

U.S. Small Business Administration Office of Inspector General

FY 2021 Congressional Budget Justification



January 2020

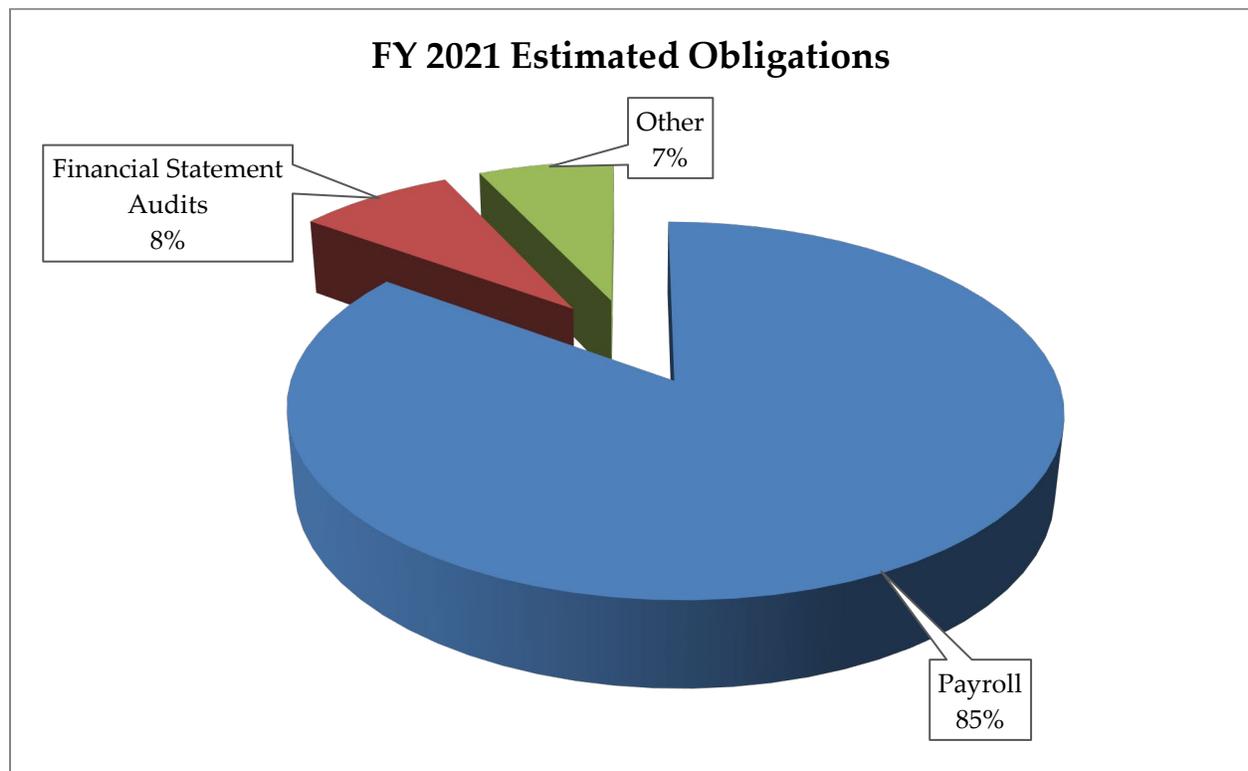
Budget Request

To address the challenges and risks discussed above and in the critical risks section below, OIG requests an appropriation of \$23.6 million for FY 2021.

Table 1: FY 2021 Budget Request

Dollars in Millions	FY 2019 Actual	FY 2020 Enacted	FY 2021 Request	FY 2021 Incr/Decr
New Budget Authority	\$21.9	\$21.9	\$22.0	\$0.1
Transfer from Disaster Loan Program	\$1.0	\$1.6	\$1.6	\$0.0
Total	\$22.9	\$23.5	\$23.6	\$0.1

Most of the funds requested for FY 2021 will be used for salary and benefits for 118 full-time equivalent positions, as well as the cost of the annual audit of SBA's financial statements by an independent public accountant.



Critical Risks Facing SBA

Within available resources, OIG must focus on the most significant risks to SBA and the taxpayer. Many of these risks are addressed in OIG's Report on the Most Serious Management and Performance Challenges Facing SBA, which OIG issues annually in accordance with the Reports Consolidation Act of 2000. (Access management challenge reports at



[https://www.sba.gov/oig/category/oig-navigation-structure/reading-room/top-management-challenges.](https://www.sba.gov/oig/category/oig-navigation-structure/reading-room/top-management-challenges))

Management challenges represent areas that OIG considers particularly vulnerable to fraud, waste, abuse, or mismanagement, or which otherwise pose significant risk to the Agency, its operations, or its credibility. Each management challenge generally has originated from one or more reports issued by OIG or the U.S. Government Accountability Office (GAO).

For each management challenge, OIG provides SBA with recommended remedial actions together with an assessment of Agency progress on each recommended action during the preceding fiscal year. If sufficient progress occurred during the previous fiscal year, OIG assigns a higher color score with an arrow to indicate upward movement. Table 2 provides a summary of this year’s management challenges.

Table 2: 2020 Management Challenges

Challenge #	Challenge	Status at End of FY 2019				Change from Prior Year	
		Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting	0	2	0	0	0	0
2	IT Leadership	1	5	0	0	1	0
3	Human Capital	1	0	0	0	1	0
4	SBA Loan Program Risk Management and Oversight	2†	0	0	0	1	0
5	8(a) Business Development Program	0	3	2	0	0	2
6	Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers	1	0	0	0	0	0
7	Disaster Assistance Program	1	3	0	0	1	0
8	Grants Management Oversight	3	1	0	0	0	0
	Total	9	14	2	0	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.

Small Business Access to Capital

SBA provides small businesses with capital and financial assistance through several key programs and has a financial assistance portfolio of guaranteed and direct loans totaling about \$123 billion. Over the years, OIG has worked closely with the Agency to identify potential



points of risk and to improve SBA's oversight and controls to ensure that eligible participants most in need of assistance benefit from these programs.

