



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

**Final Report Transmittal**  
Report Number: 20-15

**DATE:** May 12, 2020

**TO:** Jovita Carranza  
Administrator

**FROM:** Hannibal "Mike" Ware  
Inspector General

A handwritten signature in black ink, appearing to read "H. Ware", written over the printed name of the Inspector General.

**SUBJECT:** Independent Auditors' Report on SBA's Compliance with IPERA

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to perform a performance audit as required by the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The objectives of the engagement were to review the payment integrity section of SBA's Fiscal Year (FY) 2019 Agency Financial Report to determine whether the agency is in compliance with the Improper Payments Information Act of 2002 (IPIA) as amended.<sup>1</sup> KPMG also evaluated the agency's (1) accuracy and completeness of reporting and (2) performance in reducing and recapturing improper payments. KPMG conducted the engagement in accordance with consulting services standards established by the American Institute of Certified Public Accountants, the standards applicable to performance audits contained in the U.S. Government Accountability Office's (GAO) Government Auditing Standards issued by the Comptroller General of the United States, and guidance as defined by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Guidance for Improper Payments Elimination and Recovery Act Compliance Reviews.

The attached independent auditors' report presents KPMG's findings on the agency's improper payment reporting required under IPERA. Specifically, KPMG reported that:

- SBA complied with the six IPERA reporting requirements;
- improvement was needed over the completeness and accuracy of improper payment reporting; and
- SBA reduced the improper payment rates for most programs.

Details regarding KPMG's conclusions are included in the results and conclusions, and findings sections in this report. We reviewed a copy of KPMG's report and related documentation and made necessary inquiries of their respective representatives. Our review was not intended to enable us to express—and we do not express—an opinion on SBA's FY 2019 improper payment reporting or KPMG's conclusions about the effectiveness of internal controls. However, our review disclosed no instances where KPMG did not comply, in all material respects, with Government Auditing Standards.

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<sup>1</sup> OIG requirements for its annual improper payment review are listed in the Improper Payments Elimination and Recovery Act of 2010 (IPERA), which amended IPIA. Additionally, the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) also amended IPIA. Appendix C of OMB Circular A-123 is guidance on IPIA, as amended.

We provided a draft of KPMG's report to SBA's Chief Financial Officer, and Associate Administrators for Disaster Assistance and Capital Access who concurred with its findings and recommendations and agreed to implement the recommendations. The Agency's comments are attached at Attachment I to this report.

We appreciate the cooperation and assistance of SBA and KPMG. Should you or your staff have any questions, please contact me at (202) 205-6586 or Jeffrey R. Brindle, Director of the Information Technology, Financial Management and Operations Group at (202) 205-7490.

cc: Tami Perriello, Chief Financial Officer and Policy Advisor to the Administrator  
James Rivera, Associate Administrator, Disaster Assistance  
William Manger, Chief of Staff and Associate Administrator, Capital Access  
Christopher S. Gray, Deputy Chief of Staff  
Brittany Biles, General Counsel  
Martin Conrey, Attorney Advisor, Legislation and Appropriations  
Tonia Butler, Director, Office of Internal Control  
Michael A. Simmons, Attorney Advisor

Attachment



Performance Audit of the U.S. Small Business Administration's  
Fiscal Year 2019 Compliance with the Improper Payments Elimination  
and Recovery Act of 2010 (IPERA)

Prepared for: U.S. Small Business Administration, Office of Inspector General

Date: May 12, 2020

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

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KPMG LLP  
Suite 12000  
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Administrator  
Inspector General  
U.S. Small Business Administration

This report presents the results of our work conducted to address the performance audit objectives related to the U.S. Small Business Administration's (SBA's) compliance with the requirements contained in the Improper Payments Elimination and Recovery Act of 2010, Section 3(a)(3) (IPERA). Our work was performed between December 9, 2019 and May 7, 2020, and our results are as of May 12, 2020.

We conducted this performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants (AICPA). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The audit objectives of our work were to<sup>1</sup>:

1. Review the payment integrity section of the fiscal year (FY) 2019 agency financial report (AFR) to determine whether SBA is compliant with IPERA reporting requirements;
2. Evaluate the accuracy and completeness of SBA's reporting; and
3. Evaluate SBA's performance in reducing and recapturing improper payments.

