	51,510
Veterans Outreach	16,110	18,151	22,924	22,999	27,031
Entrepreneurship Education	18,307	10,568	24,758	19,976	18,499
All Other Training and Assistance Programs	10,879	12,184	8,620	16,402	9,010
Total	**$ 275,654**	**$ 241,936**	**$ 257,027**	**$ 255,192**	**$ 252,764**

See accompanying auditors' report.

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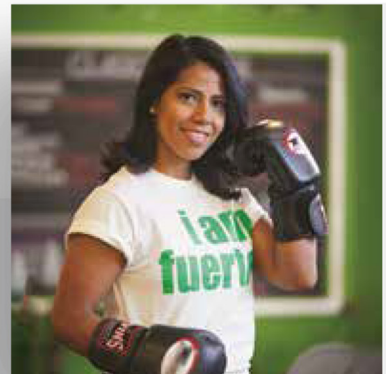
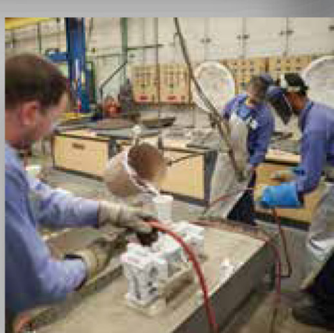
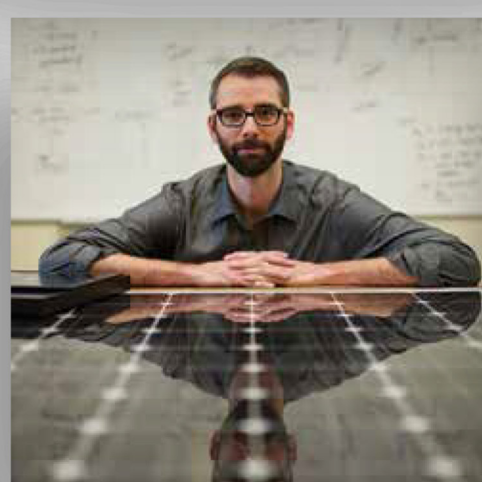


OTHER INFORMATION

(Unaudited)





SUCCESS STORY

EXPAND:

Global Multimillion Dollar Enterprise Is SBA Small Business Persons of the Year

Superstition Meadery
Prescott, AZ

Jeff and Jennifer Herbert founded Superstition Meadery in 2012, and produced 300 gallons of mead and cider in a 20 square-foot space in its first year of production. With the SBA's assistance, the company's home-based brewing has expanded into a multimillion-dollar enterprise. Within 2 years, demand for Superstition's mead and cider products pushed the company into a 2,500 square-foot space, which they outgrew in 6 months while producing 6,800 gallons of mead and cider.

Superstition Meadery uses Arizona honey and ingredients sourced from around the world, including Tahitian vanilla and Moroccan saffron, and sells nearly 30,000 gallons annually. The owners received counseling from their local Small Business Development Center and have taken two SBA loans to support continued domestic and international expansion to five countries. The company's sales grew from $724,000 in 2015 to $1.9 million in 2017, and the company expanded its staff from 9 to 20. The Herberts, founding members of the American Mead Makers Association, have traveled around the world hosting pairing events and pouring at craft beverage festivals.

OIG REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUSINESS ADMINISTRATION IN FISCAL YEAR 2020

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

Final Report Transmittal
Report Number: 20-01

DATE: October 11, 2019

TO: Christopher M. Pilkerton
Acting Administrator and General Counsel

FROM: Hannibal "Mike" Ware
Inspector General

SUBJECT: Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2020

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's (OIG's) Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year (FY) 2020. The overall goal is to focus attention on significant issues with the objective of working with Agency managers to enhance the effectiveness of the Small Business Administration's (SBA's) programs and operations. We have prepared similar reports since FY 2000.

Within each management challenge is a series of recommended actions to enhance the effectiveness of Agency programs and operations. 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 was assigned, and the recommended action has been designated as "new." Actions that were scored green last year, and 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 4 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. 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.

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**

* For challenge 4 recommendation 1, 7(a) was rated green, while 504 was rated yellow. For challenge 4 recommendation 2, 7(a) was rated yellow, while 504 was rated green. For simplicity, they are reflected as green in this table.

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.

For example, an ongoing OIG audit identified additional significant issues regarding internal control weaknesses for lender oversight. The audit report has been issued to SBA in draft and includes recommendations to address internal control weaknesses and SBA's oversight of lenders. We anticipate receiving SBA's comments and issuing the final report at the end of October 2019.

In summary, the management challenge process is an important tool that we hope will assist the Agency in prioritizing its efforts to improve program performance and enhance its operations. We look forward to continuing to work with SBA's leadership team in addressing the Agency's most serious management and performance challenges.

Challenge 1: Weaknesses in Small Business Contracting Programs and Inaccurate Procurement Data Undermine the Reliability of Contracting Goal Achievements

The Small Business Act established a governmentwide goal that 23 percent of all prime contracts be awarded to small businesses each fiscal year. In its annual Small Business Goaling Report, the Small Business Administration (SBA) has reported since fiscal year (FY) 2013 that the federal government met or exceeded its goal of awarding 23 percent of federal contracting dollars to small businesses. However, SBA excludes certain contracts, such as those awarded under the Javits–Wagner–O'Day Act, UNICOR, and some Department of Defense contracts from the small business goaling baseline. SBA asserts that these exclusions should not be considered when calculating the overall 23 percent small business procurement goaling achievement. SBA provides a goaling memorandum each year that identifies the excluded contracting actions and SBA's rationale for each exclusion. While SBA has taken steps to increase transparency in its reporting, these exclusions lead to overstatement of small business goaling achievements. OIG disagrees with SBA's underlying interpretation of the Small Business Act pertaining to the exclusions and asserts that SBA must include the total value of all prime contract awards for each fiscal year in the goaling baseline.

In addition, over the years, Congress has expressed concerns about the accuracy of the report. These concerns have been substantiated by Office of Inspector General (OIG) and Government Accountability Office (GAO) audits, which identified widespread misreporting by procuring agencies, since contract awards reported as having gone to small firms have been substantially performed by larger companies. If a firm's status as a small business changes after award and it is no longer small or in an SBA preference program, SBA's regulations allow dollars awarded to that firm to be counted as dollars to small business. As a result, agencies continue to receive credit towards achieving their small business procurement goals for some contracts awarded to firms that are either no longer small or in SBA's preference programs. Furthermore, SBA still has not implemented a certification process for the Women-Owned Small Business (WOSB) program, which can also affect the accuracy of the goaling achievements.

As the advocate for small business, SBA must strive to ensure that only eligible small firms obtain and perform small business awards. Since the goaling achievements SBA reports do not portray federal contract dollars awarded only to small businesses, SBA should continue to ensure transparency regarding the contracting dollars to businesses that are no longer small. Further, SBA should ensure that procuring agencies clearly and accurately report contracts awarded to and performed by small businesses when representing their progress in meeting small business contracting goals. SBA should also include the value of all prime contracts when calculating the governmentwide small business goaling achievements. By excluding certain contract dollars from the goaling achievements report, SBA weakens the ability of Congress and other federal policymakers to determine whether the government is maximizing contracting opportunities for small businesses.

EXCLUSIONS FROM THE SMALL BUSINESS GOALING REPORT IMPACT THE OVERALL PRIME CONTRACT GOAL

Over the last several years, SBA has amended its goaling guidelines and removed many exclusions that existed prior to FY 2013. Further, SBA recently eliminated all exclusions related to contracting actions with nonappropriated funds. In April 2019, SBA added language to its goaling website, which provides a link to the FY 2018 goaling guidelines and explains prime contract awards excluded from the goaling. While this addition aids in the transparency of the exclusions, OIG maintains that the Small Business Act does not provide for excluding prime contract awards when calculating governmentwide small business achievements. Additionally, by continuing to exclude certain types of contracts from the goaling baseline, SBA overstates the federal government small business goal achievements on a percentage basis. We further maintain that exclusions weaken the ability of Congress and other federal policymakers to determine whether the government is maximizing contracting opportunities for small business awards and participation in meeting small business goals. This is evidenced in the General Services Administration FY 2018 Goaling Without Exclusions Report, which reported small business contract expenditure data without goaling exclusions applied, resulting in a small business procurement goal achievement of 22.4 percent—2.6 percent lower than the 25 percent reported by SBA. SBA has made strides in transparency by adding more information to its goaling website and, according to SBA officials, by including new language to its draft FY 2018 Remediation Actions and Analysis Report to Congress. However, OIG disagrees with SBA's underlying interpretation of the Small Business Act. OIG asserts that the statutory language for SBA to report on all small business contracts means the 23 percent goal calculation should not consider any exclusions. By excluding certain contracts, SBA's reports are not an accurate reflection of the percentage of small business participation accomplished. OIG further continues to emphasize that SBA should include the appropriate universe of federal procurement opportunities into the goaling guidelines baseline to ensure policymakers and other interested parties receive the most accurate and transparent picture of small business participation in federal contracting.

AGENCIES RECEIVE GOALING CREDIT FOR INELIGIBLE FIRMS, FIRMS NO LONGER IN THE 8(A) OR HUBZONE PROGRAMS, OR FIRMS THAT ARE NO LONGER SMALL

OIG audits continue to identify federal agencies that may have received credit towards their small business goals for small disadvantaged businesses (e.g., those firms certified in the 8(a) program), and for Historically Underutilized Business Zone (HUBZone) firms, because procuring agency contracting officers incorrectly reported ineligible firms as either certified in the 8(a) or HUBZone programs in Federal Procurement Data System – Next Generation. In Report 1418, we identified that more than $1.5 billion dollars in FY 2013 contract actions were included towards small business contracting goals, even though the firms were no longer in the 8(a) or HUBZone programs. Through additional analytics, we also determined that of approximately $3.1 billion in contracts awarded to the top 100 individually owned firms in the 8(a) program in FY 2016, approximately $1.5 billion was awarded to firms no longer in the program. Similarly, in a September 2018 audit report (Report 18-22), we identified that SBA did not consistently detect ineligible firms in the 8(a) program and did not always act to remove firms it determined were no longer eligible for the program. We found that 20 of 25 firms we reviewed should have been removed from the 8(a) program. These firms received $126.8 million in new 8(a) set-aide contract obligations in FY 2017 at the expense of eligible disadvantaged firms. In a March 2019 report (Report 19-08), we also found that SBA did not ensure that only eligible firms entered the HUBZone program. We found that 2 of 15 firms we reviewed did not meet the principal office eligibility requirement and 1 of 15 firms did not meet the HUBZone employee residency requirement. These firms received $589,000 in HUBZone contract obligations at the expense of eligible firms.

The amount of dollars SBA reports to Congress and the public as being performed by 8(a) and HUBZone firms in the Small Business Goaling Report is affected by the inclusion of contract actions performed by ineligible program participants. SBA needs to strengthen its oversight to ensure only eligible firms participate in these preference contract programs.

SBA revised its regulations in 2004 to permit procuring agencies to claim small disadvantaged business and HUBZone goaling credit on certain contract actions, even after firms have grown to be no longer small or have left the program. SBA added these regulations to codify the existing "practice" of the agencies to include these firms even though they were no longer in an SBA preference program or were no longer small. Additionally, in 2006, SBA revised its regulations to address small business size status representations and reporting for long-term federal contracts.[10] Since 2013, SBA has made additional changes to allow procuring agencies to receive credit for dollars awarded to a small business for the first 5 years of a long-term contract, based on the size status of the firm at the time of the offer for 8(a), and at the time of application and award for HUBZone. A firm is required to recertify its small status before the end of the fifth year. If the firm is no longer small when it recertifies, the awarding agency must immediately revise all applicable federal contract databases to reflect the new size status and will not receive credit for the additional years. Therefore, in cases where a small business grows to be other than small within 5 years, the procuring agency may exercise options and still count the award as an award to a small business.

OIG contends that more transparent reporting of those awards to firms that grow to be other than small after award is necessary to portray a true picture of the small business goaling achievements. While the regulations allow procuring agencies to receive credit for dollars awarded to firms no longer in SBA preference programs, or that are other than small, by including those contract obligations in the reported small business goals, SBA cannot accurately reflect or measure true program impact. SBA has included additional information in its Small Business Goaling Report to be more transparent; however, it should still

10 SBA defines long-term contracts as "contracts with durations greater than 5 years (including options), including all existing long-term contracts, Multiagency contracts, Governmentwide Acquisition Contracts, and Multiple Award Contracts." 13 CFR 121.1004(a)(3).

consider accurately reflecting small business participation by specifying the amount awarded under long-term small business contracts to firms that have since left the program, or are other than small.

WOMEN-OWNED SMALL BUSINESS FEDERAL CONTRACTING PROGRAM SUSCEPTIBLE TO ABUSE

SBA's WOSB program provides greater access to federal contracting opportunities to WOSBs and economically disadvantaged WOSBs that meet the program's requirements. Both OIG and GAO have reported weaknesses in SBA's controls that would ensure only eligible firms receive WOSB program set-aside contracts. While SBA stated that it examines a sample of firms for eligibility and has conducted a compliance review of all four SBA-approved third-party certifiers, these processes and procedures have not yet been formalized.

The National Defense Authorization Act for FY 2015 granted contracting officers the authority to award sole-source awards to firms in the WOSB program and required firms to be certified by a federal agency, a state government, SBA's Administrator, or a national certifying entity approved by the Administrator. However, SBA implemented the sole-source authority provision first without a certification program. OIG considers allowing sole-source contracting authority in the WOSB program, without implementing the contemporaneously required certification program, inconsistent with SBA's statutory authorization. In a June 2018 audit report (Report 18-18), OIG identified that due to SBA's implementation of sole-source authority without a certification program, contracting officers at various federal agencies made sole-source awards without having the necessary documentation to determine eligibility. This implementation resulted in the awarding of approximately $52.2 million to potentially ineligible firms. SBA has made progress toward addressing this shortcoming by ensuring timely completion of the remaining steps involved in the creation of a final rule for and implementation of a certification process for the WOSB program. SBA published a proposed rule in May 2019 to amend its WOSB program regulations and is currently reviewing the public comments it received at the close of the comment period in July 2019. SBA officials stated they were exploring the use of contractors to conduct prescreening in advance of the final rule, which is estimated for June 2020. SBA officials also plan to implement part of the WOSB certification process using **certify.SBA.gov**. However, this system has limited functionality, and SBA did not make progress in enhancing it for the WOSB certification process in FY 2019. As noted below in Challenge 5, as of August 2019, SBA had spent more than $27 million on this system. Because SBA still has not implemented a certification process for the WOSB program as required, firms continue to self-certify, exposing the WOSB program to potential fraud and abuse, as well as overstating SBA WOSB contracting goals.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 2005)	**2015: 0**	**2016: 1**	**2017: 0**	**2018: 0**
Recommended Actions for FY 2020				**Status at end of FY 2019**
1. Strengthen controls in SBA preference programs to detect ineligible firms and remove those firms timely to ensure the accuracy of the federal government's annual small business procurement goals achievements reported in the Small Business Goaling Report..				**Yellow**
2. Implement a certification process for WOSB program.				**Yellow**

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

Challenge 2: Information Technology Controls Need Improvement to Address Cybersecurity Risks

Annually, OIG monitors the effectiveness of the Agency's Information Technology (IT) controls and related cybersecurity processes against control frameworks established by statutory federal guidance, the Federal Information Systems Controls Audit Manual (FISCAM), and the Federal Information Security Modernization Act (FISMA). During the past year, OIG's independent public accountant found the Agency had a significant deficiency in IT security controls and the OIG assessed the Agency as "not effective" against criteria established by FY 2018 Inspector General FISMA Reporting Metrics.

Notwithstanding these assessments, the Office of the Chief Information Officer (OCIO) improved its deployment of IT controls through resolution of outstanding OIG recommendations. OCIO also made improvements in several security areas including access controls, continuous monitoring, and configuration management.

OCIO MADE PROGRESS IN DEPLOYING FITARA CRITERIA

The goal of the Federal IT Acquisition Reform Act (FITARA) was to realize long-term cost savings through improved IT risk management, transparency, and more effective IT investment oversight. During this past year, OCIO implemented a human resource planning process to include competency and workforce plans around IT requirements. These efforts resulted in OCIO fulfilling all FITARA workforce development standards. As a result of these efforts, OIG has assessed the FITARA human resource planning requirements as implemented.

In the areas of IT investment oversight and accountability, we identified three areas for improvement. We recommended that OCIO develop a process for capturing performance goal estimates and actual cost savings/avoidance for IT initiatives. We also recommended that cloud migration decisions require approved business cases through SBA's IT governance boards. Moreover, we recommended system owners and contract officers ensure cloud services contracts specify system interoperability, portability, and data ownership. OCIO stated they have implemented controls in these three areas, and we will validate progress in future reviews.