For example, the Agency's largest lending program, the Section 7(a) Loan Program, is SBA's principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. Proceeds from a 7(a) loan may be used to establish a new business or to assist in acquiring, operating, or expanding an existing business. This program relies on numerous outside parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions, with most loans being made by lenders to whom SBA has delegated loan-making authority. Additionally, SBA has centralized many loan approval and servicing functions and reduced the number of staff performing these functions, placing more responsibility on—and giving greater independence to—its lenders. Past OIG reviews have reported on these trends, and OIG continues to identify weaknesses in SBA's lender and loan agent oversight processes.

Criminals use a wide array of techniques to fraudulently obtain—or induce others to obtain—SBA-guaranteed loans. These include submitting fraudulent documents, making fictitious asset claims, manipulating property values, using loan proceeds contrary to the terms of the loans, and failing to disclose debts or prior criminal records. Consequently, there is a greater chance of financial loss to the Agency and its lenders. OIG dedicates a significant portion of its resources to identifying wrongdoers and, whenever possible, to recovering funds.

Disaster Assistance Program

Disaster assistance has been part of the Agency since its inception in 1953. Through its Office of Disaster Assistance, SBA provides long-term, low-interest financial assistance to businesses of all sizes, to private nonprofit organizations, to homeowners, and to renters following a disaster. Each year, SBA approves hundreds of millions of dollars in disaster assistance loans.

The Disaster Loan Program is the only form of SBA assistance not limited to small businesses; the program's disaster loans are the primary form of federal assistance for repairing and rebuilding nonfarm, private sector disaster losses. The program includes four categories of loans for disaster-related losses: (1) home disaster loans, (2) business disaster loans, (3) economic injury disaster loans, and (4) military reservist economic injury loans.

Unfortunately, the need to disburse such loans quickly poses many complications and may create opportunities for dishonest applicants to commit fraud. OIG and GAO audits have identified that SBA's disaster loans have been vulnerable to fraud and losses in the past because loan transactions are often expedited in order to provide quick relief to disaster survivors, and disaster lending personnel, who are brought into the workforce quickly, may lack enough training or experience. Additionally, the volume of loan applications may overwhelm SBA's resources and its ability to exercise careful oversight of lending transactions. OIG audits and investigations have identified specific instances of fraud as well as necessary systemic



improvements to reduce fraud and to provide effective and efficient loan delivery and protect taxpayer dollars.

Procurement Assistance

Each year, the federal government spends hundreds of billions of dollars in federal contracts to procure goods and services. SBA has worked to maximize opportunities for small business firms to receive these contract awards. For the current fiscal year, the federal government aims for 23 percent of these award dollars to go to small businesses.

To accomplish this goal, SBA has specific programs that focus on strengthening particular types of small businesses, including firms owned and controlled by service-disabled veteran-owned small businesses (SDVOSBs), women-owned small businesses (WOSBs), and small businesses that are disadvantaged or located in historically underutilized business zones (HUBZones). For example, the HUBZone Program helps small businesses stimulate their economically challenged local economies. Similarly, to help small, disadvantaged businesses gain access to federal and private procurement markets, SBA's 8(a) Business Development Program offers a broad range of business development support, such as mentoring, procurement assistance, business counseling, training, financial assistance, surety bonding, and other management and technical assistance.

Even with effective controls, some businesses misrepresent their eligibility for the HUBZone, WOSB, SDVOSB, and 8(a) programs in order to wrongfully receive preference for government contracts. OIG and other federal investigations have identified schemes in which companies owned or controlled by nondisadvantaged persons falsely claim to be disadvantaged firms or use actual disadvantaged firms as fronts. In other schemes, perpetrators use bribery or fraudulent procurement documents to achieve their ends.

Entrepreneurial Development

SBA provides training, mentoring, and counseling services to small businesses through a variety of strategic partnerships. The Office of Entrepreneurial Development (OED) oversees a network of programs and services that support the training and counseling needs of small business. OED manages and leverages three major resources: Small Business Development Centers (SBDCs), SCORE, and Women's Business Centers (WBCs). Additionally, the Office of Veteran Business Development partners with Veteran's Business Outreach Centers (VBOCs) to administer veteran technical assistance and training programs, mainly the Boots to Business Program. Although each resource program's goals and target audiences may vary, they share a common mission: to provide business advice, mentoring, and training to small businesses and entrepreneurs. Primarily, SBA administers these programs through grants and cooperative agreements.



OIG has identified weaknesses in SBA's oversight of recipient use of federal funds and performance outcomes. Notably, the SBDC program is the largest grant program in the Agency's portfolio. OIG has identified problems with comingling SBDC grant funds with private-enterprise contributions and accounting for required matching funds. Some SBDCs are also colocated with Women's Business Centers, which makes it difficult to determine what services are associated with each grant program. In addition, having two grant programs delivering similar services increases the risk of duplicating services and contributes to government waste. Our recent review of the SCORE program also identified similar significant weaknesses in SBA's oversight of federal funds, including funds used for unallowable, unallocable, and unreasonable expenses, and reported inaccurate performance results. Further, under the Disaster Relief Appropriations Act of 2013, SBA awarded additional grants to these resource partners. OIG found that SBA did not enhance its internal controls to ensure that program goals were achieved and expenditures were allowable. As a result, SBA developed guidance to mitigate these risks in the event of future, similar grants for disaster assistance.

SBA also provides grants to states through its State Trade Expansion Program, previously piloted as the State Trade and Export Promotion grant program, as part of its strategic objective to help small business exporters succeed in global markets. At Congress' request, OIG reviewed both the pilot program and its replacement. OIG found that SBA's oversight of the program did not ensure that it achieved intended results. Further, SBA relied on unverified performance data and did not ensure that the grant recipients performed the activities as planned, leaving federal funds unexpended at the end of the grant.

Agency Management

OIG is responsible for ensuring that Agency management appropriately safeguards SBA from fraud, waste, and abuse, and that SBA activities directly further Agency goals. As part of these efforts, OIG works with the Offices of the Chief Financial Officer, the Chief Information Officer, and the Chief Operating Officer to review financial reporting and performance management, human resources, procurements and grants, space and facilities, and maintenance of SBA's information systems and related security controls.

