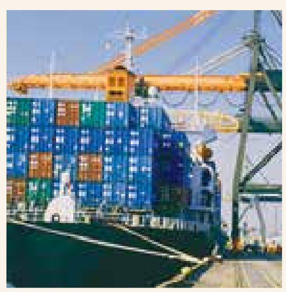
Other Information



SUCCESS STORY: Making Jobs Accessible to Vets

Knight Solutions,
Leesburg, Virginia

Kevin L Knight, President and CEO of Knight Solutions, is SBA's *2014 Virginia Small Business Person of the Year*. A military man, Knight was forced to retire when a training accident injured his eyes by detaching his retinas. His career path was forever changed, but during the healing process, he developed a vision of what he wanted to do for the rest of his life.

With mentoring from the Fairfax County Small Business Development Center and a $50,000 SBA Patriot Express loan, Kevin started Knight Solutions. The company is an 8(a) certified and service-disabled veteran-owned Virginia-based small business with mostly veteran employees. Knight Solutions provides renovation, operation, and facility maintenance at national cemeteries throughout the country. The firm's 2012 revenue was $16.3 million, a spike of 1,400 percent in three years.

Before starting his business in 2005, Kevin Knight contacted the Department of Veterans Affairs and learned there were more than 100 national cemeteries that needed help. He saw an opportunity to build a business servicing those cemeteries. While Knight Solutions initially started out just doing landscaping, Kevin's vision was to take veterans who have seen action, bring them home, and give them a sense of ownership and responsibility.

U. S. Small Business Administration

Schedule of Spending

For the Years Ended September 30, 2014 and 2013 (Unaudited)

(Dollars in Thousands)

	2014			2013		
	Budgetary	**Non-budgetary Financing**	**Total**	**Budgetary**	**Non-budgetary Financing**	**Total**
What Money is Available to Spend?						
Total Resources	$ 3,024,249	$ 7,802,410	$ 10,826,659	$ 4,179,528	$ 9,880,066	$ 14,059,594
Less Amount Available but Not Agreed to be Spent	398,548	1,586,238	1,984,786	594,338	854,066	1,448,404
Less Amount Not Available to be Spent	964,503	2,762,958	3,727,461	702,861	3,282,721	3,985,582
Total Amounts Agreed to be Spent	**$ 1,661,198**	**$ 3,453,214**	**$ 5,114,412**	**$ 2,882,329**	**$ 5,743,279**	**$ 8,625,608**

	Budgetary	**Non-budgetary Financing**	**Total**	**Budgetary**	**Non-budgetary Financing**	**Total**
How was the Money Spent?						
Salary & Benefits	$ 410,302	$ –	$ 410,302	$ 482,517	$ –	$ 482,517
Grants	177,934	–	177,934	172,650	–	172,650
Rents	45,461	–	45,461	46,046	–	46,046
Contracts	116,398	–	116,398	92,711	–	92,711
Travel	10,305	–	10,305	34,068	–	34,068
Other Administrative Expenses	84,049	–	84,049	47,706	–	47,706
Telecommunications	9,926	–	9,926	10,915	–	10,915
Surety Bonds Defaults	11,273	–	11,273	4,682	–	4,682
Business Loans	50,356	55,156	105,512	50,049	55,348	105,397
Business Loan Guarantees	487,900	2,769,909	3,257,809	1,330,606	4,036,685	5,367,291
Disaster Lending	257,294	628,149	885,443	610,379	1,651,246	2,261,625
Total Amounts Agreed to be Spent	**$ 1,661,198**	**$ 3,453,214**	**$ 5,114,412**	**$ 2,882,329**	**$ 5,743,279**	**$ 8,625,608**

	Budgetary	**Non-budgetary Financing**	**Total**	**Budgetary**	**Non-budgetary Financing**	**Total**
Who did the Money go to?						
Other Federal Agencies	$ 355,061	$ 1,469,413	$ 1,824,474	$ 573,660	$ 2,059,960	$ 2,633,620
Public Individuals and Organizations	1,306,137	1,983,801	3,289,938	2,308,669	3,683,319	5,991,988
Total Amounts Agreed to be Spent	**$ 1,661,198**	**$ 3,453,214**	**$ 5,114,412**	**$ 2,882,329**	**$ 5,743,279**	**$ 8,625,608**

The Schedule of Spending was developed to bridge the gap between budgetary accounting reports, such as the Statement of Budgetary Resources, and the public's desire for a transparent view of how federal money was spent. The SOS allows the reader to review SBA's spending in more understandable terms and also provides the public with a high level view of who benefited from federal funds.

To obtain a more detailed view of SBA's beneficiaries, the public can access general information about individual awards on USASpending.gov. The data provided on the USAspending.gov website however does not include all spending information provided in the SBR and SOS. For example, SBA is primarily a federal credit agency and SBA's nonbudgetary financing items, which are related to the direct and guarantee loan guarantee programs, are not included on USAspending.gov.

OIG REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration In Fiscal Year 2015

October 17, 2014 **REPORT NUMBER 15-01**

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

MEMORANDUM
MANAGEMENT CHALLENGES

DATE: October 17, 2014
TO: Maria Contreras-Sweet
Administrator

FROM: Peggy E. Gustafson
Inspector General

SUBJECT: *Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2015*

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's (OIG) Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration (SBA) in Fiscal Year (FY) 2015.

This report represents our current assessment of Agency programs and/or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, mismanagement, or inefficiencies. The Challenges are not presented in order of priority, as we believe that all are critical management or performance issues.

Our report is based on specific OIG, Government Accountability Office (GAO), and other official reports, as well as our general knowledge of the SBA's programs and operations. Our analysis generally considers those accomplishments that the SBA reported as of September 30, 2014.

Within each Management Challenge, there are a series of "recommended actions" to resolve the Challenge. Each recommended action is assigned a color "status" score. The scores are as follows: green for "implemented," yellow for "substantial progress," orange for "limited progress," and red for "no progress." An arrow in the color box indicates that the color score went up or down from the prior year. If a recommended action was added since last year's report, no color score was assigned, and the recommended action has been designated as "new."

As part of the OIG's continuing evaluation of the Management Challenges, certain Challenges have been updated or revised. In addition, actions that were scored green last year, which remained green this year, have been moved up to the "history bar" above the recommended actions. The history bar highlights any progress that the Agency has made on a Challenge over the past four fiscal years (or as long as the Challenge has existed, if shorter) by showing the number of actions that have moved to green each year.

The following table provides a summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2015.

Table 1. Summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2015

		Color Scores					
		Status at End of FY 2014				Change from Prior Year	
	Challenge	**Green**	**Yellow**	**Orange**	**Red**	**Up ↑**	**Down ↓**
1	Small Business Contracting	1	1			1	
2	IT Security		3	2		1	1
3	Human Capital		3				
4	Loan Guaranty Purchase	1				1	
5	Lender Oversight		2			2	
6	8(a) Business Development Program			2	1		1
7	Loan Agent Fraud		1	2			
8	Loan Management and Accounting System		4			3	
9	Improper Payments – 7(a) program	2	4			1	
10	Improper Payments – Disaster Loan program	1				1	
11	Acquisition Management			5			
	TOTAL	**5**	**18**	**11**	**1**	**10**	**2**

We would like to thank the SBA's management and staff for their cooperation in providing us with information needed to prepare this report. We look forward to continuing to work with the SBA's leadership team in addressing the Agency's Management Challenges.

Challenge 1. Procurement flaws allow large firms to obtain small business awards, and allow agencies to count contracts performed by large firms towards their small business goals.

The Small Business Act established a Government-wide goal that 23 percent of the total value of all prime contracts be awarded to small businesses each fiscal year. As the advocate for small business, the SBA should strive to ensure that only small firms obtain and perform small business awards. Further, the SBA should ensure that procuring agencies accurately report contracts awarded to small businesses when representing their progress in meeting small business contracting goals.

In September 2014, we issued a report that identified over $400 million in FY 2013 contract actions that may have been awarded to ineligible firms. We also identified over $1.5 billion dollars in contract actions for which the firms were in the 8(a) or HUBZone programs at the time of contract award, but were no longer in these programs in FY 2013. Previous OIG audits and other Government studies have shown widespread misreporting by procuring agencies, since many contract awards that were reported as having gone to small firms have actually been performed by larger companies. While some contractors may misrepresent or erroneously calculate their size, most of the incorrect reporting results from errors made by Government contracting personnel, including misapplication of small business contracting rules. In addition, contracting officers do not always review the on-line certifications that contractors enter into Government databases prior to awarding contracts. The SBA should ensure that procuring agencies accurately report contracts awarded to small businesses when representing their progress in meeting small business contracting goals, and that contracting personnel are reviewing on-line certifications prior to awarding contracts.

The SBA revised its regulations to require firms to meet the size standard for each specific order to address a loophole within General Services Administration Multiple Awards Schedule (MAS) contracts, which contain multiple industrial codes that determine the size of the company. Previously, a company awarded an MAS contract could identify itself as a small business on individual task orders awarded under that contract, even though it did not meet the size criteria for the applicable task. Thus, agencies received small business credit for using a firm classified as small, when the firm was not small for specific orders under the MAS contract. In addition, the SBA submitted a final rule to the Federal Acquisition Regulations (FAR) Council to implement the changes made to its regulations in the FAR. The SBA also updated its standard operating procedure (SOP) to ensure consistency in conducting its surveillance reviews to assess Federal agencies' management of their small business programs and compliance with regulations and applicable procedures.