Based on the results of our performance audit procedures, we have met our audit objectives.

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<sup>1</sup> The Council of the Inspectors General on Integrity and Efficiency (CIGIE) Guidance for Improper Payments Elimination and Recovery Act Compliance Reviews, dated July 9, 2019, provides guidance regarding the fieldwork and reporting related to these performance audit objectives.



For objective 1, we determined that SBA complied with each of the six IPERA compliance requirements as follows:

**Table 1. Summary of SBA’s IPERA Compliance**

	<b>Section 7(a) Loan Guaranty Purchases</b>	<b>Section 7(a) Loan Guaranty Approvals</b>	<b>Section 504 CDC Loan Guaranty Approvals</b>	<b>Disaster Direct Loan Disbursements</b>	<b>Supplemental Disaster Relief Administrative Funds - Payroll</b>	<b>Supplemental Disaster Relief Administrative Funds - Travel</b>
<b>Posted AFR</b>	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
<b>Performed Risk Assessment</b>	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
<b>Published Improper Payment Estimates</b>	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
<b>Published Programmatic Corrective Action Plans</b>	Compliant	Compliant	Not Applicable	Compliant	Not Applicable	Not Applicable
<b>Published and Met Annual Reduction Target</b>	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
<b>Reported Improper Payment Rate of Less Than 10 Percent</b>	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant

For objective 2, we determined the program improper payment rate estimates to be accurate and the sampling and estimation plans used to be appropriate given program characteristics. However, certain populations of outlays and disclosures included as part of SBA’s reporting were not accurate and complete. Section IV contains details of our findings, identified internal control deficiencies, and related recommendations.

For objective 3, we determined that from FY 2018 to FY 2019, SBA had a reduction in the improper payment estimate for all programs except for the 7(a) loan guaranty purchases. In addition, SBA did not perform a payment recapture audit for the 7(a) loan guaranty approvals and 504 certified development companies (CDCs) loan guaranty approvals as no payment is made at the time of approval. SBA determined that a payment recapture audit for the other programs would not be cost effective.

KPMG cautions that projecting the results of our performance audit to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

SBA’s response to the findings identified in our performance audit is presented in Attachment I. SBA’s response was not subjected to the auditing procedures applied in this performance audit and, accordingly, we express no opinion on the response.



This report is intended solely for the use of the U.S. Small Business Administration and Inspector General, Comptroller General, OMB, and relevant congressional committees; and is not intended to be and should not be relied upon by anyone other than these specified parties.

*KPMG LLP*

May 12, 2020

## I. BACKGROUND

The Improper Payments Information Act of 2002 (IPIA) requires federal agencies to identify programs susceptible to significant improper payments, estimate the improper payments for those programs, and report on actions to reduce the improper payments in those programs. The Office of Management and Budget (OMB) was required to prescribe guidance on implementation of these requirements.

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) sought to have agencies take additional steps to reduce their improper payments. The Act amended IPIA by further refining the assessment of susceptible programs, the estimation of improper payments, and actions to reduce with additional criteria. In addition to these refinements, IPERA also requires additional reporting on efforts to recover improper payments, including conducting recovery audits. Lastly, IPERA requires an annual compliance report by agency Inspectors General and defines what constitutes compliance with the requirements. An agency has met the IPERA compliance requirements if they:

- i. Published an AFR or performance and accountability report (PAR) for the fiscal year ended September 30, 2019, and posted that report and any accompanying materials required by the Office of Management and Budget (OMB) on the agency website;
- ii. Conducted a program specific risk assessment for each program or activity that conforms with Section 2(a) IPIA (if required);
- iii. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
- iv. Published programmatic corrective action plans in the AFR or PAR (if required);
- v. Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
- vi. Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.