LONG-STANDING WEAKNESSES IN IT SECURITY CONTROLS ARE BEING ADDRESSED

Our evaluations of SBA's systems and networks indicate that significant effort has been expended to formalize and document policies, procedures, and strategies. During this fiscal year, we made 35 new recommendations in IT security control areas. OCIO initiated corrective actions that resulted in 44 recommendation being resolved. This effort included 10 from prior fiscal years dating back to 2014. In summary, OCIO demonstrated progress; however, we continue to identify critical control issues in areas such as audit logging, network vulnerability management, access controls, and segregation of duties.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 1999, revised in FY 2016)	2015: 0	2016: 0	2017: 0	2018: 0

Recommended Actions for FY 2020	Status at end of FY 2019
1. Establish an OCIO human resource planning process that allows full deployment of FITARA.	Green ↑
2. The OCIO performs independent oversight of IT investments consistent with guidance.	Yellow
3. The OCIO facilitates enterprise architecture and demonstrates accountability for IT investments.	Yellow
4. The OCIO establishes and implements information security and continuous monitoring practices, and contractor systems policies and standards to ensure ongoing effectiveness of information systems.	Yellow
5. The OCIO maintains effective risk management, contingency planning, and incident response practices to minimize vulnerabilities.	Yellow
6. The OCIO establishes configuration management and identity and access management controls and procedures.	Yellow

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

Challenge 3: SBA Needs Effective Human Capital Strategies to Carry Out Its Mission Successfully and Become a High-Performing Organization

Over a decade ago, we identified human capital management as a top challenge for SBA. Since that time, SBA made substantial progress to address this long-standing challenge. Specifically, SBA developed and implemented plans that aligned talent needs and capabilities with its strategic plan. The Agency also implemented strategic workforce and succession plans to identify competency gaps, strengthen its leadership capacity, and address the challenges of its aging workforce.

Nonetheless, according to GAO, agencies need to do further work to fully use workforce analytics to evaluate actions taken to demonstrate progress in closing the competency gaps. According to GAO, mission critical skill gaps within the federal workforce pose a high risk to the nation. Long-term fiscal pressures and the changing nature of the workforce, compounded with a potential wave of employee retirements, could produce gaps in leadership and institutional knowledge.[11] The Office of Personnel Management (OPM), in a recent May 2019 evaluation of SBA's human capital operations, noted that SBA should regularly assess the effectiveness of human capital strategies and workforce plans on addressing gaps and surpluses and use the assessments to adjust strategies and plans.[12] As a result, as noted in the previous year's management challenge, OIG is currently planning to assess the effectiveness of SBA's actions to mitigate its workforce challenge risk. OIG also plans to evaluate the Agency's use of workforce analytics to evaluate its progress in closing its competency gaps.

SBA HAS MADE PROGRESS TO UPDATE HUMAN CAPITAL MANAGEMENT POLICIES

SBA has made significant progress in addressing our recommendation to update its human capital management policies. In addition to updating the policies identified by OIG, SBA also responded to numerous regulatory changes initiated by the White House and OPM resulting in the update of the Telework and the Discipline and Adverse Actions policy and the development of guidance for weather and safety leave provisions. The Agency made the decision to revise the Employment standard operating procedure (SOP) by migrating the sections into separate policies. This decision resulted in the creation of 11 distinct human capital management policies. Since 2009, the Agency has updated and implemented the 11 policies.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 2001, revised FY 2007)	2015: 1	2016: 0	2017: 1	2018: 0
Recommended Actions for FY 2020				**Status at end of FY 2019**
1. Ensure that human capital management SOPs are updated and appropriately structured to support the Agency's long-term goals and objectives and governmentwide human capital management initiatives.				Green ↑

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

Challenge 4: SBA Needs to Improve Its Risk Management and Oversight Practices to Ensure Its Loan Programs Operate Effectively and Will Continue to Benefit Small Businesses

SBA's Office of Credit Risk Management (OCRM) manages credit risk for a $120 billion loan portfolio originated by lenders and certified development companies that have various degrees of expertise regarding SBA loan program requirements. Most SBA loans are originated by lenders with delegated approval authority, resulting in limited SBA oversight and quality control reviews until a default occurs. Many lenders rely on the services of "for-fee" and other third-party agents to assist in the origination, closing, servicing, and liquidating SBA loans.

Previous OIG audits identified that SBA did not recognize significant lender weaknesses, develop an effective portfolio risk management program, or effectively identify and track third-party agent involvement in its 7(a) and 504 loan portfolios. Since the audits, SBA initiated actions to address identified issues with its oversight of lenders and made progress in implementing a portfolio risk management program. Also, SBA made substantial progress in identifying and tracking third-party agents.

While SBA took actions to address previous concerns regarding its oversight of lenders, an ongoing OIG audit identified additional significant issues regarding internal control weaknesses for lender oversight. The OIG expects to issue this audit at the end of October 2019 with recommendations to improve SBA's oversight of lenders. Additionally, SBA needs to continue to show that the portfolio risk management program is used to support risk-based decisions and implement additional controls to mitigate risks. Moreover, SBA needs to further enhance its tracking of loan agents within the 7(a) program.

SBA'S OVERSIGHT OF LENDING PARTICIPANTS

The risks inherent in delegated lending require an effective oversight program to monitor compliance with SBA policies and procedures and take corrective actions when a material noncompliance is detected. However, in a prior audit, OIG found that SBA did not always recognize the significance of lender weaknesses or determine the risks that lender weaknesses posed to the Agency during its onsite reviews. The report also found that SBA did not link the risks associated with the weaknesses to the lenders' corresponding risk ratings and assessments of operations. Further, SBA did not require lenders to correct performance problems that could have exposed SBA to unacceptable levels of financial risk.

From FY 2013 to FY 2018, SBA took actions to address identified issues with its oversight of lending participants. For example, SBA developed risk profiles and lender performance thresholds, developed an analytical review process to allow for virtual risk-based reviews, updated its lender risk rating model to better stratify and predict risk, and conducted test reviews under the new risk-based review protocol. Additionally, OCRM revised its review methodologies for 7(a) and 504 program lenders and engaged contractor support to expand on its corrective action follow-up process.

However, an ongoing audit found additional significant matters regarding SBA's oversight of lenders. The draft audit report has been sent to SBA, and we anticipate issuing the final at the end of October 2019, recommending actions to address the internal control weaknesses and improve SBA's oversight of lenders.

SBA IMPROVED PORTFOLIO RISK MANAGEMENT PROGRAM

A prior OIG report noted that SBA traditionally focused on loan approval volume and loss rates to evaluate overall program performance with risk being assessed at the lender level. As a result, SBA had not developed an effective portfolio risk management program that monitored portfolio segments to identify risk based on default statistics. Our analysis showed that SBA continued to guarantee loans to high-risk franchises and industries without monitoring risks, and where necessary, implementing controls to mitigate those risks.

From FY 2016 to FY 2018, SBA made substantial progress in demonstrating that information from the portfolio risk management program was used to support risk-based decisions, and implementing additional controls to mitigate risks in SBA loan programs. Specifically, SBA established performance measures and risk mitigation goals applicable to each loan program and the entire lending portfolio. OCRM also conducted portfolio analyses of problem lenders with heavy concentrations in SBA 7(a) lending and sales on the secondary market. In response, OCRM proposed actions to mitigate SBA exposure on the secondary market. SBA also performed an evaluation of the Community Advantage Pilot Program. Based on this analysis, SBA determined that changes were necessary to improve the performance of the Community Advantage Pilot Program. In FY 2019, SBA conducted extensive analyses on 7(a) and 504 loan program performance, which included franchise and industry concentrations and various loan characteristics. Based on these analyses, the 7(a) loan portfolio and 504 loans greater than $2 million were beginning to show signs of declining performance. However, SBA deemed that no action was required apart from continued monitoring of the portfolio performance.

SBA maintains that the current program tracks performance to support risk-based decisions at the portfolio, subprogram, and lender level, and that identified risk issues are presented to SBA executive leadership at Lender Oversight Committee meetings. SBA will need to continue to demonstrate during FY 2020 that information from this program is used to support risk-based decisions and implement additional controls to mitigate risks.

INCREASED RISK INTRODUCED BY LOAN AGENTS

Prior OIG audits and investigations identified that SBA did not have a way to effectively identify and track loan agent involvement in its 7(a) and 504 loan portfolios and had outdated enforcement regulations. Additionally, OIG investigations have revealed a pattern of fraud by loan packagers and other for-fee agents in the 7(a) Loan Program, involving hundreds of millions of dollars. Since FY 2005, OIG has investigated at least 22 cases with confirmed loan agent fraud, totaling approximately $335 million. Further, OIG has determined that loan agents were involved in approximately 15 percent of all 7(a) loans increasing the risk of default. Despite the prevalence of fraud in its loan portfolios, SBA's oversight of loan agents was limited.

SBA implemented a process that requires lenders to provide a loan agent disclosure form (Form 159) to SBA's fiscal and transfer agent (FTA) for 7(a) loans. Additionally, the FTA must enter the data into a database accessible to SBA. SBA also began linking 7(a) loan Form 159 information with its loan data. However, a September 2015 OIG report on SBA's loan agent oversight (Report 15-16) identified significant issues in the data quality on the Form 159. Additionally, the report found that SBA had not implemented tracking of the Form 159 in the 504 loan program.

In response to our loan agent report, SBA stated that it would explore the feasibility of implementing a registration system for the 7(a) program. Subsequently, SBA determined that the optimal way to gather information is the enhanced Form 159. The enhanced Form 159 was approved by OMB and rolled out with official notification and lender training. In addition to the enhanced Form 159, SBA's upcoming FTA contract will require the FTA to develop application and follow-up controls over 7(a) lender submissions, to ensure that critical fields on each form are completed. SBA expects the enhanced controls to be fully implemented during FY 2020.

In FY 2019, SBA also implemented an effective method of disclosing and tracking loan agent involvement within the 504 loan program. Specifically, SBA requires 504 lenders to electronically submit Form 159 directly into SBA's electronic lending platform. Additionally, SBA provided training to lenders during 2019 on the enhanced Form 159.

In addition, a March 2015 audit (Report 15-06) noted that the outsourcing of traditional lender functions to Lender Service Providers (LSPs), a type of loan agent, has significantly increased in recent years. Specifically, in 2014, more than 770 lenders—or approximately 28 percent of the active 7(a) lenders—had an approved agreement with at least one LSP. Additionally, SBA loan portfolios associated with the three largest LSPs exceeded that of many of the top 100 active SBA 7(a) program lenders.

Since our 2015 report, the number of SBA-approved LSP agreements has reached almost 2,900, due in part to SBA's effort to better control access by LSPs to its systems. Specifically, SBA assigns an identifying number for all LSPs that access SBA systems and records all SBA-approved LSP agreements. This trend has enabled OCRM to develop initial metrics on LSP participation in SBA's 7(a) program, but oversight is still limited. Specifically, the SBA loan agent performance analysis does not aggregate LSP loan level information in order to identify high risk LSPs. As loan agent involvement in the 7(a) program continues to increase, it will become especially important for SBA to have oversight tools in place to identify and track loan agent involvement in this sizable program.

Number of Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported in FY 2001)	**2015 7(a) loans: 1 504 loans: 1**	**2016 7(a) loans: 0 504 loans: 0**	**2017 7(a) loans: 1 504 loans: 1**	**2018 7(a) loans: 2 504 loans: 1**

Recommended Actions for FY 2020	Status at end of FY 2019	
	7(a)	504
1. Demonstrate that information from the portfolio risk management program is used to support risk-based decisions and implement additional controls to mitigate risks in SBA loan programs.	**Green**	**Yellow**
2. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.	**Yellow**	**Green ↑**
3. Enhance the analysis of loan agents to monitor and identify high-risk LSPs	**New**	**New**

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

Challenge 5: SBA Needs to Ensure That the Section 8(a) Business Development Program Identifies and Addresses the Needs of Program Participants, Only Eligible Firms Are Admitted Into the Program, and Standards for Determining Economic Disadvantage Are Justifiable

SBA's 8(a) Business Development Program was created to provide business development assistance to eligible small disadvantaged businesses seeking to compete in the American economy. A major benefit of the 8(a) program is that 8(a) firms can receive sole source, as well as set-aside, competitive federal contracts so that small businesses do not need to compete with large businesses that may have an industry advantage. SBA's challenge has been to ensure that it is providing effective business development assistance to 8(a) firms and that only eligible firms are admitted into and remain in the program. Additionally, SBA faces the challenge of developing objective and reasonable criteria for determining at which point socially disadvantaged individuals are deemed economically disadvantaged.

SBA CONTINUES TO ADDRESS ITS ABILITY TO DELIVER AN EFFECTIVE 8(A) PROGRAM

SBA has made its assistance more readily available to program participants by using resource partners, such as small business development centers, SCORE, and procurement technical assistance centers. SBA also has taken steps to ensure business opportunity specialists assess program participants' business development needs during site visits. During FY 2018, SBA implemented additional measures for business opportunities specialists to assess 8(a) firms' development for those firms participating in the 8(a) mentor-protégé program. Despite these improvements, SBA has not fully implemented an IT system that, among other functionalities, it had initially designed to aid its monitoring efforts to track 8(a) participants' business development. SBA made previous attempts to revamp its IT systems for monitoring 8(a) firms that have been unsuccessful. SBA's most recent attempt to implement an IT system, **certify.SBA.gov**, is intended to be a more comprehensive approach to service delivery and broader in scope than just the 8(a) program. It includes the WOSB, HUBZone, and mentor-protégé programs. According to program officials, although the system is not fully operational, they have gained efficiencies by collapsing the functionality of two previous systems they were using to manage the program—E-8(a) and the Business Development Management Information System.

Since last fiscal year, SBA did not make progress in enhancing the functionality of **certify.SBA.gov** for the 8(a) program. As of August 2019, SBA had spent more than $27 million on this system. Program officials stated that the initial goal was to integrate 8(a) business development functions into the **certify.SBA.gov** platform; however, their strategy changed. In FY 2019, SBA decided to only use **certify.SBA.gov** as the certification management system and plans to develop a separate system to monitor 8(a) participants' business development outside of **certify.SBA.gov**. In lieu of an IT system, SBA created a manual workaround for business opportunity specialists to assess the 8(a) participant's individual business development during the annual review and input results in an Excel spreadsheet. This file is retained in the firms **certify.SBA.gov** case file, which lacks reporting functionality. Currently, SBA has no system to assist program officials in monitoring 8(a) participants' business development to assess the effectiveness of the program. To address this, SBA formed a Tiger Team to develop a solution in FY 2020.

STREAMLINED APPLICATION PROCESS MAY EXPOSE THE 8(A) PROGRAM TO A HIGHER FRAUD RISK

Since 2010, there had been a steady decline in the number of firms participating in the 8(a) program, from about 7,000 in 2010 to about 4,900 as of August 2016. Consequently, in FY 2016, SBA leadership developed an aggressive growth plan to increase the number of participants in the 8(a) program by 5 percent over the previous year through a streamlined application process. Despite the changes to the application process, the program continues to experience a decline in firms participating in the program. As of August 2019, SBA reported the 8(a) program included 4,450 firms, which is a decline of about 10 percent over the 4,903 firms reported participating in the program as of April 2018.

According to SBA officials, the streamlined application process is less burdensome for firms applying to the 8(a) program. As part of this modified process, various documents previously used to determine an applicant's eligibility to participate in the 8(a) program would no longer be requested or would be required in a modified version. For example, SBA no longer required that applicants submit an Internal Revenue Service tax verification form, information about the applicant firm's business structure, and information on tax liens, judgments, or lawsuits. However, shortening the review process by eliminating documents may erode core safeguards that prevented questionable firms from entering the 8(a) program. At the request of SBA's former Deputy Administrator, we conducted a follow-on audit to a report issued in FY 2016 (Report 16-13) to determine whether SBA resolved eligibility concerns for the 30 firms. We determined that SBA resolved eligibility concerns for 20 of the 30 firms that we reviewed. However, we questioned the eligibility of 10 of the 30 firms (Report 17-15). Based on the audit, SBA updated its 8(a) program SOP to reinstate the requirement that applicants submit the Internal Revenue Service tax verification form. Additionally, SBA added a requirement to include a statement of difference in the review notes of each application when a final decision to approve or deny a firm's admittance into the program differs from the lower-level reviewer's recommendation.

