



**SBA Generally Meets IPERA Reporting  
Guidance but Immediate Attention Is  
Needed to Prevent and Reduce  
Improper Payments**



U.S. Small Business Administration  
Office Of Inspector General  
Washington, D.C. 20416

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**REPORT TRANSMITTAL**  
REPORT NUMBER 12-10

**DATE:** MARCH 15, 2012

**To:** Jonathan I. Carver, Chief Financial Officer

Jeanne A. Hulit, Associate Administrator for Capital Access

James Rivera, Associate Administrator for Disaster Assistance

Sean Greene, Associate Administrator for Investments

**SUBJECT:** Review of SBA's Improper Payments

This report presents the results of our Review of SBA's Compliance with the Improper Payments Elimination and Recovery Act (IPERA). Our objective was to determine the adequacy of SBA's compliance with IPERA and OMB's implementing guidance, M-11-16. We have also attached a copy of Advisory Memorandum 12-07, *The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011*, which details findings, recommendations and management's response related to our review of the disbursements and contracting area.

We request that you provide your management decision for each recommendation on the attached SBA form 1824, Recommendation Action Sheet, by April 16 (30 days after final report date). Your decision should identify the specific actions taken or planned for each recommendation and the target dates for completion.

We appreciate the courtesies and cooperation of the Office of Chief Financial Officer, Office of Capital Access, Office of Investment, and Office of Disaster Assistance during this review. If you have any questions concerning this report, please call me at (202) 205-7390 or Jeffrey Brindle, Director, Information Technology and Financial Management at (202) 205-7490.

/S/ original signed.

John K. Needham

Assistant Inspector General for Auditing



## EXECUTIVE SUMMARY

### SBA Generally Meets IPERA Reporting Guidance but Immediate Attention Is Needed to Prevent and Reduce Improper Payments

Report No. 12-10  
March 15, 2012

#### What OIG Audited

This report represents the results of our review of SBA's compliance with the Improper Payments Elimination and Recovery Act (IPERA) requirements. IPERA was enacted on July 22, 2010, and the OMB issued implementing guidance on April 14, 2011 through OMB Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*. Part II (A) of M-11-16 requires the OIG to annually review their agency's improper payments reporting in the Performance and Accountability Report (PAR) or Agency Financial Report (AFR).

Our objective was to determine the adequacy of SBA's compliance with IPERA and OMB's implementing guidance, M-11-16. To achieve our audit objective we determined whether SBA addressed required provisions, and we performed limited testing of compliance with these provisions. We also reviewed the completeness of improper payments disclosures in the AFR as specified in OMB guidance and assessed the Agency's efforts to prevent and reduce improper payments. Finally, we developed recommendations for actions to further improve the agency's or program's performance in reducing improper payments.

#### OIG Recommendations

We made 12 recommendations focused on improving the completeness and accuracy of reported information and improving corrective action plans.

Furthermore, the OIG also issued Advisory Memorandum 12-07, *The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011* to provide timely feedback and detailed findings and recommendations. The OCFO did not concur with the implication of non-compliance for SBA's contracting program contained in the OIG's report. They do, however, intend to strengthen their business processes impacting their contracting program.

#### Actions Taken

Agency officials were generally responsive to our recommendations and have initiated corrective actions where appropriate. SBA advised us that they developed a comprehensive plan that requires the program offices to monitor their achievements in: robust risk assessment; complete and accurate reporting; comprehensive corrective action plan; and effective recapture activities.

#### What OIG Found

SBA was generally compliant in meeting the minimal reporting requirements for IPERA in its FY 2011 Agency Financial Report. However, our qualitative review of Agency efforts to prevent and reduce improper payments showed that immediate management attention is needed in four of the six programs or activities to improve the:

- accuracy and completeness of reporting,
- sufficiency of improper payments recapturing activities, and
- quality of corrective action plans.

Moreover, the disbursements and contracting reporting segment did not include in the Agency Financial Report:

- a corrective action plan;
- a payment recapture audit plan;
- an update to the Improper Payment reduction outlook table.

Furthermore, we found significant internal control weaknesses in the 1) accuracy and completeness of reported information and 2) use and deployment of corrective action plans to ensure resources are focused on the appropriate root causes of improper payments.

**Table 1. IPERA Evaluation by Program or Activity**

Evaluation Area	OIG Overall Assessment
7(a) Approvals	⊗
7(a) Purchases	⊗
504	⊗
SBIC	●
Disaster	◐
Disbursements/ Contracting	⊗

● Compliant Process

◐ Partially met Guidance but Improvement Needed

⊗ Immediate Management Attention Needed

## Table of Contents

Introduction .....	1
Objective and Scope .....	1
Background .....	1
Summary Results.....	3
Detailed Results .....	4
Section I. 7(a) Approvals .....	5
Section II. 7(a) Purchases .....	9
Section III. 504 Loans .....	13
Section IV. Small Business Investment Company Payments.....	17
Section V. Disaster Loans .....	19
Section VI. Disbursements/Contracting .....	22
AGENCY COMMENTS AND OIG RESPONSE .....	26
Appendix I: Agency Comments .....	27
Table 1. IPERA Evaluation by Program or Activity .....	iii
Table 2. SBA IPERA Compliance with Reporting Requirements.....	3
Table 3. OIG’s Evaluation of Agency Efforts.....	3
Table 4. IPERA Compliance - 7(a) Approvals .....	5
Table 5. OIG Evaluation - 7(a) Approvals .....	7
Table 6. IPERA Compliance - 7(a) Purchases.....	9
Table 7. OIG Evaluation - 7(a) Purchases .....	10
Table 8. IPERA Compliance - 504 Loans .....	13
Table 9. OIG Evaluation - 504 Loans .....	15
Table 10. IPERA Compliance - Small Business Investment Company Payments.....	17
Table 11. OIG Evaluation - Small Business Investment Company Payments.....	18

Table 12. IPERA Compliance – Disaster Loans .....	19
Table 13. OIG Evaluation – Disaster Loans.....	20
Table 14. IPERA Compliance - Disbursements/Contracting.....	22
Table 15. OIG Evaluation - Disbursements/Contracting .....	24

## **Introduction**

This report presents the results of our review of the Small Business Administration's (SBA) compliance with the requirements of the Improper Payments Elimination and Recovery Act (IPERA). The Act was effective on July 22, 2010. On April 14, 2011, the Office of Management and Budget (OMB) issued implementing guidance Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123* (M-11-16). Part II (A) of M-11-16 requires each Office of Inspector General (OIG) to annually review its agency's improper payments reporting in the Performance and Accountability Report (PAR) or Agency Financial Report (AFR).

## **Objective and Scope**

Our objective was to determine the adequacy of the SBA's compliance with the IPERA and the OMB's implementing guidance M-11-16. To achieve our objective, we interviewed officials from the SBA, reviewed SBA (the Agency) plans, and performed limited testing of compliance<sup>1</sup> with identified controls and IPERA provisions. We also reviewed the completeness of improper payments disclosures in the FY 2011 AFR as specified in OMB guidance and assessed the SBA's efforts to prevent and reduce improper payments. Our assessment of the SBA's performance in reducing or recapturing improper payments was limited to the Agency's completion of payment recapture audits. Finally, we developed recommendations for actions to further improve the SBA's or program office's performance in reducing improper payments. Except for our review of the calculation of the 7(a) purchases improper payment rate, our review was too limited to opine on the accuracy of reported information.

We conducted this review between July 15, 2011 and February 10, 2012 in accordance with Generally Accepted Government Auditing Standards. 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.

## **Background**

The Improper Payments Information Act of 2002 (IPIA) requires agencies to review programs and identify those susceptible to significant improper payments; report on the amount and causes of improper payments; and develop plans for reducing improper payments. Provisions of IPERA amended the IPIA by providing alternative improper payments measures, expanding the requirements for corrective action plans, and increasing the scope of recapture audits for all payments and program activities in excess of \$1 million. The IPERA guidance further requires that each OIG annually review its agency's improper payments reporting within 120 days of AFR issuance.

The SBA's four major credit programs<sup>2</sup> are subject to improper payments reporting as required by the former Section 57 of OMB Circular A-11. In addition, the SBA identified contracting and disbursements as a risk-susceptible activity under the provisions of IPERA for FY2011.

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<sup>1</sup> The OIG performed a statistical validation of the 7(a) purchase improper payment program and will be issuing a draft report at a later date.

<sup>2</sup> (7a) Business Loan program (Approvals and Purchases), the Section 504 Certified Development loan program, the Small Business Investment Company (SBIC) program and the Disaster Assistance loan program.