SBA's IT systems play a vital role in managing the Agency's operations and programs, including a \$142 billion loan portfolio. However, OIG audits and other reviews have identified serious shortcomings in SBA's information systems and related security controls. OIG reviews have found that SBA has not fully implemented adequate oversight of its IT systems, has not established an effective process to remediate security vulnerabilities, and has not developed an effective process to upgrade IT capabilities. OIG has issued management challenges recommending corrective actions in SBA's IT security and acquisition processes.



OIG Oversight Activities

Through audits and other reviews, OIG provides independent oversight of critical aspects of SBA's programs and operations to improve the Agency's efficiency and effectiveness. An important aspect of this work is identifying and following up on SBA's major management and performance challenges, as required by the Reports Consolidation Act. OIG also supports SBA's mission by detecting, investigating, and deterring fraud and other wrongdoing in the Agency's programs and operations. The OIG Hotline operations are poised to receive complaints of fraud, waste, and abuse from the public, Agency employees, and stakeholders. OIG serves as a governmentwide training resource for small business fraud and enforcement issues. These activities help to ensure that SBA employees, loan applicants, and program participants possess a high level of integrity. This is critical to the proper administration of SBA programs because it helps ensure that the Agency's resources are used only by those who deserve and need them the most.

During FYs 2020 and 2021, in addition to conducting audits and reviews that are required by statutes and other directives, OIG will continue to focus on the most critical risks facing SBA. Several areas of emphasis are discussed below.

Small Business Access to Capital

SBA paid guaranty claims totaling \$0.9 billion in FY 2018 and \$1.4 billion in FY 2019 for defaulted 7(a) loans and 504 debentures. Some of SBA's losses correlate to similar root causes reported in the mortgage industry, such as limited SBA oversight of lenders and loan agents, poor lender loan processing, unscrupulous borrowers, and complicit brokers and lenders.

OIG will continue to address financial losses in SBA's lending due to lender errors and various fraud schemes. OIG's High Risk 7(a) Loan Review Group will continue to perform in-depth analyses of high risk 7(a) loans that default within approximately 18 months of final disbursement. When lender negligence is found, this group will recommend recovery of the guaranty. OIG also will target the most offending lenders to attain corrective actions and identify trends for operational improvement by SBA. When OIG identifies suspected fraud, those loans will be investigated.

OIG will continue to focus on detecting fraud committed by loan agents, such as packagers, brokers, and lender service providers. A loan agent is sometimes hired by an applicant or lender to assist the applicant in obtaining an SBA loan or to perform some lender functions. Although honest loan agents help small businesses gain access to capital, some dishonest ones have perpetrated fraudulent schemes involving tens of millions of dollars in loans. These fraudulent loans often default for nonpayment, and SBA is forced to use taxpayer funds to purchase the guaranteed portions of the loans.



OIG also will continue to conduct audits of SBA's internal loan program operations and oversight, including audits of SBA's loan origination, closing, servicing, and liquidation processes, SBA's oversight of Small Business Investment Companies, and SBA's oversight of loan agents and lender service providers. Past work has shown that loans were not always properly originated and that effective controls and procedures were not in place to prevent improper payments.

Disaster Assistance Program

OIG audits of SBA's Disaster Loan Program will continue to focus on applicant eligibility, loan origination, disbursements, repayment ability, loan servicing, liquidation activities related to disaster loans, and SBA's initial response to major disasters. Our focus in recent years has been on providing oversight to SBA's disaster assistance to Hurricane Sandy victims. As SBA responded to Hurricane Sandy, our oversight plans took shape, and our work began to root out fraud, waste, and abuse. Aided by vital, supplemental funding, our Audits Division initially focused its reviews on timeliness, eligibility, technical assistance grants, and early defaults. OIG issued 10 reports pertaining to our oversight efforts of SBA's Hurricane Sandy disaster assistance, including a review pertaining to loans made pursuant to the RISE After Disaster Act of 2015.

In addition to reviews of Hurricane Sandy loans, OIG has performed audits to assess SBA's response associated with more recent disasters. During 2017, three additional devastating hurricanes occurred. In August, Hurricane Harvey struck Texas. While the storm's full cost remains to be seen, the state's governor estimated losses at \$180 billion. Two weeks later, Hurricane Irma caused significant damage to the U.S. Virgin Islands, Puerto Rico, Florida, Georgia, and South Carolina. Two weeks after that, Hurricane Maria struck the U.S. Virgin Islands and Puerto Rico. The National Oceanic and Atmospheric Administration estimates damages for the three hurricanes at \$265 billion. They rank among the top five costliest U.S. hurricanes on record. In 2018, OIG issued three inspection reports assessing SBA's initial response to Hurricanes Harvey, Irma, and Maria. In 2019, OIG also assessed SBA's initial response to Hurricane Florence.

In 2019, we also assessed SBA's desktop loss verification process. The process consisted of an initial desktop verification to estimate the cost of repairs and a post desktop review, which is used to verify the initial estimate. We found that SBA had disbursed more than 36,000 loans for more than \$594 million without validating the cause and extent of damages.

We will continue to evaluate potential risks in the program, such as timely program delivery, loan affordability, training of reserve workforce, loss verification, and credit elsewhere. Our Disaster Loan Program audits will assess whether SBA processed homeowner and business loans in accordance with the Agency's procedures and established goals; ensured applicant eligibility and verified cause, extent, and cost of damages before loans were disbursed; and



timely disbursed loan dollars, properly handled foreclosed properties, and appropriately identified improper payments.

For investigations, OIG will focus efforts on areas of known risk, such as unauthorized use of loan proceeds, overstatement of financial losses, material false statements in the application process, false or counterfeit supporting documentation, and false assertions regarding primary residency in affected areas at the times of the disasters. As of September 30, 2019, OIG had 48 open cases involving disaster loans with potential dollar losses of nearly \$9.0 million. From FY 2006 through FY 2019, SBA OIG, in conjunction with other law enforcement agencies, produced 152 arrests, 165 indictments/informations, and 163 convictions related to wrongdoing in SBA's Disaster Loan Program. As of September 30, 2019, these investigations have resulted in over \$26.5 million in court-ordered restitution and related recoveries. In addition, \$7.2 million in loans was denied to potentially fraudulent borrowers through FY 2019.