While the SBA has made substantial progress on this challenge, we are working with the Agency to verify that the surveillance reviews were conducted in a thorough and consistent manner.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years *(Challenge first reported in FY 2005)*	**2010: 0**	**2011: 1**	**2012: 1**	**2013: 0**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Revise the surveillance review process to ensure that they are conducted in a thorough and consistent manner. *(Previously action 2)*	**Yellow**
2. Issue regulations that require firms to meet the size standard for each specific order they receive under a GSA schedule and Government-wide Acquisition Contract (GWAC) and show that the regulations are being followed. *(Previously action 3)*	**Green↑**

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

Challenge 2. Weaknesses in information systems security controls pose significant risks to the Agency.

The SBA's computer security program operates in a dynamic and highly decentralized environment, and requires management attention and resources as weaknesses are continually identified. The SBA has shown progress in establishing an entity-wide incident management and response program, and has improved network port security access controls. However, the SBA still needs to address long-standing security weaknesses identified in 35 open information technology (IT) audit recommendations in the following areas:

- The SBA's system software controls have 6 open recommendations averaging more than 700 days past their original target corrective action date. These recommendations highlight significant security vulnerabilities, including establishing baseline configurations of the SBA's IT platforms; establishing an effective configuration management program; and patching operating systems, devices, and database management systems in a timely manner.
- The SBA's segregation of duty controls have 13 open recommendations averaging more than 500 days past their original target corrective action date. These recommendations include restricting access to system software, and effectively reviewing system and application logs.
- The SBA's IT security management program has 11 recommendations averaging more than 500 days past their original target corrective action date. Many of these vulnerabilities are statutory requirements which, if remediated, would improve the SBA's IT security oversight as well as improve the SBA's compliance with guidance provided in the Federal Information Security Management Act of 2002 (FISMA).

To show improvement in the above areas, the SBA's Office of the Chief Information Officer, in conjunction with the SBA's program offices, will need to implement tools and capabilities to provide effective oversight and continuously monitor computer security controls.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years *(Challenge first reported in FY 1999)*	**2010: 0**	**2011: 1**	**2012: 0**	**2013: 1**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Access controls are in place and operating effectively, and contractors are not granted system access until they have obtained the required background investigations and/or security clearances.	**Yellow**
2. System software controls are in place and operating effectively.	**Orange↑**
3. Segregation of duty controls are in place and operating effectively.	**Orange**
4. The plan of action and milestones accurately reports all computer security weaknesses and corrective actions.	**Yellow↓**
5. The IT security management program is effective to address information security in systems that support the operations and assets of the organization.	**Yellow**

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

Challenge 3. The SBA needs effective human capital strategies to carry out its mission successfully and become a high-performing organization.

The Office of Human Resource Solutions has taken significant steps toward addressing this management challenge, including ensuring an effective, comprehensive workforce and succession plan that aligns talent needs and capabilities with the Agency's 2011-2016 strategic plan. For example, in FY 2012, the SBA initiated a leadership development program designed to recruit and develop future leaders. In FY 2013, the SBA developed Agency-wide core competencies and training focused on those competencies, and issued a leadership succession plan. The SBA also launched its learning management system in FY 2014. Reported next steps include thoroughly reviewing work processes to ensure cross-functional understanding of SBA products and services and new required skills that reflect the Agency's mission and organizational priorities. In order to complete this recommended action, the SBA's workforce and succession planning goals should establish appropriate metrics to gauge its success at having the right people, in the right jobs, at the right time.

The SBA has also made substantial progress to update and establish standard operating procedures for human capital management. This recommended action was intended to encourage the Agency to update and establish critical procedures in support of its long-term goals and objectives and Government-wide human capital management initiatives. The Agency continues to make progress in this area. In FY 2014, the Agency issued SOPs for telecommuting, compensatory time for travel, and addressing domestic violence—all previously identified as agency priorities prior to FY 2014.

In accordance with the Office of Management and Budget (OMB) FY 2012 budget guidance, agencies are tasked with directing resources toward areas most needing improvement, as identified in the Employee Viewpoint Survey. The SBA established the "SBA Way" initiative to increase employee engagement and foster collaboration across the Agency. Charters outlining membership and responsibilities for the Executive Steering Committee and Action Planning Committee and subcommittees were finalized, and a process for soliciting and vetting suggestions from SBA employees regarding organizational improvement was established. Members were active throughout FY 2014 with plans to launch an employee training survey and employee recognition initiative in FY 2015.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years *(Challenge first reported in FY 2001, revised FY 2007)*	**2010: 0**	**2011: 0**	**2012: 0**	**2013: 1**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Ensure the Agency has an effective, comprehensive workforce and succession plan that aligns talent needs and capabilities with the SBA's FY 2011-2016 strategic plan. The SBA's workforce and succession planning goals should reflect the need to recruit and retain the appropriate talent, and should establish appropriate metrics to gauge the SBA's success at having the right people, in the right jobs, at the right time.	**Yellow**
2. Ensure that human capital management SOPs are updated and appropriately structured to support the Agency's long-term goals and objectives and Government-wide human capital management initiatives. (Previously recommended action #3)	**Yellow**
3. Demonstrate sustained progress toward a high-performing, employee-driven culture through activity and effort as prioritized by the SBA's employee engagement initiative for two consecutive years (end of FY 2015) (Previously recommended action #4 – modified in February 2014).	**Yellow**

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

Challenge 4. The SBA needs to implement a quality control program in its loan centers.

The Office of Financial Program Operations (OFPO) has made significant progress in developing and implementing a quality control (QC) program for all of its loan centers to verify and document compliance with the loan process, from origination to close-out, and to identify where material deficiencies may exist so that remedial action can be taken. Relevant parties within the Office of Capital Access have developed and agreed upon a QC project guide. The QC program will assess the overall quality of loan centers' deliverables to provide confidence to stakeholders. The SBA assigned a QC manager to oversee the development of the program and established QC specialist positions for each center. Furthermore, the SBA (1) developed and documented quality program manuals and review checklists for each center; (2) assessed center functions by risk to prioritize required QC reviews; (3) refined feedback, training and reporting processes; and (4) developed new systems to improve the tracking of quality control deficiencies and corrective actions.

While the SBA has made significant progress in implementing a QC program, further improvement is needed for the SBA to continue to demonstrate that all elements of the QC program are being completed, and that the program remains effective at identifying and correcting material deficiencies. For example, an FY 2014 OIG evaluation of the QC program determined that loan centers were not performing required reviews over significant loan center operations, and were not tracking corrective actions, as required. This report included two key recommendations to improve the QC program managed by the OFPO. The OFPO made significant progress during FY 2014 to address these remaining areas of weakness within the QC program. Additionally, QC reports submitted to the OIG at the end of the fiscal year continued to show that SBA loan centers did not always achieve the required levels of review. Finally, our reviews of the SBA's QC plans noted inconsistent coverage of loan center operations, which we brought to the SBA's attention.

In order to maintain a status of "implemented" for this challenge, the SBA must continue to demonstrate that the QC program is operating effectively. The OIG will continue to monitor the QC program during FY 2015 to verify that: (1) required QC reviews are being completed, (2) QC activities provide adequate coverage over loan center operations, and (3) QC reviews are effective at identifying and correcting material deficiencies.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years *(Challenge first reported in FY 2007)*	**2010: 1**	**2011: 0**	**2012: 0**	**2013: 0**
Recommended Actions for FY 2015				**Status at end of FY 2014**
1. Implement a quality control program for all SBA loan centers.				**Green↑**

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

Challenge 5. The SBA needs to further strengthen its oversight of lending participants.

Prior OIG and GAO reports disclosed weaknesses in the SBA's oversight of the lenders that participate in its programs. In a September 2012 audit report, the OIG found that the SBA did not always recognize the significance of lender weaknesses or determine the risks they posed to the Agency during its onsite reviews. Additionally, the SBA did not link the risks associated with the weaknesses to the lenders' corresponding risk ratings and assessments of operations. Further, the SBA did not require lenders to correct performance problems that could have exposed the SBA to unacceptable levels of financial risk. The risks inherent in delegated lending require an effective oversight program to (1) monitor compliance with SBA policies and procedures, and (2) take corrective actions when a material noncompliance is detected.

Since this management challenge was first issued in 2001, the SBA has made significant progress in its oversight of lending participants. In FY 2013, the SBA (1) developed risk profiles and lender performance thresholds, (2) developed a select analytical review process to allow for virtual risk-based reviews, (3) updated its lender risk rating model to better stratify and predict risk, and (4) conducted test reviews under the new risk-based review protocol. These efforts have demonstrated that onsite reviews are now conducted on the highest-risk lending participants based on expanded selection criteria. In FY 2014, the SBA improved its monitoring and verification of corrective actions by lenders by: (1) developing corrective action assessment procedures, (2) finalizing a system to facilitate the corrective action process, and (3) populating the system with lender oversight results requiring corrective action. However, in order to fully resolve this management challenge, the SBA must demonstrate the effectiveness of the process for monitoring and verifying lenders' implementation of corrective actions.

Number of Actions Accomplished (Green Status) During Past Four Fiscal Years *(Challenge first reported in FY 2001)*	**2010: 0**	**2011: 0**	**2012** **7(a) loans: 1** **504 loans: 1**	**2013** **7(a) loans: 2** **504 loans: 2**

Recommended Actions for FY 2015	**Status at end of FY 2014**	
	7(a)	**504**
1. Monitor and verify implementation of corrective actions to ensure effective resolution prior to close-out. *(Previously Recommended Action #3)*	**Yellow↑**	**Yellow↑**

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

Challenge 6. The SBA needs to modify the Section 8(a) Business Development Program so more firms receive business development assistance, standards for determining economic disadvantage are justifiable, and the SBA ensures that firms follow 8(a) regulations when completing contracts.

The SBA's 8(a) Business Development (BD) Program was created to assist eligible small disadvantaged business concerns to compete in the American economy through business development. Previously, the SBA did not place adequate emphasis on business development to enhance the ability of 8(a) firms to compete, and did not adequately ensure that only 8(a) firms with economically disadvantaged owners in need of business development remained in the program. Companies that were "business successes" were allowed to remain in the program and continue to receive 8(a) contracts, causing fewer companies to receive most of the 8(a) contract dollars and many to receive none.