Prior OIG audits have identified high percentages of disaster and business loans that were made to borrowers who were ineligible, lacked repayment ability, or did not provide the required support for disbursement. Those audits further determined that the improper payments rates reported for these programs were significantly understated. The magnitude of those findings has resulted in the OIG identifying the improper payments area as an SBA Management Challenge.<sup>3</sup>

### **Summary Evaluation Criteria:**

Per Part II of M-11-16, the OIG conducted an IPIA compliance review in the following areas:

#### **Review reported results in the Agency's AFR to include the following:**

- **Posted materials** – Published a PAR or AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website;
- **Risk Assessment** – Conducted a program specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C. (if required);
- **Published estimates for susceptible programs** – Published improper payments estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment(if required);
- **Annual reduction target met** – Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments;
- **Reported Rate of less than 10%** – Reported a gross improper payments rate of less than 10 percent for each program and activity for which an improper payments estimate was obtained and published in the PAR or AFR;
- **Reported recapture information** – Reported information on its efforts to recapture improper payments;

#### **Evaluation of Agency efforts:**

- **Overall Assessment of Agency Efforts** – OIG evaluation of agency efforts to prevent and reduce improper payments.
- **Accuracy & Completeness of Agency Reporting** – OIG assessment of internal controls related to reported information;
- **Quality of corrective action plans** – OIG evaluation whether corrective action plans are robust and focused on the appropriate root causes of improper payments
- **Performance in reducing or recapturing improper payments** – Agency's performance of recapture audit.

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<sup>3</sup> Challenge 9: "SBA needs to accurately report, significantly reduce, and strengthen efforts to recover improper payments in the Disaster and 7(a) loan programs."

## Summary Results

We reviewed SBA's compliance with the completeness of disclosures in its FY 2011 AFR as specified in OMB guidance. The OIG's conclusion for reported results, by activity area, is shown in Table 2. Table 3, below, provides OIG's conclusions on the accuracy and adequacy of SBA's efforts.

**Table 2. SBA IPERA Compliance with Reporting Requirements**

	7(a) Approvals	7(a) Purchases	504 Loans	SBIC Payments	Disaster Loans	Disbursements/ Contracting
Posted materials	●	●	●	●	●	⊗
Risk Assessment	◐	●	◐	●	●	●
Published estimates for susceptible programs	●	●	●	●	●	◐
Annual reduction target met	●	●	●	●	◐	N/A
Reported Rate of less than 10%	●	●	●	●	⊗	⊗
Reported recapture information	●	●	●	●	●	⊗

- Met Guidance
- ◐ Partially met guidance/Improvement Needed
- ⊗ Immediate Management Attention Needed

The OMB guidance further requested that the OIG evaluate the Agency's overall efforts to prevent and reduce improper payments and provide recommendations for actions to further improve the agency's or program's performance in reducing improper payments.

The results of the OIG's evaluation of Agency efforts are summarized below:

**Table 3. OIG's Evaluation of Agency Efforts**

	7(a) Approvals	7(a) Purchases	504 Loans	SBIC Payments	Disaster Loans	Disbursements/ Contracting
Overall Assessment of Agency Efforts <sup>4</sup>	⊗	⊗	⊗	●	◐	⊗ <sup>5</sup>
Accuracy & completeness of agency reporting	⊗	⊗	⊗	●	●	⊗
Performance in reducing or recapturing improper payments	●	⊗	●	●	◐	⊗
Quality of corrective action plans	⊗	◐	⊗	●	◐	⊗

- Compliant process
- ◐ Improvement Needed
- ⊗ Immediate Management Attention Needed

<sup>4</sup> We considered the Overall Assessment of Agency to be summary of our evaluation review.

<sup>5</sup> SBA OIG Management Advisory Memorandum 12-07 further details findings and recommendations in the Disbursements/Contracting area.

## Detailed Results

The following Sections I-VI summarize, by reporting segment, the OIG's review of the FY 2011 AFR results and Agency efforts to reduce improper payments per requirements of OMB Memorandum 11-16. Related recommendations are also outlined which focus on improvement of testing procedures and completion of corrective action plans. In addition, recommendations have been provided in the disbursements/ contracting area to improve the reporting of results.

A summary of the major recommendations, by program area, includes the following:

- 7(a) Approvals - Addressing the completeness of testing procedures, risk assessment methodology and quality of corrective action plans;
- 7(a) Purchases – Addressing the completeness of testing procedures, accuracy of reported results, completeness of corrective action plans, and consideration of recapture audits;
- 504 – Addressing the completeness of testing procedures, risk assessment methodology and quality of corrective action plans;
- SBIC – There were no recommendations;
- Disaster – Addressing the completeness of corrective action plans, and consideration of recapture audits;
- Disbursements/Contracting – These recommendations are contained in OIG Advisory Memorandum 12-07, *The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011*.

## Section I. 7(a) Approvals

Table 4. IPERA Compliance - 7(a) Approvals

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Posted Materials</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - PAR or AFR published for the most recent fiscal year.</li> </ul>	 <p>Met Guidance</p>	<p>The SBA published improper payment disclosures for the program in the FY 2011 AFR. However, as noted in Table 5, we noted that management needs to improve the accuracy and completeness of posted materials.</p>
<p><b>Risk Assessment</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - a program risk assessment conducted.</li> </ul>	 <p>Partially Met Guidance/ Improvement Needed</p>	<p><b>Finding:</b> The SBA used an inappropriate risk assessment methodology for 7(a) loan approvals. Specifically, the SBA combined both 7(a) guaranty loan approvals and 7(a) default purchases into a single risk assessment. This methodology did not allow for an adequate risk assessment because the risk of "improper payments" is different for each process. For example, the SBA could make an "improper payments" by guaranteeing a loan that should not have been made due to eligibility or creditworthiness deficiencies, but the loan may not ultimately result in "improper purchase" if the loan does not default. Since the SBA already intended to conduct a statistically valid estimate of improper payments for both 7(a) approvals and purchases, the Agency did not place much focus on the risk assessments for these programs and overlooked the different risks affecting each program.</p> <p><b>Recommendation 1:</b> We recommend that the Associate Administrator for Capital Access adjust the risk assessment to separately assess the risk of improper 7(a) guaranty loan approvals and improper 7(a) guaranty default.</p> <p><b>Agency Comment:</b> Management agreed with our recommendation. The Office of Financial Program Operations (OFPO) will adjust the risk assessment for FY 2012 and provide a separate risk assessment for 7(a) approvals and 7(a) guaranty purchases.</p> <p><b>OIG Response:</b> Management comments were responsive to the recommendation.</p>
<p><b>Published Estimates for Susceptible Programs</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - improper payments estimates identified for susceptible improper payments.</li> </ul>	 <p>Met Guidance</p>	<p>The SBA published an improper payment estimate in the FY 2011 AFR. However, as noted in Table 5, management needs to improve the accuracy and completeness of posted materials.</p>

**Table 4. IPERA Compliance – 7(a) Approvals**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Annual reduction target met</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 – Annual reduction targets met for each program assessed to be at risk.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA published annual reduction targets in the FY 2011 AFR. However, as noted in Table 5, management needs to improve the accuracy and completeness of posted materials.</p>
<p><b>Reported Rate of Less Than 10%</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>Gross improper payments reported at rate of less than 10 percent.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA reported an improper payment rate of less than 10% in the FY 2011 AFR. However, as noted in Table 5, management needs to improve the accuracy and completeness of posted materials.</p>
<p><b>Reported Recapture Information</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - Reported efforts regarding recapture of improper payments.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA published payment recapture information in the FY 2011 AFR.</p>