Specific to Hurricane Sandy, in response to the potential for fraud, OIG joined other law enforcement organizations in support of the New Jersey Attorney General's Office Sandy Fraud Task Force. From FY 2014 through FY 2019, OIG, in conjunction with other law enforcement agencies, produced 61 indictments/informations and 47 convictions related to wrongdoing in SBA's Disaster Loan Program for Hurricane Sandy. The first OIG Sandy investigation was opened in May 2013. Subsequently, OIG has had 87 Sandy investigations, totaling nearly \$15.0 million in potential fraud. As of September 30, 2019, OIG had 17 Sandy cases open with potential fraud totaling nearly \$3.9 million.

In the aftermath of Hurricane Harvey, OIG is collaborating with federal and local agencies to coordinate responses to disaster assistance fraud. These partners include the National Center for Disaster Fraud (NCDF) in Baton Rouge, Louisiana, as well as the U.S. Attorney's Office (USAO). OIG also is working with SBA program offices to alert Hurricane Harvey victims about possible fraud schemes, particularly identity theft. From FY 2018 through FY 2019, nine Hurricane Harvey cases had been opened, with potential dollar losses exceeding \$1.6 million. During that time, there were five indictments and two convictions.

In the case of the geographically widespread Hurricanes Irma and Maria, OIG is coordinating its efforts with task forces consisting of other law enforcement agencies and USAOs, as well as following up on leads from NCDF. OIG also is working with SBA program offices to alert hurricane victims about possible fraud schemes, particularly identify theft. In addition, OIG is exploring data analytic initiatives to combine SBA's and other agencies' data to identify possible fraud. Moreover, OIG has made field visits to promote its investigative mission to stakeholders in the affected areas. From FY 2018 through FY 2019, 18 cases related to Hurricanes Irma and Maria had been opened, with potential dollar losses of nearly \$753,000. During that time, there were five indictments and four convictions.

Finally, in 2017 and 2018, wildfires across California were responsible for numerous deaths and billions in property losses. OIG's response plan is based on leveraging strong existing



relationships with SBA and law enforcement partners to deter, detect, and prosecute disaster fraud schemes. Consistent with this, OIG was asked to join the Disaster Relief Fraud Task Force of federal, state, and local agencies. OIG also is working with SBA program offices to alert wildfire victims about possible fraud schemes, particularly identity theft.

Procurement Assistance

SBA directs significant efforts toward helping small businesses obtain federal contracts and providing other business development assistance. SBA's Office of Government Contracting and Business Development is tasked with helping small businesses obtain federal contracting opportunities and helping small, disadvantaged, veteran-owned, and women-owned businesses build their potential to compete more successfully in a global economy. During FYs 2020 and 2021, OIG will focus on SBA's oversight of—and current issues affecting—government contracting and business development programs, including investigating allegations that ineligible companies are fraudulently benefitting from these programs.

As of September 30, 2019, OIG had 91 open government contracting cases, with potential dollar losses of more than \$11.8 billion based on the total dollar value of the contract. The funding requested for FY 2021 will allow OIG to continue investigating fraudulent schemes that take improper advantage of SBA's contracting assistance programs. In addition, OIG has handled several qui tam cases brought by private-sector whistleblowers alleging fraud in SBA's small business and socioeconomically disadvantaged contracting programs. Although the number of such cases has fluctuated over the years, OIG must be prepared to expend considerable resources to provide both investigative and legal assistance to the government's prosecution of these cases.

OIG's audit work will continue to assess SBA's effectiveness in ensuring only eligible small businesses benefit from these programs. Our audit teams will focus on reviewing the following areas.

- The 8(a) Business Development Program continues to be susceptible to major vulnerabilities. These include limited program oversight; inequitable distribution of contracting opportunities among participants; insufficient measurable, consistent, and mandatory criteria pertaining to economic disadvantage; insufficient implemented criteria defining business success for purposes of program graduation; missed opportunities to study the long-term effects of the program on former participants; and misrepresentation by companies as small, minority-owned, or disadvantaged businesses to gain an unfair advantage in the federal marketplace. During a recent review, we found that SBA did not consistently identify ineligible firms in the 8(a) program and did not always act to remove firms it had 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. Ineligible firms were awarded more than \$126.8 million in new 8(a) set-aside contract obligations in FY 2017 at



the expense of eligible disadvantaged firms. OIG will continue to review these issues and SBA's management of the 8(a) program. In FY 2020, we plan to review the effectiveness of the 8(a) Business Development Program. We also will continue to pursue a number of fraud investigations relating to the 8(a) program and will continue to devote resources to these investigations in FYs 2020 and 2021.

- The HUBZone program provides federal contracting assistance to small businesses located in economically distressed areas with the intent of stimulating economic development. Previous OIG and GAO reviews of the program identified significant control weaknesses that have allowed ineligible firms to receive millions of dollars in contracts. Accordingly, SBA implemented a more rigorous HUBZone certification and recertification process in the hopes of preventing ineligible firms from achieving certification. However, in a November 2013 audit report on SBA's HUBZone certification process, OIG reported that 12 firms certified into the program, including 3 ineligible ones, received 94 percent (\$34.9 million) of federal contract dollars awarded during a 6-month period in 2012, even though 367 firms were certified during that period. Similarly, in a FY 2019 audit report, we again reported 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 the HUBZone employee residency requirement. These firms received \$589,000 in HUBZone contract obligations at the expense of eligible firms. OIG currently is investigating numerous fraud cases under the HUBZone programs and will continue to pursue prosecution, civil fraud recovery, and debarment of contractors who improperly obtain HUBZone contracts. For audit work, OIG plans to review SBA's HUBZone continuing eligibility review process.
- The Women-Owned Small Business (WOSB) Federal Contract program provides greater access to federal contracting opportunities for WOSBs and economically disadvantaged WOSBs (EDWOSBs). The program allows contracting officers to set aside specific contracts for certified WOSBs and EDWOSBs. Similar to other federal government programs, WOSB and EDWOSB contracting may be vulnerable to fraud and abuse. Previous OIG reviews have found false or incorrect WOSB self-certifications may be a significant governmentwide problem.
- The National Defense Authorization Act for FYs 2013 and 2015 made major programmatic changes to the WOSB program and considerably increased SBA's oversight role. Specifically, the FY 2015 Act authorized grant contracting officers the authority to award sole-source awards to WOSB program firms, removed firms' ability to self-certify, and required firms to be certified. However, SBA has opted to implement the sole-source authority provision first—separate from a certification program. We believe that allowing sole-source contracting authority in the WOSB program, without implementing the contemporaneously required certification program, is inconsistent with SBA's statutory authorization and exposes the program to abuse. During our recent review of SBA's WOSB Federal Contract Program, we found that federal agencies contracting officers and firms did not comply with federal regulations for 50 of the 56 program sole-source contracts, valued at



\$52.2 million. As a result, there was no assurance that these contracts were awarded to firms that were eligible to receive sole-source awards under the Program. To date, SBA has not implemented a WOSB certification program and plans to issue the final rule in June 2020. OIG plans to continue monitoring SBA's implementation of the National Defense Authorization Act for FYs 2013 and 2015 changes to the WOSB program.

