

SBA'S CORRECTIVE ACTIONS TO REDUCE 8(A) FIRM ELIGIBILITY RISKS

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TO: Jovita Carranza
Administrator

FROM: Hannibal "Mike" Ware
Inspector General

A handwritten signature in black ink, appearing to be "H. Ware", written over the printed name of the sender.

SUBJECT: Inspection: SBA's Corrective Actions to Reduce 8(a) Firms Eligibility Risks

We inspected SBA's corrective actions for two recommendations made in previous Office of Inspector General audit reports on the 8(a) Business Development Program to determine whether SBA's corrective actions had effectively reduced risks in determining the eligibility of firms participating in the 8(a) program.

We verified that the corrective actions SBA implemented effectively resolved the concerns we identified.

We appreciate the courtesies and cooperation extended to us during this inspection. If you have any questions, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

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Background

The Small Business Administration's 8(a) Business Development Program, approved by Congress in 1978, provides business development assistance and preference in securing federal contracts to small businesses owned by economically and socially disadvantaged individuals. SBA's Office of Business Development administers the 8(a) program.

The Office of Certification and Eligibility in the Office of Business Development processes program applications and reviews all participants for continuing eligibility each year. The Office of Program Review, also in the Office of Business Development, evaluates OIG reviews and complaints to the OIG Hotline about the program. The program review office also responds to OIG recommendations.

In 2003, OIG first identified SBA's administration of the 8(a) program as a top management challenge for the agency. Our most recent audits have identified internal control weaknesses that allowed ineligible firms to be certified and participate in the program. This follow up inspection focuses on two significant weaknesses OIG identified during previous reviews of SBA's 8(a) program eligibility and continuing eligibility processes.

Results of Inspection

We verified the corrective actions SBA implemented effectively addressed the internal control weaknesses by ensuring program officials justified their recommendations to admit firms applying to the 8(a) program and program officials tracked complaints received about firms' participating in the 8(a) program. The following sections detail the original findings, recommendations, SBA's corrective actions, and the inspection results for our 2016 and 2018 audits.

SBA OIG Audit Report 16-13, SBA's 8(a) Business Development Program Eligibility

Finding: In 2016, we reported that SBA did not properly document that 8(a) firms admitted in the program met all eligibility criteria. Of the 48 businesses SBA admitted to the program that we reviewed, 30 did not meet one or more areas of eligibility, according to information in the Business Development Management Information System. The problem happened because managers overturned lower-level reviewers' recommendations for denial without fully documenting how the identified eligibility concerns had been resolved. As a result, it was not clear whether the 30 firms should have been approved for the 8(a) program.

Recommendation. To address the finding, we recommended the Associate Administrator for the Office of Government Contracting and Business Development update SBA policy to require the Associate Administrator for Business Development and the Director of the Office of Certification and Eligibility to clearly document the justification for approving or denying applicants for the 8(a) program, particularly when those decisions differ from lower-level recommendations.

SBA's Corrective Actions. We closed this recommendation on June 17, 2019, because the Office of Government Contracting and Business Development issued revised standard operating procedures to require the Associate Administrator for Business Development and the Director of the Office of Certification and Eligibility to justify and document approval or denial of 8(a) applications if different than the recommendation of lower-level reviewers.

Inspection Result. We identified 16 of the 512 applications that SBA received from October 1, 2019, to June 12, 2020, as having differing recommendations between approver and lower-level reviewer. We verified that program officials followed the revised policy for those applications. In each case, the approver had justified and documented their reasoning

in SBA's certification management system, Certify.SBA.gov. We consider this corrective action fully implemented and effective.

SBA OIG Audit Report 18-22, Improvements Needed in SBA's Oversight of 8(a) Continuing Eligibility Processes

Finding. In 2018, we reported that SBA did not perform required continuing eligibility reviews when it received specific and credible complaints regarding the firms' eligibility and did not log all complaints referred by the OIG Hotline. Our review of 10 firms referred by the OIG Hotline revealed that they were all ineligible for the 8(a) program. This occurred because SBA's 8(a) policy directive was not consistent with SBA's 8(a) regulations' requirement to conduct continuing eligibility reviews upon receipt of specific and credible information regarding the eligibility of 8(a) firms. Furthermore, the SBA's policy directive did not provide guidance on logging, tracking, and disposition that should be completed to adequately address complaints.

Recommendation. To address these findings, we recommended the Administrator require the Associate Administrator for Government Contracting and Business Development to develop a robust system for tracking complaints that are received regarding firms' continuing eligibility for the 8(a) Program, and tracking the actions taken to address the complaints.

SBA's Corrective Actions. We closed this recommendation on July 7, 2020, because SBA implemented the BD Hotline Complaints Tracker as the official system to track complaints about firms' continuing eligibility for the 8(a) program and the actions taken to address them.

Inspection Result. We tested two complaints SBA received in Fiscal Year (FY) 2020 from the OIG Hotline about firms in the 8(a) program. We determined that program officials had logged the complaints and documented the actions taken in the BD Hotline Complaints Tracker. We consider this corrective action implemented.

Appendix I: Objectives, Scope, and Methodology

Our objective was to determine whether SBA's corrective actions effectively reduced risks in determining the eligibility of firms participating in the 8(a) program.

To answer our objective, we selected two recommendations from previous OIG audit reports we had closed because SBA provided evidence that it had implemented corrective actions to correct problems determining eligibility of firms participating in the 8(a) program. We verified that the controls SBA implemented were effective.

Specifically, we checked whether the Associate Administrator for Business Development and the Director of the Office of Certification and Eligibility justified and documented their approval or denial decisions for applications to the 8(a) program, particularly when those decisions differed from lower-level recommendations. We also verified that SBA's system for tracking hotline complaints about firms' continuing eligibility for the 8(a) Business Development Program effectively records the actions taken to address the complaint.

From October 1, 2019, to June 12, 2020, SBA received 512 applications from firms applying for the 8(a) program. For 16 of the 512 applications, the decision by a high-level reviewer differed from the recommendation of a lower-level reviewer. We examined those 16 applications and verified that the corrective actions were effective.

During the same period, OIG Hotline referred two complaints to the program office, which we tested to verify that program officials had logged and assessed each complaint in the 8(a) BD Hotline Complaints Tracker. We also attended a demonstration of the BD Hotline Complaints Tracker to assess the controls SBA has in place to protect data and decisions documented in the system.

Use of Computer-Processed Data

We relied on information from SBA's Certify.sba.gov website to verify that the Associate Administrator and the Director of the Office of Certification and Eligibility justified and documented their recommendations if different than those of lower-level reviewers. We also used information from the BD Hotline Complaints Tracker to verify that SBA had logged and tracked actions taken on any complaints about firms participating in the 8(a) program. Previous OIG work has verified that information maintained in these systems is reasonably reliable.

In addition, we compared source documentation maintained in SBA's 8(a) program application files to data elements associated with reviewed 8(a) program applications. We also compared the OIG Hotline Complaints database to the tracked complaints in the BD Hotline Complaints Tracker. We believe the system information is reliable.

We conducted this inspection in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation. These standards require that we adequately plan inspections, present all factual data accurately, fairly, and objectively, and that we present findings, conclusions, and recommendations in a persuasive manner. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our evaluation objectives.