**Table 5. OIG Evaluation - 7(a) Approvals**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Overall Assessment of Agency Efforts</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OIG’s assessment of Agency efforts to prevent and reduce improper payments in program area.</li> </ul>	 <p>Immediate Management Attention Required</p>	<p>The SBA improper payments test procedures for the 7(a) loan approval program were limited and did not result in an accurate rate of improper payments for the program. Additionally, some 7(a) loans approved within the fiscal year were not considered for testing by the SBA. Finally, the SBA’s corrective action plan was based on an incomplete testing process.</p>
<p><b>Accuracy &amp; Completeness of Agency Reporting</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - OIG assessment of internal controls related to reported information;</li> <li>13 CFR Part 120 Business and Credit Assistance regulations;</li> <li>SBA Standard Operating Procedures (SOP) 50 10 5 Lender and Development Company Loan Programs.</li> </ul>	 <p>Immediate Management Attention Required</p>	<p><b>Finding:</b> The improper payments estimate for 7(a) loan approvals of 0 percent is most likely inaccurate because the SBA’s limited test procedures were not adequate to allow the Agency to identify all improper loan approvals (improper payments) within the 7(a) program. The SBA’s testing process was limited to a review of SBA system data and a determination as to whether the loan application and SBA loan officer report (for SBA-approved loans only) were completed prior to loan approval. The testing process did not require the reviewer to assess compliance with eligibility, use of proceeds, creditworthiness, and repayment ability requirements. These are key areas where noncompliance could make a loan guaranty improper. For example, a recent OIG audit report<sup>6</sup> determined a significant number of SBA 7(a) Loans were not originated in compliance with SBA policies and procedures. SBA management stated that there was confusion as to whether an improper loan approval constituted an improper payment and believed resources were more appropriately devoted to the purchase process where actual dollars are being disbursed.</p> <p><b>Recommendation 2:</b> We recommend that the Associate Administrator for Capital Access adjust the testing process for 7(a) loan approvals to ensure all necessary documentation is obtained and a determination is made as to whether the loans were approved in compliance with the relevant program regulations and requirements.</p> <p><b>Agency Comment:</b> Management agreed with our recommendation. Enhancements will be made to current testing processes to include a more comprehensive review of the 7(a) loan approvals. This will ensure that all necessary documentation is obtained and reviewed and a determination is made as to whether the loans were approved in compliance with all SBA program regulations and requirements.</p> <p><b>OIG Response:</b> Management comments were responsive to the recommendation.</p>

<sup>6</sup> ROM 11-07 *Origination and Closing Deficiencies Identified in 7(a) Recovery Act Loan Approvals*, issued September 30, 2011, estimated that at least 1,996 of the 6,467 loans approved and disbursed between June 1, 2009 and January 31, 2010 were not originated and closed in compliance with SBA’s policies and procedures, resulting in at least \$869.5 million in inappropriate or unsupported loan approvals.

**Table 5. OIG Evaluation – 7(a) Approvals**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Performance in reducing or recapturing improper payments</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - Agency’s performance of recapture audit.</li> </ul>	 <p>Compliant Process</p>	<p>We limited our review to the applicability of recapture audits. The SBA has determined that payment recapture audits for this program would not be cost effective because (1) only a small number of improper payment cases involve eligibility issues, (2) other documentation deficiencies could be corrected by the lender, and (3) in most cases, the SBA would have no recourse for recovery against the lender on non-delegated loan approvals.</p>
<p><b>Quality of corrective action plans</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - OIG evaluation whether corrective action plans are robust and focused on the appropriate root causes of improper payments.</li> </ul>	 <p>Immediate Management Attention required</p>	<p><b>Finding:</b> The SBA did not prepare a corrective action plan or identify root causes of improper payments for 7(a) guaranty approvals as it identified an improper payment estimate of \$0 for the program. However, as prior audits have found errors in loan origination, the SBA may have a higher improper payment rate for 7(a) loan approvals than reported. Once an accurate rate is determined, SBA will need to develop a corrective action plan to reduce improper payments.</p> <p><b>Recommendation 3:</b> We recommend that the Associate Administrator for Capital Access, upon revising the improper payments test procedures and estimating an accurate rate of improper payments, develop a corrective action plan for 7(a) loan approvals that correctly addresses root causes and will reduce improper payments.</p> <p><b>Agency Comment:</b> Management partially agreed with our recommendation. When an improper payment is identified, OFPO will develop and implement an appropriate corrective action plan that will address the root cause and amount of the improper payment.</p> <p><b>OIG Response:</b> Management comments were responsive to the recommendation.</p>

## Section II. 7(a) Purchases

Table 6. IPERA Compliance - 7(a) Purchases

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Posted Materials</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - PAR or AFR published for the most recent fiscal year.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA published improper payment disclosures for the program in the FY 2011 AFR. However, as noted in Table 7, management needs to improve the accuracy and completeness of posted materials.</p>
<p><b>Risk Assessment</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - a program risk assessment conducted.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA performed an adequate risk assessment for improper payments for the program.</p>
<p><b>Published Estimates for Susceptible Programs</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - improper payments estimates identified for susceptible improper payments.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA published an improper payment estimate in the FY 2011 AFR. However, as noted in Table 7, management needs to improve the accuracy and completeness of posted materials.</p>
<p><b>Annual reduction target met</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 – Annual reduction targets met for each program assessed to be at risk.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA published annual reduction targets in the FY 2011 AFR. However, as noted in Table 7, management needs to improve the accuracy and completeness of posted materials.</p>
<p><b>Reported Rate of Less Than 10%</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>Gross improper payments reported at rate of less than 10 percent.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA reported an improper payment rate of less than 10% in the FY 2011 AFR. However, as noted in Table 7, management needs to improve the accuracy and completeness of posted materials.</p>
<p><b>Reported Recapture Information</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - Reported efforts regarding recapture of improper payments.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA published payment recapture information in the FY 2011 AFR. However, as noted in Table 7, management needs to support the accuracy and completeness of posted materials.</p>

**Table 7. OIG Evaluation - 7(a) Purchases**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Overall Assessment of Agency Efforts</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OIG’s assessment of Agency efforts to prevent and reduce improper payments in program area.</li> </ul>	 <p>Immediate Management Attention Required</p>	<p>The SBA improper payment test procedures for 7(a) purchases were incomplete and the SBA reported an understated rate of improper payments for the program. Additionally, the SBA did not conduct a cost/benefit analysis to adequately demonstrate whether conducting Payment Recovery Audits (PRAs) would be cost effective. Finally, SBA’s corrective action plan was incomplete and based on an understated estimate of improper payments.</p>
<p><b>Accuracy &amp; Completeness of Agency Reporting</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - OIG assessment of internal controls related to reported information;</li> <li>SBA SOP 50 10 5 and 50 51 3 establish that SBA loans must have reasonable assurance of repayment and debt service coverage and that lender deficiencies regarding SBA underwriting requirements justify repair or denial of the guaranty on early default loans.</li> </ul>	 <p>Immediate Management Attention Required</p>	<p><b>Finding:</b> The SBA’s test procedures for improper payments for 7(a) purchases were incomplete. Specifically, the OIG determined that both the SBA purchase and improper payment reviews do not include a detailed analysis of creditworthiness (including repayment ability) on early defaulted loans, as required by its own procedures.</p> <p><b>Recommendation 4:</b> We recommend that the Associate Administrator for Capital Access require loan officers to thoroughly evaluate creditworthiness (including repayment ability) on early default loans during both guaranty purchase and improper payment reviews.</p> <p><b>Agency Comment:</b> Management agreed with our recommendation. OFPO will reemphasize the requirement that loan officers thoroughly review repayment ability and creditworthiness on early default loans during guaranty purchase and improper payment reviews. We recognize that there are varying levels of credit analysis experience among center staff, and we will provide credit analysis training, as well as quality control feedback, to loan officers to strengthen the creditworthiness review.</p> <p><b>OIG Response:</b> Management comments are responsive to the recommendation.</p>

**Table 7. OIG Evaluation – 7(a) Purchases**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>• OMB M-11-16 - OIG assessment of internal controls related to reported information;</li> <li>• 13 CFR Part 120 Business and Credit Assistance;</li> <li>• SOP 50 10 5 Lender and Development Company Loan Programs;</li> <li>• SOP 50 51 Loan Liquidation and Acquired Property;</li> <li>• SOP 50 51 3 Loan Liquidation.</li> </ul>		<p><b>Finding:</b> The SBA reported an inaccurate and understated improper payment rate of 1.73% or \$40.7 million. The SBA OIG conducted an independent audit of the SBA's improper payment review process for 7(a) purchases. The audit examined 30 loans out of the sample of 303 loans that SBA reviewed. The OIG identified 6 loans in the sample of 30 that had improper payments, whereas the SBA only identified that 1 of the 30 loans as having an improper payment. Prior to reporting its improper payment rate, the SBA agreed that 6 of the 30 loans in the OIG's sample had improper payments. Nevertheless, it did not adequately consider the impact of the OIG results when projecting its rate. The OIG's statistician determined that had the other five loans been adequately considered, the SBA should have reported a rate of 9.86%, or \$232.2 million, rather than the 1.73% and \$40.7 that was reported.</p> <p><b>Recommendation 5:</b> We recommend that the Associate Administrator for Capital Access determine and report an accurate and statistically valid estimate of improper 7(a) default purchases for FY 2012 in the next Agency Financial Report.</p> <p><b>Agency Comment:</b> Management partially agreed with our recommendation. The statistical methodology used by OCA resulted in an estimate of the improper payment rate for 7(a) guaranty purchases, which was reported in the Agency's FY 2011 AFR. The OIG's methodology, however, resulted in a higher rate due to the impact of five loans that the OIG identified as improper payments. Four of the five loans represented very small dollar amounts of improper payment, and had little impact on the overall improper payment rate. The fifth loan was very large and had a significant impact on the rate determined by the OIG due to the smaller sample size than that used by OCA. This projection methodology most likely represents the difference between the OCA improper payment rate of 1.73% and the OIG reported rate of 9.86% for 7(a) guaranty purchases. The OCA recognizes that the true improper payment rate lies between OCA's 1.73% and OIG's 9.86%. The OCA is now working closely with the OIG to agree upon a consistent methodology for determining the estimated improper payment rate for the next reporting period.</p> <p><b>OIG Response:</b> Management comments were responsive to the recommendation.</p>