While the updates to the SOP demonstrate substantial progress in mitigating the risk of ineligible firms being admitted to the program, SBA currently does not have a fully functional information system to assist them in monitoring whether these procedures are operating effectively. SBA is responsible for the integrity of the 8(a) program, and it should ensure that only eligible firms are admitted into and remain in the program, and that the documentation supporting 8(a) program application approvals is maintained in a method ensuring clear eligibility of the applicant. A lack of documentation clearly demonstrating eligibility of applicants or a lack of due diligence by SBA program managers can present evidentiary challenges when pursuing fraud against SBA and its program participants.

DEFICIENCIES IN CONTINUING ELIGIBILITY PROCESSES EXPOSE THE 8(A) PROGRAM TO A HIGHER FRAUD RISK

While SBA continues to consider corrective actions to improve safeguards throughout the initial 8(a) eligibility review process, SBA also needs to implement corrective actions to improve its continuing eligibility review process. In FY 2018, we reported that SBA's oversight was insufficient to ensure that 8(a) Business Development Program participants met continuing eligibility requirements (Report 18-22). We found SBA did not consistently identify ineligible firms in the 8(a) program and did not always act to remove firms it determined were no longer eligible for the program. In addition, SBA did not perform required continuing eligibility reviews when it received specific and credible complaints regarding firms' eligibility and did not log all complaints. We found that 20 of 25 firms we reviewed should have been removed from the 8(a) program. These firms received $126.8 million in new 8(a) set-aside contract obligations in FY 2017 at the expense of eligible disadvantaged firms. SBA drafted updates to its 8(a) program SOP governing the 8(a) continuing eligibility review process and evaluation standards, as well as the process for removing firms deemed ineligible for program assistance. SBA has submitted its draft SOP for review and expects a final SOP to be implemented early in FY 2020. Until SBA makes improvements and implements corrective actions to ensure it delivers an effective 8(a) program, 8(a) firms that are ineligible will continue to compete with and receive federal awards that were intended to develop disadvantaged small businesses.

SBA DOLLAR THRESHOLD FOR ECONOMIC DISADVANTAGE NOT JUSTIFIED

In March 2011, SBA revised its regulations and established additional standards to address the definition of "economic disadvantage" as an individual with a net worth of less than $250,000. In FY 2018, a contractor completed a study to assist SBA in defining or establishing criteria for determining what constitutes "economic disadvantage." According to Agency officials, the study concluded that individuals with an adjusted net worth of $375,000 should constitute "economically disadvantaged." However, SBA concluded that the $375,000 net worth standard may not be appropriate because it did not consider "economic disadvantage" as an element of continuing eligibility. Therefore, SBA published a proposed rule in May 2019 to address increasing the "economic disadvantage" to adopt the $750,000 net worth continuing eligibility standard for all economically disadvantaged determinations. SBA has requested comments to the proposed rule on whether the $375,000 or $750,000 net worth standard should be used and plans to use those to determine the definition of "economic disadvantage." OIG contends that SBA should develop objective and reasonable criteria based on quantitative research and finalize and implement that criteria for determining the threshold where socially disadvantaged individuals face economic disadvantage due to diminished credit and capital opportunities.

Number of Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported in FY 2003)	**2015: 0**	**2016: 0**	**2017: 2**	**2018: 0**
Recommended Actions for FY 2020				Status at end of FY 2019
1. Establish objective and reasonable criteria that effectively measure “economic disadvantage” and implement the new criteria.				**Orange ↓**
2. Augment and Implement controls that ensure only eligible firms are admitted into the 8(a) program.				**Yellow**
3. Develop and implement a system to assist program officials in monitoring participants’ progress in the 8(a) Business Development Program and providing business development needs on an individualized basis.				**Orange ↓**
4. Measure 8(a) Business Development Program participant’s progress on achieving its individualized business development goals and assess program effectiveness.				**Yellow**
5. Implement controls to detect ineligible firms in the 8(a) program during the continuing eligibility reviews, effectively address complaints received regarding 8(a) firms, and remove ineligible firms from the 8(a) program timely.				**Yellow**

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

Challenge 6: SBA Can Improve Its Loan Programs by Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers

In FY 2018, the dollar amount of SBA's 7(a) loan approvals reached $25.4 billion. Most of these loans are made by lenders with delegated approval authority. When a loan goes into default, SBA conducts a review of the lender's actions on the loan to determine whether it is appropriate to pay the lender the guaranty, which SBA refers to as a "guaranty purchase." For loans sold on the secondary market, SBA is obligated to purchase the guarantee from the investor and performs a review of the lenders' actions after payment is made. Pursuing recovery from a lender on sold loans is generally a more difficult task for SBA.

Previous OIG audits noted that quality control activities were not being performed at the Centers in accordance with SBA's overall Quality Control and Center specific guidance. Since the audits, the Office of Capital Access (OCA) improved the quality control program for its loan centers and took actions to accurately report and reduce improper payments. While OCA made substantial improvements, OCA needs to continue to provide evidence that the developed corrective action plans are effective in reducing improper payments.

OIG established a High Risk 7(a) Loan Review Program to evaluate lender compliance with SBA requirements for high-dollar/early-defaulted 7(a) loans (loans approved for $500,000 or more that defaulted within the first 18 months of initial disbursement). During FY 2019, OIG identified material lender noncompliance in five of the eight loans reviewed, totaling approximately $8.7 million in questioned costs. Although OCA staff completed purchase and quality control reviews on these eight loans, they did not identify or fully address the material deficiencies noted in the subsequent OIG review. Therefore, OCA needs to assess its purchase and quality control reviews to determine why the reviews did not identify or mitigate the lenders' noncompliance with SBA requirements.

SBA IMPROVED ITS QUALITY CONTROL PROGRAM TO REDUCE IMPROPER PAYMENTS

OCA has made significant progress in developing and implementing a quality control program for all its loan centers to verify and document compliance with the loan process, from origination to closeout. Additionally, OCA has taken actions to accurately report and reduce improper payments in SBA's 7(a) program. Specifically, OCA has formalized its improper payment sampling, demonstrated that its improper payments review process is effective for 7(a) loan approvals, and formalized the recovery process and time standards for 7(a) purchases. In addition, OCA developed enhanced improper payments reporting to monitor root causes, identify operational risk, and create corrective action plans for 7(a) loans. Corrective actions included conducting training, collaborating with OCRM, and collecting funds from lenders.

For the FY 2018 improper payments evaluation, OIG found that SBA did not meet its reduction targets for 7(a) loan guaranty approvals for 2 consecutive years. However, preliminary FY 2019 estimates from the Agency's statistician indicate that they met their published improper payment reduction target for 7(a) loan guaranty approvals. FY 2019 preliminary results for 7(a) loan guaranty purchases indicate that SBA did not meet their published reduction target. However, the dollar value of estimated improper payments decreased. OIG did not validate SBA's preliminary improper payment estimates. OCA needs to continue to demonstrate in FY 2020 that the developed corrective action plans are effective to reduce improper payments.

IMPROVEMENTS NEEDED TO ENSURE QUALITY DELIVERABLES AND MITIGATE LOSS

As noted above, OCA has taken actions to accurately report and reduce improper payments in SBA's 7(a) program. However, OIG audits have identified 7(a) loans that were ineligible, lacked repayment ability, or were not properly closed, resulting in improper payments. These improper payments occurred in part because SBA did not adequately review the related loans.

In FY 2014, OIG established its High Risk 7(a) Loan Review Program to evaluate lender noncompliance with SBA's requirements. OIG uses an internal scoring system to prioritize loans for review based on known risk attributes. This evaluation includes a review of high-risk loans purchased by SBA to determine whether lenders materially complied with SBA requirements and to identify suspicious activity. As of September 2018 (Report 18-26), under OIG's High Risk 7(a) Loan Review Program, we'd reviewed 27 loans with purchase amounts totaling almost $23.2 million. We recommended recoveries on 11 loans totaling more than $8.5 million. In addition, we identified suspicious activity on five loans totaling nearly $4 million, resulting in formal referrals to our Investigations Division.

Also, this program identified concerns with change of ownership transactions and SBA's identification of improper payments. We recommended that SBA evaluate the time loan specialists must review complex early-defaulted loans. In response to this recommendation, OCA modified the production standards to allow loan specialists more time to review complex early defaulted loans. In addition, OCA made improvements to its review of loans by providing training to loan specialists and updating the loan review checklist.

During FY 2019 (Report 19-22), OIG identified material lender noncompliance in five of the eight loans reviewed, totaling approximately $8.7 million in questioned costs. Lenders did not provide adequate documentation to support that the borrowers met requirements related to eligibility, repayment ability, size standards, franchise agreements, business valuations, appraisals, equity injection, and debt refinance. OCA staff completed purchase and quality control reviews on these eight loans. However, these reviews did not identify or fully address the material deficiencies noted in the subsequent OIG reviews.

OCA needs to evaluate its purchase and quality control reviews to determine why the reviews did not identify or mitigate the lenders' noncompliance with SBA requirements.

Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported FY 2010)	2015 7(a) Approvals: 0 7(a) Purchases: 1	2016 7(a) Approvals: 0 7(a) Purchases: 0	2017 7(a) Approvals: 0 7(a) Purchases: 1	2018 7(a) Approvals: 2 7(a) Purchases: 2

Recommended Actions for FY 2020	Status at end of FY 2019	
	7(a) Approvals	7(a) Purchases
1. Demonstrate that corrective action plans are effective in reducing improper payments in the 7(a) Loan Program.	Green	Green
2. Conduct an evaluation to determine why material lender noncompliance was not identified or mitigated during purchase and quality control reviews on recently reported high-dollar/early-defaulted loans and implement any necessary improvements to mitigate risks.	N/A	New

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

Challenge 7: SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Timely Assistance and Reduce Improper Payments

The disaster loan programs play a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, businesses of all sizes, and nonprofit organizations. SBA's FY 2018 year-end disaster assistance loan portfolio balance was $9.6 billion. SBA must continually balance the priority of delivering timely assistance to disaster survivors in the immediate aftermath of a devastating life event against the need to ensure program integrity.

In 2008, following Hurricane Katrina, new private sector disaster loan programs were statutorily authorized and were intended to assist in disbursing funds quickly and effectively. SBA has not fully implemented all these programs due to lack of interest by private lenders. In October 2017, SBA announced the implementation of the Express Bridge Loan Pilot Program. The pilot program provides a streamlined approach to quickly get emergency financial relief of up to $25,000 to small businesses in presidentially declared disaster areas. The pilot program was scheduled to run for 3 years, from October 16, 2017, through September 20, 2020.

We also remain concerned that SBA does not sufficiently limit the proportion of a borrower's gross income that may be relied on to service debt, potentially leaving borrowers with insufficient income to cover living expenses, taxes, and loan payments. Loans to borrowers with high debt burdens are more likely to default.

Additionally, disaster loans are vulnerable to improper payments, fraud, and default because loan transactions are often expedited to provide quick relief to disaster survivors. We noted in 2018 that lending personnel hired in connection with a disaster declaration may lack sufficient experience. SBA has made progress in this area. In response to Hurricanes Harvey, Irma, and Maria, Office of Disaster Assistance (ODA) increased trained staff from 800 to its peak of 5,094 in December 2017. They conducted after-action reports to identify successes, challenges, and strategic improvements. To address the improvements needed, ODA provided targeted training to 3,655 lending personnel. ODA asserts that the focused training allowed them to reduce the FY 2018 improper payment rate from the FY 2017 rate, despite the increased staff size. Therefore, we do not have any recommendations regarding training for lending personnel. However, continued diligence in this area is necessary to ensure improved integrity and trust in the federal payment system.

Finally, while the desktop loss verification process contributed to SBA meeting its timeliness goals for disaster applications, controls needed strengthening to mitigate the risk of fraud and ensure program integrity. Specifically, SBA did not always validate the cause and extent of damages and repair and replacement costs prior to disbursing loan funds, relied on reports from the Federal Emergency Management Agency (FEMA) that did not contain pertinent information needed to validate damages and losses reported in the initial loss verification, and loan files did not contain sufficient documentation to support loan-making decisions. Without an adequate loss verification, loans could be made to individuals that do not qualify for the loan or do not have damages that justify the amount of the loan.

PRIVATE LENDER PROGRAMS INTENDED TO QUICKLY DISBURSE DISASTER FUNDS NOT IMPLEMENTED

Following Hurricane Katrina, congressional representatives expressed concern that SBA did not effectively develop and use programmatic innovations intended to assist in disbursing funds quickly and effectively. The Small Business Disaster Response and Loan Improvements Act of 2008 required SBA to establish three new guaranteed disaster programs using private sector lenders—the Expedited Disaster Assistance Program (EDAP), the Private Disaster Assistance Program (PDAP), and the Immediate Disaster Assistance Program (IDAP). Together, these programs are collectively known as the "Guaranteed Disaster Assistance Programs."

While SBA established regulations and procedures to deliver IDAP, it did not do so for the EDAP and PDAP. SBA officials planned to use IDAP as a guide to develop EDAP and PDAP, and until the challenges with IDAP were resolved, it did not plan to implement these two programs. SBA notified Congress that it had sought advance public comment on proposed rulemaking for IDAP and received limited responses, most of which were opposed to their implementation. SBA also reported that its partner lenders chose not to participate. Therefore, SBA sought to cancel program funds and rescission of programs in their entirety. As SBA requested in the Appropriations Act of 2018, Congress cancelled the funds appropriated in the Consolidated Appropriation Act of 2018 for IDAP, EDAP, and Appropriations Act of 2019 repealed the statutory authority of EDAP. SBA has requested rescission of the remaining IDAP and PDAP program in its FY 2020 Congressional Budget Justification. SBA officials expect that Congress will follow the precedent set last year and permanently cancel IDAP and PDAP in the Appropriations Act of 2020. After that, SBA plans to seek congressional support for cessation of program authority for these two guaranteed disaster loan programs. OIG notes that GAO has closed all audit recommendations related to these programs.

SBA indicated that it has improved its disaster assistance delivery channel and is now better equipped to provide more timely disaster assistance. The Agency also indicated that its larger unsecured disaster loan limit, now at $25,000, allows more funds to be disbursed quickly following a disaster.

EXPRESS RECOVERY OPPORTUNITY LOAN PROGRAM NOT IMPLEMENTED

The RISE After Disaster Act, enacted November 25, 2015, introduced the Express Recovery Opportunity Loan Program that was intended to leverage private sector resources to quickly provide up to $150,000 loans to disaster survivors. The Act required SBA to promulgate regulations for this loan program within 270 days, which was not done.

In FY 2017, SBA studied this proposed program and concluded that it duplicates the existing SBA Express Loan Program, and cannot be delivered as designed without subsidy costs, which puts the entire SBA Express Loan Program at risk due to an extended eligibility period. SBA determined that this program could not be delivered at zero subsidy with the fee structure that was enacted. SBA also believes that the proposed 5-year disaster eligibility period will cause lenders to shift ordinary Express loans to Recovery Express loans due to the higher guarantee rate, exposing SBA to greater risk and endangering the program. SBA requested rescission of the program in its FY 2019 Congressional Budget Justification and has again requested repeal in the FY 2020 Congressional Budget Justification. Therefore, SBA has deferred creation of program regulations. SBA plans to seek congressional support for cessation of this program.

On October 16, 2017, SBA announced the implementation of the Express Bridge Loan Pilot Program. The pilot program adopts some of the objectives included in the RISE Express Recovery Opportunity Loan Program, without duplicating or endangering the existing SBA program. It provided a streamlined approach to quickly get emergency financial relief of up to $25,000 to small businesses in presidentially declared disaster areas. This is in the form of expedited guaranteed bridge loan financing for disaster-related purposes, while small businesses apply for and await long-term financing. SBA is running the pilot program for 3 years from October 16, 2017, through September 20, 2020. As of August 13, 2019, SBA has approved or disbursed only two loans for $25,000 each under the pilot program.

INCREASED MAXIMUM ACCEPTABLE FIXED DEBT THRESHOLD MAY LIMIT BORROWER'S ABILITY TO REPAY DISASTER LOANS

SBA uses the fixed debt method to determine disaster home loan affordability. This method assumes that there is a debt threshold, known as the maximum acceptable fixed debt (MAFD) beyond which loans become unaffordable and likely to default. Prior to November 2012, there were two MAFD tiers: (1) 36 percent for incomes below $25,000 and (2) 40 percent for incomes above $25,000. A November 2012 policy memorandum increased the number of tiers and raised MAFD to 50 percent for incomes of $60,000 and above. The policy memorandum, later incorporated into SOP 50 30 8 in July 2015, also diminished the level of authorization required to approve loans that do not conform to the established MAFD percentages.

On September 6, 2017, ODA issued Memo 17-22, New Credit Model Pilot, effective for all disasters declared on or after August 25, 2017. The memo increased the acceptable MAFD to 75 percent for all income levels without the need to provide justification. On May 31, 2018, ODA issued SOP 50 30 9, which incorporated the MAFD provisions of Memo 17-22.