- The All Small Mentor-Protégé program expands the mentor-protégé program. OIG has conducted a number of fraud investigations involving the mentor-protégé programs under the 8(a) program. In August 2016, SBA issued regulations to implement a statutory mandate that expanded mentor-protégé programs to all other small businesses. The Agency accepted a number of OIG recommendations to revise these regulations to limit the opportunity for fraudulent acquisition of government contracts. Nevertheless, OIG anticipates that these expanded programs will create opportunities for additional fraud by large, nondisadvantaged contractors and that greater OIG resources will need to be devoted to investigating this fraud. During our recent evaluation of SBA's All Small Mentor-Protégé program, we found that SBA did not implement effective controls to ensure it conducted initial application reviews and annual evaluations to fully align with program regulations. Additionally, SBA did not fully adhere to established processes or ensure it appropriately documented assessments. Further, while SBA identified program performance indicators and a process to measure results, it did not effectively monitor and evaluate the results. As a result, SBA's program may not be developing small businesses as it intended and unqualified businesses, including large businesses, may improperly benefit from the program. OIG plans to continue monitoring SBA's management of this program.
- Suspension and debarment actions are designed to protect the federal government from potential harm posed by individuals or entities who demonstrate a lack of business integrity. During our recent review of SBA's suspension and debarment process, we found that SBA has not established sufficient controls over its suspension and debarment process to prevent ineligible individuals or entities from participating in small business programs or to control the risk presented by potentially irresponsible entities participating in federal government programs. Specifically, an entity convicted of a Clean Water Act violation and included on the exclusion list received an SBA 7(a) loan valued at \$2.9 million. In addition, suspending and debarring officials' delayed action to process referrals for debarment resulted in \$80.3 million in contract awards to entities who demonstrated causes for debarment. OIG will continue to provide oversight of SBA's management of this program to ensure that firms identified as ineligible are effectively removed from these programs.
- There is a high level of congressional interest in the government meeting its small business contracting goals. OIG will continue to assess whether SBA is taking adequate steps to ensure the integrity of small business contracting. OIG's work will focus on issues such as the accuracy of reporting small business contract activity, the classification of large businesses as small, adherence to regulations to protect small businesses, training of



government contracting personnel, deterring fraudulent acquisition of government contracts, and bundling of contracts.

Entrepreneurial Development

During FYs 2020 and 2021, OIG will focus on SBA oversight of and current issues affecting entrepreneurial and veterans business development programs, with emphasis on grants awarded to SBDCs, Women's Business Centers, and Veterans Business Outreach Center programs.

Agency Management

OIG is responsible for ensuring that Agency management appropriately safeguards SBA from fraud, waste, and abuse, and that SBA activities directly further Agency goals. As part of these efforts, OIG works with the Offices of the Chief Financial Officer, the Chief Information Officer, and the Chief Operating Officer to review financial reporting and performance management, human resources, procurements and grants, space and facilities, and maintenance of SBA's information systems and related security controls. During FYs 2020 and 2021, OIG plans to assess the effectiveness of SBA's actions to mitigate its workforce challenge risk.

Top Management Challenges

As required by the Reports Consolidation Act, OIG annually develops the Report on the Most Serious Management and Performance Challenges Facing SBA. The management challenges focus on areas that are particularly vulnerable to fraud, waste, error, and mismanagement, or that otherwise pose a significant risk and generally have been the subject of one or more OIG or GAO reports. OIG will continue to identify and report serious management challenges facing SBA and will work throughout the year with Agency management to resolve identified issues as quickly and efficiently as possible.

Financial Management and Information Technology

OIG will continue to oversee the audits of SBA's financial statements, as well as FISMA and Federal Information Systems Controls Audit Manual reviews, which are conducted by an independent public accountant under a contract with OIG. The scope and complexity of the audit increased as a result of growing direct and guaranteed loan portfolios and as the Agency complies with the DATA Act.

OIG will provide oversight and monitoring of SBA's cloud migration, IT security, and application development activities, including new systems under development and the Agency's compliance with FISMA. The scope of the FISMA evaluation is anticipated to expand as OIG evaluates Agency progress in implementing initiatives designed to strengthen and enhance federal cybersecurity. OIG and an independent public accountant have previously



identified systemic problems with security controls over SBA's IT systems and this area remains one of the most serious management challenges facing the Agency.

OIG also plans to continue to monitor systems development activities related to improvements to financial and program related systems as well as investments, cost management, and reporting in cloud computing. Specifically, OIG will continue to assess Agency progress in implementing the Federal Information Technology Acquisition Reform Act. This Act requires the Chief Information Officer to play a critical leadership role in driving reforms to help control system development risks, better manage technology spending, and achieve measurable improvements in agency performance. Related to this effort will be a preliminary assessment of how the Agency is adopting technology business management reporting protocols initially required in the FY 2019 Capital Planning Guidance. Furthermore, the Chief Information Officer must ensure federal IT security is deployed in SBA's highly decentralized and dynamic IT environment.

OIG also will continue its mandated reviews of SBA's compliance with the DATA Act, the Improper Payments and Elimination Recovery Act, and purchase card and cash gifts acceptance and reporting guidelines.