**Table 7. OIG Evaluation – 7(a) Purchases**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Performance in reducing or recapturing improper payments</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - Agency’s performance of recapture audit.</li> </ul>	 <p>Immediate Management Attention Required</p>	<p><b>Finding:</b> We limited our review to the applicability of recapture audits. The SBA did not develop a sound or systematic method for considering payment recapture audits (PRA) for the 7(a) purchases. Specifically, the SBA did not conduct a cost/benefit analysis to adequately demonstrate whether conducting PRAs would be cost effective. The SBA also did not provide a sound justification or basis for its conclusion that the low improper payment rate and the complexity of the program would affect the cost effectiveness of recapture audits. Previous OIG audits demonstrate a favorable Return on Investment (ROI) from its audits of purchased loans.</p> <p><b>Recommendation 6:</b> We recommend that the Associate Administrator for Capital Access, upon completing the revised improper payment rate projection for 7(a) purchases, conduct a detailed and objective cost/benefit analysis for payment recapture audits of 7(a) purchases.</p> <p><b>Agency Comment:</b> Management partially agreed with our recommendation. As stated in number 5 above, OCA has reported an improper payment estimate that differs from the OIG estimate, and is working closely with OIG to agree upon a consistent methodology for the next reporting period. We will reevaluate the current cost/benefit analysis to determine if a recapture audit of 7(a) purchases is cost effective.</p> <p><b>OIG Response:</b> Management comments are responsive to the recommendation.</p>
<p><b>Quality of corrective action plans</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - OIG evaluation whether corrective action plans are robust and focused on the appropriate root causes of improper payments.</li> </ul>	 <p>Improvement Needed</p>	<p><b>Finding:</b> SBA’s corrective action plan for the 7(a) purchase process is incomplete and based on an understated estimate of improper payments. As previously noted, the SBA should have reported a rate of 9.86%, or \$232.2 million, rather than 1.73% and \$40.7 reported. Additionally, SBA’s corrective action plan does not identify all root causes of improper payments. Specifically, the OIG determined that SBA’s improper payment review processes did not adequately test whether early defaulted loans complied with the SBA’s creditworthiness (including repayment ability) requirements. This is another area where our prior work has demonstrated that improper payments can occur.</p> <p><b>Recommendation 7:</b> We recommend that the Associate Administrator for Capital Access, upon completing the revised improper payment rate projection for 7(a) purchases program, revise the corrective action plan to identify all root causes of improper payments and appropriate actions for reduction.</p> <p><b>Agency Comment:</b> Management partially agreed with our recommendation. A corrective action plan to address the improper payments for 7(a) guaranty purchases currently exists. The OFPO will enhance the corrective action plan so that it also addresses the root causes and amount of improper payments.</p> <p><b>OIG Response:</b> Management comments were responsive to the recommendation.</p>

**Section III. 504 Loans**

**Table 8. IPERA Compliance - 504 Loans**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Posted Materials</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - PAR or AFR published for the most recent fiscal year.</li> </ul>	 Met Guidance	<p>The SBA published improper payment disclosures for the program in the FY 2011 AFR. However, as noted in Table 9, management needs to improve the accuracy and completeness of posted materials.</p>
<p><b>Risk Assessment</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - a program risk assessment conducted.</li> </ul>	 Partially Met Guidance/ Improvement Needed	<p><b>Finding:</b> The risk assessment methodology performed by the SBA generally addressed the minimum risk factors likely to contribute to significant improper payments as provided within the OMB guidance. However, the risk assessment itself may not be fully complete or accurate as it did not sufficiently address the risk of approving ineligible loans within the 504 loan program.</p> <p><b>Recommendation 8:</b> We recommend that the Associate Administrator for Capital Access assess the risk of approving ineligible loans within the 504 loan program.</p> <p><b>Agency Comment:</b> Management agreed with our recommendation. The OFPO will adjust the risk assessment for FY 2012 and provide a separate risk assessment for 504 approvals.</p> <p><b>OIG Response:</b> Management comments were responsive to the recommendation.</p>
<p><b>Published Estimates for Susceptible Programs</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - improper payments estimates identified for susceptible improper payments.</li> </ul>	 Met Guidance	<p>The SBA published an improper payment estimate in the FY 2011 AFR. However, as noted in Table 9, management needs to improve the accuracy and completeness of posted materials.</p>
<p><b>Annual reduction target met</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 – Annual reduction targets met for each program assessed to be at risk.</li> </ul>	 Met Guidance	<p>The SBA published annual reduction targets in the FY 2011 AFR. However, as noted in Table 9, management needs to improve the accuracy and completeness of posted materials.</p>

**Table 8. IPERA Compliance – 504 Loans**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Reported Rate of Less Than 10%</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>Gross improper payments reported at rate of less than 10 percent.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA reported an improper payment rate of less than 10% in the FY 2011 AFR. However, as noted in Table 9, management needs to improve the accuracy and completeness of posted materials.</p>
<p><b>Reported Recapture Information</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - Reported efforts regarding recapture of improper payments.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA published payment recapture information in the FY 2011 AFR.</p>

**Table 9. OIG Evaluation - 504 Loans**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Overall Assessment of Agency Efforts</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>• OIG’s assessment of Agency efforts to prevent and reduce improper payments in program area.</li> </ul>	 <p>Immediate Management Attention Required</p>	<p>The SBA improper payments test procedures for the 504 loan approval program were limited and did not result in an accurate rate of improper payments for the program. Additionally, the SBA’s corrective action plan was based on an incomplete testing process.</p>
<p><b>Accuracy &amp; Completeness of Agency Reporting</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>• OMB M-11-16 - OIG assessment of internal controls related to reported information;</li> <li>• 13 CFR Part 120 Business and Credit Assistance;</li> <li>• SOP 50 10 5 Lender and Development Company Loan Programs.</li> </ul>	 <p>Immediate Management Attention Required</p>	<p><b>Finding:</b> SBA’s improper payments evaluation process for 504 loan approvals was not sufficient to effectively determine whether a debenture guaranty was properly made by the SBA or by CDCs with delegated approval authority. Specifically, the testing process was limited to a review of SBA system data and a determination as to whether the loan application, eligibility checklist, and SBA loan officer report (for SBA-approved loans only) were completed prior to loan approval. The testing process did not require the reviewer to assess compliance with eligibility, use of proceeds, creditworthiness, and repayment ability requirements. These are key areas where our prior work has found that noncompliance could make a debenture guaranty improper.</p> <p>An ongoing OIG audit of 504 loans approved between June 1, 2009 and January 31, 2010 has identified that 5 of the 60 sampled loans were not originated and closed in compliance with SBA’s policies and procedures. This resulted in inappropriate or unsupported loan approvals.</p> <p><b>Recommendation 9:</b> We recommend that the Associate Administrator for Capital Access adjust the testing process for 504 loan approvals to ensure all necessary documentation is obtained and reviewed and a determination is made as to whether the loans were approved in compliance with the relevant SBA program regulations and requirements.</p> <p><b>Agency Comment:</b> Management agreed with our recommendation. Enhancements will be made to the current testing process to include a more comprehensive review of the 504 loan approvals. This will ensure that all necessary documentation is obtained and reviewed and a determination is made as to whether the loans were approved in compliance with all SBA program regulations and requirements.</p> <p><b>OIG Response:</b> Management comments were responsive to the recommendation.</p>
<p><b>Performance in reducing /recapturing improper payments</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>• OMB M-11-16 - Agency’s performance of recapture audit.</li> </ul>	 <p>Compliant Process</p>	<p>We limited our review to the applicability of recapture audits. The SBA has determined that payment recapture audits for this program would not be cost effective because (1) only a small number of improper payment cases involve eligibility issues, (2) other documentation deficiencies could be corrected by the lender, and (3) in most cases, the SBA would have no recourse for recovery against the lender on non-delegated loan approvals.</p>