The SBA has made progress towards addressing issues that hinder its ability to deliver an effective 8(a) BD Program. For example, the SBA expanded its ability to provide assistance to program participants through its resource partners—small business development centers, service corps of retired executives, and procurement technical assistance centers. In addition, the SBA has taken steps to ensure business opportunity specialists assess program participants' business development needs during site visits. The SBA also revised its regulations, effective March 2011, to ensure that companies deemed "business successes" graduate from the program. These regulations also establish additional standards to address the definition of "economic disadvantage." Agency officials stated that the rule-making process served as an adequate proxy to objectively and reasonably determine effective measures for economic disadvantage, and were not aware of any reliable sources of data to determine economic disadvantage.

However, for the second consecutive year, the SBA has not completed updating its SOP for the 8(a) BD Program to reflect the March 2011 regulatory changes. In addition, we continue to maintain that the SBA's standards for determining economic disadvantage are not justified or objective based on the absence of economic analysis. In December 2011, the SBA awarded a contract to develop and deploy a new IT system by December 2012 to assist the SBA in monitoring 8(a) program participants. However, the new system has not been deployed, and its delivery date and capabilities are undetermined at this time.

Number of Actions Accomplished (Green Status) During Past Four Fiscal Years *(Challenge first reported in FY 2003)*	**2010: 0**	**2011: 0**	**2012: 0**	**2013: 0**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Develop and implement a plan, including SOP provisions, which ensures that the 8(a) BD Program identifies and addresses program participants' business development needs on an individualized basis.	**Orange**
2. Develop and implement regulations and SOP provisions to ensure that participants graduate once they reach the levels defined as "business success."	**Orange↓**
3. Establish objective and reasonable criteria that effectively measure "economic disadvantage," and implement the new criteria.	**Red**

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

Challenge 7. Effective tracking and enforcement would reduce financial losses from loan agent fraud.

For years, OIG investigations have revealed a pattern of fraud by loan packagers and other for-fee agents in the 7(a) Loan Program involving hundreds of millions of dollars. Yet the SBA's oversight of loan agents has been limited, putting taxpayer dollars at risk. The Agency could reduce this risk through effective loan agent disclosure requirements, a database or equivalent means to track loan agent activity, updated regulations, new guidance for lenders, and a registration system.

Tracking Loan Agent Data. In response to this Challenge, the SBA has proposed various methods of tracking loan agent activity. The SBA eventually decided to have lenders fax a loan agent disclosure form (Form 159) to the SBA's fiscal and transfer agent (FTA) and require the FTA to enter the data into a database accessible to the SBA. The SBA also began to link Form 159 information with its loan data. Despite some data problems, quality is improving. Moreover, the FTA is testing an automated Form 159.

Updating Regulations. Any Government enforcement program requires effective regulations and procedures. In response to OIG concerns that the SBA loan agent enforcement regulations are outdated, the SBA drafted revised regulations that the OMB is reviewing.

Notice of SBA Enforcement Actions. Lenders need to ensure that agents involved with their loans have not been subject to enforcement action by the SBA. The SBA now lists the names of loan agents and others named in SBA enforcement actions on its website, and updated an SOP in FY 2014 to instruct lenders to consult this list to avoid problematic loan agents.

Registration System. The SBA needs to develop a system to assign a unique identifier to loan agents that participate in the 7(a) program. Without these identifiers, the SBA cannot effectively track loan agents to ensure suspended agents do not simply change their name and continue participating in the program. The SBA has not committed to implementing a registration system, and is waiting for the OIG to complete an audit on loan agents. As such, the OIG has not assigned a color to this action.

Number of Actions Accomplished (Green Status) During Past Four Fiscal Years *(Challenge first reported in FY 2000)*	**2010: 0**	**2011: 0**	**2012: 1**	**2013: 0**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.	**Yellow**
2. Update regulations (13 CFR Part 103) regarding loan agents to provide effective enforcement procedures.	**Orange**
3. Issue guidance that lenders must (1) review the SBA's webpage list of loan agents that have been subject to an enforcement action and (2) refrain from doing business with any agent appearing on the list during the time that an agent is suspended or revoked from the 7(a) program.	**Orange**
4. Implement a loan agent registration system, including the issuance of a unique identifying number for each agent.	New

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

Challenge 8. The SBA needs to modernize its Loan Accounting System and migrate it off the mainframe.

The Loan Accounting System is the core system of record used to account for the SBA's $106.8 billion loan portfolio. In November 2005, the SBA initiated the loan management accounting system (LMAS) project. Since 2010, the LMAS modernization effort has been structured into multiple components or incremental improvement projects (IIPs). This project has been reviewed by GAO and was the subject of a Congressional hearing in 2012.[1] The SBA has issued reports to Congress regarding project progress, with the most recent issued in March 2014.

In September 2014, the OIG issued a report assessing project progress and oversight controls. We reported that the SBA needs to improve its management oversight of the individual LMAS Incremental Improvement Projects (IIP) and ensure management actions comply with the SBA's SOPs.

The LMAS project team is working on the Transition to Production Planning IIP. This IIP is critical to the overall success of the LMAS project because its completion is needed to move all of the SBA's financial data from an outdated mainframe environment to a new, server-based operating platform.

Current plans call for the full completion of the mainframe migration by December 2014 and project completion by February 2015. The SBA also anticipates that the LMAS IIPs' cost will not exceed its revised FY 2010 project estimate of $97.3 million.

Number of Actions Accomplished (Green Status) During Past Four Fiscal Years (Challenge first reported FY 2010)	**2010: 0**	**2011: 0**	**2012: 0**	**2013: 0**

Recommended Actions for FY 2015	**Status at end f FY 2014**
1. Migrate LMAS to a new operating platform before the current mainframe contract expires in 2015.	**Yellow**
2. Modify the LMAS quality assurance/independent verification and validation (IV&V) contract and establish an effective quality assurance (QA) process which provides senior management independent assurance that LMAS development activities and related project deliverables meet SBA quality standards.	**Yellow↑**
3. Establish a process for reviewing and accepting LMAS deliverables that complies with quality assurance and systems development methodology requirements. This includes hiring or fully staffing an IV&V entity to validate deliverable acceptance.	**Yellow↑**
4. Implement a quality assurance process in LMAS in accordance with the SBA's Enterprise QA Plan.	**Yellow↑**

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

[1] Report GAO-12-295, *SBA Needs to Strengthen Oversight of Its Loan Management and Accounting System Modernization* issued January 2012.

Challenge 9. The SBA needs to accurately report, significantly reduce, and strengthen efforts to recover improper payments in the 7(a) Loan Program.

Previous OIG audits have determined that reported improper payment rates for 7(a) loan approvals and purchases were significantly understated because the SBA did not adequately review loans, used flawed sampling methodologies, and did not accurately project review findings. In FY 2011, the SBA's reported improper payment rate for 7(a) purchases was 1.73 percent, or $40.7 million, when the rate could have been as high as 20 percent, or about $472 million. Furthermore, in FY 2011, the SBA reported no improper payments for 7(a) loan approvals.

However, an FY 2011 OIG audit estimated that at least 1,196 Recovery Act 7(a) loans were not originated and closed in compliance with SBA requirements, resulting in at least $869.5 million in inappropriate or unsupported loan approvals.

Further, recent OIG audits have identified 7(a) loans that were ineligible, lacked repayment ability, or were not properly closed. In 2012, we reported that the limited reviews of lender underwriting performed during guaranty purchase reviews were contrary to SBA procedures, resulting in improper payments. We also reported that high-dollar, early-defaulted loans were not reviewed with the scrutiny required to identify improper payments. In 2013, we reported that the SBA made $4.6 million of improper payments on high-dollar early-defaulted 7(a) loans. In 2014, we reported that six SBA approved loans with material underwriting deficiencies defaulted, resulting in $4.8 million in unnecessary losses.

The Office of Capital Access (OCA) has taken actions to correct many of these deficiencies. The OCA has (1) formalized its improper payment sampling; (2) demonstrated that its review process is effective for 7(a) loan approvals; (3) formalized its process to review disputed cases; (4) formalized the recovery process and time standards for 7(a) purchases; (5) developed appropriate corrective action plans for 7(a) loans; and (6) established repayment ability review requirements that are effective at identifying improper payments. However, additional actions are needed. The OCA needs to demonstrate that its process over disputed cases is ensuring adequate and timely resolution. Additionally, the OCA needs to demonstrate that it is adhering to recovery time standards and that corrective action plans for the 7(a) loan program are effective.

Actions Accomplished (Green Status) During Past Four Fiscal Years *(Challenge first reported FY 2010)*	**2010: 0**	**2011: 0**	**2012: 0**	**2013** **7(a) approvals: 1** **7(a) Purchases: 0**

Recommended Actions for FY 2015	**Status at end of FY 2014**	
	7(a) Approvals	**7(a) Purchases**
1. Ensure that processes for 7(a) loan approvals and purchases are designed and implemented to effectively identify improper payments as defined by OMB Circular A-123.	**Green**	**Green↑**
2. Reassign responsibility for final approval of disputed denial, repair, and improper payment decisions from the Office of Financial Assistance (OFA) to the Office of Credit Risk Management (OCRM) to ensure an adequate and timely resolution of disputes.	**N/A**	**Yellow**
3. Establish a process and time standards to expeditiously recover improper payments identified during Agency reviews and OIG audits.	**N/A**	**Yellow**
4. Demonstrate that corrective action plans are effective in reducing improper payments in the 7(a) Loan Program.	**Yellow**	**Yellow**

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

Challenge 10. The SBA Needs to Significantly Reduce Improper Payments in the Disaster Loan Program.