Acquisition Processes

OIG audits will continue to focus on SBA's compliance with federal contracting regulations and its policies and procedures over IT systems acquisition and project oversight. OIG efforts also will include monitoring system development activities related to SBA's certify.gov. We will validate capital investment and data security controls as well as assess whether software functionality was delivered to end users in accordance with project requirements.

Other OIG Activities

In addition to investigations, audits, inspections, and other reviews, OIG will provide leadership and coordination to recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of, and to prevent and detect fraud and abuse in, such programs and operations. The activities described below ensure that OIG is able to fulfill this statutory mandate and leverage external entities through training and outreach activities.

Security Operations

OIG's Office of Security Operations will continue to perform required employee background investigations to achieve a high level of integrity in OIG's workforce and adjudicate OIG employees and contractors for issuance of personal identity verification cards pursuant to Homeland Security Presidential Directive 12 background investigation requirements.



OIG Hotline

Hotline staff conduct a preliminary review and analysis of all complaints received to determine the appropriate course of action. The OIG Hotline is staffed by OIG employees who process and analyze allegations of fraud, waste, abuse, or serious mismanagement in SBA or its programs from employees, contractors, and the public. As part of the hotline process, staff may coordinate reviews of allegations within OIG, with SBA program offices, or with other governmental agencies. Most hotline complaints are submitted through an online complaint submission system located on OIG's website. Those who report information can do so openly, anonymously, and confidentially, without fear of reprisal.

Pursuant to the Whistleblower Protection Coordination Act, OIG has designated a Whistleblower Coordinator within the hotline function to educate SBA employees about prohibitions on retaliation for whistleblowing, as well as employees' rights and remedies if anyone retaliates against them for making a protected disclosure. In addition, the National Defense Authorization Act of 2013, which was made permanent in December 2016, created a pilot program extending whistleblower protections to government contractors, subcontractors, and grantees. These provisions may result in the hotline receiving an increased number of complaints. Additionally, this law mandates OIG investigations of these complaints and a report to the SBA Administrator to consider corrective action on the part of the contractor/grantee.

Review of Proposed Regulations and Initiatives

As part of OIG's proactive efforts to promote accountability and integrity and reduce inefficiencies in SBA programs and operations, OIG reviews changes that SBA is proposing to make to its program directives, such as regulations, internal operating procedures, policy notices, and SBA forms that are completed by lenders and the public. Frequently, OIG identifies concerns in these proposals and works with the Agency to implement recommended revisions to promote controls that are more effective and deter fraud, waste, or abuse.

Debarment and Administrative Enforcement Actions

As a complement to criminal and civil fraud investigations, OIG continually promotes the use of suspensions, debarments, and other administrative enforcement actions to protect taxpayer funds from those who have engaged in fraud or otherwise exhibited a lack of business integrity. OIG regularly identifies individuals and organizations for debarment and other enforcement actions and submits detailed present responsibility referrals with supporting evidence to the appropriate SBA officials. OIG also supports actions at other federal agencies through training and direct case assistance.



Training and Outreach

OIG will continue to conduct training and outreach sessions on topics related to fraud in government lending and contracting programs. Providing such training will better equip the federal oversight community with the knowledge and skills necessary to pursue small business contracting fraud cases. During FYs 2018 and 2019, OIG cohosted the Small Business Procurement Integrity Seminar with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Training Institute. This seminar consolidated key program information with practical lessons learned for handling small business contracting fraud in a daylong interactive training. SBA OIG also presented a stand-alone daylong small business procurement fraud program to the Department of Justice OIG on May 14, 2019, and a half-day stand-alone small business procurement fraud program to the Department of Homeland Security OIG on September 12, 2019. Additionally, the SBA OIG continued teaching a 2-hour small business procurement fraud block in the CIGIE Training Institute's Criminal Investigator Academy's Contract and Grant Fraud Training Program in Kentucky and Minnesota during May and August, respectively. These classes trained more than 150 federal oversight officials from agencies representing most of the federal government's small business purchases.

OIG Performance and Statistical Accomplishments

During FY 2018, OIG achieved \$22.4 million in monetary recoveries and savings—an elevenfold return on investment to the taxpayers. During FY 2019, OIG achieved \$111.0 million in monetary recoveries and savings—a fivefold return on investment to the taxpayers.

During FY 2018, OIG issued 26 reports with 111 recommendations. OIG investigations resulted in 62 indictments and 43 convictions. It is noted that OIG investigations often involve multiple subjects, large dollar losses, various joint agencies, and substantial restitution and forfeiture monies returned to the government. During FY 2019, OIG issued 23 reports containing 94 recommendations to improve operations and reduce fraud and unnecessary losses in Agency programs. In addition, OIG investigations resulted in 49 indictments/informations and 36 convictions.



Statistical Highlights in FY 2018

Table 3: 2018 Summary of OIG Dollar Accomplishments

Dollar Accomplishments as a Result of Investigations and Related Activities	
Potential Investigative Recoveries & Fines	\$55,373,556
Asset Forfeitures Attributed to OIG Investigations	\$22,930,190
Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$727,039
Investigations Subtotal	\$79,030,785
Dollar Accomplishments as a Result of Audit Activities	
Disallowed Costs Agreed to by Management	\$145,441,774
Recommendations That Funds Be Put to Better Use Agreed to by Management	0
Audit Subtotal	\$145,441,774
Total OIG Dollar Accomplishments	\$224,472,559

Table 4: 2018 Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Followup Activities

Reports Issued	26
Recommendations Issued	111
Dollar Value of Costs Questioned	\$186,580,293
Dollar Value of Recommendations That Funds Be Put to Better Use	\$0
Recommendations for Which Management Decisions Were Made	119
Recommendations Without a Management Decision	8
Collections as a Result of Questioned Costs	\$2,852,261

Table 5: 2018 Indictments, Convictions, and Case Actions

Indictments from OIG Cases	62
Convictions from OIG Cases	43
Cases Opened	73
Cases Closed	63

Table 6: 2018 SBA Personnel Actions Taken as a Result of Investigation

Dismissals	2
Resignations/Retirements	1
Suspensions	0
Reprimands	0
Other	0

Table 7: 2018 Program Actions Taken During the Reporting Period as Result of OIG Action

Present Responsibility Referrals to the Agency	38
Pending at the Agency as of September 30, 2018	35
Suspensions Issued by the Agency	19
Proposed Debarments Issued by the Agency	9
Final Debarments Issued by the Agency	14



Present Responsibility Referrals to the Agency	38
Proposed Debarments Declined by the Agency	1*
Administrative Agreements Entered by the Agency in Lieu of Debarment	1
Present Responsibility Actions by Other Agencies	19

*OIG does not count matters where SBA has ceded lead agency as declinations.