**Table 9. OIG Evaluation - 504 Loans**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Quality of corrective action plans</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - OIG evaluation whether corrective action plans are robust and focused on the appropriate root causes of improper payments</li> </ul>	<div style="text-align: center;">  <p>Immediate Management Attention Required</p> </div>	<p><b>Finding:</b> The SBA did not prepare a corrective action plan or identify root causes of improper payments for the 504 CDC loan approvals as it identified an improper payment estimate of \$0 for the program. However, our ongoing and past audits indicate, that the SBA may have a higher improper payment rate in the 504 loan approvals program than reported. Once an accurate rate is determined, the SBA will need to develop a corrective action plan to reduce improper payments.</p> <p><b>Recommendation 10:</b> We recommend that the Associate Administrator for Capital Access, upon revising the improper payments test procedures and estimating an accurate rate of improper payments, develop a corrective action plan for 504 loan approvals that correctly addresses root causes and will reduce improper payments.</p> <p><b>Agency Comment:</b> Management partially agreed with our recommendation. When an improper payment is identified, OFPO will develop and implement an appropriate corrective action plan that will address the root cause and amount of the improper payment.</p> <p><b>OIG Response:</b> Management comments were responsive to the recommendation.</p>

## Section IV. Small Business Investment Company Payments

Table 10. IPERA Compliance - Small Business Investment Company Payments

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Posted Materials</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - PAR or AFR published for the most recent fiscal year.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA published improper payment disclosures for the program in the FY 2011 AFR.</p>
<p><b>Risk Assessment</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - a program risk assessment conducted.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA performed a risk assessment for improper payments for the program.</p>
<p><b>Published Estimates for Susceptible Programs</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - improper payments estimates identified for susceptible improper payments.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA published an improper payment estimate in the FY 2011 AFR.</p>
<p><b>Annual reduction target met</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 – Annual reduction targets met for each program assessed to be at risk.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA published annual reduction targets in the FY 2011 AFR.</p>
<p><b>Reported Rate of Less Than 10%</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>Gross improper payments reported at rate of less than 10 percent.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA reported an improper payment rate of less than 10% in the FY 2011 AFR.</p>
<p><b>Reported Recapture Information</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - Reported efforts regarding recapture of improper payments.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Met Guidance</p>	<p>The SBA published payment recapture information in the FY 2011 AFR.</p>

**Table 11. OIG Evaluation - Small Business Investment Company Payments**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Overall Assessment of Agency Efforts</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OIG’s assessment of Agency efforts to prevent and reduce improper payments in program area.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;">Compliant Process</p>	<p>The Agency appears to be reporting accurate and complete improper payment information for the SBIC program based on our limited testing.</p>
<p><b>Accuracy &amp; Completeness of Agency Reporting</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - OIG assessment of internal controls related to reported information.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;">Compliant Process</p>	<p>The Agency’s reporting for improper payments in the SBIC program appears to be accurate and complete based on our limited testing of the program.</p>
<p><b>Performance in reducing or recapturing improper payments</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - Agency’s performance of recapture audit.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;">Compliant Process</p>	<p>We limited our review to the applicability of recapture audits. The SBA's decision not to perform payment recapture audits for the SBIC program appears to be reasonable based on our limited testing of the program.</p>
<p><b>Quality of corrective action plans</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - OIG evaluation whether corrective action plans are robust and focused on the appropriate root causes of improper payments</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;">Compliant Process</p>	<p>The Agency’s corrective action plan for the SBIC program appears to be adequate based on our limited testing of the program.</p>

## Section V. Disaster Loans

Table 12. IPERA Compliance – Disaster Loans

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Posted Materials</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - PAR or AFR published for the most recent fiscal year.</li> </ul>	<p></p> <p>Met Guidance</p>	<p>We reviewed the FY 2011 AFR and determined that all materials required by OMB were appropriately included.</p>
<p><b>Risk Assessment</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - a program risk assessment conducted.</li> </ul>	<p></p> <p>Met Guidance</p>	<p>We determined that the SBA's risk assessment appropriately identified disaster assistance as a high-risk program subject to an improper payments review.</p>
<p><b>Published Estimates for Susceptible Programs</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - improper payments estimates identified for susceptible improper payments.</li> </ul>	<p></p> <p>Met Guidance</p>	<p>The SBA reported estimates for FY 2012, 2013, and 2014 in its FY 2011 AFR.</p>
<p><b>Annual reduction target met</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 – Annual reduction targets met for each program assessed to be at risk.</li> </ul>	<p></p> <p>Improvement Needed</p>	<p>The SBA's improper payments rate goal for FY 2011 was 20 percent. The actual rate reported for FY 2011 was 28.4 percent. Although the target rate was not achieved, the Agency did reduce the improper payments rate from 34.2 percent in FY 2010.</p>
<p><b>Reported Rate of Less Than 10%</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>Gross improper payments reported at rate of less than 10 percent.</li> </ul>	<p></p> <p>Immediate Management Attention Required</p>	<p><b>Finding:</b> The SBA reported an improper payments rate for FY 2011 of 28.4 percent. The Agency noted that the improper payment rate due to ineligible loans or incorrect amounts is 12.1 percent. The remaining improper payments are due to documentation errors. The reported rate significantly exceeds the 10 percent required to be in compliance with IPERA requirements. Implementing recommendation 11 in Table 13 should assist the Agency in reducing the rate below 10 percent.</p>
<p><b>Reported Recapture Information</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - Reported efforts regarding recapture of improper payments.</li> </ul>	<p></p> <p>Met Guidance</p>	<p>The SBA reported on its efforts to recapture improper payments. The SBA stated that improper payments are not recovered upon discovery but realized through the loan repayment process.</p>

**Table 13. OIG Evaluation – Disaster Loans**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Overall Assessment of Agency Efforts</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OIG’s assessment of Agency efforts to prevent and reduce improper payments in program area.</li> </ul>	 <p>Improvement Needed</p>	<p><b>Finding:</b> The SBA reported an improper payments rate of 28.4 percent, an amount greater than the 10 percent specified to be compliant with IPERA. Although this rate decreased from 34.2 percent the prior year, the Office of Disaster Assistance’s (ODA) corrective action plan has not identified all root causes and a related methodology to further reduce errors. In addition, the ODA has not instituted a recapture audit program to recover improper payments as required by OMB guidance.</p> <p><b>Recommendation 11:</b> We recommend that the Associate Administrator for Disaster Assistance develop a corrective plan that identifies all root causes and develop a methodology to reduce the errors associated with each root cause.</p> <p><b>Agency Comment:</b> Management partially agreed with our recommendation. The ODA provided a corrective action plan that is contained in the FY 2011 AFR. The ODA will expand the plan to develop a more detailed description of the root causes for the exceptions that have been determined to be erroneous. The root cause identified in the plan shows training for both the documentation error and the eligibility errors. The plan lays out a course of action to be taken to address the erroneous exceptions.</p> <p><b>OIG Response:</b> Management comments were responsive to the recommendation.</p>
<p><b>Accuracy &amp; Completeness of Agency Reporting</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - OIG assessment of internal controls related to reported information.</li> </ul>	 <p>Compliant Process</p>	<p>We performed a limited review of the improper payments measurement process and did not identify non-compliance.</p>

**Table 13. OIG Evaluation – Disaster Loans**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Performance in reducing or recapturing improper payments</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - Agency’s performance of recapture audit.</li> </ul>	 <p>Improvement Needed</p>	<p><b>Finding:</b> Guidance under OMB M-11-16 requires agencies to conduct payment recapture audits for each program that expends \$1 million or more annually if conducting such audits would be cost-effective. A cost-effective payment recapture audit program is one in which the benefits exceed the costs (time and resources or payments for audit contractor) associated with implementing and overseeing the program. The ODA reported in the FY 2011 AFR that loans are repaid and if not repaid, the collateral will assure collection of loan funds. Therefore, the ODA makes no efforts to recapture improper payments since it believes that collateralizing the loans and requiring repayment is a built-in recovery system. Even if this assertion was true and the borrowers did return all loan funds, they would have the received the benefit of a low interest loan that they were not entitled to under SBA regulations. Although ODA management maintains that payment recapture audits would not be cost effective, it has not provided detailed analysis, which supports this claim.</p> <p><b>Recommendation 12:</b> We recommend that the Associate Administrator for Disaster Assistance perform detailed analysis of the cost-effectiveness of a payment recapture audit program. Such analysis should conclude whether the benefits of a recapture program would exceed the costs. If so, a payment recapture audit program should be implemented.</p> <p><b>Agency Comment:</b> Management partially agreed with our recommendation. The ODA provided a Payment Recapture Audit Cost-Effective Analysis as part of the September 15, 2011 document. In FY 2012, the agency will determine the most appropriate overall approach to a robust and cost-effective agency payment recapture program</p> <p><b>OIG Response:</b> Management comments were responsive to the recommendation.</p>
<p><b>Quality of corrective action plans</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - OIG evaluation whether corrective action plans are robust and focused on the appropriate root causes of improper payments.</li> </ul>	 <p>Improvement Needed</p>	<p><b>Finding:</b> The corrective action plan was insufficient because root causes are not adequately identified. The SBA stated that in the FY 2011 AFR the root cause for all identified improper payments for the Disaster program was administrative and documentation errors. However, this is inconsistent with other ODA reports that identify an improper payment rate for FY 2011 of 28.4 percent, 12.1 percent of which was due to eligibility issues, not documentation errors. In the FY 2011 AFR, ODA refers only to existing measures to reduce eligibility errors, not new measures designed to reduce the 12.1 percent improper payments rate due to eligibility issues. Thus, SBA’s efforts are not sufficient to meet reduction targets.</p> <p>Same as recommendation 11.</p>