Previous OIG audits of the SBA's Disaster Loan program determined that the improper payment rates reported for this program were significantly understated. The SBA estimated that improper payments in the Disaster Loan program were about $4.5 million, or 0.55 percent of loans approved in FY 2007, while the OIG reported that it was at least 46 percent, or approximately $1.5 billion. The SBA's improper payment rates were understated because the SBA did not adequately review sampled loans, used flawed sampling methodologies, and did not accurately project review findings for the program.

Previously, Management Challenge 9 included both the Disaster Loan program and 7(a) program. There were three recommended actions applicable to the Disaster Assistance Program. Of the three recommended actions, one was implemented during FY 2010 and the two remaining actions were implemented during FY 2011. One recommended action was to develop and implement a corrective action plan to reduce improper payments. Although the Office of Disaster Assistance (ODA) implemented the recommended action, the SBA has not achieved its reduction targets since implementation. Specifically, the Agency missed its target goals of 16.7 percent for FY 2010, 20.0 percent for FY 2011, and 17.0 percent for FY 2012, instead reporting rates of 34.2 percent, 28.4 percent, and 17.9 percent, respectively.

At the end of FY 2011, a new recommended action was added requiring the SBA to demonstrate that the corrective action plan is effective in reducing improper payments in the Disaster Assistance Program. The Agency has implemented an improved corrective action plan that specifically addresses root causes and provides specific remedies, such as targeted training and inclusion of improper payments in personal business commitment plans for employees. If properly implemented, we believe this course of action should effectively reduce the improper payment rate in future years. The SBA's internal improper payment assessment for FY 2014 indicated a rate of 12 percent. This rate is lower than the 17 percent target rate necessary to achieve a green rating. Therefore, the color status for FY 2014 is green.

Actions Accomplished (Green Status) During Past Four Fiscal Years *(Challenge first reported FY 2012)*	**2010: N/A**	**2011: N/A (New)**	**2012: 0**	**2013: 0**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Demonstrate that corrective action plans are effective in reducing improper payments in the Disaster Loan program.	**Green↑**

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

Challenge 11: The SBA Needs to Effectively Manage the Acquisition Program

The SBA has taken steps to improve the acquisition process by providing training to acquisition personnel, conducting acquisition planning, and using the Contract Review Board for making acquisition decisions. While the SBA has made limited progress, challenges exist, including: (1) poorly defined requirements, (2) internal control deficiencies, (3) inadequate oversight of contractor performance, (4) high improper payments rate, and (5) an incomplete acquisition SOP.

We identified instances where the SBA inadequately planned and defined its requirements for the procurement of IT products and services. While the SBA interfaced the contract management system with the financial system, users continue to experience system operations issues. The SBA also continued to inadequately monitor contract performance, which does not ensure that products and services are delivered according to contract requirements. Additionally, the SBA reported an increase in the improper payment rate for disbursements of goods and services from 9.6 percent in FY 2012 to 11.6 percent in FY 2013. Further, its acquisition SOP does not include procedures to use modular contracting for major system acquisitions, the use of interagency acquisitions, or define post award contract administration requirements.

In July 2014, the Office of the Chief Financial Officer (OCFO) awarded a contract to perform an assessment of its acquisition function required in the OMB's memorandum for Chief Acquisition Officers: *Conducting Acquisition Assessments under OMB Circular A-123*, May 21, 2008.

Actions Accomplished (Green Status) During Past Four Fiscal Years *(Challenge first reported FY 2013)*	**2010: N/A**	**2011: N/A**	**2012: N/A (New)**	**2013: 0**

Recommended Actions for FY 2015	**Status at end of FY 2014**
1. Complete an assessment of the Agency's acquisition activities using the OMB's *Guidelines for Assessing the Acquisition Function*.	**Orange**
2. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the organizational alignment and leadership assessment area.	**Orange**
3. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the acquisition policies and processes assessment area (i.e. acquisition management SOP).	**Orange**
4. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the acquisition workforce assessment area.	**Orange**
5. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the knowledge management and information systems assessment area.	**Orange**

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

Appendix: Relevant Reports

Most of the SBA OIG Reports listed can be found at http://www.sba.gov/office-of-inspector-general.

Challenge 1

Small Business Administration Office of Inspector General

- *Agencies are Overstating Small Disadvantaged Business and HUBZone Goaling Credit by Including Contracts Performed by Ineligible Firms*, Report 14-18 (September 24, 2014).
- *Opportunities Exist for the SBA to Improve the Monitoring of Non-Manufacturer Rule Waivers and Determine the Impact on Small Businesses*, Report 14-15 (August 14, 2014).
- *A Non-Manufacturer Rule Waiver Allowed an 8(a) Recovery Act Contract to Bypass Established Small Business Requirements*, Report 12-19 (September 4, 2012).
- *SBA's Planning and Award of the Customer Relationship Management Contracts*, ROM 10-16 (June 29, 2010).
- *Review of Selected Small Business Procurements*, Report 5-16 (March 8, 2005).
- *SBA Small Business Procurement Awards Are Not Always Going to Small Businesses*, Report 5-14 (February 24, 2005).
- *Audit of SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders*, Report 4-16 (March 17, 2004). pp. 8-9.

Government Accountability Office

- *Contract Management: Reporting of Small Business Contract Awards Does Not Reflect Current Business Size*, GAO-03-704T (May 7, 2003).

The Small Business Committee

- The Small Business Committee, U.S. House of Representatives Hearing, *Are Big Businesses Being Awarded Contracts Intended for Small Businesses?* Testimony of Mr. Fred C. Armendáriz, Associate Deputy Administrator, SBA, (May 7, 2003).
- The Small Business Committee, U.S. House of Representatives Hearing, *Are Big Businesses Being Awarded Contracts Intended for Small Businesses?* Testimony of Mr. Felipe Mendoza, Associate Administrator, Office of Small Business Utilization, U.S. General Services Administration, (May 7, 2003).

Other

- *Interagency Task Force on Federal Contracting Opportunities for Small Businesses Report* (September 2010).
- SBA Advocacy, *Analysis of Type of Business Coding for the Top 1,000 Contractors Receiving Small Business Awards in FY 2002* (December, 2004).
- The Center for Public Integrity, *The Big Business of Small Business: Top defense contracting companies reap the benefits meant for small businesses* (September 29, 2004).
- The Center for Public Integrity, *The Pentagon's $200 Million Shingle: Defense data shows billions in mistakes and mislabeled contracts* (September 29, 2004).

Challenge 2

Small Business Administration Office of Inspector General

- *Weaknesses Identified During the FY 2013 Federal Information Security Management Act Review*, Report 14-12 (April 30, 2014).
- *Independent Auditors' Report on the SBA's FY 2013 Financial Statements*, Report 14-04 (December 16, 2013).
- *Audit of SBA's FY 2012 Financial Statements,* Report 13-04 (November 14, 2012).
- *Weaknesses Identified During the FY 2011 Federal Information Security Management Act Review*, Report 12-15 (July 16, 2012).
- *Audit of SBA's FY 2011 Financial Statements*, Report 12-02 (November 14, 2011).
- *Weaknesses Identified During the FY 2010 Federal Information Security Management Act Review*, Report 11-06 (January, 28, 2011).
- *Audit of SBA's FY 2010 Financial Statements*, Report 11-03 (November 12, 2010).
- *Audit of SBA's FY 2009 Financial Statements*, Report 10-04 (November 13, 2009).
- *SBA's FY2008 Financial Statements*, Report 9-03 (November 14, 2008).
- *Audit of SBA's Financial Statements for FY 2006*, Report 7-03 (November 15, 2006).
- *Audit of SBA's Information System Controls for FY 2004*, Report 5-12 (February 24, 2005).

Challenge 3

Small Business Administration Office of Inspector General

- *Significant Opportunities Exist to Improve the Management of the 7(a) Loan Guaranty Approval Process*, Report 14-13 (June 6, 2014).
- *The Colorado District Office's Servicing of 8(A) Business Development Program Participants,* Report 10-15 (September 30, 2010).
- *Adequacy of Procurement Staffing and Oversight of Contractors Supporting the Procurement Function*, ROM 10-13 (April 9, 2010).

Government Accountability Office

- GAO, *Office of Advocacy Needs to Improve Controls over Research, Regulatory, and Workforce Planning Activities,* GAO-14-525 (July 22, 2014).
- *Federal Workforce - Human Capital Management Challenges and the Path to Reform*, GAO-14-723T (July 15, 2014).

Office of Personnel Management

- *2010 Federal Employee Viewpoint Survey*.
- *2011 Federal Employee Viewpoint Survey.*

Partnership for Public Service

- *Best Places to Work in the Federal Government 2011.*
- *Best Places to Work in the Federal Government 2010.*

Challenge 4

Small Business Administration Office of Inspector General

- *Improvement is Needed to Ensure Effective Quality Control at Loan Operation Centers*, Report 14-08 (January 17, 2014).
- *A Detailed Repayment Ability Analysis is Needed on High-Dollar Early-Defaulted Loans to Prevent Future Improper Payments*, Report 12-18 (August 16, 2012).
- *High-Dollar Early-Defaulted Loans Require an Increased Degree of Scrutiny and Improved Quality Control at the National Guaranty Purchase Center*, Report 12-11R (March 23, 2012).