ODA believes that credit score is more of an indicator of default likelihood than any other factor. Further, ODA believes the data supports decreasing emphasis on debt to income (DTI) when ODA is making loan decisions. It is for this reason that ODA now considers credit score and income as the primary factors to determine repayment ability. When ODA is unable to decide based on these factors, it will use a DTI calculation, allowing up to 75 percent, without justification based on compensating factors. In comparison, it should be noted that Fannie Mae and Freddie Mac allow DTI ratios as high as 45 percent for manually underwritten loans and up to 50 percent on desktop underwritten loans with strong compensating factors on a home mortgage.

Despite ODA's assertion that they can aid an additional 10 percent of disaster loan applicants through the decreased emphasis on DTI/MAFD, it comes at a significant risk. In FY 2018, ODA stated that nearly 22 months have passed since the increase in the MAFD threshold and it has found a minimal impact on the portfolio charge-off rate. However, we have noticed that the data for FY 2019 indicates an increase in the charge-off rate of 3.84 percent, a 27 percent increase over the 3.01 percent for FY 2018. We believe the full effect of this policy change cannot be determined until the loans approved subsequent to the policy change have had sufficient time to perform, which is around FYs 2020 and 2021.

Additionally, ODA's policy change contributed to a significant increase in the percentage of approved borrowers with MAFD over 50 percent, increasing from 18.2 percent in FY 2013 to 28.9 percent in FY 2018. We also noted that the occurrence of Hurricanes Harvey, Irma, and Maria created a large increase in the volume of loans approved and disbursed to applicants with MAFD between 50 percent and 75 percent during the latter part of FY 2017 and all of FY 2018. Specifically, the dollars disbursed to borrowers with MAFD over 50 percent in FY 2018 was $823.2 million, which more than doubled the $390.8 million disbursed to borrowers with MAFD over 50 percent in the 5 previous FYs combined. In 2018, we began an audit of SBA's reliance on the increased MAFD and its effect on the default rate; however, we terminated the project in 2019, as many of the loans had not had time to mature. Therefore, we were unable to assess the effect of the policy change on the default rate. We plan to perform a review of this policy change on the default rate once the loans have had sufficient time to perform.

RESERVE STAFF REQUIRE TRAINING TO SUSTAIN PRODUCTIVITY DURING MOBILIZATION

During large-scale disasters such as Hurricanes Sandy and Harvey, SBA must bring on new loan officers and loss verifiers to match the volume of loan applications and prevent processing backlogs that delay the delivery of disaster assistance. In response to Hurricanes Harvey, Irma, and Maria, ODA increased trained staff from 800 to its peak of 5,094 on December 13, 2017. This included the Processing and Disbursement Center, which increased staff by more than 700, Field Operations Centers East and West combined increased by more than 360, the Damage Verification Center increased by more than 200, and the Customer Service Center increased by more than 130. ODA trained more than 1,000 loan processing staff and 600 loss verifiers to mobilize in response to the hurricanes. In addition, ODA deployed 1,500 field personnel and staffed more than 443 disaster centers in response to the three hurricanes.

On May 31, 2018, ODA completed an after-action report for Hurricanes Harvey, Irma, and Maria, which identified successes, challenges, and action items. As a result, ODA launched a cross-functional training plan development team that is developing core training modules, as well as online and automated tutorials. In FY 2019 SBA should monitor its results and refine its training approach, if needed, depending on the results of the Hurricanes Harvey and Irma disaster cycles.

IMPROPER PAYMENT RATE WAS REDUCED TO COMPLIANT LEVEL

In FY 2018, SBA's improper payment rate for the disaster loan disbursements decreased from a reported rate of 13.65 percent ($123.38 million) in FY 2017 to 8.91 percent ($274.4 million). SBA determined this decrease was due in part to a greater focus on what makes a payment improper and improving controls over the underwriting and disbursement process. However, we noted that ODA eased controls for one of the root causes attributed to the reported rate being above the acceptable threshold for FY 2017. One cause of the higher improper payment rate during the FY 2017 reporting period was the lack of appropriate justifications for disbursements to borrowers who may not have repayment ability based on a MAFD percentage exceeding SBA's recommended limit. During September 2017, SBA increased the allowable threshold for justifications of loan repayment ability from the standard 40 percent to 75 percent. Additionally, ODA diminished the level of authorization required to approve loans that do not conform to the established MAFD percentages. To effectively reduce disaster loan improper payment rate, ODA should strengthen and implement new controls as opposed to lessening the requirements. SBA should expand corrective actions to proper and complete documentation prior to disbursement in order to significantly lower improper payment rate in FY 2019. We are currently conducting an audit of the improper payment quality control process.

INADEQUATE VERIFICATION OF CAUSE AND EXTENT OF DAMAGES

The desktop loss verification process uses a two-pronged approach: an initial desktop loss verification and a post desktop review. The initial desktop loss verification is used to estimate the cost of repairs. Information is gathered and evaluated through telephonic interviews with applicants in conjunction with third-party information, such as tax assessors' websites, Google Earth, and Zillow. Following the initial desktop loss verification, SBA requires a post desktop review to validate the total damage estimates obtained from the initial desktop loss verification.

A critical part of the disaster loan-making process is evaluating the cause and extent of property damages, which provides SBA the information necessary to make appropriate decisions when establishing eligibility for disaster loan funds. In the past, loss verifiers conducted damage assessments solely through on-site inspections. On January 31, 2017, ODA issued Memo 17-06, Desktop Verifications. After increased use of electronic loan applications, SBA implemented the desktop loss verification process to expedite assistance to disaster survivors. The desktop loss verification process contributed to SBA meeting its timeliness goals for processing disaster loan applications for Hurricanes Harvey, Irma, and Maria.

However, controls needed strengthening to mitigate the risk of fraud and ensure program integrity for the loss verification process. Specifically, SBA did not always validate the cause and extent of damages and repair and replacement costs prior to disbursing loan funds. Further, SBA inappropriately relied on FEMA reports that did not contain pertinent information needed to validate damages and losses reported in the initial loss verification, and loan files did not contain sufficient documentation to support loan-making decisions.

As a result, SBA disbursed 36,869 of the 73,313, or 50 percent, loans included in our scope, totaling $594,286,878 of $1.4 billion, without validating the cause, extent, or cost of damages, and there was no assurance that disaster loans were only provided to individuals impacted by Hurricanes Harvey, Irma, or Maria.

We provided four recommendations to strengthen controls to mitigate the risk of fraud and ensure program integrity. Management agreed with two recommendations and partially agreed with the other two. Management plans to explore substitutes to the post desktop review and ensure they contain the appropriate information needed to support the damages estimated during the initial desktop loss verification. Further, management stated that it will implement additional controls to require loss verifiers to provide documentation that sufficiently supports the post desktop review conclusions. We will continue to work with management to seek resolution for the remaining two recommendations.

Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported FY 2015)	2015: 0	2016: 0	2017: 1	2018: 0

Recommended Actions for FY 2020	Status at end of FY 2019
1. Promulgate regulations for the new guaranteed disaster loan programs mandated by Congress in 2008.	OCA Yellow
2. Promulgate regulations for the Express Recovery Opportunity loan program provided by the RISE After Disaster Act.	OCA Yellow
3. Strengthen internal controls to minimize the risk of charge-offs associated with the increased MAFD threshold.	OCA Yellow
4. Reduce the improper payment rate to meet the reduction targets in FY 2019 in accordance with the FY 2018 Agency Financial Report to comply with the Improper Payments Elimination and Recovery Improvement Act of 2012.	ODA Green ↑
5. Strengthen internal controls to mitigate the risk of fraud and ensure program integrity for the loss verification process.	ODA New

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

Challenge 8: SBA Needs Robust Oversight of Its Grant Management

In FY 2020, SBA budgeted $180 million to administer grants and cooperative agreements to its resource partners and other non-federal entities to provide technical assistance and training programs to develop small businesses. With recent governmentwide emphasis on grants management reform, and a priority initiative to modernize the government in the President's Management Agenda of 2018, it is SBA's responsibility to maximize the value of its grant funding to ensure its grant programs effectively and efficiently accomplish program objectives. In OIG's review of past audit findings (Report 19-02), we identified systemic issues with SBA's accuracy of grant data for both financial and performance reporting, ineffective oversight, and inadequate standard operating procedures. We continue to identify grant management deficiencies in our recent reviews of SBA grant programs.

SBA HAS MADE PROGRESS TO ADDRESS ITS GRANTS MANAGEMENT ISSUES

In FY 2019 SBA conducted an analysis of SBA's organizational structure and determined that SBA needed to centralize its oversight of its grant management. Further, SBA took action to identify, develop, and implement training for all personnel responsible for grants management. On September 24, 2019, the Agency issued its revised SOP for grants management to standardize policies for compliance, management, and administration of all grants awarded by SBA and to apply to all offices within SBA with grant-awarding authority. The SOP, among other things, established the Office of Grants Management as the authority for oversight and compliance of grant policy for the Agency, clarified roles and responsibilities for personnel responsible for grants management, defined warrant authority and training requirements for grants personnel, and established plans and timeframes for incorporating other grant-related policies and procedures into one centralized directive. While the Agency has addressed three of OIG's recommended corrective actions, the Agency needs to continue its efforts to implement the grants management system to enforce compliance and improve oversight and management of the grants program. Without this system, SBA has limited ability to assess the effectiveness of the recently implemented corrective actions.

GRANTS MANAGEMENT SYSTEM

SBA continues to rely on its current grant management system to report on its grant programs. The current system requires substantial manual data inputs that are prone to errors. In March 2018 we issued a management advisory memorandum (Report 18-15), in which we reported on material weaknesses identified by an independent accounting firm regarding SBA's controls over the accuracy of data reported in **USASpending.gov**. Further, in its own internal A-123 review on the grant management process, SBA's internal auditors found that 100 percent of the sampled transactions contained inaccuracies. These data inaccuracies inhibit policymaker's and the public's ability to effectively track federal spending and affects the Agency's ability to report timely, complete, and accurate information as required by the Digital Accountability and Transparency Act (DATA) of 2014.

To modernize its grants management system, during FY 2019, SBA approved funding totaling $2.5 million (over 5 years) to implement grant solutions. SBA believes the investment would help the Agency to

- improve funding management, awarding of grants, processing payments, and closeouts;
- enhance ability to develop accurate performance metrics reporting;
- reduce compliance violations; and
- increase auditability, accountability, and transparency.

SBA is currently in the initial stages of transitioning to the system. In 2019, the Agency entered into an interagency agreement with the Office of Health and Human Services to provide transition analysis, infrastructure setup, and training services. The Agency plans to fully implement the system by October 2020.

Number of Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported in FY 2018)	2015: N/A	2016: N/A	2017: N/A	2018: N/A

Recommended Actions for FY 2020	Status at end of FY 2019
1. Conduct an overall evaluation of its grant management organizational structure with an emphasis on centralizing the oversight of these programs in order to reduce and ultimately eliminate systemic issues for maximum program success.	Green
2. Implement a system to effectively manage and monitor grant awards, to include a process for ensuring the data submitted to USASpending.gov complies with DATA Act requirements.	Yellow
3. Update grant management policies and procedures to ensure grant officers enforce grant recipients comply with financial and performance requirements, verify that reported information is accurate and complete, and ensure applicants' proposals include plans to measure performance in a way that will help SBA achieve program outcomes.	Green
4. Establish training requirements for all grants officers and program personnel responsible for monitoring grant recipients' performance to enforce compliance with SBA's established procedures for grant management and best practices for administering grant awards and monitoring performance. The training should address the systemic issues we identified in this summary report.	Green

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

AGENCY'S RESPONSE TO THE OIG MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUSINESS ADMINISTRATION IN FISCAL YEAR 2020

On behalf of the Agency, we thank the Office of the Inspector General (OIG) for its efforts to identify the top management and performance challenges confronting the U.S. Small Business Administration (SBA) now and in the near future. The OIG's investigation and analysis provide important insight into the threats and challenges facing our enterprise objectives.

We believe the substantial progress the SBA made on 23 of 25 recommendations that were outstanding in FY 2019 can be attributed in no small measure to our continued communication, collaboration, and coordination with the OIG leadership and staff. Our program, strategic, and support offices remain dedicated to continuing SBA's efforts to address existing management challenges, and the insights of this report will be shared throughout the Agency so that our leadership at every level can better evaluate the risks and effectively prioritize resources and oversight efforts.

The SBA is dedicated to continuing our concerted efforts to effectively address audit recommendations. The SBA's Office of the Chief Information Officer's closure of all 45 assigned recommendations in this past fiscal year reflects this commitment to improve programmatic and operational integrity.

The nation's small businesses and taxpayers rely on the SBA to overcome obstacles to enhancing entrepreneurial opportunities for all Americans. We are committed to addressing these challenges and adapting to a continuously evolving operating environment. We look forward to our continued collaboration with the OIG as we endeavor to innovate, institutionalize continuous improvement, and facilitate strategic collaboration with our stakeholders.

Sincerely,

Christopher M. Pilkerton

Christopher M. Pilkerton
Acting Administrator
November 15, 2019

PAYMENT INTEGRITY

As required by the Improper Payment Information Act of 2002 (IPIA), as amended, and OMB Circular No. 123, Appendix C, *Requirements for Payment Integrity Improvement*, the SBA reviews programs identified as susceptible to improper payments.

Improper payment reviews are a multi-layered process that start with a risk assessment. If an assessment indicates a program is susceptible to improper payments, then testing is performed using a statistically valid sampling technique. Based upon the testing results, a corrective action plan is developed to prevent and remediate the types of errors uncovered. If a significant amount of recoverable dollars is found, the SBA considers the appropriateness of performing a recapture audit.

The detection and remediation of improper payments is a priority for the Agency. SBA staff monitor and review for improper payments and are charged with implementing improvements that will reduce improper payment rates. The SBA also continually seeks opportunities to enhance and implement internal controls to reduce the risk for improper payments.

The SBA received supplemental funds in September 2017 and February 2018 to cover the costs of disaster direct loans, including administrative expenses related to Hurricanes Harvey, Irma and Maria disaster relief efforts. The Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017, as amended, deemed all programs and activities expending more than $10 million of the supplemental funds in response to those hurricanes in any one fiscal year to be susceptible to significant improper payments, regardless of risk assessment results and required agencies receiving supplemental disaster relief funds to produce and report an improper payment estimate for the funds. The SBA identified outlays in excess of $10 million in a 12-month period for the administrative expenses of payroll and travel and conducted improper payment reviews to comply with the Act in FY 2019 in addition to the disaster direct loan program that is already reporting an improper payment estimate.

In FY 2019, OMB granted the SBA relief from reporting on disbursements for goods and services, including disbursements associated with the supplemental disaster relief funds, as the SBA successfully demonstrated the low occurrence of improper payments in this activity for at least 2 consecutive years. Disbursements of supplemental disaster relief funds for goods and services were included in the FY 2018 review and reporting.

The SBA reviewed six programs and activities that are deemed susceptible to significant improper payments that included three major credit programs as mandated by OMB, and disbursement of supplemental disaster relief funds for payroll and travel. The three major credit programs are:

- 7(a) business loan program that includes guaranty purchases and guaranty approvals;
- 504 certified development company (CDC) loan guaranty approvals; and
- Disaster direct loan disbursements.

The next sections discuss SBA efforts and results related to improper payment assessments and reviews. More detailed information on improper payments and information previously reported in the AFR that is not included in the FY 2019 AFR can be found at **https://paymentaccuracy.gov/**.

Payment Reporting

Table 1 presents a summary of the SBA's improper payment review results and reduction outlook. There is no improper payment made by the recipients of Federal money under SBA programs as the SBA does not have an intermediary.