## Section VI. Disbursements/Contracting

Table 14. IPERA Compliance - Disbursements/Contracting

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Posted Materials</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - PAR or AFR published for the most recent fiscal year.</li> </ul>	 <p>Immediate Management Attention Required</p>	<p><b>Finding:</b> The SBA's FY 2011 AFR did not include a <i>Corrective Action Plan</i>, a <i>Payment Recapture Audit Plan</i>, and provided insufficient information within its <i>Improper Payment Reduction Outlook</i> table for its Acquisition Program, as required by the OMB. Specifically, the agency did not perform a root cause analysis and did not develop and publish a <i>Corrective Action Plan</i>. Similarly, the SBA did not develop and publish a <i>Payment Recapture Audit Plan</i> for the Acquisition Program. According to the SBA, payment recapture audits are not cost effective; however, the SBA did not provide analysis or any support for this claim. In addition, the SBA included an <i>Improper Payment Reduction Outlook</i> table within its FY 2011 AFR but inaccurately reported that most of the Acquisition Program details were "not applicable."</p>
<p><b>Risk Assessment</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - a program risk assessment conducted.</li> </ul>	 <p>Met Guidance</p>	<p>The SBA performed a risk assessment that met IPERA guidelines.</p>
<p><b>Published Estimates for Susceptible Programs</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - improper payments estimates identified for susceptible improper payments;</li> <li>OMB Circular Number A-136, Revised – Report the programs and activities susceptible significant improper payments.</li> </ul>	 <p>Partially Met Guidance/Improvement Needed</p>	<p><b>Finding:</b> The SBA published its 89 percent improper payment rate within its FY 2011 AFR; however, the agency did not report its improper payments rate in accordance with OMB guidance. Instead, the SBA inappropriately claimed that FY 2011 provided a test measurement and SBA would refine its measurement and report an improper payment rate in FY 2012. However, the SBA did not obtain an OMB waiver excluding SBA's improper payment reporting requirement. In addition, the SBA published within the <i>Improper Payment Reduction Outlook</i> table that its 89 percent improper payment rate was "not applicable" because FY 2011 was a test year.</p>
<p><b>Annual reduction target met</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 – Annual reduction targets met for each program assessed to be at risk.</li> </ul>	<p>N/A</p>	<p>FY 2012 was the first year for IPERA. Prior to FY 2012, the SBA did not establish improper payment annual reduction targets for its contracting activities.</p>

**Table 14. IPERA Compliance – Disbursements/Contracting**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Reported Rate of Less Than 10%</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - Gross improper payments reported at rate of less than 10 percent;</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Immediate Management Attention Required</p>	<p><b>Finding:</b> The SBA published an 89 percent improper payment rate for its Acquisition Program in the FY 2011 AFR. Despite the significance of this improper payment rate, the agency did not develop or publish a <i>Corrective Action Plan</i> and a <i>Payment Recapture Audit Plan</i> as required by OMB guidance. This does not comply with IPERA and IPIA requirements and leaves the SBA at high risk of future improper payments.</p>
<p><b>Reported Recapture Information</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - Reported efforts regarding recapture of improper payments.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Immediate Management Attention Required</p>	<p><b>Finding:</b> The SBA did not develop a <i>Payment Recapture Audit Plan</i> for the Acquisition Program. According to the agency, payment recapture audits are not cost effective; however, they performed no analysis and had no support for this claim.</p>

**Table 15. OIG Evaluation - Disbursements/Contracting**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Overall Assessment of Agency Efforts</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OIG’s assessment of Agency efforts to prevent and reduce improper payments in program area;</li> </ul>	 <p>Immediate Management Attention Required</p>	<p><b>Finding:</b> The agency’s efforts did little to mitigate the risk of future improper payments within its Acquisition Program. Specifically:</p> <ul style="list-style-type: none"> <li>The SBA’s test plan did not provide reasonable assurance of detecting improper payments;</li> <li>SBA personnel responsible for developing the test plan and performing the SBA’s improper payment review did not have contracting backgrounds and had limited contract training;</li> <li>The SBA did not report its improper payments in accordance with OMB requirements;</li> <li>The SBA identified an 89 percent improper payment rate;</li> <li>The SBA’s personnel did not determine the root cause(s) of its improper payments; and</li> <li>The SBA did not develop and publish a <i>Corrective Action Plan</i> and a <i>Payment Recapture Audit Plan</i>.</li> </ul> <p>As a result, the SBA’s FY 2011 improper payment review and reporting for its Acquisition Program did not comply with IPERA, IPIA, and OMB requirements. Therefore, the SBA must prepare and submit a plan describing the actions that the agency will take to become compliant.</p> <p><b>Summary of recommendations:</b> In OIG Advisory Memorandum 12-07, our recommendations address the need for written policies and procedures, and the drafting and implementation of (1) a corrective action plan that identifies root causes, and (2) a payment recapture audit plan, unless it can be demonstrated that payment recapture audits are not cost effective.</p> <p><b>Agency Comments:</b> The OCFO also did not agree with our assertion of non-compliance in the disbursements and contracting areas because it was the first year of evaluation and management believed they were not required to do anything more than they performed.</p> <p><b>OIG Response:</b> The OIG was not provided a written waiver from OMB exempting the SBA from the IPERA process. For a more detailed explanation see OIG Advisory Memorandum 12-07.</p>
<p><b>Accuracy &amp; Completeness of Agency Reporting</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - OIG assessment of internal controls related to reported information;</li> </ul>	 <p>Immediate Management Attention Required</p>	<p><b>Finding:</b> The SBA’s test plan and review process were inadequate. While the SBA identified an 89 percent improper payment rate, it failed to identify multiple significant payment errors that we identified during our review. For example the SBA:</p> <ul style="list-style-type: none"> <li>did not identify underpayments to contractors;</li> <li>miscalculated interest penalties;</li> <li>paid for services not authorized by contracts;</li> <li>paid invoices that violated contract terms; and,</li> <li>paid invoices with rates that were different than those established in the contract.</li> </ul> <p>As such, the SBA may have understated the improper payment rate for its Acquisition Program during FY 2011. In addition, the SBA did not report its improper payments rate in accordance with OMB guidance and did not have an OMB waiver exempting the SBA from this requirement. Instead, the SBA claimed FY 2011 was a test year.</p>

**Table 15. OIG Evaluation - Disbursements/Contracting**

IPIA Requirement	OIG Evaluation	Discussion
<p><b>Performance in reducing or recapturing improper payments</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - Agency's performance of recapture audit.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Immediate Management Attention Required</p>	<p><b>Finding:</b> We limited our review to the applicability of recapture audits. The SBA did not develop a <i>Payment Recapture Audit Plan</i> for the Acquisition Program. According to the SBA, payment recapture audits are not cost effective; however, they performed no analysis and had no support for this claim.</p>
<p><b>Quality of corrective action plans</b></p> <p><b>Criteria:</b></p> <ul style="list-style-type: none"> <li>OMB M-11-16 - OIG evaluation whether corrective action plans are robust and focused on the appropriate root causes of improper payments.</li> </ul>	<p style="text-align: center;"></p> <p style="text-align: center;">Immediate Management Attention Required</p>	<p><b>Finding:</b> The SBA did not develop a corrective action plan that identifies the root cause(s) of improper payments for the Acquisition Program. According to the FY 2011 AFR, SBA's 89 percent improper payment rate was a test measure and the agency plans to wait until FY 2012 before reporting the improper payments of its Acquisition Program.</p>

## **AGENCY COMMENTS AND OIG RESPONSE**

On February 27, 2012, we provided a draft of this report to the Chief Financial Officer, Associate Administrator for Capital Access, Associate Administrator for Disaster Assistance, and Associate Administrator for Investment and Innovation. On March 12, 2012, the Office of Inspector General received SBA's final comments. A summary of management's comments and our response follows.