- *SBA Generally Meets IPERA Reporting Guidance but Immediate Attention Is Needed to Prevent and Reduce Improper Payments*, Report 12-10 (March 15, 2012).
- *Origination and Closing Deficiencies Identified In 7(a) Recovery Act Loan Approvals*, ROM 11-07 (September 30, 2011).
- *Material Deficiencies Identified in Five 7(a) Recovery Act Loans Resulted in $2.7 Million of Questioned Costs,* ROM 11-06 (August 25, 2011).
- *Banco Popular Did Not Adequately Assess Borrower Repayment Ability When Originating Huntington Learning Center Franchise Loans*, Report 11-16 (July 13, 2011).
- *Material Deficiencies Identified in Four 7(a) Recovery Act Loans Resulted in $3.2 Million of Questioned Costs*, ROM 11-05 (June 29, 2011).
- *America's Recovery Capital Loans Were Not Originated and Closed In Accordance With SBA's Policies and Procedures*, ROM 11-03 (March 2, 2011).
- *Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans*, ROM 10-19 (September 24, 2010).
- *SBA's Management of the Backlog of Post-purchase Reviews at the National Guaranty Purchase Center*, Report 9-18 (August 25, 2009).
- *The Small Business Administration's Fiscal Year 2008 Improper Payment Rate for the 7(a) Guaranty Loan Program,* Report 9-16 (July 10, 2009).
- *Review of Key Unresolved OIG Audit Recommendations in Program Areas Funded by the American Recovery and Reinvestment Act and Related Activities Need to Safeguard Funds*, ROM 09-1
(April 30, 2009).
- *Audit of the Liquidation Process at the National Guaranty Purchase Center*, Report 9-08 (January 30, 2009).
- *Audit of Six SBA Guaranteed Loans*, Report 8-18 (September 8, 2008).
- *Audit of Loan Classifications and Overpayments on Secondary Market Loans*, Report 8-09 (March 26, 2008).
- *Audit of UPS Capital Business Credit's Compliance with Selected 7(a) Lending Requirements*, Report 8-08 (March 21, 2008).
- *Audit of the Guarantee Purchase Process for Section 7(a) Loans at the National Guaranty Purchase Center*, Report 7-23 (May 8, 2007).
- *Audit of Deficiencies in OFA's Purchase Review Process for Backlogged Loans*, Report 6-35 (September 29, 2006).
- *Survey of the Quality Assurance Review Process*, Report 6-26 (July 12, 2006).
- *Management Advisory Report on the Transfer of Operations to the National Guaranty Purchase Center,* Report 4-39 (August 31, 2004).

Government Accountability Office
- *Major Management Challenges and Program Risks*, GAO-01-260 (January 2001).

Challenge 5

Small Business Administration Office of Inspector General
- *The SBA's Portfolio Risk Management Program Can be Strengthened*, Report 13-17 (July 2, 2013).
- *Addressing Performance Problems of High-Risk Lenders Remains a Challenge for the Small Business Administration*, Report 12-20R (September 28, 2012).
- *SBA's Oversight of SBA Supervised Lenders*, Report 8-12 (May 9, 2008).
- *UPS Capital Compliance with Selected 7(a) Lending Requirements*, Report 8-08 (March 21, 2008).
- *SBA's Oversight of Business Loan Center*, LLC, Report 7-28 (July 11, 2007).
- *SBA's Use of the Loan and Lender Monitoring System*, Report 7-21 (May 2, 2007).
- *Audit of the Office of Lender Oversight Corrective Action Process*, Report 7-18 (March 14, 2007).

- *SBA's Administration of the Supplemental Terrorist Activity Relief (STAR) Loan Program*, Report 6-09 (December 23, 2005).
- *Impact of Loan Splitting on Borrowers and SBA*, Advisory Memorandum Report 2-31 (September 30, 2002).
- *Improvements needed in SBLC Oversight,* Advisory Memorandum Report 2-12 (March 20, 2002).
- *Preferred Lender Oversight Program*, Report 1-19 (September 27, 2001).
- *SBA Follow-up on SBLC Examinations*, Report 1-16 (August 17, 2001).

Government Accountability Office

- *Actions Needed to Improve the Usefulness of the Agency's Lender Risk Rating System*, GAO-10-53 (December 7, 2009).
- *Small Business Administration: Additional Measures Needed to Assess 7(a) Loan Program's Performance*, GAO-07-769 (July 13, 2007).
- *Small Business Administration: Improvements Made, But Loan Programs Face Ongoing Management Challenges*, GAO-06-605T (April 6, 2006).
- *Small Business Administration: New Service for Lender Oversight Reflects Some Best Practices, But Strategy for Use Lags Behind*, GAO-04-610 (June 8, 2004).
- *Continued Improvements Needed in Lender Oversight, Report 03-90* (December 2002).

Challenge 6

Small Business Administration Office of Inspector General

- *The SBA Did Not Follow Regulations and Guidance in the Acquisition of the OneTrack System,* Report 14-10 (February 12, 2014).
- *Audit on the Effectiveness of the SBA's Surveillance Review Process*, Report 11-11 (March 31, 2011).
- *Audit of Two 8(a) Sole –Source Contracts Awarded to Contractors in SBA's Mentor Protégé Program*, Report 7-19 (March 30, 2007).
- *Audit of Monitoring Compliance with 8(a) Business Development Regulations During 8(a) Business Development Contract Performance*, Report 6-15 (March 16, 2006).
- *Business Development Provided by SBA's 8(a) Business Development Program*, Report 4-22 (June 2, 2004).
- *SACS/MEDCOR: Ineffective and Inefficient*, Report 4-15 (March 9, 2004).
- *Section 8(a) Program Continuing Eligibility Reviews*, Report 4-3-H-006-021 (September 30, 1994).

Challenge 7

Small Business Administration Office of Inspector General

- *Applicant Character Verification in SBA's Business Loan Program*, Report 3-43 (April 5, 2001).
- *Summary Audit of Section 7(a) Loan Processing*, Report 0-03 (January 11, 2000).
- *Loan Agents and the Section 7(a) Program*, Report 98-03-01 (March 31, 1998).
- *Fraud Detection in SBA Programs*, Report 97-11-01 (November 24, 1997).
- *Operation Clean sweep,* Memorandum (August 21, 1996).

Challenge 8

Small Business Administration Office of Inspector General

- *Review of the LMAS Incremental Improvement Projects*, Report 14-21 (September 30, 2014).
- *The SBA's Loan Management and Accounting System – Incremental Improvement Projects,* Report 13-11 (March 12, 2013).
- *Adequacy of Quality Assurance Oversight of the Loan Management and Accounting System Project*, Report 10-14 (September 13, 2010).
- *Review of Allegations Concerning How the Loan Management and Accounting System Modernization Project is Being Managed*, Report 9-17 (July 30, 2009).

- *Planning for the Loan Management and Accounting System Modernization and Development Effort*, Report 8-13 (May 14, 2008).
- *SBA Needs to Implement a Viable Solution to its Loan Accounting System Migration Problem,* Report 5-29 (September 20, 2005).

Government Accountability Office

- *SBA Needs to Strengthen Oversight of Its Loan Management and Accounting System Modernization*, GAO-12-295 (January 25, 2012).
- *Information Technology: Agencies Need to Improve the Accuracy and Reliability of Investment Information*, GAO-06-250 (January 12, 2006).
- *Major Management Challenges and Program Risks: Small Business Administration*, GAO-03-116 (January 1, 2003).
- *SBA Loan Monitoring System: Substantial Progress Yet Key Risks and Challenges Remain*, Testimony of Joel C. Willemssen, Director, Civil Agencies Information Systems Accounting and Information Management Division, Before the Subcommittee on Government Programs Statement Committee on Small Business, House of Representatives, GAO/T-AIMD-00-113, (February 29, 2000).
- *SBA Needs to Establish Policies and Procedures for Key IT Processes, Accounting and Information Management Division,* GAO/AIMD-00-170 (May 31, 2000).

Challenge 9

Small Business Administration Office of Inspector General

- *Significant Opportunities Exist to Improve the Management of the 7(a) Loan Guaranty Approval Process*, Report 14-13 (June 6, 2014).
- *Purchase Reviews Allowed $3.1 Million in Improper Payments on 7(a) Recovery Act Loans*, Report 14-09 (January 29, 2014).
- *The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Underestimated,* Report 13-07 (November 15, 2012).
- *A Detailed Repayment Ability Analysis is Needed on High-Dollar Early-Defaulted Loans to Prevent Future Improper Payments*, Report 12-18 (August 16, 2012).
- *High-Dollar Early-Defaulted Loans Require an Increased Degree of Scrutiny and Improved Quality Control at the National Guaranty Purchase Center*, Report 12-11R (March 23, 2012).
- *SBA Generally Meets IPERA Reporting Guidance but Immediate Attention Is Needed to Prevent and Reduce Improper Payments*, Report 12-10 (March 15, 2012).
- SBA OIG, *Origination and Closing Deficiencies Identified In 7(a) Recovery Act Loan Approvals*, ROM 11-07 (September 30, 2011).
- *Material Deficiencies Identified in Five 7(a) Recovery Act Loans Resulted in $2.7 Million of Questioned Costs*, ROM 11-06 (August 25, 2011).
- *Banco Popular Did Not Adequately Assess Borrower Repayment Ability When Originating Huntington Learning Center Franchise Loans*, Report 11-16 (July 13, 2011).
- *Material Deficiencies Identified in Four 7(a) Recovery Act Loans Resulted in $3.2 Million of Questioned Costs*, ROM 11-05 (June 29, 2011).
- *America's Recovery Capital Loans Were Not Originated and Closed In Accordance With SBA's Policies and Procedures*, ROM 11-03 (March 2, 2011).
- *Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans*, ROM 10-19 (September 24, 2010).
- *SBA's Management of the Backlog of Post-Purchase Reviews at the National Guaranty Purchase Center*, Report 9-18 (August 25, 2009).
- *The Small Business Administration's Fiscal Year 2008 Improper Payment Rate for the 7(a) Guaranty Loan Program*, Report 9-16 (July 10, 2009).
- *Audit of Borrower Eligibility for Gulf Coast Disaster Loans*, Report 9-09 (March 31, 2009).