TABLE 1: Improper Payment Reporting and Reduction Outlook ($ In Millions)

Program	FY 2018			FY 2019 Summary					FY 2019 Breakdown						FY 2019 Monetary Loss		FY 2020		
	Outlays[1] $	IP %	IP $	Outlays[1] $	Proper Payment %	Improper Payment %	Proper Payment $	Improper Payment $	Over-payments %	Under-payments %	Unknown payments %	Over-payments $	Under-payments $	Unknown payment $	Monetary Loss $	Non-Monetary Loss $	Outlays[1] $	IP %	IP $
7(a) Guaranty Purchases[1,2]	689.20	3.22	22.18	866.02	96.38	3.62	834.66	31.36	2.29	1.33	–	19.87	11.49	–	31.36	–	994.26	3.52	35.00
7(a) Guaranty Approvals[1,2,3]	18,746.77	2.77	519.40	16,713.74	97.85	2.15	16,355.09	358.65	2.15	–	–	358.65	–	–	–	358.65	16,513.84	2.05	338.53
504 CDC Guaranty Approvals[1,2,4]	4,583.91	2.58	118.14	4,784.30	99.44	0.56	4,757.65	26.65	0.56	–	–	26.65	–	–	–	26.65	4,859.24	2.04	99.13
Disaster Loan Disbursements[1,5,6]	3,080.23	8.91	274.41	1,635.93	93.70	6.30	1,532.87	103.06	2.78	1.33	2.19	45.43	21.73	35.90	45.43	21.73	1,000.00	5.67	56.70
Supplemental Disaster Relief Administrative Funds - Payroll[7,8]	N/A	N/A	N/A	334.20	99.90	0.10	333.87	0.33	0.10	–	–	0.33	–	–	0.33	–	195.76	1.00	1.96
Supplemental Disaster Relief Administrative Funds - Travel[7]	N/A	N/A	N/A	79.12	97.13	2.87	76.85	2.27	2.62	0.04	0.21	2.07	0.03	0.17	2.07	0.03	28.21	2.77	0.78
Total[9]	**27,100.11**	**3.45**	**934.13**	**24,413.31**	**97.86**	**2.14**	**23,890.99**	**522.32**	**1.86**	**0.14**	**0.15**	**453.00**	**33.25**	**36.07**	**79.19**	**407.06**	**23,591.31**	**2.26**	**532.10**

1 Outlays in this report represent the base amount of the program activity related to SBA improper payments; and this amount will differ from the amount reported as outlays in SBA's President's Budget submissions because they include reestimates of subsidy cost, reimbursements to SBA administrative funds and other costs. Outlays for 7(a) loan guaranty purchases are the amount of disbursements for the purchase of defaulted guarantied loans. Outlays for 7(a) loan guaranty approvals are the amount of new guaranty approvals by banks and other SBA lending partners. Outlays for 504 CDC loans guarantied are approvals irrespective of disbursement, net of approval increases, decreases, reinstatements and cancellations for the current year. Outlays for disaster loans are loan disbursements on current year approvals.

2 Outlay projections do not match the President's Budget as timeframe is not FY. Outlays estimated by taking the average growth rate in outlays for the previous three years and applying it to the current level of outlays to project outlays in future year.

3 For 7(a) loan guaranty approvals, amounts reported are based on the guarantied amount only.

4 The FY 2020 improper payment target for 504 CDC Guaranty Approvals is calculated using the arithmetic mean of the previous five year's improper payment rates. The SBA determined that the FY 2019 improper payment rate was an anomaly, because most errors were associated with one particular loan in the sample, which is not typical.

5 Starting FY 2019, the reporting period for disaster loan has changed from 7/1 - 6/30 to 4/1 - 3/31. For FY 2019, the reporting period was from 7/1/18 through 3/31/19 since the first three months were tested in FY 2018.

6 Outlay projection does not match the President's Budget as timeframe is not FY. FY 2020 loan approvals are based on actual FY 2019 Quarters 3 and 4 loan disbursements totaling approximately $500M, and projected quarterly loan approvals for the remaining FY 2020.

7 Outlay projections do not match the President's Budget as timeframe is not FY. Outlays are based on actual disaster loan administrative expenses disbursed between 9/1/18 and 8/30/19.

8 The improper payment rate for disaster administrative payroll expenses is projected to be 1 percent, which is acceptable to the Agency.

9 Total improper payment estimates and improper payment percentages do not represent a true statistical estimate for the Agency.

Table 2 presents a summary of the root causes of the SBA's improper payments.

TABLE 2: Improper Payment Root Cause Categories By Program Matrix ($ In Millions)

Reason for Improper Payment		7(a) Guaranty Purchases		7(a) Guaranty Approvals		504 CDC Guaranty Approvals		Disaster Direct Loan Disbursements			Supplemental Disaster Relief Administrative Funds - Payroll		Supplemental Disaster Relief Administrative Funds - Travel		
		Over Payments	Under Payments	Over Payments	Under Payments	Over Payments	Under Payments	Over Payments	Under Payments	Unknown	Over Payments	Under Payments	Over Payments	Under Payments	Unknown
Program Design or Structural Issue															
Inability to Authenticate Eligibility	Inability to Access Data			358.65		26.65									
	Data needed Does Not Exist														
Failure to Verify:	Death Data														
	Financial Data							38.77							
	Excluded Party Data														
	Prisoner Data														
	Other Eligibility Data (explain)														
Administrative/Process Error Made by:	Federal Agency	19.87	11.49					6.66	21.73		0.33		2.07	0.03	
	State or Local Agency														
	Other Party														
Medical Necessity															
Insufficient Documentation to Determine										35.90					0.17
Other Reason (explain)															
Total Estimated Improper Payments		**19.87**	**11.49**	**358.65**	**0.00**	**26.65**	**0.00**	**45.43**	**21.73**	**35.90**	**0.33**	**0.00**	**2.07**	**0.03**	**0.17**

To provide more clarity for the reader, this section is organized by the six programs and activities subjected to review for improper payments and provides statistical sampling information and review results coupled with corrective actions.

7(a) Loan Guaranty Purchases

Statistical Sampling

The 7(a) purchase sample cases were selected using Probability Proportional to Size (PPS) sampling with replacement from all purchases approved during the 12-month period ending March 31, 2019. The purchase population was divided into four strata based on the following factors: 1) whether the loan was considered an early default, regardless of servicing office, and 2) which servicing office processed the purchase among three locations. The SBA determined the appropriate total sample size to be 217 loans from the population. The sample included aggregate purchase outlays of $162,997,608 and an absolute value of improper payments of $4,956,358 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population was calculated as 3.62 percent. This represents a slight increase from the 3.22 percent reported in FY 2018, which was primarily attributed to a high number of new processors who joined the Purchase Centers within the fiscal year.

The 7(a) loan guaranty purchase reviews were conducted to examine if the lender complied materially with the 7(a) loan program origination requirements including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The reviews were to determine if the lender (1) originated, serviced, and liquidated the loan in a prudent and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk.

Corrective Action

The root cause for all 7(a) loan guaranty purchase improper payments were administrative/process errors made by the Agency. Improper payments generally arose when new purchase processors failed to identify material lender deficiencies in the handling of an SBA guarantied loan and made administrative errors in the purchasing process. The primary reasons for purchase errors included:

- Denial of guaranty purchases was incorrect and not properly justified;
- Inaccurate interest rate;
- Reimbursement of lender expenses were not fully justified or were ineligible;
- Lender collection had not been fully exhausted;
- Change of ownership policy requirements were not met;
- The debt being refinanced with loan proceeds were not eligible for refinance;
- Lender failed to record/perfect the lien, as required by the Loan Authorization, on the property required to be taken as collateral for the loan, and that failure caused a material loss on the loan;
- Ineligible use of proceeds with working capital being distributed to the Eligible Passive Company; and
- Incorrect payment of interest due to miscalculation of days owed.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 7(a) loan guaranty purchase centers. Specific corrective actions are determined based upon the primary reason for the error with the goal of both remedying the error and ensuring the error does not occur in the future. Plans for improvement include:

- Internal training for purchase processors, reviewers and approvers to determine proper recommendation of guaranty purchase denial, accurate interest rates, proper exhaustion of lender collection, proper determination of change of ownership requirements, proper determination of debt refinance, proper determination of lien perfection, appropriate lender expense, and the appropriate number of days interest owned.
- Recovery of lender expenses that were not fully justified and deemed ineligible.

The corrective actions are currently underway. Internal feedback was provided to center staff regarding the specific loan level deficiency upon detection. The center experienced an upsurge of purchase recommenders who were new in their role; this feedback and internal training has been specifically designed to prevent future errors. The internal training will be provided by the end of the second quarter of FY 2020.

Corrective actions are tracked at the loan level through a centralized database. The Quality Control Specialists for the 7(a) guaranty purchase centers monitor errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met. All improper payments identified as a result of the FY 2019 IPERIA reviews have been resolved through obtaining additional documentation, referral for denial review, collection of funds from the lender, or reimbursement to the lender. Corrective actions were generally completed at the loan level within 60 days with all actions taken by the end of the fiscal year.

7(a) Loan Guaranty Approvals

Statistical Sampling

The 7(a) approval sample cases were selected using PPS sampling with replacement from all loan guaranties approved during the 12-month period ending March 31, 2019. The approval population was divided into two strata based on whether the loan was SBA Express or not. The SBA determined the appropriate total sample size to be 205 loans from the population. The sample included net guarantied approvals of $285,014,030 and improper payments of $4,972,450 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the 7(a) Loan Guaranty Approvals was calculated as 2.15 percent. This represents a decrease from the FY 2018 rate of 2.77. The decrease is primarily due to the continuous training of the approval processors, reviewers, and approvers as well as the external training for lenders.

The 7(a) loan guaranty approval reviews were conducted to examine if the lender complied materially with the 7(a) loan program origination requirements including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The reviews were to determine if the lender (1) originated the loan in a prudent and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk.

Corrective Action

Approximately 80 percent of all 7(a) loan guaranty approvals are performed by lenders with delegated authority to evaluate, process, close, and disburse 7(a) loans; these lenders were responsible for all improper payment approvals identified in FY 2019. The most prevalent root cause stemmed from the delegated lenders' failure to authenticate borrowers' eligibility in compliance with loan program requirements. The primary reasons for 7(a) approval errors in FY 2019 included:

- Change of ownership policy requirements were not satisfied;
- Cash injection policy requirements were not satisfied;
- Collateral policy requirements were not satisfied;
- Incorrect loan structure;
- Policy requirements governing prior loss to the government were not satisfied; and
- Lack of appropriate documentation for eligibility verification.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 7(a) loan guaranty approval centers. Specific corrective actions are determined based upon the primary reason for the error with the goal of both remedying the error and ensuring the error does not occur in the future. Plans for improvement include:

- Collaborating with the Office of Credit Risk Management (OCRM) to ensure that specific lender deficiencies are monitored and incorporated into Risk Based Reviews;
- Collaborating with the Office of Financial Assistance (OFA) to ensure that associated deficiencies are incorporated into the policy, regulatory, or standard operating procedure rewrite or update as appropriate;
- Collaborating with the Office of Performance and Systems and Management (OPSM) to ensure that adequate information system support is provided in addressing deficiencies identified through the improper payment review; and
- External training for lenders to ensure that policy requirements governing change of ownership, cash injection, collateral, and loan structure are met satisfactorily, and to ensure appropriate documentation is obtained to determine loan program eligibility.

The corrective actions are currently underway. The Office of Financial Program Operations (OFPO) has shared the loan level and lender deficiencies identified during the FY 2019 reviews with the OCRM and the OFA during the review process and will continue its efforts to ensure lender deficiencies are monitored and incorporated into lenders' Risk Based Reviews, the OFA's policy rewrites and updates, and the OPSM's information system updates. External training will be provided in coordination with other lender events during FY 2020.

Specific corrective actions on loans reviewed are tracked at the loan level through a centralized database. The Quality Control Specialist for 7(a) loan guaranty approvals monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met. All improper payments identified as a result of the FY 2019 IPERIA reviews have been resolved through loan modification or cancellation of the loan guaranty. In general, corrective actions were completed without having to refer the loans for further review to resolve differences with the lenders. Corrective Actions are initiated within 120 days with all actions taken by the end of the fiscal year.

504 CDC Loan Guaranty Approvals

Statistical Sampling

The 504 CDC approval sample cases were selected using PPS sampling with replacement from all loan guaranties approved during the 12-month period ending March 31, 2019. The approval population was not stratified. The SBA determined the appropriate total sample size to be 192 loans from the population. The sample included net approval outlays of $314,659,000 and improper payments of $5,133,437 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the 504 CDC loan guaranty approvals was calculated as 0.56 percent. This represents a substantial decrease from the FY 2018 rate of 2.58 percent. The decrease is primarily due to internal training for reviewers and approvers, as well as, external training for Certified Development Companies.

The 504 CDC loan approval reviews were conducted to examine if the lender complied materially with the program's origination requirements including statutory provisions, SBA regulations, any agreement the CDC executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 504 CDC loan program. The reviews were to determine if the CDC (1) originated the loan in a prudent and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk.

Corrective Action

The improper payment rate of 0.56 percent and $5,133,437 does not exceed the 1.5 percent and $10 million threshold for reporting a corrective action plan.

Disaster Direct Loan Program

Statistical Sampling

The Office of Disaster Assistance (ODA) performs a Quality Assurance Review (QAR) of the approved loan portfolio annually. A part of the QAR is to identify any deficiency that would result in an improper payment. The scope of the ODA's review covers three primary compliance areas: (1) basic eligibility, (2) adherence to relevant laws, rules, regulations, and standard operating procedures, and (3) credit worthiness. The statistical methodology used followed widely accepted practices and was approved by the Office of Management and Budget in 2012. This year, the SBA changed the 12-month reporting period for the disaster direct loan program from July 1st through June 30th to April 1st through March 31st to align with the reporting period for the rest of SBA programs, and this change was approved by OMB in April 2019. The reporting period for FY 2019 was reduced to 9-months covering July 1, 2018, through March 31, 2019, as the first three months were tested in FY 2018. Starting FY 2020, the reporting period will cover the 12 months. The review population consisted of disaster loan disbursements made during the 9-month period ending March 31, 2019, with total disbursements of $1,635,933,566. A sample of 450 payments was selected for testing which yielded a weighted estimated improper payment rate of 6.30 percent. Based on the sample results, the estimated amount of improper payments was $103,055,979. The decrease from the FY 2018 rate of 8.91 percent can be attributed to a focus on evaluating what makes a payment improper and improving controls over the underwriting and disbursement process.

Corrective Action

In FY 2019, the most prevalent root cause for the disaster direct loan improper payments stemmed from process and documentation errors. Approximately 65% of the improper payments were made because the loan processing and disbursement staff did not consistently follow the guidance provided in the standard operating procedure to verify eligibility data. The remaining 35% of the improper payments were due to documentation errors. While the improper payments resulting from the longstanding issue concerning insurance documentation was reduced, one other documentation error was also found. The types of process and documentation errors included:

- Lack of justification for repayment ability that did not meet SBA guidelines;
- Failure to document estimated total project cost;
- Failure to perform adequate follow-up on borrower's credit report;
- Disbursement made in excess of eligible loan amount due to duplication of benefits;
- Lack of insurance documentation; and
- Failure to obtain properly executed closing documents.

To prevent these errors noted in the improper payment review, the SBA plans to perform the following corrective actions:

- Continuing to employ the professional training staff from the Office of Disaster Strategic Engagement and Effectiveness to assist in the creation of effective insurance review and other training materials and assist the trainers in the Accounts Department in the presentation of training materials;
- Requiring all training materials be reviewed and approved by SBA headquarters;
- Expanding training efforts to include one-on-one training with Application Processing Team Leads; and
- Including specific results-driven performance elements tied to reducing the improper payment rate in the FY 2020 performance plans for the Director and Deputy Director of the Processing and Disbursement Center, Assistant Center Director for Application Processing, and Assistant Center Director for Accounts.

The corrective actions will be monitored on a monthly basis by the Deputy Associate Administrator for Disaster Assistance.

Supplemental Disaster Relief Administrative Funds - Payroll

Statistical Sampling

The disaster relief payroll administrative expense samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending August 31, 2018. The total dollar amount expended was $334,204,070. The SBA determined the appropriate sample size to be 65 line items having total outlays of $270,496. Based upon the sample results, the estimated FY 2019 improper payment rate was 0.10 percent for a total of $327,587.

Corrective Action

The improper payment rate of 0.10 percent and $327,587 does not exceed the 1.5 percent and $10 million threshold for reporting a corrective action plan.

Supplemental Disaster Relief Administrative Funds - Travel

Statistical Sampling

The disaster relief travel administrative expense samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending August 31, 2018. There were 43,346 expenditures with a total dollar amount of $79,125,163. Using the PPS approach, the SBA determined the appropriate sample size to be 250 line items having total outlays of $4,241,448. Based upon the sample results, the estimate FY 2019 improper payment rate was 2.87 percent for a total of $2,268,640.

Corrective Action

The improper payment amount of $2,268,640 does not exceed the $10 million threshold for reporting a corrective action plan.

Part II – Recapture of Improper Payments Reporting

Payment Recovery Effort

Agency efforts to recapture improper payments are discussed by program or activity.

7(a) Loan Program Purchases

Overpayments identified in the improper payments reviews are recaptured from the lender. The Quality Control staff tracks and collects any monetary overpayment. Refer to Part I above for corrective action plans to prevent future improper payments.