Table 8: 2018 Agency Legislative and Regulatory Proposals Reviewed

Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	112
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	37



Reports Issued in FY 2018

Table 9: 2018 Credit/Capital Programs Reports

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate	18-07	12/11/2017	\$2,246,579	\$0
Evaluation of SBA 7(a) Loans Made to Poultry Farmers	18-13	3/6/2018	\$0	\$0
SBA's FY2017 Progress in Reducing Improper Payments	18-17	5/15/2018	\$0	\$0
High Risk 7(a) Loan Review Program	18-21	8/15/2018	\$1,351,565	\$0
High Risk 7(a) Loan Review Program	18-23	9/13/2018	\$1,303,403	\$0
Program Subtotal	5	—	\$4,901,547	\$0

Table 10: 2018 Disaster Assistance Programs Reports

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Audit of RISE Act Eligibility Controls	18-09	1/19/2018	\$2,129,689	\$0
Inspection of SBA's Initial Disaster Assistance Response to Hurricane Harvey	18-10	1/19/2018	\$0	\$0
Audit of the Accuracy of the FY 2015 Disaster Loan Program Improper Payments Rate	18-12	2/13/2018	\$0	\$0
Inspection of SBA's Initial Disaster Assistance Response to Hurricane Irma	18-16	4/26/2018	\$0	\$0
Inspection of SBA's Initial Disaster Assistance Response to Hurricane Maria	18-19	07/19/2018	\$0	\$0
Program Subtotal	5	—	\$2,129,689	\$0

Table 11: 2018 Contracting/Counseling Programs Reports

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
SBA's Women-owned Small Business Contracting Program	18-18	06/20/2018	\$52,229,145	\$0
The Small Business Administration's Boots to Business Program	18-20	07/19/2018	\$419,912	\$0
Improvements Needed in SBA's Oversight of 8(a) Continuing Eligibility Processes	18-22	9/7/2018	\$126,900,000	\$0



Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Program Subtotal	3	—	\$52,775,957	\$0

Table 12: 2018 Agency Management Reports

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2018	18-01	10/12/2017	\$0	\$0
Independent Accountants' Report on SBA's Compliance with the DATA Act	18-02	11/8/2017	\$0	\$0
Independent Auditor's Report on the SBA's FY 2017 Financial Statements	18-03	11/14/2017	\$0	\$0
Independent Auditors' Report on SBA's FY 2017 Special-Purpose Financial Statements	18-04	11/15/2017	\$0	\$0
SBA's FY 2016 and 2017 Cash Contributions and Gifts	18-05	11/20/2017	\$0	\$0
Review of SBA's Implementation of the Federal Information Technology Acquisition Reform Act (FITARA)	18-06	11/28/2017	\$0	\$0
KPMG Management Letters Communicating Matters Relative to the U.S. Small Business Administration's (SBA's) FY 2017 Financial Statements and DATA Act Attestation Engagement	18-08	12/18/2017	\$0	\$0
Audit of SBA's State Trade Expansion Program	18-11	1/29/2018	\$0	\$0
Weaknesses Identified During the FY 2017 Federal Information Security Modernization Act (FISMA) Review	18-14	3/20/2018	\$0	\$0
Improvement Needed in the Accuracy of SBA Data Reported on USASpending.gov	18-15	3/20/2018	\$0	\$0
SBA's FY2017 Progress in Reducing Improper Payments	18-17	05/15/2018	\$0	\$0
FY 2018 Risk Assessment of SBA's Charge Card Programs	18-24	9/20/2018	\$0	\$0
SBA Controls Over FY 2017 and 2018 Cash Contributions and Gifts	18-25	9/20/2018	\$0	\$0
Program Subtotal	13	—	\$52,649,057	\$0



Statistical Highlights in FY 2019

Table 13: 2019 Summary of OIG Dollar Accomplishments

Dollar Accomplishments as a Result of Investigations and Related Activities	
Potential Investigative Recoveries and Fines	\$72,576,053
Asset Forfeitures Attributed to OIG Investigations	\$4,827,399
Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$0
Investigations Subtotal	\$77,403,453
Dollar Accomplishments as a Result of Audit Activities	
Disallowed Costs Agreed to by Management	\$33,567,403*
Recommendations That Funds Be Put to Better Use Agreed to by Management	\$0
Audit Subtotal	\$33,567,403
Total OIG Dollar Accomplishments	\$110,970,856

*Includes \$18,733,799 in questioned costs retroactively disallowed by the Agency at the time of final action.

Table 14: 2019 Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Followup Activities

Reports Issued	23
Recommendations Issued	94
Dollar Value of Costs Questioned	\$ 687,582,182
Dollar Value of Recommendations That Funds Be Put to Better Use	\$0
Recommendations for Which Management Decisions Were Made	91
Recommendations Without a Management Decision	11
Collections as a Result of Questioned Costs	\$408,496

Table 15: 2019 Indictments, Convictions, and Case Actions

Indictments From OIG Cases	49
Convictions From OIG Cases	36
Cases Opened	59
Cases Closed	66

Table 16: 2019 SBA Personnel Actions Taken as a Result of Investigation

Dismissals	2
Resignations/Retirements	2
Suspensions	1
Reprimands	1
Other	1



Table 17: 2019 Program Actions Taken During the Reporting Period as Result of OIG Action

Present Responsibility Referrals to the Agency	38
Pending at the Agency as of September 30, 2019	35
Suspensions Issued by the Agency	19
Proposed Debarments Issued by the Agency	9
Final Debarments Issued by the Agency	14
Proposed Debarments Declined by the Agency	1*
Administrative Agreements Entered by the Agency in Lieu of Debarment	1
Present Responsibility Actions by Other Agencies	19

* OIG does not count matters where SBA has ceded lead agency as declinations.