- *The Small Business Administration's Fiscal Year 2007 Improper Payment Rate for the Disaster Loan Program*, Report 9-10 (March 26, 2009).
- *Audit of the Liquidation Process at the National Guaranty Purchase Center*, Report 9-08 (January 30, 2009).
- *The Use of Proceeds From Gulf Coast Disaster Loans*, Report 9-06 (January 15, 2009).
- *Disaster Loss Verification Process*, Report 8-15 (June 17, 2008).
- *Review of the Adequacy of Supporting Documentation for Disbursements*, Report 8-07 (January 29, 2008).
- *The Quality of Loans Processed Under the Expedited Disaster Loan Program*, Report 7-34 (September 28, 2007).
- *SBA's Quality Assurance Reviews of Loss Verifications*, Report 7-29 (July 23, 2007).
- *Securing Collateral for Disaster Loan Disbursements*, Report 7-22 (May 9, 2007).

Challenge 10

Small Business Administration Office of Inspector General

- *Origination and Closing Deficiencies Identified In 7(a) Recovery Act Loan Approvals*, ROM 11-07 (September 30, 2011).

Challenge 11

Small Business Administration Office of Inspector General

- *SBA's Progress in complying with the Improper Payments Elimination and Recovery Act,* Report 14-11 (April 10, 2014).
- *The SBA Did Not Follow Federal Regulations and Guidance in the Acquisition of the OneTrack System,* Report 14-10 (February 12, 2014).
- *The Small Business Administration's Process Could Lead to Possible Anti-Deficiency Act Violations,* Report 12-22 (September 28, 2012).
- *The Small Business Administration's Inappropriate Use of the Government Purchase Card for Construction Purchases*, Report 12-16 (August 6, 2012).
- *The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011*, Report 12-07 (March 8, 2012).
- *Small Business Administration's Funding of Information Technology Contracts Awarded to Isika Technologies*, Inc., Report 11-14 (June 2, 2011).
- *SBA's Procurement of Information Technology Hardware and Software through Isika Technologies, Inc.,* Report 11-08 (February 25, 2011).
- *SBA's Planning and Award of the Customer Relationship Management Contracts,* ROM 10-16 (June 29, 2010).
- *Adequacy of Procurement Staffing and Oversight of Contractors Supporting the Procurement Function,* ROM 10-13 (April 9, 2010).
- *SBA's Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System*, Report 10-08 (February 26, 2010).
- *Office of Business Operations Contracting Personnel Qualifications and Warrant Authority*, Report 9-14 (July 6, 2009).

SUCCESS STORY: Handmade Cannoli are Golden

Golden Cannoli Shells Company, Inc.,
Chelsea, Massachusetts

In 1970, after working at various bakeries in Boston's North End, cousins Francesco Bono and Angelo Bresciani secured a storefront and started their first bakery. Success followed for the Argentine immigrants, and soon they were able to open a second bakery. Instead of paying a vendor, the pair decided to start making their own cannoli shells and fillings. That's how the *2014 Massachusetts Small Business of the Year*, Golden Cannoli, Inc. came to be.

Golden Cannoli has received national recognition for their handmade cannoli and fillings. The company's second generation owners, **Valerie Bono, Maria Malloy, Eric Bresciani**, and **Edwin Bresciani** received an SBA Express Loan which was used for equipment upgrades, and they secured an SBA 504 loan to buy a 30,000 square-foot manufacturing facility. Maria joined SBA's Emerging Leaders Initiative/e200 program in Boston to develop a growth plan for the business. Each owner now works with a SCORE counselor to develop strategies to manage and restructure the business to run at maximum productivity.

With continued growth and development – 38 percent in 2013 – Golden Cannoli increased its staff from 12 in 2012 to 41 full time employees. The increase in sales is the result of staff training and new product development.

Golden Cannoli also gives back to the community. The company makes regular contributions to local schools, hospitals, and charitable organizations.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

As required by OMB Circular A-136, Section II.5.7, the following summarizes SBA's Financial Statement Audit and Management Assurances:

Summary of Financial Statement Audit

Audit Opinion	Unmodified					
Restatement	No					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements.					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0

Conformance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. System Requirements	No lack of substantial compliance noted	No lack of substantial compliance noted
2. Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at Transaction Level	No lack of substantial compliance noted	No lack of substantial compliance noted

IMPROPER PAYMENTS

As required by the Improper Payment Information Act of 2002 (IPIA), its amendments, and OMB Circular No. A-123, Appendix C, *Management's Responsibility for Internal Control: Requirements for Effective Estimation and Remediation of Improper Payments*, the SBA reviews programs identified as susceptible to improper payments.

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

The Disaster Relief Appropriations Act, 2013 provided funding for disaster relief in response to Hurricane Sandy to certain agencies including the SBA. Agencies were required to ensure the funds were used for their intended purpose. The Act deemed all Hurricane Sandy funds as susceptible to significant improper payments and regardless of risk assessment results, mandated that agencies report an improper payment estimate for the funds.

The SBA reviewed five programs and activities for improper payments – three major credit programs as mandated by OMB, disbursements for goods and services, and Hurricane Sandy Disaster Relief (HSDR) funds. The three major credit programs are:

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

A fourth major credit program, the Small Business Investment Company (SBIC) program, retains approval from OMB for relief from reporting due to the low occurrence of improper payments determined by several years' review and low probability for improper payments.

Disbursements for goods and services were identified as risk susceptible in FY 2011 and have been subject to improper payment review since FY 2012. In mid FY 2013, the SBA received HSDR funds for the Disaster Direct loan and grant programs. An assessment of the grant funds did not find the relevant grant programs to be risk susceptible; however, the SBA conducted an improper payment review and is reporting the results to comply with the Disaster Relief Appropriations Act, 2013.

The next sections discuss SBA efforts and results related to improper payment assessments and reviews.

Risk Assessments

OMB Circular No. A-123, Appendix C requires risk assessments at least once every three years for programs not deemed risk susceptible or if a program was subjected to a significant change in legislation or funding level. The SBA conducted 14 risk assessments for the FY 2014 review: 11 upon the expiration of the three-year assessment period and 3 to comply with the Improper Payment Elimination and Recovery Improvement Act of 2012 which requires the assessment of payments to employees. The risk assessments did not identify any additional programs as susceptible to improper payments.

Statistical Sampling and Corrective Actions

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

7(a) Loan Guaranty Purchases

Statistical Sampling

Using Probability Proportional to Size (PPS) sampling with replacement, the 7(a) purchase sample cases were chosen from all purchases approved during the 12 month period ending March 31, 2014. The purchase population was divided into four strata based on the following factors: which of three servicing offices processed the purchase and if the loan was considered an early default, regardless of servicing office. Using the PPS approach, the SBA determined the appropriate total sample size to be 236 loans from the population. The sample included aggregate purchase outlays of $109,883,193 and an absolute value of improper payments of $804,586 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population is 1.33 percent.

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

Corrective Action

The root cause for all 7(a) loan guaranty purchase improper payments were administrative and documentation errors. Improper payments generally arose when the purchase processor failed to identify material lender deficiencies in the handling of an SBA guarantied loan. The primary reasons for 7(a) purchase errors in FY 2014 included:

- ineligible loan structures;
- misapplication of liquidation proceeds;
- incorrect payment of interest to lender due to interest calculation using an incorrect rate; and
- reimbursement of lender expenses that were not fully justified.

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

- external training for lenders to avoid ineligible loan structures;
- internal training for purchase processors to detect ineligible loan structures, select the proper interest rate, and identify appropriate lender expenses; and
- recovery of lender expenses that were not fully justified.

Corrective actions are tracked at the loan level through a centralized database. The quality control specialist in each loan center monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met.

7(a) Loan Guaranty Approvals

Statistical Sampling

Using PPS sampling with replacement, the 7(a) approval sample cases were chosen from all loan guaranties approved during the 12 month period ending March 31, 2014. The loan guaranties were approved through SBA's loan processing centers, consisting of the Standard 7(a) Loan Guaranty Processing Center with dual locations in Sacramento, California and Hazard, Kentucky; and the Sacramento Loan Processing Center, which handles PLP and SBAExpress loan approvals. The approval population was divided into two strata based on whether the loan was SBAExpress or not. The SBA determined the appropriate total sample size to be 123 loans from the population. The sample included net guarantied approvals of $124,826,715 and improper payments of $6,582,040 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate was calculated as 5.15 percent.

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

Corrective Action

In FY 2014, the most prevalent root cause for 7(a) loan approval improper payments stemmed from administrative or process errors made by the participating lender at origination. Improper payments generally arose when the participating lender failed to comply with loan program requirements. The primary reasons for 7(a) approval errors in FY 2014 included:

- ineligible loan structures;
- lack of repayment ability; and
- improper determination of eligibility by lenders or SBA loan officers.

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

- external training for lenders to avoid ineligible loan structures, ensure proper use of loan proceeds, and accurately determine loan eligibility;
- internal training for loan approvers to determine eligibility of loan and loan structures within SBA guidelines; and
- internal training for loan approvers to calculate a borrower's repayment ability.

Corrective actions are tracked at the loan level through a centralized database. The Quality Control Specialist for 7(a) loan guaranty approvals monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met.

504 CDC Loan Guaranty Approvals

Statistical Sampling

Using PPS sampling with replacement, the 504 CDC loan approval sample cases were chosen from all loan guaranties approved during the 12-month period ending March 31, 2014. The loan guaranties were approved at SBA's Sacramento Loan Processing Center and closed at various SBA district offices, with servicing subsequently handled by the Fresno, California Commercial Loan Servicing Center and the Little Rock, Arkansas Commercial Loan Servicing Center. The approval population was not stratified. The SBA determined the appropriate total sample size to be 183 loans from the population. The sample included net approval outlays of $249,600,000 and improper payments of $2,298,052 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate was calculated as 1.09 percent.