On June 26, 2018 OMB issued Memorandum M-18-20, Appendix C to OMB Circular No. A-123, Requirements for Payment Integrity Improvement (OMB Memorandum M-18-20), as updated implementation guidance to federal agencies. OMB Memorandum M-18-20 requires agencies to report improper payment estimates, root causes of the improper payments, corrective actions taken, and the recapture of improper payments identified. Agencies must provide reasonable assurance that controls are in place and working. OMB Memorandum M-18-20 further provides that agency Inspectors General should review their agency's annual AFR and accompanying materials to assess the following:

- the accuracy and completeness of agency reporting
- agency's performance in reducing and recapturing improper payments
- whether agency corrective action plans are focused on the true root cause, are actually reducing improper payments, and are implemented effectively
- agency efforts to prevent and reduce improper payments

SBA has established a risk assessment process in accordance with guidance provided in OMB Memorandum M-18-20. SBA conducts a risk assessment at least once every three years for all programs and activities that exceed \$10 million in disbursements or losses in a fiscal year to identify programs susceptible to significant improper payments. SBA last conducted risk assessments for all programs and activities, including payments made to employees, for identifying programs susceptible to significant improper payments in fiscal year (FY) 2017. Based on its risk assessment process, SBA

identified six programs that were susceptible to significant improper payments in FY 2019. The six programs identified and reported are Section 7(a) Loan Guaranty Purchases, Section 7(a) Loan Guaranty Approvals, Section 504 CDC Loan Guaranty Approvals, Disaster Direct Loan Disbursements, Supplemental Disaster Relief Administrative Funds – Payroll, and Supplemental Disaster Relief Administrative Funds – Travel.

## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### Objectives

We conducted this audit to:

1. Evaluate whether SBA is compliant with the reporting requirements contained in IPERA Section 3(a)(3) and OMB Memorandum M-18-20;
2. Evaluate the accuracy and completeness of SBA's reporting; and
3. Evaluate SBA's performance in reducing and recapturing improper payments.

### Scope and Methodology

The scope of our performance audit was SBA's FY 2019 improper payment and reporting data as presented in the payment integrity section of the FY 2019 AFR and any accompanying materials.

During our planning and testing phases, to achieve our objectives, we conducted interviews, collected and inspected auditee-provided documentation and evidence, and participated in process and control walkthroughs with SBA staff for the programs identified as susceptible to significant improper payments. We conducted these procedures at SBA headquarters. As part of these procedures, we performed the following:

- Obtained an understanding of SBA's improper payments reporting process and associated controls through inquiries with management;
- Reviewed SBA's policies and procedures over the IPERA reporting process;
- Reviewed management's risk assessment for new agency programs identified as susceptible to significant improper payments;
- Reviewed for significant changes in legislation or increases in funding levels for each program or activity;
- Reviewed the statistically determined improper payments estimates for each program deemed susceptible to improper payments in consultation with a statistician;
- Reviewed the population of outlays for each program for completeness and accuracy;
- Reviewed SBA's payment integrity disclosure in the AFR for completeness and accuracy;
- Reviewed the corrective actions published and determined whether they focus on the true root cause, and are implemented;
- Reviewed the root cause category classifications and determined whether SBA accurately classified the true root causes of improper payments, and
- Obtained OMB waivers/exemptions for improper payments reporting.

In carrying out this methodology, we obtained sufficient, appropriate evidence to provide a reasonable basis for our conclusions related to our audit objectives.

### III. RESULTS AND CONCLUSIONS

For objective 1, based on our audit procedures performed, we determined SBA complied with the six IPERA reporting requirements. See below for additional details of our results.

Requirement 1 – Determine if SBA published an AFR for the fiscal year ended September 30, 2019 and posted that report and any accompanying materials required by OMB on the Agency website.

- Yes. SBA published its FY 2019 AFR on November 15, 2019 and posted the AFR on the Agency's website at [www.sba.gov](http://www.sba.gov). The AFR included a payment integrity section and OMB's required subsections including payment reporting, recapture of improper payments reporting, agency improvement of payment accuracy with the Do Not Pay Initiative, statutory or regulatory barriers, accountability, information systems and other infrastructure, sampling and estimation, and risk assessment.

Requirement 2 – Determine if SBA conducted a program specific risk assessment for each program or activity that conforms with Section 2(a) of IPIA.

- Yes. In accordance with OMB Memorandum M-18-20, SBA conducts a qualitative or quantitative risk assessment at least once every three years for all programs and activities that exceed \$10 million in disbursements or losses in a fiscal year in order to identify programs susceptible to significant improper payments. If a program or activity experiences a significant change in legislation and/or a significant increase in its funding level, SBA will perform an assessment even if it is less than three years since the last assessment.