### **Agency Comments**

We included management comments and OIG's evaluation in the detailed findings. The SBA prepared a coordinated response and emphasized its commitment to the successful implementation of IPERA. Specifically, the SBA fully agreed with five recommendations and partially agreed with seven recommendations. The OCFO also did not agree with our assertion of non-compliance in the disbursements and contracting areas because it was the first year of evaluation and management believed they were not required to do anything more than they performed.

A full copy of the SBA's response is provided in Appendix I.

### **OIG Response**

We found the SBA's overall approach to IPERA compliance to be responsive but believe the SBA needs to further specify planned improvement activities with related milestones in the respective program areas. In regard to the OCFO response, the OIG was not provided a written waiver from OMB exempting the SBA from the IPERA process. For a more detailed explanation see OIG Advisory Memorandum 12-07.

Where appropriate, we will work with the SBA during the audit resolution cycle to further detail necessary corrective actions.

### **Actions Required**

Please provide your management decision for each recommendation on the attached SBA Forms 1824, Recommendation Action Sheet, within 30 days from the date of this report. Your decision should identify the specific action(s) taken or planned for each recommendation and the target date(s) for completion.

We appreciate the courtesies and cooperation of the Small Business Administration during this audit. If you have any questions concerning this report, please call me at (202) 205-7390 or Jeff Brindle, Director, Information Technology and Financial Management Group at (202) 205-7490.

## Appendix I: Agency Comments



U.S. SMALL BUSINESS ADMINISTRATION

WASHINGTON, D.C. 20416

To: John K. Needham  
Assistant Inspector General for Auditing

From: Jonathan I. Carver  
Chief Financial Officer

Jeanne A. Hult  
Associate Administrator for Capital Access

James Rivera  
Associate Administrator for Disaster Assistance

Sean Greene  
Associate Administrator for Investment and Innovation

Date: March 12, 2012

Re: Response to Review of SBA's Improper Payments, Project 11010

The U.S. Small Business Administration (SBA) is committed to the successful implementation of the Improper Payments Elimination and Recovery Act (IPERA), and we fully support the tenets of the President's Executive Order 13520 aimed at intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government. As stewards of taxpayer dollars we recognize the importance of:

- Transparency and public scrutiny of significant payment errors throughout the Federal Government;
- Focus toward identifying and eliminating the highest improper payments; and
- Accountability for and coordination in reducing improper payments among executive branch agencies.

We place a high value upon our successful compliance in this first year of reporting under IPERA, as supported by your draft report. Per your report, all programs were compliant in FY 2011, with the exception of contracting/disbursements, which was assessed for the first time this year.

Nevertheless, we realize that implementation does not end with compliance. The very spirit of the law necessitates reducing risk in all areas of the agency by strengthening our controls and improving our business processes. It is important we understand what makes a payment “improper” and the level of risk posed, something which varies across our programs.

Each program included in your draft compliance report serves a different role in achieving the agency’s mission of meeting the needs of today’s small businesses. For example, in the 7(a) and 504 programs, SBA is guaranteeing loans and debentures, and for Disaster Assistance, SBA is directly providing the loan. Although the appropriate measurements and assessments are conducted at the program level, SBA’s Executive leadership and senior management are committed to a collective agency-wide approach to reduce improper payments.

We have developed a comprehensive plan that requires the program offices to monitor their achievements in each of these four key components:

- Robust risk assessment
- Complete and accurate reporting
- Comprehensive corrective action plan
- Effective recapture activities

In this way we will continue to refine and improve our measures and the payment recapture activities already underway at the SBA. In FY 2012, we will re-evaluate the most appropriate overall approach to a robust and cost-effective agency payment recapture program.

The following response addresses the findings and recommendations contained in the Office of the Inspector General (OIG) Review of SBA’s Compliance with the Improper Payments Elimination and Recovery Act (IPERA). We thank you for the opportunity to comment upon your draft report on our compliance in FY 2011 IPERA reporting and look forward to continuing to work with you on this critical subject.

### **Office of Capital Access**

The Office of Capital Access (OCA) has standardized procedures and process controls in all Office of Financial Program Operations (OFPO) loan processing centers that are designed to process transactions with minimal improper payments. OFPO interjects into these procedures and process controls audit findings from OIG and KPMG, as well as

internal control review results by our OCFO, and quality control and improper payment reviews conducted within OFPO.

The OFPO quality program performs continual quality reviews independent of the processing centers. The quality program proactively targets high risk areas for quality review in order to minimize improper payments. The program also utilizes end-to-end implementation of corrective actions in all centers, and provides real-time feedback and training to employees, to address the root causes of improper payment. These findings and corrective actions also inform policy and processes, as identified in the preceding paragraph.

OFPO has an improper payment recapture plan in place that was developed in coordination with OIG that promptly records improper payments and tracks the recapture of these funds. OFPO attempts to recover all funds on a timely basis through invoicing the participating lenders. If the lender refuses or disputes the improper payment, OFPO will refer the matter to its Office of General Counsel for review for litigation. If OGC determines litigation is appropriate, the decision to pursue is presented to the OCA Associate Administrator for final approval.

#### OIG Recommendations and Agency Responses

##### **7(a) Approvals**

1. Adjust the risk assessment to separately assess the risk of improper 7(a) guaranty loan approvals and improper 7(a) guaranty defaults.

OCA Response: We agree with this recommendation. OFPO will adjust the risk assessment for FY 2012 and provide a separate risk assessment for 7(a) approvals and 7(a) guaranty purchases.

2. Adjust the testing process for 7(a) loan approvals to ensure all necessary documentation is obtained and a determination is made as to whether the loans were approved in compliance with all program regulations and requirements.

OCA Response: We agree with this recommendation. Enhancements will be made to current testing processes to include a more comprehensive review of the 7(a) loan approvals. This will ensure that all necessary documentation is obtained and reviewed and a determination is made as to whether the loans were approved in compliance with all SBA program regulations and requirements.

3. Upon revising the improper payments test procedures and estimating an accurate rate of improper payments, develop a corrective action plan that correctly addresses root causes and reduces improper payments.

OCA Response: We partially agree with this recommendation. When an improper payment is identified, OFPO will develop and implement an appropriate corrective action plan that will address the root cause and amount of the improper payment.

## **7(a) Guaranty Purchases**

4. Require loan officers to thoroughly evaluate creditworthiness (including repayment ability) on early default loans during both guaranty purchase and improper payment reviews.

OCA Response: We agree with this recommendation. OFPO will reemphasize the requirement that loan officers thoroughly review of repayment ability and creditworthiness on early default loans during guaranty purchase and improper payment reviews. We recognize that there are varying levels of credit analysis experience among center staff, and we will provide credit analysis training, as well as quality control feedback, to loan officers to strengthen the creditworthiness review.

5. Determine and report an accurate statistically valid estimate of improper 7(a) default purchases for FY 2011 in the next Annual Financial Report (AFR).

OCA Response: We partially agree with this recommendation. The statistical methodology used by OCA resulted in an estimate of the improper payment rate for 7(a) guaranty purchases, which was reported in the Agency's FY 2011 AFR. OIG's methodology, however, resulted in a higher rate due to the impact of 5 loans that the OIG identified as improper payments. Four of the 5 loans represented very small dollar amounts of improper payment, and had little impact on the overall improper payment rate. The fifth loan was very large and had a significant impact on the rate determined by the OIG due to the smaller sample size than that used by OCA. This projection methodology most likely represents the difference between the OCA improper payment rate of 1.73% and the OIG reported rate of 9.86% for 7(a) guaranty purchases. OCA recognizes that the true improper payment rate lies between OCA's 1.73% and OIG's 9.86%. OCA is now working closely with the OIG to agree upon a consistent methodology for determining the estimated improper payment rate for the next reporting period.

6. Upon completing the revised improper payment rate projection for 7(a) purchases, conduct a detailed and objective cost/benefit analysis for payment recapture audits of 7(a) purchases.

OCA Response: We partially agree with this recommendation. As stated in number 5 above, OCA has reported an improper payment estimate that differs from the OIG estimate, and is working closely with OIG to agree upon a consistent methodology for the next reporting period. We will reevaluate the current cost/benefit analysis to determine if a recapture audit of 7(a) purchases is cost effective.

7. Upon completing the revised improper payment rate projection for 7(a) purchases program, revise the corrective action plan to identify all root causes of improper payments and appropriate actions for reduction.

OCA Response: We partially agree with this recommendation. A corrective action plan to address the improper payments for 7(a) guaranty purchases currently exists. OFPO will enhance the corrective action plan so that it also addresses the root causes and amount of improper payments.

#### **504 Approvals**

8. Assess the risk of approving ineligible loans within the 504 loan program.

OCA Response: We agree with this recommendation. OFPO will adjust the risk assessment for FY 2012 and provide a separate risk assessment for 504 approvals.