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

Corrective Action

In FY 2014, the most prevalent root cause for 504 approval improper payments stemmed from administrative or process errors made by the participating lender at origination. Improper payments generally arose when the participating lender failed to comply with loan program requirement. The primary reasons for 504 approval errors in FY 2014 included:

- ineligible loan structures; and
- lack of repayment ability.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 504 loan approval center. Specific corrective actions are determined based upon the primary reason for the error with the purpose of both remedying the error and ensuring the error does not occur in the future. Plans for improvement include:

- external training for lenders to avoid ineligible loan structures, ensure proper use of loan proceeds, and accurately determine loan eligibility;
- internal training for loan approvers to calculate a borrower's repayment ability; and
- enhanced internal quality control reviews to test 504 pre-closing servicing actions.

Corrective actions are tracked at the loan level through a centralized database. The quality control specialist for 504 loan guaranty approvals monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met.

Disaster Direct Loan Program

Statistical Sampling

The Office of Disaster Assistance performs a Quality Assurance Review (QAR) of the approved loan portfolio annually. A part of the QAR is to identify any deficiency that would result in an improper payment. The statistical software and methods used follow widely accepted practices. The review population consisted of disaster loan disbursements, including HSDR funds, made during the 12-month period ending June 30, 2014 with total disbursements of $585,610,353. A sample of 500 payments was selected for which testing yielded a weighted estimated improper payment rate of 12 percent. Based on the sample results, the estimated amount of improper payments was $70,160,890. This represents a substantial reduction in the improper payment rate and dollars over the last fiscal year from 18.4 percent and $121 million.

The scope of ODA's review covers three primary compliance areas: (1) basic eligibility; (2) adherence to relevant laws, rules, regulations, and standard operating procedures; and (3) credit worthiness.

Corrective Action

In FY 2014, the most prevalent root cause for Disaster Direct Loan program improper payments stemmed from administrative and documentation errors. The loan processing and disbursement staff did not consistently follow the guidance provided in the SOP and policy memos. Specifically, errors arose when:

- case managers and attorneys did not confirm insurance coverage was for the proper dates and type of coverage;
- disbursements were made to parties that were ineligible for disaster loan assistance; and
- loan disbursements duplicated borrowers' insurance proceeds or similar recovery.

As a result, ODA plans the following corrective actions:

- intense training for the disbursement staff (case managers and attorneys) at the Processing and Disbursement Center in Fort Worth, Texas on what is deemed acceptable documentation for the various types of insurance coverage;
- implement a second independent review to verify that the proper insurance coverage is in effect for loans over a specified amount; and
- in March 2014 a change was made to the Disaster Credit Management System to assist in preventing a disbursement on loans where the existing checklists illustrate an expired insurance policy.

ODA disputes that the stated improper payment rate truly reflects the potential that disaster loans are disbursed to disaster victims that are not eligible under the Disaster loan program. The improper payments consisted of 79 disbursements out of the 500 disbursements reviewed. Of the 79 considered to be improper payments, 61 were for "paperwork" issues. An example of a disbursement considered "improper" due to a paperwork issue would be when the loan lacks documentation of a current insurance policy in place at the time of disbursement. The paperwork issues did not result in a disaster loan borrower receiving any loan funds that they were not eligible to receive or have any impact on SBA's ability to collect on the disaster loans. The remaining 18 improper payments represent loan disbursements for loans that were ineligible for disaster loan assistance or overpayments resulting from a duplication of borrowers' insurance proceeds.

Disbursements for Goods and Services

Statistical Sampling

Disbursements for goods and services samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending March 31, 2014. The total number of disbursements was 3,470, and the total dollar amount was $92,576,166. The SBA determined the appropriate sample size to be 248 invoices having total outlays of $48,196,963. Based upon the sample results, the estimated FY 2014 disbursements for goods and services improper payment rate was 8.46 percent for an estimated total of $7,832,981. SBA corrective actions yielded improvement from last year's estimated improper payments for disbursements for good and services with the rate being reduced by more than 3 percent from 11.6 percent and the dollars cut nearly in half from $14.1 million last year.

The scope of the review covered three areas: invoice accuracy, compliance with contract terms, and accuracy of invoice processing.

Corrective Action

In FY 2014, the root cause of the improper payments was administrative and documentation errors. All payments corresponded to valid goods and services received. While reductions to improper payments were achieved, errors identified in previous improper payment reviews remain. The types of errors included:

- inadequate comparison of the invoice to the contract to verify period of performance, terms, or labor rates and categories to ensure they agree; and
- payment accuracy issues where the financial system was not updated at the time of payment with current vendor payment information from the System for Award Management (SAM).

To prevent the administrative and documentation errors noted in the improper payment review, the SBA has completed or will complete the following corrective actions:

- provided training in Spring 2014;
- conduct refresher training in FY 2015; and
- develop the interface between the financial system and SAM during the 2015 fiscal year; continue manual procedures until the interface between the financial system and SAM is developed.

Hurricane Sandy Disaster Relief Grants

Statistical Sampling

Hurricane Sandy Disaster Relief grants samples were chosen using PPS with replacement methodology for disbursements completed during the 12 months ending March 31, 2014. The grant population consisted of 42 disbursements for the total dollar amount of $5,478,126.76. The SBA determined the appropriate sample size to be 19 invoices with total outlays of $5,034,016. Based upon the sample results, the estimated FY 2014 improper payment rate was 3 percent for a total of $165,642.

Corrective Action

The root cause of improper payments in the HSDR grants improper payment review was an administrative and documentation error related to one grant. The review revealed no apparent overpayments or opportunities for recapture. As this is a new grant program, the estimated 3 percent is the base year error rate. The error was:

- a payment accuracy issue where the vendor payment information used in the Health and Human Services (HHS) Payment Management System did not correspond to the current vendor payment information in the System for Award Management.

In the particular case, the vendor had established accounts for each of its federal grants to ensure that federal funds were not comingled with other funds. While the vendor had properly registered the account with the HHS Payment Management System, it had not updated SAM to include the account specific to the SBA grant. Upon SBA's request, the vendor added the account to SAM. To prevent payment accuracy concerns in the future, the SBA has completed or will complete the following corrective actions.

- Enhance the SBA application and notice of award instructions to include special emphasis on issues identified during the FY 2014 review. Grantees are provided with instructions to ensure that payment accounts are properly registered both in SAM and the HHS Payment Management System. Grantees are now required to provide evidence that the account registered in HHS matches the account that is registered in SAM.
- Prior to issuing awards, SAM is verified by SBA staff to ensure that the correct account associated with the grant is registered in HHS; and
- Prior to disbursement, SBA staff verify the SAM accounts and HHS accounts for those grants that are paid using the HHS Payment Management System.

Improper Payment Reporting

The following sections and tables present a summary of SBA's Improper Payment review results and outlook, and a matrix of the reasons for improper payments.

Recapture of Improper Payments

The SBA does not currently conduct recapture audits, therefore tables 2 through 5 defined by OMB Circular No. A-136 are not included in this report. Agency efforts to recapture improper payments are discussed by program.

7(a) loan guaranty purchase improper payment reviews, Quality Control Reviews and OMB Circular A-123 Appendix A reviews have indicated that payment recapture audits would be cost effective. The SBA has developed a robust Quality Control Review process and will be expanding the scope of the reviews to include payment recapture audits in FY 2015. This process requires additional human resources, a review process specific to identifying overpayments, and may require coordination of sampling techniques with a statistician. The SBA's quality control staff in the Office of Capital Access already conducts continuous Quality Control Reviews to assess the quality of the loans and loan documentation and to identify potential improper payments. Overpayments identified through both the continuous review processes and annual improper payment reviews are recovered from the lender as appropriate. The recovery determination is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval, servicing, purchase and/or liquidation processes. The SBA will use this robust process for purposes of the recapture audit process and reporting.

7(a) loan guaranty approval and 504 CDC loan approval are not subject to payment recapture audits as no payment is made at the time of approval; payment is made only if the lender requests that the SBA honor its

MATRIX OF IMPROPER PAYMENT CATEGORIES BY PROGRAM ($ IN MILLIONS)		7(a) Guaranty Purchases		7(a) Guaranty Approvals		504 CDC Guaranty Approvals		Disaster Direct Loan Disbursements		Disbursements for Good and Services		Hurricane Sandy Disaster Relief Grants	
Reason for Improper Payment		Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment
Program Design or Structural Issue													
Inability to Authenticate Eligibility		3.51						6.73					
Failure to Verify:	Death Data												
	Financial Data			107.67		24.98							
	Excluded Party Data												
	Prisoner Data												
	Other Eligibility Data[1]							1.25					
Administrative/Process Error Made by:	Federal Agency	2.68	1.67	107.67				0.30		4.35	0.30	0.17	
	State or Local Agency												
				389.67		24.98							
Medical Necessity													
Insufficient Documentation to Determine		3.59								3.18			
Other Reason[2]								61.88					
Total Estimated Improper Payments		**9.78**	**1.67**	**605.01**	**0.00**	**49.96**	**0.00**	**70.16**	**0.00**	**7.53**	**0.30**	**0.17**	**0.00**

1. Duplicated disaster recovery benefits not properly deducted from eligible disaster loss.

2. This category consists of lack of documents to support ODA's policies concerning: a) insurance - $46,765,253, b) contractors' compliance - $3,967,663, c) building permits - $2,476,800, d) titling/mortgage issues - $2,289,036, e) disbursement - $3,585,097, and f) miscellaneous - $2,799,580.

guaranty. Improper payments identified through both the annual improper payment and continuous Quality Control reviews are recovered from the lender through the cancellation of the SBA guaranty, reduction in loan guaranty percentage, or loan modification, as appropriate. This determination is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval and lender authority.