7(a) Loan Program Approvals and 504 Loan Guaranty Approvals

Overpayments recaptured outside of payment recapture audits are not applicable to 7(a) loan guaranty approval and 504 CDC loan approval as no payment is made at the time of approval. Improper payments identified through both the annual improper payment and continuous quality control reviews are remediated through the cancellation of the SBA guaranty, reduction in loan guaranty percentage, or loan modification, as appropriate. This determination is made on a case-by-case basis, which varies depending on the circumstances of the loan approval and lender authority.

Disaster Direct Loan Program

Overpayments are the result of the borrower receiving both an SBA loan and insurance payments or other benefits as a result of the disaster. If the duplication of benefit is recognized prior to the final disbursement, the loan amount is modified to reflect a lower amount and no repayment is required. If the duplication of benefit is identified after the final disbursement of the loan, then the borrower is given 30 days to provide evidence to prove that the disaster loan was not over-disbursed. For example, the borrower can provide documentation demonstrating that insurance funds received did not duplicate the disaster loan purpose. If the borrower has not provided the appropriate evidence within the 30-day period, a demand is made for the over-disbursed funds. Collection efforts continue at the Disaster loan servicing centers, but if these efforts fail, the borrower will still be liable for the over-disbursed amount in the form of monthly payments in accordance with the loan agreement. Thus, any actual loss, if any, is the cost of funds related to the over disbursement.

Supplemental Disaster Relief Administrative Funds – Payroll and Travel

The SBA thoroughly analyzed the condition of each improper payment identified during the improper payment review of the supplemental disaster relief payroll and travel expenses. For payroll expenses, the total improper payment was only $0.1, which appeared to be the result of rounding errors. The SBA determined that further examination or recovery effort for such a trivial amount is not deemed necessary. For travel expenses, a significant amount of the identified overpayment resulted from travel expenses reimbursed more than once because duplicate travel vouchers were submitted. These errors should have been detected during the approval process, but the manual paper-based voucher process and the high volume of the transactions hindered the effective review prior to payment. This issue should be eliminated in the future as the disaster loan program moved from a paper-based system to an electronic travel reimbursement system with the implementation of Concur Travel on July 29, 2019. The SBA will initiate recovery actions on the identified improper payments for repayment or credit on future travel voucher reimbursements from the responsible individuals as applicable. All of the improper payments found have had or will have full travel reconciliations performed, most have already been completed and the employees and the appropriate Centers notified. For any reconciliations not performed yet, the SBA will complete them and notify the employee/Center regarding the findings.

Payment Recapture Audits

On September 15, 2011, the SBA submitted a *Payment Recapture Audit Cost-Effective Analysis* to the Office of Management and Budget. The analysis discussed the 7(a) Business Loan Guaranty Program, the 504 Certified Development Company Loan Guaranty Program, the Disaster Direct Loan Program, Disbursements for Goods and Services, the Small Business Investment Company Financing Guaranty Program, the Surety Bond Guaranty Program, and Grants, which included all grant programs. The analysis described the program, the controls over financial disbursements, and the size of the program and concluded for each program that recapture audits would not be cost effective due to low error rates, complexity of the program, or limited amount of outlays. A subsequent cost analysis for the 7(a) loan guaranty purchase program was submitted to OMB on September 13, 2017, to include the results of a payment recapture audit performed in

2015, which again concluded that such an audit is not cost effective.

The specific justification and analysis are discussed by program.

7(a) loan guaranty purchase improper payment reviews, continuous Quality Control Reviews, and OMB Circular A-123 Appendix A reviews in FY 2014 warranted a reconsideration of the cost effectiveness of a payment recapture audit for the 7(a) Loan Guaranty Purchase program. As a result, in FY 2015, the SBA performed a payment recapture audit, and the results revealed that the cost of labor hours for performing and reporting the payment recapture audit exceeded the actual overpayments identified. This was reported in the FY 2015 AFR with the statement that no additional payment recapture audits would be performed. In September 2017 the SBA submitted a cost analysis to OMB and the OIG to support this decision.

7(a) loan guaranty approval and 504 CDC loan approval are not subject to payment recapture audits as no payment is made at the time of approval.

Disaster direct loans recapture audits would not be cost effective. Improper payments due to loan documentation errors do not result in a disaster survivor receiving funds for which they are not eligible; therefore, these improper payments are not eligible for recovery. The FY 2019 improper payment review identified 23 ineligible disbursements totaling $1,689,400. Twenty-two of these disbursements were improper because of errors made by the SBA during loan processing by not following SBA policy to determine and document eligibility. The remaining one disbursement was ineligible because the disaster damaged property was not the borrower's primary residence. Given that the most errors were made by the SBA, any attempt to recoup money from these borrowers would most likely result in litigation, which may not be favorable to the Agency. Additionally, borrowers often will not have the resources to pay off the loans. As of October 1, 2019, all 23 loans are being paid as agreed and $564,738 has been already recovered through regular monthly payments. The improper payment audit was completed using 4,080 hours of staff time at an approximate labor cost of $516,394. In consideration of the cost to audit, strong possibility of litigation for recovery, and uncertainty over the borrower's ability to repay the loan with a lump-sum payment, further expenditures for a separate recovery audit is not cost effective.

Supplemental Disaster relief administrative payroll expenses recapture audits would not be cost effective. The improper payment testing required 477 labor hours at a cost of $31,538. No payment was identified as eligible for recapture during the improper payment review; thus, the cost of the review exceeds the return.

Supplemental Disaster relief administrative travel expenses recapture audits would not be cost effective. The improper payment testing required 783 labor hours at a cost of $34,465. Payments identified during the improper payment review as eligible for recapture totaled $17,264; thus, the cost of the review exceeds the return.

Table 3 presents a summary of Improper Payment Recaptures without Audit Programs.

TABLE 3: Improper Payment Recaptures without Audit Programs ($ in Millions)

Program or Activity	Overpayments Recaptured outside of Payment Recapture Audits			
	Amount Identified $	Amount Recaptured $	Amount Recaptured %	Source
7(a) Guaranty Purchase[1]	4.96	3.26	65.73	Statistical samples conducted under IPIA
Disaster Loan Disbursements[2]	1.69	0.56	33.14	Statistical samples conducted under IPIA
Supplemental Disaster Relief Administrative Funds - Travel[3]	0.02	–	–	Statistical samples conducted under IPIA
TOTAL	**6.67**	**3.82**	**57.27**	

1 Period of review is for the 12-month period ending March 31, 2019.
2 Period of review is for the 9-month period ending March 31, 2019.
3 Period of review is for the 12-month period ending August 31, 2018.

Part III – Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The SBA has implemented the Do Not Pay Initiative and incorporated the use of the DNP post payment services using the data source Death Master File. The Agency has also implemented limited use of the online portal for processing of manual 7(a) loan applications and the Surety Bond Guarantee program as part of pre-award eligibility. We are in the process of implementing a pilot program in collaboration with the Bureau of the Fiscal Service to establish the Application Programming Interface between the SBA system and DNP services for the 504 CDC loan program to identify ineligible recipients at the time of pre-award in lieu of manually entering requests for information. Upon successful implementation, the SBA will explore ways to expand such capability to other programs including the 7(a) loan program to replace the current manual search of the DNP online portal. The Bureau of the Fiscal Service is finalizing the FY 2018 Agency Insight Report (AIR) for the SBA, which will provide a high-level overview of key findings and insights derived from analysis of SBA payment data. The SBA will use the AIR to verify existing procedures focused on preventing improper payments are working effectively and to identify opportunities to further strengthen its effort to address improper payments.

Part IV – Statutory or Regulatory Barriers

The SBA does not have any statutory or regulatory barriers limiting improvement to its performance on the improper payments initiative.

Part V – Accountability

The focus of SBA's Strategic Goal 4 is to strengthen the SBA's ability to service small businesses. Strategic Objective 4.1 is designed to ensure effective and efficient management of Agency resources, including improving processes for managing fraud, waste, and abuse. The SBA's strategic goals are included in annual performance plans for all of its programs as business objectives and these are also included in employee performance plans. SBA management monitors accomplishments of these business objectives and takes action when progress toward goal achievement is not on target. Executive and management bonuses are based on the accomplishment of business objectives included in employee annual performance plans. This management process helps assure accountability for the reduction of improper payments.

Part VI - Information Systems and Other Infrastructure

7(a) loan guaranty purchases are supported by the Guaranty Purchase Tracking System. It is continually updated to enhance the overall integrity of the purchase process. Resources as they relate to human capital are currently adequate.

7(a) loan guaranty approvals and 504 CDC loan guaranty approvals have adequate internal controls and are supported by E-Tran, the SBA's electronic loan processing/servicing system. Both the SBA and delegated lenders process applications through the system and lenders may also handle unilateral servicing actions electronically. The system provides increased efficiency and decreased costs in the loan guaranty origination and servicing processes. The loan programs are also supported by SBA One, an automated lending platform, which helps to streamline the lending process. Resources as they relate to human capital are currently adequate.

Disaster direct loan program has the information systems and other infrastructure it needs to reduce improper payments to targeted levels. For example, the Office of Disaster Assistance has an integrated electronic loan processing system, the Disaster Credit Management System (DCMS), to streamline, enhance and improve the loan-making process. This system supports workflow management, electronic file management and document generation functions. Many of the business rules governing DCMS have been designed to improve the quality assurance process. In fact, the ODA quality assurance team works continually with the DCMS development team to improve the quality assurance process with a goal to minimize future improper payments as much as possible. The Disaster direct loan program has adequate human capital to maintain its internal controls.

Part VII – Sampling and Estimation

To provide more clarity for the reader, the Sampling and Estimation section was coupled with the Payment Reporting information in Part I, organized by the six programs subjected to review for improper payments.

Part VIII – Risk Assessments

OMB Circular No. A-123, Appendix C, requires risk assessments at least once every 3 years for programs not deemed susceptible to significant improper payments, or earlier if a low risk program was subjected to a significant change in legislation or funding level. Significant improper payments are defined as gross annual improper payments exceeding (1) both 1.5 percent of program outlays and $10,000,000, or (2) $100,000,000. The SBA last conducted risk assessments for all programs and activities, including payments made to employees, for susceptibility to improper payments in FY 2017. The risk assessments did not identify any additional programs as susceptible to improper payments. Since no significant changes occurred to any SBA program or activity during FY 2019, the SBA did not conduct any new risk assessments.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

As required by OMB Circular A-136, Section II.4.4, the following summarizes SBA's Financial Statement Audit and Management Assurances. While the audit results reported one material weakness, the SBA determined that this issue was not deemed to be a material weakness for Management Assurances.

Summary of Financial Statement Audit

Audit Opinion	Unmodified
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Risk Assessment for Internal Control over Financial Reporting	0	1	0	0	0	1
Total Material Weaknesses	0	1	0	0	0	1

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)

Statement of Assurance	Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance	Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0

Conformance with Financial Management System Requirements (FMFIA § 4)

Statement of Assurance	Federal Systems conform to financial management system requirements.

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)

	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

FRAUD REDUCTION REPORT

The Fraud Reduction and Data Analytics Act of 2015 (FRDAA) mandates that agencies take steps to improve their financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve their development and use of data analytics for identifying, preventing, and responding to fraud, including improper payments. Each agency is required to report its progress in implementing: (1) the financial and administrative controls, (2) the fraud risk principle in the GAO Standards for Internal Control in the Federal Government (Green Book), and (3) the management of fraud risk in accordance with OMB Circular A-123.

The Agency reports the following progress:

- To address financial and administrative controls, the Agency is identifying fraud risks and associated inherent risks, compensating controls, and actions to further reduce risk. The Agency accomplishes this objective by performing internal control reviews, documenting new and changing processes, and preparing for its external financial statement audit. To support fraud risk principles in the Green Book, the Agency continues to train staff on the five components and 17 principles, which includes principle no. 8 — assess fraud risk during the annual Federal Managers Financial Integrity Act (FMFIA) information sessions.
- The SBA has identified a senior counsel from the Office of General Counsel to be its FRDAA coordinator who has begun to conduct program-specific anti-fraud workshops and training to help ensure uniform awareness and implementation of anti-fraud best practices, especially certain Antifraud Playbook plays designed to help create a culture to combat fraud and assess potential fraud vulnerabilities. In addition, the Agency established a data sharing agreement with its Office of Inspector General (OIG). The OIG provides quarterly fraud data reports to the SBA senior counsel to ensure that important fraud-related information is appropriately disseminated within the Agency. The SBA is creating a fraud risk database for its loan and contracting programs. The information collected in this database will be reviewed to identify fraud risk schemes and, when determined to be significant, mitigate fraud risks.
- In September 2019, the SBA established the Fraud Risk Management Council (Fraud Council) composed of senior management officials to assist in the oversight and coordination of agency-wide management of fraud risk. As the SBA's fraud risk management matures, the SBA intends for the Fraud Council to become an important asset for helping the Agency further develop its enterprise-wide fraud risk management process and to further integrate that process within its enterprise risk management framework.
- SBA program managers have a shared responsibility in preventing, detecting, and responding to potential fraud and have ownership and responsibility for managing fraud. To support fraud risk management, the Agency continues to determine the best approach to implement an enterprise-wide fraud risk management framework to address fraud risk. The SBA's Enterprise Risk Management Board considered fraud risks when updating its enterprise risk profile, and the Office of Continuous Operations and Risk Management (OCORM) provided agency-wide training on fraud risk assessments.

REDUCE THE FOOTPRINT REPORT

Reduce The Footprint Policy Baseline Comparison			
	FY 2015 Baseline	**2018 (CY-3)**	**Change (FY 2015 Baseline - 2018 (CY-3))**
Square Footage (SF in Millions)	1.297*	1.304	0.027

Reporting of O&M Costs – Owned and Direct Lease Buildings			
	FY 2015 Reported Cost	**2018 (CY-3)**	**Change (FY 2015 - 2018 (CY-3))**
Operation and Maintenance Costs ($ in Millions)	$0	$0	$0

The SBA only occupies buildings that are leased by the U.S. General Services Administration and subject to occupancy agreements between the GSA and the SBA.

* The SBA's FY 2017 Agency Financial Report reported FY 2015 actual square footage for FY 2015 baseline.

According to Section 3 of Office of Management and Budget Memorandum M-12-12 (Promoting Efficient Spending to Support Agency Operations) and OMB Management Procedures Memorandum 2013-03, (Reduce the Footprint Policy), implementing guidance directs that all CFO Act entities must set annual targets to reduce the total square footage of domestic office and warehouse inventory compared with the FY 2015 baseline.

Within the SBA, effective real property asset management begins with an accurate inventory that is verified and validated on a continual basis to ensure real-time data is available for timely and quality decision making. As a fully-leased agency, close coordination between GSA and the SBA is required regarding cyclical lease expirations, space requests related to program activities and missions, security assessments, and facility-related deficiencies and emergencies. Currently, SBA inventory is above the FY 2015 baseline due to space acquired to assist in the response to the 2017 hurricane events. The SBA maintains an ongoing verification and validation process to assess the Agency's lease holdings and ensure functionally appropriate right-sizing using appropriate space design standards.

The SBA is pragmatically moving to reduce leased holdings by 1 percent annually to a goal of 170 Useable Square Footage (USF) per property, where possible, by adopting federal space standards at all locations. The SBA will make every effort to consolidate, co-locate, and share resources, wherever functional requirements align with an emphasis on occupying federal space. For example, the SBA is instituting standard office floor plans across its lease holdings to provide the Agency with a strategic view of space management so that when leases are due to expire, future managers will understand how their leases align with Agency goals.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990 (Act), as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. A civil monetary penalty is defined as any penalty, fine, or other sanction that is for a specific monetary amount as provided by federal law or has a maximum amount provided for by federal law, is assessed or enforced by an agency pursuant to federal law, and is assessed or enforced pursuant to an administrative proceeding or a civil action in the federal courts. To improve compliance with the Act, and in response to multiple audits and recommendations, agencies must report the most recent inflationary adjustments to civil monetary penalties to ensure penalty adjustments are both timely and accurate. Pursuant to the Act, the SBA reviewed each of the penalty amounts under its statutes and adjusted them for inflation when required under the law. The SBA applied a prescribed formula from the Act for calculating the penalty.

The following table reflects the authorities imposing the penalties, the basis for imposing the penalties, the year the penalties were authorized, the current penalty levels, the program offices responsible for imposing the penalties, and the citation for the most recent publication of the penalty updates.