Table 18: 2019 Agency Legislative and Regulatory Proposals Reviewed

Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	112
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	37



Reports Issued in FY 2019

Table 19: 2019 Top Management Challenges

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
The Most Serious Management and Performance Challenges Facing SBA in FY 2019	19-01	10/11/2018	\$0	\$0
Program Subtotal	1	—	\$0	\$0

Table 20: 2019 Agency Management

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Consolidated Findings of OIG Reports on SBA's Grant Programs FYs 2014-2018	19-02	11/08/2018	\$0	\$0
Independent Auditors' Report on SBA's FY 2018 Financial Statements	19-03	11/14/2018	\$0	\$0
Independent Auditors' Report on SBA's FY 2018 Special Purpose Financial Statements	19-04	11/16/2018	\$0	\$0
KPMG Management Letter Communicating Matters Relative to SBA's FY 2018 Financial Statement Audit	19-05	12/18/2019	\$0	\$0
SBA's District Offices' Customer Service	19-06	12/19/2019	\$0	\$0
Weaknesses Identified During the FY 2018 Federal Information Security Modernization Act Review	19-09	4/9/2019	\$0	\$0
SBA's Cloud Migration and Oversight	19-10	4/9/2019	\$0	\$0
SBA's FY 2018 Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA)	19-13	5/23/2019	\$0	\$0
SBA's 2018 and 2019 Cash Contributions and Gifts	19-14	6/19/2019	\$0	\$0
Audit of SBA's Suspension and Debarment Process	19-18	9/18/2019	\$83,200,000	\$0
FY 2019 Risk Assessment of SBA's Charge Card Programs	19-21	9/25/2019	\$0	\$0
Program Subtotal	11	—	\$83,200,000	\$0

Table 21: 2019 Credit/Capital Programs

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Audit of SBA's Controls over 7(a) Loans Sold on The Secondary Market	19-07	3/14/2019	\$130,173	\$0
OIG High Risk 7(a) Loan Review Program	19-15	7/10/2019	\$5,335,790	\$0



Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
The Office of Inspector General High Risk 7(a) Loan Review Program	19-16	8/14/2019	\$2,059,132	\$0
Office of Inspector General High Risk 7(a) Loan Review Program	19-19	9/19/2019	\$1,267,223	\$0
Consolidated Results of the OIG High Risk 7(a) Loan Review Program	19-22	9/26/2019	\$0	\$0
Program Subtotal	5	—	\$8,792,318	\$0

Table 22: 2019 Contracting/Counseling Programs

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
SBA's HUBZone Certification Process	19-08	3/28/2019	\$589,000	\$0
Audit of SBA's Oversight of the SCORE Association	19-12	4/25/2019	\$713,986	\$0
Evaluation of SBA's All Small Mentor-Protégé Program	19-17	9/17/2019	\$0	\$0
Review of Women's Business Center, Inc., Compliance With Cooperative Agreement Requirement	19-20	9/19/2019	\$0	\$0
Program Subtotal	4	—	\$1,302,986	\$0

Table 23: 2019 Disaster Assistance

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Inspection of SBA's Initial Disaster Assistance Response to Hurricane Florence	19-11	4/17/2019	\$0	\$0
Audit of SBA's Desktop Loss Verification Process	19-23	9/26/2019	\$594,286,878	\$0
Program Subtotal	2	—	\$594,286,878	\$0



Reporting Requirements Under the Inspector General Reform Act of 2008

The following information is provided in accordance with the Inspector General Reform Act of 2008, as amended (P.L. 110-409).

Table 24: FY 2021 Budget Request

Dollars in Millions	FY 2019 Actual	FY 2020 Enacted	FY 2021 Request	FY 2021 Incr/Decr
New Budget Authority	\$21.9	\$21.9	\$22.0	\$0.1
Transfer from Disaster Loan Program	\$1.0	\$1.6	\$1.6	\$0.0
Total	\$22.9	\$23.5	\$23.6	\$0.1

OIG's FY 2021 budget request includes \$300,000 for training, which is sufficient to satisfy all training needs for the fiscal year, and \$77,500 for the operation of CIGIE.



OIG Organizational Structure

OIG has three divisions and several supporting program offices to carry out its functional responsibilities.

The **Audits Division** performs and oversees audits and reviews to review and assist SBA in administering its programs and operations economically, efficiently, and effectively. Key areas of emphasis are SBA's loan programs, disaster assistance, business development and government contracting programs, agency management, as well as mandatory and other statutory audit requirements involving computer security and financial reporting. The balance of the engagements is discretionary and focuses on high-risk activities and management issues facing SBA.

The **Investigations Division** conducts investigations to detect and deter illegal and improper activities involving SBA's programs, operations, and personnel. SBA OIG criminal investigators carry out a full range of traditional law enforcement functions. The security operations staff conducts required OIG employee background investigations to achieve a high level of integrity in its workforce and adjudicates OIG employees and contractors for issuance of personal identity verification cards pursuant to Homeland Security Presidential Directive 12 background investigations requirements. The OIG Hotline, under the purview of the Investigations Division, reviews allegations of waste, fraud, abuse, or serious mismanagement within SBA or its programs from employees, contractors, and the public. Hotline staff conduct a preliminary review of all complaints to determine the appropriate course of action and may coordinate reviews of allegations within OIG, SBA program offices, or other government agencies.

The **Management and Operations Division** provides business support (e.g., budget and financial management, human resources, IT, procurement, and communications) for various OIG functions and activities.

The **Office of Counsel** provides legal and ethics advice to all OIG components; represents OIG in litigation arising out of or affecting OIG operations; assists with prosecuting criminal, civil, and administrative enforcement matters; processes subpoenas; responds to Freedom of Information and Privacy Act requests; provides training; and reviews and comments on proposed policies, regulations, legislation, and procedures.

OIG's headquarters is in Washington, DC. Its field staff are located in Atlanta, GA; Chicago, IL; Dallas-Fort Worth, TX; Detroit, MI; Denver, CO; Herndon, VA; Houston, TX; Los Angeles, CA; Miami, FL; New York, NY; Philadelphia, PA; Federal Way, WA; and Washington, DC.

An organizational chart for OIG is provided on the next page.



**Small Business Administration
Office of Inspector General**