Disaster direct loans recapture audits would not be cost effective. The Office of Disaster Assistance made this de-

IMPROPER PAYMENT REDUCTION OUTLOOK ($ IN MILLIONS)	FY 2013			FY 2014					FY 2015			FY 2016			FY 2017		
Program	**Outlays[1] $**	**IP %**	**IP $**	**Outlays[1] $**	**IP %**	**IP $**	**Over-paid $**	**Under-paid $**	**Outlays[1] $ Est.**	**IP %**	**IP $**	**$ Est.**	**IP %**	**IP $**	**Outlays[1] $ Est.**	**IP %**	**IP $**
7(a) Guaranty Purchases[1]	1,211.4	1.15	13.9	858.6	1.33	11.4	9.7	1.7	1,000.0	1.4	14.0	1,100.0	1.3	14.3	1,000.0	1.4	14.0
7(a) Guaranty Approvals[1,2]	10,994.5	4.6	510.9	11,741.1	5.15	605.0	605.0	0.0	12,000.0	4.9	588.0	12,500.0	5.0	625.0	13,000.0	4.9	637.0
504 CDC Guaranty Approvals	6,386.9	0.54	34.4	4,571.5	1.09	49.9	49.9	0.0	5,200.0	1.2	62.4	5,700.0	1.1	62.7	6,000.0	1.1	66.0
Disaster Loan Disbursements[1]	659.0	18.4	121.1	585.6	12.0	70.2	70.2	0.0	800.0	9.9	79.2	800.0	9.5	76.0	800.0	9.3	74.4
Disbursements for Goods and Services	121.4	11.6	14.1	92.6	8.46	7.8	7.5	0.3	115.0	8.0	9.2	115.0	7.5	8.6	115.0	7.0	8.1
Hurricane Sandy Disaster Relief Grants	N/A	N/A	N/A	5.5	3.0	0.17	0.17	0.0	7.9	2.5	0.18	5.6	2.0	0.11	0.0	N/A	N/A

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

2. For 7(a) Guaranty Approvals, amounts reported are based on the guarantied amount only.

termination after completing the 2014 Improper Payment audit. The audit was completed by the Quality Assurance Review team located in the Processing and Disbursement Center under the supervision of the Director of Program Policy and Evaluation in Washington, DC. The team reviewed 500 disbursements of which 79 disbursements in 73 loan files were identified as improper payments. The dollar value of the 79 disbursements was $9,976,850. Pertaining to recovery of the 79 improper payments:

- 61 of the disbursements, totaling $8,842,200 were for paperwork issues and not subject to recovery;
- 5 of the disbursements, totaling $894,969 were determined as not subject to recovery due to information received or analysis completed after the initial approval; and
- of the remaining erroneous 13 payments totaling $239,681, only $14,955 are likely to be identified for recovery.

The amount subject to recovery is 0.014 percent of the sample. Therefore, the estimated total amount of disaster loan funds subject to recovery for the entire population was $81,986. The improper payment audit was completed using 4,400 hours of staff time and cost approximately $185,850. Based on the cost to audit versus the estimated dollars of recovery, it is clear that further expenditures for a separate recovery audit is not cost effective.

Disbursements for goods and services recapture audits would not be cost effective. The improper payment testing required 479 labor hours at a cost of $30,500. Payments identified during the improper payment review as eligible for recapture totaled $26,482; thus the cost of the review exceeds the return.

Hurricane Sandy Disaster Relief grants would not benefit from a recapture audit. As noted previously, the improper payment review did not reveal any apparent overpayments, so no opportunities for recapture were uncovered.

Overpayments Recaptured Outside of Payment Recapture Audits for SBA credit programs are applicable only to 7(a) Loan Guaranty Purchases as payments made within this program area are recoverable from lenders as appropriate. The amount identified for recapture during the 7(a) Loan Guaranty Purchase improper payment review in FY 2013 was $401,972, which was later reduced as two previously reported improper payments, totaling $166,969 were determined to be proper. The amount identified for recapture during the 7(a) Loan Guaranty Purchase improper payment review in FY 2014 was $804,585, of which, $524,029 has since been recovered. Cash disbursements related to goods and services made for an inaccurate amount or not according to contract terms total $26,482 of which $25,608 has been recaptured.

Accountability

The focus of SBA's Strategic Goal 3 is to build an SBA that meets the needs of today's and tomorrow's small businesses. Strategic Objective 3.1 is designed to strengthen SBA's core programs and operations to ensure that they are high performing, effective, and relevant to the needs of the small business community. SBA's strategic goals are included in annual performance plans for all of its programs as business objectives, which are included in employee performance plans. SBA management monitors accomplishments of these business objectives and takes action when progress toward goal achievement is not on target. Executive and management bonuses are based on the accomplishment of business objectives included in employee annual performance plans. This management process helps assure accountability for improper payment reduction.

OVERPAYMENTS RECAPTURED OUTSIDE OF PAYMENT RECAPTURE AUDITS ($ IN THOUSANDS)

Source of Recovery	Amount Identified FY 2014	Amount Recovered FY 2014	Amount Identified FY 2013	Amount Recovered FY 2013	Cumulative Amount Identified	Cumulative Amount Recovered
7(a) Loan Guaranty Purchase IP Review[1]	805.0	524.0	235.0	195.8	7,718.0	1,482.6
Contract IP Review	26.5	25.6	1.9	0.0	62.7	57.8

1 Amount Identified for FY 2012 has been reduced by $167.0. Subsequent to FY 2012 reporting, the payment was determined to be proper.

Information Systems and Other Infrastructure

7(a) loan guaranty purchases are supported by the Guaranty Purchase Tracking System. It is continually updated to enhance the overall integrity of the purchase process.

7(a) loan guaranty approvals and 504 CDC loan guaranty approvals are supported by E-Tran, SBA's electronic loan processing/servicing system. Both the SBA and delegated lenders process applications through the system and lenders may also handle unilateral servicing actions electronically. The system provides increased efficiency and decreased costs in the loan guaranty origination and servicing processes.

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

Disbursements for goods and services are handled by the Oracle Federal Financial System. PRISM, a contract management system, is used to process SBA's acquisitions. The SBA Acquisition and Accounts Payable teams continue work to improve interfaces between PRISM, the financial system and external databases, such as SAM, to streamline the acquisition process from start to finish.

Hurricane Sandy Disaster Relief grants are supported by the Oracle Federal Financial System, the PRISM Contract Management System, and the Health and Human Services Payment Management System. These systems provide the adequate infrastructure to track grant obligations and payments. SBA continues to look at ways to streamline the grants process through the integration of PRISM and Oracle.

Statutory or Regulatory Barriers

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

Reduction of Improper Payments with the Do Not Pay Initiative

The SBA has implemented the Do Not Pay (DNP) Initiative and subjects its disbursements to comparison against the Death Master File (DMF) and SAM, which includes the Excluded Parties List System. The comparison between SBA and DNP data is completed on a monthly basis, using disbursement data two months in arrears. SBA staff manually review and adjudicate the findings of the data matches, with the majority of matches received from DNP being false-positives. Since implementing DNP, SBA's adjudication process has identified less than 10 actual matches against the DMF with one determined to be improper. The FY 2014 DNP process examined SBA disbursements between August 2013 and July 2014. Using the DNP database has not impacted improper payments as evidenced in the table below.

DO NOT PAY STATISTICS

	# of payments reviewed for improper payments	$ of payments reviewed for improper payments	# of payments stopped	$ of payments stopped	# of improper payments reviewed and not stopped	$ of improper payments reviewed and not stopped
Reviews with the DMF only	220,125	$1,030,523,896	0	$0	1	$674
Reviews with SAM / EPLS	220,125	$1,030,523,896	0	$0	0	$0

FREEZE THE FOOTPRINT REPORT

Section 3 of the Office of Management and Budget Memorandum (OMB) M-1212, Promoting Efficient Spending to Support Agency Operations, directs that all Chief Financial Officers (CFO) Act Executive Branch departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2012 baseline. This is the "Freeze the Footprint" policy.

On an annual basis, an agency shall not increase the size of its domestic real estate inventory, measured in square footage, for space predominately used for offices and warehouses. Progress in meeting the "Freeze the Footprint" policy is based on an annual evaluation of an agency's total office and warehouse square

Following is the SBA annual report:

FREEZE THE FOOTPRINT BASELINE COMPARISON			
Unit	**FY 2012 Baseline**	**FY 2013 Actuals**	**Change (FY 2012 – FY 2013)**
Square Footage (SF in Millions)	1.375	1.352	0.023

Reporting of O&M Costs – Owned and Direct Lease Buildings

The SBA only occupies buildings that are leased by GSA and subject to Occupancy Agreements between GSA and SBA which are explicitly excluded from reporting in the Circular.

The SBA is updating its facilities Standard Operating Procedure to reflect new space standards which are being established for all offices across the Agency. In addition, during FY 2015 the SBA plans to conduct a usage study of a sample of the Agency's leased space that will inform the new space standards. The Facility Management Team members and space management specialists will be directed to closely apply these standards to new projects. In the future, deviation from the standard may only be approved by the Chief Operating Officer or a designated alternate. Currently, the SBA is also reviewing every Occupancy Agreement up for renewal to identify any unneeded space. Moreover, when available and appropriate, the SBA makes every attempt to consolidate and/or co-locate offices and functions and to co-locate with other agencies. These efforts have been successful to date and the Agency has eliminated approximately 63,000 square feet of real estate since FY 2012.

DID YOU KNOW

The SBA awarded **$8 million** in State Trade and Export Promotion (STEP) cooperative agreements in the third round of STEP assistance. This round is expected to increase the number of small business exporters and grow the volume of U.S. exports by an estimated $120 million.