9. Adjust the testing process for 504 loan approvals to ensure all necessary documentation is obtained and reviewed and a determination is made as to whether the loans were approved in compliance with all SBA program regulations and requirements.

OCA Response: We agree with this recommendation. Enhancements will be made to the current testing process to include a more comprehensive review of the 504 loan approvals. This will ensure that all necessary documentation is obtained and reviewed and a determination is made as to whether the loans were approved in compliance with all SBA program regulations and requirements.

10. Upon revising the improper payments test procedures and estimating an accurate rate of improper payments, develop a corrective action plan that correctly addresses root causes and will reduce improper payments.

OCA Response: We partially agree with this recommendation. When an improper payment is identified, OFPO will develop and implement an appropriate corrective action plan that will address the root cause and amount of the improper payment.

#### **Office of Disaster Assistance**

The Office of Disaster Assistance (ODA) understands the importance of complying with the Improper Payments Elimination and Recovery Act (IPERA) of 2010. In FY 2009, ODA revised its methodology that resulted in an increase in the reported rate of improper payments. ODA is working on reducing the reported improper payment rate to be in compliance with IPERA. ODA has reported on Improper Payments as required since the inception of the Improper Payments Information Act (IPIA) of 2002.

ODA has reviewed the Office of Inspector General's draft Executive Summary regarding SBA's Improper Payments. OIG identified ten IPERA Requirements for ODA. Of the ten requirements, five requirements were found to be compliant; four requirements

partially met guidance but needed improvement; and one requirement needed immediate attention. These findings conclude that ODA has an accepted practice for compliance; however, the reported rate exceeded the ten percent compliance rate.

In order to meet or exceed the compliance rate, ODA is addressing/instituting the following:

- ODA has a corrective action plan that identifies all root causes and a methodology to reduce errors associated with each root cause. ODA will expand the corrective action plan to provide a more detailed explanation of the root causes.
- ODA has provided a more detailed explanation of the training to the specific departments, as well as targeted training to the identified individuals associated with each root cause of the Improper Payment. Our 2012 explanation will further expand on the root cause(s) and the targeted training to reduce Improper Payments. This is in addition to continuing to provide general training to ODA's Processing and Disbursement Center (PDC) employees, with special emphasis on Improper Payments and notations,
- Improper payments are a result of the functions associated with ODA's PDC. In FY 2012 ODA has included Improper Payments in Personal Business Commitment Plans for employees in the PDC.
- In FY 2012, the agency will determine the most appropriate overall approach to a robust and cost-effective agency payment recapture program.
- The business case we previously provided to OMB verbally will be updated for the IG and OMB. The business case eliminates documentation errors and defines Improper Payments as:
  - Ineligible borrower
  - Improper use of proceeds
  - Incorrect loan amount

Documentation errors are currently considered Improper Payments. It should be pointed out that with documentation errors adjusted out of the FY 2011 Improper Payment rate, the rate would have been 12.1 percent which is much closer to the 10% required for IPERA compliance.

#### OIG Recommendations and Agency Responses

11. Develop a corrective plan that identifies all root causes and develop a methodology to reduce the errors associated with each root cause.

ODA Response: We partially agree with the recommendation. We have provided a corrective action plan that is contained in the AFR. We will expand the plan to develop a more detailed description of the root causes for the exceptions that have been determined to be erroneous. The root cause identified in the plan shows

training for both the documentation error and the eligibility errors. The plan lays out a course of action to be taken to address the erroneous exceptions.

12. Perform detailed analysis of the cost-effectiveness of a payment recapture audit program. Such analysis should conclude whether the benefits of the recapture program would exceed the costs.

ODA Response: We partially agree with the recommendation. We provided a Payment Recapture Audit Cost-Effective Analysis as part of the September 15, 2011 document. In FY 2012, the agency will determine the most appropriate overall approach to a robust and cost-effective agency payment recapture program

### **Office of the Chief Financial Officer**

The Office of the Chief Financial Officer (OCFO) does not concur with the implication of non-compliance for SBA's contracting program contained in the OIG's draft report. We completed the requirements in accordance with the evaluation criteria expressly presented in the OIG's draft report and in compliance with OMB guidance.<sup>7</sup>

We appreciate the effort undertaken to provide the observations in your Draft Advisory Memorandum and the additional evaluation of our efforts contained in your draft report. We believe your report reemphasizes the opportunities for which we aim to continue to strengthen our business processes surrounding our contracting program. We look forward to continuing our collaboration with you as we implement IPERA.

### **Demonstrating Compliance**

The SBA's \$130 million contracting program was excluded from improper payments reporting prior to FY 2011, when the threshold for reporting was decreased to \$1 million upon IPERA's enactment. Consistent with the OMB guidance<sup>8</sup> and as discussed in the AFR, we completed Step 1 of the OMB guidance in FY 2011 by conducting the risk assessment for our contracting office and subsequently determined the program to be risk-susceptible. The reporting requirements, as interpreted (and confirmed by OMB), do not require the agency to conduct both the risk assessment (Step 1) and establish the measurement and methodology (Step 2) within the same year. We plan to implement Step 2 in FY 2012 by determining the most appropriate, statistically valid methodology to measure our estimated improper payments rate, which allows us to complete Steps 3 and 4, *Implementing a plan to reduce improper payments* and *Reporting annual estimates and progress in reductions*, respectively. Therefore, publishing FY 2011 estimated rates and future reduction targets in the AFR is not applicable to the contracting program. Contrary to findings in the OIG's draft report, the SBA's Improper Payments Reduction Outlook

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<sup>7</sup> As defined in Part II of OMB Circular A-123, *Appendix C: Compliance with the Improper Payments Requirements*

<sup>8</sup> Part I, Section A) *Identification and Reporting of Susceptible Programs and Activities* of OMB Circular A-123, Appendix C

table in the AFR was prepared in accordance with the OMB Circular A-136, *Financial Reporting Requirements*, which requires: (1) Including the contracting program whether or not a measure was reported; (2) The date we expect a measurement in footnote 4; and (3) Indication of “n/a” for FY 2011 as the Current Year (or baseline). Specifically, item (3) is permitted without necessity of OMB waiver on page 153 in the FY 2011 A-136.

Additionally, to ensure compliance in our preparation of the IPERA reporting for publication in the AFR, we used the checklist of requirements in Section II *Compliance with the Improper Payments Requirements* of the OMB guidance. The guidance states that an agency is not compliant if it fails to complete one or more of the seven items listed, of which three are not applicable for FY 2011 reporting upon contracting<sup>9</sup>. The guidance also provides for an evaluation of the accuracy, completeness, and performance of an agency’s reporting in addition to the listed requirements; however, compliance is not determined by an “effort” assessment.

Specifically, we completed the following reporting requirements in FY 2011:

**1. Published the FY 2011 AFR and posted the report on the agency website**

These materials were prepared and reported in accordance with OMB Circulars A-123 and A-136. The AFR is available at (<http://www.sba.gov/content/fy-2011-agency-financial-report-afr>).

**2. Conducted the risk assessment and determined Contracting as risk-susceptible.**

**3. Included planned corrective actions in the AFR**

The AFR includes high-level Corrective Actions currently being implemented by the agency and appears on page 115. The past-tense verbiage, “has been taken” was a clerical error. A more comprehensive Corrective Action Plan will be developed in FY 2012 once the appropriate measurement and methodology is established.

**4. Reported upon our efforts to recapture improper payments**

Conducting a payment recapture audit is not a determining element for compliance with IPERA. The agency is required by the OMB guidance to report upon its effort to recapture improper payments, not to perform a recapture audit. The OIG draft report indicates the performance of a recapture audit was its sole factor in evaluating the agency’s performance in reducing or recapturing improper payments. The determination that a payment recapture audit program is not cost-effective for this program (eliminating the need to prepare a Recapture Audit Plan) was reported, as required, in September 15, 2011. This is supported by initial testing that suggested only 3% in erroneous payments. In FY 2012, the agency

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<sup>9</sup> Estimates and reduction targets will be reporting in FY 2012 upon the determination of the appropriate methodology required in Step 2.

will determine the most appropriate overall approach to a robust and cost-effective agency payment recapture program.

Given this evidence, we assert our compliance in IPERA reporting as defined in the OMB guidance and as reiterated in the OIG's criteria for evaluation. We believe our compliance merits the designation of "Met Guidance." As suggested by the evaluation of agency effort in the draft report, management attention is focused on the findings presented by the OIG, as indicated in its response to the draft Advisory Memorandum.

**Office of Investment and Innovation**

The Office of Investment and Innovation concurs with the comments of the OIG relative to the SBIC program. We have and will continue to review our processes to ensure such improper payments are minimized.