SBA last conducted risk assessments for all programs and activities, including payments made to employees, for susceptibility to improper payments in FY 2017. SBA did not identify any significant changes in legislation or increases in funding level for any program or activity during FY 2019. SBA did note that the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017 deemed all programs and activities receiving funds to be susceptible to significant improper payments for purposes of Section 2(a) of IPIA. As such, SBA assessed supplemental disaster relief administrative funds – payroll and supplemental disaster relief administrative funds – travel as susceptible for improper payments. In addition, SBA continued to identify 7(a) loan guaranty purchases, 7(a) loan guaranty approvals, 504 CDC loan guaranty approvals, and disaster direct loan disbursements programs as susceptible to improper payments.

Requirement 3 – Determine if SBA published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment.

- Yes. SBA published gross improper payment estimates for all six programs/activities identified as susceptible to significant improper payments. Each program utilized a statistical estimation approach that applied a 95 percent confidence level, plus or minus 3 percent margin of error. See below for each program's estimated improper payment rate and gross improper payments.

<b>Program or Activity</b>	<b>Improper Payment Rate</b>	<b>Gross Improper Payment (in millions)</b>
7(a) Loan Guaranty Purchases	3.62%	\$31.36
7(a) Loan Guaranty Approvals	2.15%	\$358.65
504 CDC Loan Guaranty Approvals	0.56%	\$26.65
Disaster Direct Loan Disbursements	6.30%	\$103.06
Supplemental Disaster Relief Administrative Funds – Payroll	0.10%	\$0.33
Supplemental Disaster Relief Administrative Funds – Travel	2.87%	\$2.27

Requirement 4 – Determine if SBA published programmatic corrective action plans in the AFR.

- Yes. SBA reported corrective actions for each of the reported root causes for 7(a) loan guaranty purchases, 7(a) loan guaranty approvals, and the disaster direct loan disbursements. The root cause category classification was appropriately classified based on the true root cause of the improper payments noted from the sample results. In addition, the corrective action plans focused on the true root cause and were implemented. See below for the root cause categories where each of these programs reported corrective actions.

<b>Program or Activity</b>	<b>Root Cause Categories</b>	<b>Corrective Action Published</b>
7(a) Loan Guaranty Purchases	Administrative or Process Error Made	Yes
7(a) Loan Guaranty Approvals	Inability to Authenticate Eligibility: Inability to Access Data	Yes
504 CDC Loan Guaranty Approvals	Inability to Authenticate Eligibility: Inability to Access Data	Not Required
Disaster Direct Loan Disbursements	Failure to Verify: Financial Data	Yes
	Administrative or Process Error Made	
	Insufficient Documentation to Determine	
Supplemental Disaster Relief Administrative Funds - Payroll	Administrative or Process Error Made	Not Required
Supplemental Disaster Relief Administrative Funds - Travel	Administrative or Process Error Made	Not Required
	Insufficient Documentation to Determine	

In accordance with OMB Memorandum M-18-20, the 504 CDC loan guaranty approvals, supplemental disaster relief administrative funds – payroll, and supplemental disaster relief administrative funds – travel were not required to report corrective action plans in the AFR because their gross annual improper payments (i.e., the total amount of overpayments and underpayments) did not exceed both 1.5 percent of reported outlays and \$10,000,000 of all payments made during the fiscal year reported.

Requirement 5 – Determine if SBA published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments.

- Yes. SBA met the established reduction targets published in the FY 2018 AFR for 7(a) loan guaranty purchases, 7(a) loan guaranty approvals, 504 CDC loan guaranty approvals, and disaster direct loan disbursements. The supplemental disaster relief administrative funds – payroll and supplemental disaster relief administrative funds – travel did not have reduction

targets published in the FY 2018 AFR. These programs are new in FY 2019. In addition, SBA published a reduction target for FY 2020 for each program. See below for each program's reduction target published in the FY 2018 AFR, the FY 2019 improper payment rate, and the FY 2020 reduction target published in the FY 2019 AFR.