SBA Federal Civil Penalties

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/ Unit	Location for Penalty Update Details
Small Business Investment Act, 15 USC 687g	Failing to File Report Timely for a Small Business Investment Company (SBIC)	1966	2019	$266	Office of Investment and Innovation	84 Federal Register 12060 (April 1, 2019)
Small Business Act, 15 USC 650(j)(1)	Failing to File Report Timely for a Small Business Lending Company (SBLC)	2004	2019	$6,623	Office of Capital Access	84 Federal Register 12060 (April 1, 2019)
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 3802(d)	Administrative Remedies for False Statements and Claims	1986	2019	$11,463	Multiple offices	84 Federal Register 12060 (April 1, 2019)
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 1352	Penalty for Violation of Lobbying Restrictions	1990	2019	$20,134 to $201,340	Multiple offices	84 Federal Register 12060-12061 (April 1, 2019)

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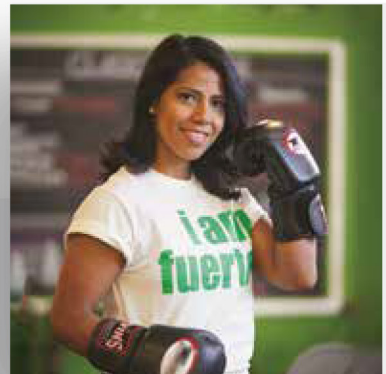
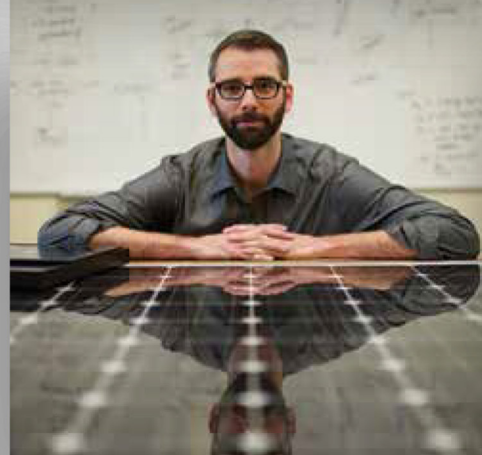
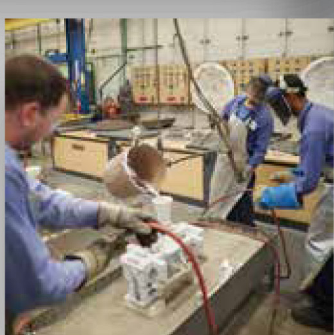


APPENDICES





SUCCESS STORY

GROW:

Woman-owned, Native American 8(a) Certified Firm Secures Government Contracts

Sundance Consulting

Pocatello, ID

September Myres is the owner and Chief Executive Officer of Sundance Consulting, which she started in 2005. The company is a woman-owned, Native American-owned, 8(a)-certified small business development firm. The business plays a vital role in improving the environment and promoting conservation on public and tribal lands. Sundance Consulting has grown to more than 60 employees operating in the environmental consulting, remediation, and records management sectors. The firm operates seven offices across the country.

Sundance Consulting has secured numerous U.S. Department of Defense (DoD) contracts to improve Native American lands adversely affected by past DoD activities. The SBA 8(a) Business Development Program helped the company better compete in the marketplace, and the 8(a) certification opened the door to government contracts that help them solve environmental concerns for the U.S. Army Corps of Engineers, U.S. Forest Service, U.S. National Park Service, U.S. Department of Energy, and the U.S. Bureau of Land Management.

SUCCESS STORY

RECOVER:

Phoenix Award for Outstanding Small Business Disaster Recovery

Cheeseburger Baby

Miami Beach, FL

Stephanie Vitori started her career as a delivery driver in 2001. After learning about company operations from the ground up, she bought the business in 2004 and employed a small staff. Stephanie built a thriving eatery that grew to 20 employees, 2 food trucks, and an annual revenue of $800,000.

In the 15 years Stephanie has owned Cheeseburger Baby, the Florida burger business has endured recessions, hurricanes, and competition from corporate franchises. Hurricane Irma nearly brought the business to an end as it destroyed the marquee sign, air conditioning units, freezers, cooking equipment, and a food truck. The company lost 30 percent of sales, and property damage reached $150,000. Stephanie applied for and received an SBA disaster assistance loan to cover working capital needs and repair costs. The Small Business Development Center at Florida International University helped her restructure her financial operations and develop a business continuity plan to return Cheeseburger Baby to the same level of operations before the hurricane.

APPENDIX 1 – CONTACT SBA: USEFUL WEBSITES AND NUMBERS

The SBA home page is **www.sba.gov**. Information on SBA programs may be accessed from this website. Several of the more frequently visited websites are listed here:

SBA and Business Information	
About the SBA	**www.sba.gov/aboutsba**
SBA Performance, Budget & Finances	**www.sba.gov/performance**
Small Business USA	**www.usa.gov/business**
Local Assistance	**www.sba.gov/local-assistance**
Qualifying as a Small Business	**www.sba.gov/content/am-i-small-business-concern**
Starting a business?	**www.sba.gov/thinking-about-starting**
Capital	
Small Business Loans & Grants	**www.sba.gov/financialassistance**
Lender Resources	**www.sba.gov/lender_resources**
Surety Bonds	**www.sba.gov/content/surety-bonds-explained**
Export Products	**www.sba.gov/exporting**
Fund Your Business	**www.sba.gov/business-guide/plan/fund-your-business**
Contracting	
Government Contracting	**www.sba.gov/contracting**
Register as a Contractor	**www.sam.gov**
Contracting Certifications	**https://certify.sba.gov/**
Counseling	
SBA Learning Center	**www.sba.gov/training**
Small Business Development Centers	**www.sba.gov/tools/local-assistance/sbdc**
Women's Business Centers	**www.sba.gov/tools/local-assistance/wbc**
SCORE	**www.sba.gov/tools/local-assistance/score**
Veterans Business Outreach Centers	**www.sba.gov/tools/local-assistance/vboc**
Disaster Assistance	
Disaster Assistance	**www.sba.gov/disaster**
Disaster Center Office Locations	**www.sba.gov/about-offices-list/4**
SBA Information	
SBA National Answer Desk	(800) 827-5722 (Toll Free)
Disaster Assistance Customer Service center	(800) 659-2955 (Toll Free)
Facebook	**https://www.facebook.com/sbagov**
Twitter	**https://www.twitter.com/sbagov**
YouTube	**https://www.youtube.com/sba**
SBA Blog	**https://www.sba.gov/blogs**
Instagram	**https://www.instagram.com/sbagov/**

APPENDIX 2 – GLOSSARY

504 Loan	**504 Certified Development Loan Program**	The 504 loan program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings, and long-life capital equipment.
7(a)	**7(a) Loan Guaranty Program**	The 7(a) loan program is the SBA's primary loan program; it provides general loan financing for a wide variety of purposes.
7(j)	**7(j) Management and Technical Assistance Program**	The 7(j) program provides specialized assistance to underserved small businesses.
7(m)	**7(m) Microloan Program**	The microloan program provides small, short-term loans to small businesses and certain types of nonprofit childcare centers.
8(a)	**8(a) Business Development Program**	The 8(a) program assists firms owned and controlled by socially and economically disadvantaged individuals compete for federal contracts.
A-123	**Designation for OMB Circular on Internal Control Systems**	The A-123 guidance prescribes policies and procedures to be followed by federal agencies in establishing, maintaining, evaluating, improving, and reporting on internal controls in their program and administrative activities.
AFR	**Agency Financial Report**	The AFR is an annual report that provides to OMB, Congress, and the public an overview of the Agency's financial and performance data.
AGA	**Association of Government Accountants**	The AGA is the member organization for government financial management professionals.
APG	**Agency Priority Goal**	GPRAMA requires federal agencies to establish a set of 2-year APGs that reflect the highest priorities of agency leadership.
APR	**Annual Performance Report**	The APR is required by the Government Performance and Results Act and presents a federal agency's progress in achieving the goals in its strategic plan and performance budget.
CAP Goals	**Cross-Agency Priority Goals**	CAP Goals are a limited number of Presidential priority areas where implementation requires active collaboration among multiple agencies.
CY	**Calendar Year**	A period of a year beginning and ending with the dates that are conventionally accepted as marking the beginning and end of a numbered year.
CBJ	**Congressional Budget Justification**	The CBJ is a federal agency's annual budget request to Congress.
CDC	**Certified Development Company**	CDCs are nonprofit corporations, certified and regulated by the SBA, that work with participating lenders to provide financing to small businesses.
CEAR	**Certificate of Excellence in Accountability Reporting**	The CEAR is awarded to federal agencies that are considered to have excellent Agency Financial Reports.
CFO	**Chief Financial Officer**	The CFO is the financial leader whose duties include overseeing all Agency disbursements, management and coordination of Agency planning, budgeting, analysis and accountability processes.
DATA Act	**The Digital Accountability and Transparency Act**	The DATA Act is a law that aims to make information on federal expenditures more easily accessible and transparent.
DCMS	**Disaster Credit Management System**	DCMS is the electronic system used to process loan applications for all new disaster declarations.
DHS	**Department of Homeland Security**	DHS's mission is to secure the nation from threats.
DLF	**Disaster Loan Fund**	The DLF assists eligible small businesses impacted by disasters.
DNP	**Do Not Pay Initiative**	The DNP was established by IPERIA to support federal agencies with their efforts to prevent and detect improper payments.

DO — **District Office**
The SBA's District Offices are responsible for the delivery of the SBA's many programs and services throughout the country.

DoD — **Department of Defense**
The DoD is the federal agency charged with coordinating national security and the armed services.

DTI — **Debt-to-Income**
DTI ratio is derived by dividing monthly debt payments by monthly gross income

EDAP — **Expedited Disaster Assistance Loan Program**
The EDAP is a loan guarantied by SBA for up to $150,000.

EDP — **Entrepreneurial Development Program**
The EDP account reports entrepreneurial development expenses.

ELA — **Enterprise Learning Agenda**
The ELA is a plan that aligns with the Agency's strategic goals to identify where evaluations could provide insights about program effectiveness.

ERM — **Enterprise Risk Management**
The ERM provides a framework to manage risks and seize opportunities related to the achievement of their objectives.

FAST — **Federal and State Technology (FAST) Grants**
One year funding opportunity to help increase the number of SBIR and STTR proposals.

FBO — **FedBizOps**
FBO is the Federal Government's website that posts all federal procurement opportunities with a value over $25,000.

FCRA — **Federal Credit Reform Act**
The FCRA is a law enacted to provide a more realistic picture of the cost of U.S. Government direct loans and loan guaranties.

FEMA — **Federal Emergency Management Agency**
The primary purpose of FEMA is to coordinate the response to a disaster that has occurred in the United States.

FEVS — **Federal Employee Viewpoint Survey**
An OPM survey administered to federal employees that measures perceptions of whether, and to what extent, conditions characteristic of successful organizations are present in their agencies.

FFMIA — **Federal Financial Management Improvement Act**
FFMIA is a law that requires each federal agency to implement and maintain financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards and the United States Standard General Ledger.

FICA — **Federal Insurance Contributions Act**
FICA is a federal payroll (or employment) tax imposed on both employees and employers to fund Social Security and Medicare federal programs that provide benefits for retirees, disabled people, and children of deceased workers.

FISMA — **Federal Information Security Management Act**
FISMA is a law that defines a comprehensive framework to protect government information, operations, and assets against natural or man-made threats.

FITARA — **Federal Information Technology Acquisition Reform Act**
FITARA is legislation to improve the acquisition and management of federal information technology assets.

FMFIA — **Federal Managers Financial Integrity Act**
FMFIA is a law that primarily requires ongoing evaluations and reports on the adequacy of the internal accounting and administrative control systems of executive agencies. It also requires evaluations and reports on the conformance of financial management systems.

FPDS-NG — **Federal Procurement Data System – Next Generation**
FPDS-NG is a single source for U.S. government-wide procurement data.

FRDAA — **Fraud Reduction and Data Analytics Act**
FRDAA is a law to improve federal agency financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve federal agencies' development and use of data analytics for the purpose of identifying, preventing, and responding to fraud, including improper payments.

FTA — **Fiscal Transfer Agent**
The FTA is the SBA agent tasked with the responsibility to administer each SBA Pool or Individual Certificate. This maintains a registry of Registered Holders and other information as the SBA requires.

FTE	**Full-Time Equivalent** FTE indicates the workload of an employed person. An FTE of 1.0 means that the person is equivalent to a full-time worker while an FTE of 0.5 means that the worker is only half-time.
FY	**Fiscal Year** The Federal Government fiscal year begins October 1 and ends the following September 30.
GAAP	**Generally Accepted Accounting Principles** GAAP is the standard framework of guidelines for financial accounting generally known as accounting standards or standard accounting practice.
GAO	**U.S. Government Accountability Office** The GAO is an independent, nonpartisan agency that investigates how the federal government spends taxpayer dollars and reports their findings to Congress.
GONE Act	**Grants Oversight and New Efficiency Act** A law that requires federal agencies close expired grants.
GPRAMA	**Government Performance and Results Act (GPRA) Modernization Act** The GPRAMA modernizes the federal government's performance management framework, retaining and amplifying some aspects of the Government Performance and Results Act (GPRA) of 1993 while also addressing some of its weaknesses.
GSA	**General Services Administration** The GSA is a federal agency of the Executive Branch whose mission is to deliver the best value real estate, acquisition, and technology services to government agencies.
HHS	**U.S. Department of Health and Human Services** The goal of HHS is to protect the health of all Americans and provide essential human services.
HIM	**Hurricanes Harvey, Irma, and Maria** The HIM Hurricanes caused significant physical damage to Texas, Louisiana, Florida, Puerto Rico, and the U.S. Virgin Islands.
HUBZone	**Historically Underutilized Business Zone** HUBZone is an SBA program that encourages economic development by the establishment of federal contract award preferences for small businesses located in historically underutilized business zones.
IDAP	**Immediate Disaster Assistance Program** IDAP is a guaranteed disaster loan program for small businesses that have suffered physical damage or economic injury to a Declared Disaster.
IPERA	**Improper Payments Elimination and Recovery Act** IPERA requires that agencies examine the risk of, and feasibility of, recapturing improper payments in all programs and activities.
IPERIA	**Improper Payments Elimination and Recovery Improvement Act** IPERIA is an act to intensify efforts to identify, prevent, and recover payment error, waste, fraud, and abuse within federal spending.
IPIA	**Improper Payment Information Act** The IPIA is a law enacted in 2002 to identify and reduce erroneous payments in the government's programs and activities.
IT	**Information Technology** IT refers to matters concerned with the design, development, installation, and implementation of information systems and applications.
JAAMS	**Joint Administrative Accounting Management System** Also known as the Oracle Administrative Accounting System, JAAMS is a financial management system used to keep records of the SBA's administrative funding and expenditures.
LGPC	**Loan Guarantee Processing Center** The 7(a) LGPC has two physical locations (one in Hazard, Kentucky and one in Citrus Heights, California) that are linked technologically into one process for efficiency and optimal staff utilization.
LSP	**Lender Service Provider** An LSP carries out functions in originating, dispersing, servicing, or liquidating a specific SBA business loan or loan portfolio for compensation from the lender.
MAFD	**Maximum Accepted Fixed Debt** MAFD are standards used to calculate the risk of loan approvals.
MRA	**Master Reserve Account** The SBA's fiscal agent maintains this escrow fund to facilitate the operation of the Certified Development Company program.
MRF	**Master Reserve Fund** The SBA's fiscal and transfer agent maintains this reserve fund to facilitate the operation of the 7(a) secondary market program.

NAICS — **North American Industry Classification System**
NAICS is the standard used by federal agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

NIST — **National Institute of Standards and Technology**
The NIST is a measurement standards laboratory, and a non-regulatory agency of the U.S. Department of Commerce. Its mission is to promote innovation and industrial competitiveness.

NVMC — **New Markets Venture Capital**
The NMVC program is designed to promote economic development and the creation of wealth and job opportunities in low-income geographic areas by addressing the unmet equity investment needs of small business located in those areas.

OBD — **Office of Business Development**
The OBD assists small, disadvantaged businesses to gain access to federal and private procurement markets.

OCA — **Office of Capital Access**
The OCA is responsible for small business loans, lender oversight, and the Surety Bond Guaranty program.

OCFO — **Office of the Chief Financial Officer**
The OCFO is responsible for the financial leadership of the Agency, including all disbursements, management, and coordination of planning, budgeting, analysis, and accountability processes.

OCIO — **Office of the Chief Information Officer**
The OCIO is responsible for the management of information technology for the Agency, including the design, implementation, and continuing successful operation(s) of information programs and initiatives.

OCRM — **Office of Credit Risk Management**
The OCRM manages program credit risk, monitors lender performance, and enforces lending program requirements.

OCORM — **Office of Continuous Operations and Risk Management**
OCORM ensures enterprise-wide disaster planning, readiness, and implementation of ERM best practices for the SBA.