<b>Program or Activity</b>	<b>FY 2019 Reduction Target Published in the FY 2018 AFR</b>	<b>FY 2019 Improper Payment Rate</b>	<b>FY 2020 Reduction Target Published in the FY 2019 AFR</b>
7(a) Loan Guaranty Purchases	3.12%	3.62%	3.52%
7(a) Loan Guaranty Approvals	2.67%	2.15%	2.05%
504 CDC Loan Guaranty Approvals	2.48%	0.56%	2.04%
Disaster Direct Loan Disbursements	8.02%	6.30%	5.67%
Supplemental Disaster Relief Administrative Funds – Payroll	N/A	0.10%	1.00%
Supplemental Disaster Relief Administrative Funds – Travel	N/A	2.87%	2.77%

For the 7(a) guaranty purchases program, the FY 2019 improper payment rate point estimate of 3.62 percent is greater than the target reduction rate of 3.12 percent published in the FY 2018 AFR. However, in accordance with OMB Memorandum M-18-20, if a program has a sampling plan that meets or exceeds the 95 percent confidence level, plus or minus 3 percent margin of error guidance, then the program should be considered as having met its reduction target if the lower bound for its confidence interval is equal to or less than the reduction target. The 7(a) loan guaranty purchases program is considered to have met the reduction target as the lower bound for its confidence interval under the sampling methodology which meets the 95 percent confidence level, plus or minus 3 percent margin of error guidance, is 1.39 percent and is lower than the reduction target of 3.12 percent.

Requirement 6 – Determine if SBA reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR.

- Yes. SBA reported an improper payment rate of less than 10 percent for each of the programs/activities published in the AFR.

For objective 2, we determined each of the program's gross improper payment rate estimate to be accurate and the sampling and estimation plans used to be appropriate given program characteristics. In accordance with OMB Memorandum M-18-20, each program's sampling plan was determined to be in the statistically valid and rigorous category as the sampling plans were based on unbiased, randomized sampling and produced improper payment point estimates at the 95 percent confidence level within at least a plus or minus 3 percent margin of error.

However, certain populations of outlays and disclosures included as part of SBA's reporting were not accurate and complete. Specifically, we noted the population of outlays for the 7(a) loan guaranty purchases, 7(a) loan guaranty approvals, 504 CDC loan guaranty approvals, and disaster direct loan disbursements programs, were not complete and reconciled to the general ledger. As a result, we identified certain internal control deficiencies over SBA's improper payment reporting and proposed related recommendations. Section IV contains details of our findings, identified internal control deficiencies, and related recommendations.

For objective 3, we determined that from FY 2018 to FY 2019, SBA had a reduction in the improper payment estimate for all programs except for the 7(a) loan guaranty purchases. SBA's improper payment rate for the 7(a) loan guaranty purchases program increased from 3.22 percent (\$22.2 million) in FY 2018 to 3.62 percent (\$31.4 million) in FY 2019. SBA determined that the increase was primarily caused by administrative/process errors made by a high number of new processors who started within the fiscal year. To reduce future improper payments, SBA formalized and implemented a corrective action plan that includes internal training for purchase processors, reviewers, and approvers.

In addition, SBA did not perform a payment recapture audit for any program during the fiscal year. SBA determined that a payment recapture audit was not necessary for the 7(a) loan guaranty approvals and 504 CDC loan guaranty approvals programs as no payment is made at the time of approval. SBA also determined that a payment recapture audit for the other programs would not be cost effective.

## IV. FINDINGS

### Objective 2 – Accuracy and Completeness of SBA’s Reporting

#### Improvements Needed Over the Completeness and Accuracy of Reporting

While SBA met the compliance requirements related to publishing improper payment estimates for all programs and activities identified as susceptible to significant improper payments, we noted that additional improvements were needed to ensure the information in the payment integrity section of the AFR is complete and accurate.

Specifically, for some programs, we noted the following conditions related to the accuracy and completeness of improper payment reporting:

- There were incomplete disclosures within the sampling methodology documentation submitted to OMB and the payment integrity section. The disclosures indicate that 12-months of transactions were sampled and reviewed when one month of transactions was excluded from the population of outlays.
- There was insufficient documentation within the sample results and estimation methodology to validate the overpayment and unknown payment estimates reported in the payment integrity section.
- The population of outlays reported in the payment integrity section and subjected to sampling, were not reconciled to the general ledger and are not complete. Consequently, certain transactions that should have been included in the population and subjected to review were omitted.

Refer to Section IV.A and IV.B for details on the identified internal control deficiencies, and related recommendations.

The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government, Section OV1.01 states that “Internal control is a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories:

- Operations – Effectiveness and efficiency of operations
- Reporting – Reliability of reporting for internal and external use
- Compliance – Compliance with applicable laws and regulations”

Section OV1.06 states that “Management is responsible for an effective internal control system. As part of this responsibility, management sets the entity’s objectives, implements controls, and evaluates the internal control system.”

The conditions noted above were caused by the lack of an adequate quality control review process over the payment integrity section and the sampling methodology documentation. In addition, SBA program offices did not have internal controls implemented requiring the timely reconciliation of the population of outlays to the general ledger. The lack of an adequate review process resulted in the payment integrity section not completely and accurately disclosing relevant information regarding

SBA’s FY 2019 improper payment reviews. This could potentially result in noncompliance with IPERA reporting requirements. Also, by not reconciling the population of outlays to the general ledger, this results in an incomplete or unrepresentative sample which could potentially result in an inaccurate improper payment estimate.

**A. DEFICIENCIES IN INTERNAL CONTROL**

In planning and performing our audit of SBA’s FY 2019 compliance with IPERA reporting, we considered internal controls that were relevant to our audit objectives by obtaining an understanding of those controls and assessing control risk for the purposes of achieving our objectives.

The objective of our audit was not to provide assurance on internal controls; therefore, we did not express an opinion on internal controls as a whole. Our consideration of SBA’s internal controls relevant to our audit objectives would not necessarily disclose all deficiencies that might be significant within the context of the audit objectives.

As a result of our assessment over internal controls relevant to the audit objectives and our compliance test work, we identified the following deficiencies in internal control:

Program or Activity	Control Deficiencies
7(a) Loan Guaranty Purchases  7(a) Loan Guaranty Approvals  504 Loan Guaranty Approvals	1. There was not an adequate review process in place over the sampling methodology documentation and each program’s statistical sampling descriptions within the payment integrity section regarding the omission of the January 2019 transactional activity from the population that was subjected to sampling.  2. There was not an adequate review process in place over the population of outlays reported in table 1 of the payment integrity section and subjected to sampling as it excluded certain transactions processed after the effective date and was incomplete.
7(a) Loan Guaranty Purchases  7(a) Loan Guaranty Approvals  504 Guaranty Loan Approvals  Disaster Loan Disbursements	3. The population of outlays reported in table 1 of the payment integrity section and subjected to sampling, were not reconciled timely to the general ledger and are not complete.
7(a) Loan Guaranty Approvals  504 Guaranty Loan Approvals	4. There was not an adequate review process in place over the population of outlays was not adequate as it excluded loan approval increases occurring after the month in which the initial approval occurred and reinstatements of previously cancelled loans and was incomplete.

Program or Activity	Control Deficiencies
Supplemental Disaster Relief Administrative Funds – Travel	5. There was not an adequate review process in place over the sample results and estimation methodology documentation as there was insufficient documentation to validate the overpayment and unknown payment estimates reported in table 1 and table 2 of the payment integrity section.
Supplemental Disaster Relief Administrative Funds – Payroll  Supplemental Disaster Relief Administrative Funds – Travel	6. The review process in place did not ensure an adequate description was provided for footnote 7 under table 1 of the payment integrity section related to the time period that was in scope for testing.
All Programs	7. The review process in place did not ensure sufficient disclosure was provided for the presentation of the monetary loss and non-monetary loss amounts in table 1 of the payment integrity section.
Supplemental Disaster Relief Administrative Funds – Payroll	8. There was not an adequate review process in place over the samples tested as the results and methodology documentation did not contain sufficient documentation regarding one sample with an error that was projected.  9. There was not an adequate review process in place over the samples tested as an error amount calculated for a different sample item was incorrect.
7(a) Guaranty Loan Purchases	10. There was not an adequate review process in place to ensure the total gross improper payment estimate and overpayment estimate amounts agreed to the sampling methodology documentation to within rounding.  11. There was not an adequate review process in place over the sampling methodology documentation to ensure the calculations supporting the overpayment and underpayment estimates reported in table 1 and table 2 of the payment integrity section were included within the documentation.  12. There was not an adequate review process in place to ensure sufficient disclosure was provided to determine whether the program met the FY 2019 improper payment reduction target.
Disaster Direct Loan Disbursements	13. There was not an adequate review process in place over the sampling methodology documentation as the documentation was inaccurate with respect to the formulas and methodology used for determination of the gross improper payment estimate.  14. There was not an adequate review process in place as the calculation of the overpayment, underpayment, and unknown payment amounts was not consistent with the sample design because it disregards the stratification and different extrapolation impact of the sampled items based on their stratum and size.  15. There was not an adequate review process in place as the amount of improper payments recaptured in table 3 of the payment integrity section was not accurate.