ODA — **Office of Disaster Assistance**
The ODA is the SBA's office that promotes economic recovery in disaster-ravaged areas. Disaster loans are the Agency's primary form of federal assistance for non-farm, private sector disaster losses for individuals and businesses.

OFPO — **Office of Financial Program Operations**
The OFPO leads the financial services industry in quality products and services to SBA partners and customers and protects the integrity of SBA programs.

OGC — **Office of General Counsel**
The OGC provides comprehensive legal services to the Administrator and all Agency offices.

OGCBD — **Office of General Contracting and Business Development**
The Office of Government Contracting & Business Development works to create an environment for maximum participation by small, disadvantaged, and woman-owned businesses in federal government contract awards and large prime subcontract awards.

OIC — **Office of Internal Controls**
The OIC ensures managers comply with internal control standards.

OIG — **Office of Inspector General**
The OIG conducts and supervises audits, inspections, and investigations relating to SBA programs and operations.

OMB — **U.S. Office of Management and Budget**
The OMB is the White House office that oversees preparation of the federal budget and supervises its administration in Executive Branch agencies.

OPM — **U.S. Office of Personnel Management**
The OPM is the Federal Government's human resources agency.

OPSM — **Office of Performance and Systems Management**
The OPSM manages the Capital Access Financial System (CAFS), Lender Loan Management System (LLMS), Central Servicing Agent system, and Fiscal Transfer Agent system.

OSDBU — **Office of Small Disadvantaged Business Utilization**
OSDBU's located within each federal agency enable small disadvantaged businesses to gain access to economic opportunity through federal contracts.

PDAP — **Private Disaster Assistance Program**
PDAPs help residents, businesses, organizations and communities recover from natural disasters.

PPS — **Probability Proportional to Size**
PPS is a method of sampling that takes the varying size of each item within the population into account when selecting the audit sample.

QAR — **Quality Assurance Review**
The QAR is a review to identify any deficiencies, to include improper payments.

QSMO — **Quality Service Management Office**
QSMOs are federal agencies that provide shared services to other federal agencies.

RGDP — **Real Gross Domestic Product**
The RGDP is an inflation-adjusted measure that reflects the value of all goods and services produced in a given year, expressed in base-year prices.

RISE — **Recovery Improvements for Small Entities After Disaster Act**
This law amends the Small Business Act to authorize a small business, homeowner, nonprofit entity, or renter that was located within a declared major disaster area during Superstorm Sandy in 2012 to apply for an SBA loan.

SAT — **Senior Assessment Team**
The SBA's SAT is chaired by the Chief Financial Officer and is comprised of SBA managers from the programs offices to oversee the assessment of internal controls for financial reporting performed by the Office of Internal Controls.

SBA — **U.S. Small Business Administration**
The SBA is the federal agency whose mission is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.

SBDC — **Small Business Development Center**
SBDCs provide management and technical assistance, economic development, and management training to existing and prospective small businesses through cooperative agreements with universities and colleges and government organizations.

SBG — **Surety Bond Guarantee**
The SBG program provides guaranties, bid, performance, and payment bonds for contracts up to $2 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels.

SBGRF — **Surety Bond Guaranty Revolving Fund**
All the contractor and surety fees collected by the SBA are deposited in the SBGRF at the U.S. Department of the Treasury, which is used to pay claims.

SBIC — **Small Business Investment Company**
An SBIC provides long-term loans, debt-equity investments, and management assistance to small businesses, particularly during their growth stages.

SBIR — **Small Business Innovation Research**
The SBIR is a highly competitive SBA program that encourages domestic small businesses to engage in federal research/research and development that has the potential for commercialization.

SBLC — **Small Business Lending Company**
SBLCs are non-depository small business lending companies listed by the SBA Office of Capital Access.

SMC — **Senior Management Council**
SMC was established by the Administrator to ensure the SBA had an effective system of internal controls.

SOP — **Standard Operating Procedure**
An SOP is the primary source of the Agency's internal control.

STEP — **State Trade Expansion Program**
STEP is a program that makes matching fund awards to states to help small businesses enter and succeed in the internal marketplace.

TAP — **Transition Assistance Program**
A collaborative program between federal agencies to assist active duty service members' transition to civilian life through access to employment workshops and other services.

USEAC — **U.S. Export Assistance Center**
USEACs are located nationwide and help firms grow internationally by assisting in developing a plan of action with solutions tailored to their needs.

USSGL — **The United States Standard General Ledger**
USSGL provides a uniform chart of accounts and technical guidance for standardizing federal agency accounting.

VBOC	**Veterans Business Outreach Center** VBOCs provide entrepreneurial development services such as business training, counseling and mentoring, and referrals for eligible veterans owning or considering starting a small business.
WBC	**Women's Business Center** WBCs provide long-term training and advising to women who own or manage a business, including financial, management, marketing, and technical assistance and procurement.
WOSB	**Women-Owned Small Businesses** The WOSB program allows federal agencies to set aside certain contracts for competition only among small businesses owned and controlled by women.
WOSBP	**Women-Owned Small Business Federal Contracting Program** The WOSB Federal Contracting Program supports women-owned small businesses competing for federal contracts.

APPENDIX 3 – OIG AUDIT FOLLOW-UP ACTIVITY

Throughout the year, the Office of Inspector General conducts audits of the SBA's processes, procedures, and programs and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on the SBA's financial and administrative operation but are beneficial to SBA management. If SBA management disagrees with an OIG recommendation, the OIG may revise the recommendation or refer the issue to a higher level of SBA management. When both SBA management and the OIG agree on the recommendation, SBA management develops a corrective action plan, including a target date for completion. This recommendation is identified as having a "Management Decision." When the corrective action plan is implemented and the recommendation has been fully addressed, the recommendation is identified as having a "Final Action."

The OCFO maintains a database to track the recommendations to conclusion or Final Action. In FY 2019, there were 99 Final Actions resulting from 12 monetary and 87 non-monetary recommendations.

The following tables depict the SBA's Final Action activity for FY 2019 and the status of corrective action plans not implemented within one year:

- Table I: Final Action on Audit Recommendations with Disallowed or Questioned Costs.
- Table II: Final Action on Audit Recommendations with Funds Put to Better Use.
- Table III: Final Action on Audit Recommendations Not Completed within One Year.

TABLE I: Final Action on Audit Recommendations with Disallowed or Questioned Costs
October 1, 2018 – September 30, 2019

	Number of Recommendations	Disallowed Costs (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	19	$321,846
B. Recommendations on which management decisions were made during the period.	11	$14,833
C. Total recommendations pending final action during period.	30	$336,679
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	5	$408
(b) Property		
(c) Other	4	$80,691
2. Write-Offs	3	$18,818
3. Total	12	$99,917
E. Recommendations needing final action at the end of the period.	18	$236,762

TABLE II: Final Action on Audit Recommendations with Funds Put to Better Use
October 1, 2018 – September 30, 2019

	Number of Recommendations	Funds to be Put to Better Use (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	0	$0
B. Recommendations on which management decisions were made during the period.	0	$0
C. Total recommendations pending final action during period.	0	$0
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed).	0	$0
2. Value of recommendations that management concluded should not or could not be implemented or completed.		
3. Total	0	$0
E. Recommendations needing final action at the end of the period.	0	$0

TABLE III: Final Action on Audit Recommendations Not Completed within One Year
As of September 30, 2019

Report #13-01, Audit of SBA's Section 8(a) Program's Use of Internal Revenue Service Tax Verification Form 4506T

Program: OGCBD

Date Issued: 10/4/12

Management Decision Date: 3/11/13

Explanation: The four recommendations to the Office of Government Contracting and Business Development (OGCBD) require changes to SOP 80 05 A to ensure 1) completion of Form 4506T and prompt submission, 2) completion of Form 4506T prior to the start of the annual review and prompt submission, 3) suspension of the firm if tax returns submitted to the SBA do not agree with those submitted to the IRS, and 4) comparison of IRS transcripts with the tax return and advising the OIG of discrepancies. The OGCBD and the OIG were unable to reach an agreement on any of the recommendations and all were referred to the Audit Follow-up Official for resolution in FY 2018. These recommendations were evaluated under the audit resolution process and the Audit Follow-up Official rendered decisions for each of the remaining open recommendations in FY 2019. The OIG reevaluated the recommendations and provided the proposed management actions to the Office of Continuous Operation and Risk Management (OCORM) and the OGCBD on September 26, 2019. The OGCBD is developing a response for the OIG's consideration. The estimated completion date will be determined once management decisions are made.

Report #13-06i, Audit of SBA's Section 8(a) Annual Review

Program: OGCBD

Date Issued: 11/13/12

Management Decision Date: 3/11/13

Explanation: The two recommendations to OGCBD require that SOP 80 05 3 be revised to extend time for annual reviews, subject firms to termination if information is not provided, and allow the SBA to place an 8(a) firm in a "decision pending" category during the additional period. The OGCBD and the OIG were unable to reach an agreement on the recommendations and were referred to the Audit Follow-up Official for resolution in FY 2018. These recommendations were evaluated under the audit resolution process, and the Audit Follow-up Official rendered decisions for each of the remaining open recommendations in FY 2019. The OIG reevaluated the recommendations and provided the proposed management actions to the OCORM and the OGCBD on September 26, 2019. The OGCBD is developing a response for the OIG's consideration. The estimated completion date will be determined once management decisions are made.

Report # 15-16, Audit of Oversight of Loan Agents

Program: OCA

Date Issued: 9/25/15

Management Decision Date: 9/20/18

Explanation: The one remaining recommendation requires the Office of Capital Access (OCA) to develop benchmarks for contractor performance and requires the Fiscal Transfer Agent (FTA) to implement appropriate application controls and follow-up procedures with lenders to ensure integrity of the Form 159 database. The implementation of the resolution actions was delayed due to the ongoing evaluation process for the FTA contract solicitation. The estimated completion date is 1/31/20.

TABLE III: Final Action on Audit Recommendations Not Completed within One Year
As of September 30, 2019

Report # 17-19, Audit of SBA's Microloan Program

Program: OCA

Date Issued: 9/28/17

Management Decision Date: 1/4/18

Questioned Cost: $137,199,806

Explanation: The two remaining recommendations to the OCA require 1) continued efforts to improve the information system to effectively monitor the program's compliance, performance, and integrity; and 2) updates to the reporting system manual to reflect current technology capabilities. Final action has been delayed as it requires development of detailed requirements on system enhancements, which include outreach to external and internal microlending stakeholders. In addition, the implementation of integrating microlending oversight into the Office of Credit Risk Management infrastructure takes more than a segregated approach to microloan performance oversight. These system and oversight enhancements are anticipated to elevate microlending to the same successful platforms as 7(a) and 504 loan programs. The estimated completion date is 3/31/20.

Report # 18-03, FY 2017 Financial Statement Audit

Program: OCA

Date Issued: 11/14/17

Management Decision Date: 1/10/18

Explanation: The one remaining recommendation requires the OCA to monitor and perform procedures over the service organization's attestation report regarding user control considerations on an annual basis. The implementation of the assessment process was delayed due to the ongoing evaluation process for the FTA contract solicitation. The estimated completion date is 3/31/20.

Report # 18-07, Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate

Program: OCA

Date Issued: 12/11/17

Management Decision Date: 1/3/18

Questioned Cost: $1,903,213

Explanation: The one remaining recommendation requires that a lender bring a loan into compliance or that the Office of Financial Program Operations (OFPO) seek recovery of the guaranty paid by the SBA. Complex legal and financial issues have delayed the resolution of this issue. The OFPO has been granted an extension from the OIG to allow collection on the guaranty. The estimated completion date is 11/30/19.

Report # 18-13, Evaluation of SBA 7(a) Loans Made to Poultry Farmers

Program: OCA

Date Issued: 3/6/18

Management Decision Date: 3/1/18

Explanation: The one remaining recommendation requires the Office of Financial Assistance to review the arrangements between integrators and growers under the revised regulations and establish and implement controls, such as supplemental guidance, to ensure SBA loan specialists and lenders make appropriate affiliation determinations. The SBA published a proposed rule titled, "Express Loan Program; Affiliation Standards," in the Federal Register for public comment on September 28, 2018, which included proposals to modify regulations to clarify the meaning of affiliation in the context of contractual relationships. The SBA reviewed and considered comments and drafted the final rule. As a significant rule, the OMB is currently reviewing the draft final rule. Once the final rule is published, this recommendation will be closed. The estimated completion date is 3/30/20.

TABLE III: Final Action on Audit Recommendations Not Completed within One Year As of September 30, 2019

Report # 18-18, Audit of SBA's Women-Owned Small Business Federal Contracting Program

Program: OGCBD

Date Issued: 6/20/18

Management Decision Date: 9/28/18

Explanation: The three remaining recommendations require the OGCBD to 1) implement a Women-Owned Small Business (WOSB) Federal Contracting Program certification process as required by the National Defense Authorization Act for FY 2015, 2) conduct quarterly reviews of Federal Procurement Data System – Next Generation (FPDS-NG) data from program set-aside contracts to ensure federal agencies' contracting officers used the appropriate NAICS codes and take the necessary actions with identified exceptions, and 3) in coordination with the Office of Federal Procurement Policy and General Services Administration (GSA), strengthen controls in the FPDS-NG to prevent federal agencies' contracting officers from using ineligible NAICS codes. As noted in the OIG's recent "Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2020," the OGCBD made substantial progress in FY 2019 toward implementing a WOSB certification program. This year, the OGCBD closed two recommendations from this report. For the remaining open recommendations, the OGCBD has consulted with the OIG on the infeasibility of leveraging FPDS-NG for the purpose of preventing contracting officers from using ineligible NAICS. Rather, the system where such a notice may be effective is FedBizOps (FBO). The SBA consulted with the GSA multiple times in FY 2019 to request and enact a change in FBO. The GSA has reported that FBO is undergoing significant modification and the change will not be implemented until the update is complete. Concurrently, the OGCBD focused on appropriate NAICS code usage by conducting analysis of WOSB awards made to identify the number of ineligible NAICS codes used by federal agencies and provided ongoing training about WOSB NAICS usage during surveillance reviews. The estimated implementation date of the WOSB certification program is 6/30/20.

Report # 18-21, Audit of High Risk 7(a) Loans

Program: OCA

Date Issued: 8/15/18

Management Decision Date: 8/7/18

Questioned Costs: $799,159 and $552,406

Explanation: The two remaining recommendations require two lenders to bring the loans into compliance or that the OFPO seek recovery of the guaranty paid by the SBA. Complex legal and financial issues have delayed the resolution of the issues. The OFPO has been granted an extension from the OIG to allow collection on the guaranties. The estimated completion dates are 11/30/19 for both recommendations.

Report # 18-22, Audit of SBA's of 8(a) Continuing Eligibility Process

Program: OGCBD

Date Issued: 9/7/18

Management Decision Date: 9/7/18

Explanation: The four remaining recommendations require the OGCBD to 1) develop and implement a centralized process to track and document all adverse actions and voluntary withdrawals from the 8(a) program, from recommendation through resolution, 2) conduct continuing eligibility reviews for the active 8(a) firms identified as ineligible and take timely action to remove firms found to be ineligible, 3) develop a robust system for tracking complaints regarding firms' continuing eligibility for the 8(a) program and tracking actions taken to address the complaint, and 4) conduct continuing eligibility reviews, including assessing the allegations in the 77 OIG Hotline complaints for active 8(a) program firms and take action to remove ineligible firms from the program. In FY 2019, the 8(a) program made substantial progress in addressing the remaining open recommendations from this report. The OGCBD closed two recommendations from this report. The OGCBD submitted a request for closure to the OIG for three additional recommendations in September and October 2019. The estimated completion date for the last remaining recommendation is 12/30/19.

Report # 18-23, Audit of a High Risk 7(a) Loan

Program: OCA

Date Issued: 9/13/18

Management Decision Date: 9/20/18

Questioned Costs: $448,287 and $855,116

Explanation: The two remaining recommendations require two lenders to bring the loans into compliance or that the OFPO seek recovery of the guaranty paid by the SBA. Complex legal and financial issues have delayed the resolution of these issues. The OFPO has been granted an extension from the OIG to allow collection on the guaranties. The estimated completion dates are 11/30/19 for both recommendations.

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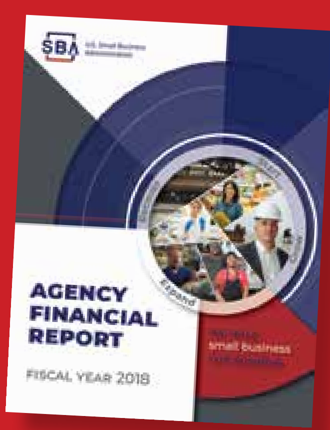

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OFFICE OF PERFORMANCE MANAGEMENT
AND THE CHIEF FINANCIAL OFFICER

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