## **B. RECOMMENDATIONS**

We recommend the Administrator require the Chief Financial Officer to:

1. Update SBA Standard Operating Procedure (SOP) 20 32 1, Estimating and Reporting Improper Payments, using the framework in GAO's Standards for Internal Control in the Federal Government (Green Book) to design and implement robust internal and quality control processes to ensure complete and accurate reporting of annual improper payment results, including the sampling methodology documentation is consistent with the population, sample, and payment integrity information in the AFR.
2. Provide training to responsible staff in the Offices of Internal Control, Capital Access and Disaster Assistance regarding updates to SBA SOP 20 32 1.
3. Ensure that staff in the Office of Internal Control oversee and provide adequate quality control reviews over improper payment disclosures submitted by SBA program offices.
4. Provide training to program office staff, as needed, on the timely reconciliation of the population of transactions used for estimating improper payments to the general ledger.

## V. Attachment I - MANAGEMENT'S RESPONSE TO REPORT



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, D.C. 20416

**DATE:** May 11, 2020

**TO:** Hannibal M. Ware, Inspector General

**FROM:** Melissa Atwood, Acting Deputy Chief Financial Officer *MA*

**SUBJECT:** Response to Audit: Performance Audit of the U.S. Small Business Administration's Fiscal Year 2019 Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA)

The Small Business Administration (SBA) appreciates the opportunity to review and respond to the Performance Audit of the U.S. Small Business Administration's Fiscal Year 2019 Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA).

SBA is committed to reducing the dollar amount of improper payments, ensuring program integrity, and continuing to implement effective risk management procedures in accordance with improper payment legislation<sup>1</sup>, as well as guidance prescribed in Office of Management and Budget Memorandum M-18-20, Appendix C to Circular A-123, *Requirements for Payment Integrity Improvement*.

SBA concurs with the Recommendations made in this audit report and is providing the following comments in response to those recommendations.

**Recommendation 1.** Update SOP 20 32 1, Estimating and Reporting Improper Payments, using the framework in GAO's Green Book to design and implement robust internal and quality control processes to ensure complete and accurate reporting of annual improper payment results, including the sampling methodology documentation is consistent with the population, sample, and payment integrity information in the AFR.

**Agency Response.** SBA will update Standard Operating Procedure 20 32 1, Estimating and Reporting Improper Payments, using the Government Accountability Office's Green Book framework as a reference, to design and implement robust internal and quality control processes to ensure complete and accurate reporting of annual improper payment results, as well as consistency of sampling methodology documentation with the population, sample, and payment integrity information in the Agency Financial Report.

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<sup>1</sup> Improper Payments Information Act of 2002 (IPIA), (Improper Payments Elimination and Recovery Act of 2010 (IPERA), and Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)

**Recommendation 2.** Provide training to responsible staff in OIC, OCA and ODA regarding updates to SBA SOP 20 32 1.

**Agency Response.** SBA will provide training to responsible staff in the Office of Internal Control (OIC), Office of Capital Access (OCA), and Office of Disaster Assistance (ODA) regarding updates to SBA SOP 20 32 1.

**Recommendation 3.** Ensure that staff in the OIC oversees and provides adequate quality control reviews over improper payment disclosures submitted by SBA program offices.

**Agency Response.** SBA will ensure OIC staff oversees and provides adequate quality control reviews over improper payment disclosures submitted by SBA program offices in support of AFR reporting.

**Recommendation 4.** Provide training to program office staff, as needed, on the timely reconciliation of the population of transactions used for estimating improper payments to the general ledger.

**Agency Response.** SBA will provide training to program office staff, as needed, on the timely reconciliation of the population of transactions used for estimating improper payments to the general ledger.

We appreciate your efforts and those of your colleagues in the Office of the Inspector General, as well as those of the independent auditor. The independent audit process continues to provide us with new insights and valuable recommendations that improve SBA's overall compliance with improper payment legislation.