

Evaluation Report

SBA's Progress in Complying with the Improper Payments Elimination and Recovery Act





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

FINAL REPORT TRANSMITTAL
REPORT NUMBER 14-11

DATE: April 10, 2014

TO: Tami Perriello, Acting Chief Financial Officer

James Rivera, Associate Administrator for Disaster Assistance

Ann Marie Mehlum, Associate Administrator for Capital Access

SUBJECT: SBA's Progress in Complying with the Improper Payments Elimination and Recovery Act

This report presents the results of our *Evaluation of SBA's Compliance with the Improper Payments Elimination and Recovery Act (IPERA)*. Our objectives were to (1) assess the progress the SBA has made in remediating improper payment-related recommendations, and (2) determine whether the SBA complied with IPERA using guidelines outlined in OMB's implementing guidance, Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*.

We conducted this evaluation in accordance with the Council of Inspectors General on Integrity and Efficiency (CIGIE) *Standards for Inspection and Evaluations*. Those standards require that we plan and perform the evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objectives.

We appreciate the courtesies and cooperation of the Offices of the Chief Financial Officer, Capital Access, and Disaster Assistance during this evaluation. Please direct any questions to me at (202) 205-6586 or Jeffrey R. Brindle, Director, Information Technology and Financial Management at (202) 205-7490.

/s/
Robert A. Westbrook
Deputy Inspector General

Executive Summary

What the OIG Reviewed

This report represents the results of the Office of Inspector General's (OIG) evaluation of the Small Business Administration's (SBA) compliance with the Improper Payments Elimination and Recovery Act (IPERA) requirements.

Our objectives were to assess the progress the SBA has made in remediating improper payment-related recommendations and determine whether the SBA complied with IPERA reporting requirements, as specified in OMB's implementing guidance, M-11-16. To achieve our objectives we assessed controls the SBA has implemented to address prior year OIG recommendations, and evaluated whether the SBA addressed required provisions. We also assessed SBA's efforts to prevent and reduce improper payments, and reviewed the accuracy and completeness of improper payment disclosures in the AFR, as specified in M-11-16. This report does not include any recommendations. See Appendix III for the full text of the Agency's Comments.

What the OIG Found

The SBA continues to make progress in its efforts to prevent and reduce improper payments. Further, the SBA was generally compliant in meeting the minimum requirements in accordance with OMB guidance. See Table 1 for the OIG's FY 2013 overall assessment of each SBA Program or Activity.

Table 1 The IPERA Evaluation by Program or Activity

SBA Program or Activity	OIG Overall Assessment for FY 2013
Disbursements for Goods and Services	■
7(a) Loan Guaranty Approvals	□
7(a) Loan Guaranty Purchases	■
504 Loan Guaranty Approvals	□
Disaster Assistance Loan Disbursements	■

Legend: Implemented Substantial Progress
 Progress No Progress

Specifically, the Disbursements for Goods and Services, as well as 7(a) loan guaranty approvals continued to make progress through the deployment

of improved controls and process improvements. The revised procedures were robust and led to the identification of more improper payments during the testing process. Contrarily, the need to use less experienced staff to process applications for Hurricane Sandy may have attributed to the rate increase for Disaster Assistance loan disbursements. As such, the improper payment rates increased as follows:

Table 2 Comparison of FY 2013 to FY 2012 Rates

SBA Program or Activity	FY 2013 Rate	FY 2012 Rate
7(a) Loan Guaranty Approvals	4.6%↑	1.8%
Disbursements for Goods and Services	11.6%↑	9.6%
Disaster Assistance Loan Disbursements	18.4%↑	17.9%

Consequently, the improper payment estimates increased from \$12.5 million to \$14.1 million for Disbursement of Goods and Services; \$233.2 million to \$510.9 million for 7(a) guaranty loan approvals; and \$91 million to \$121.1 million for Disaster Assistance loan disbursements.

Notwithstanding these accomplishments, further improvement is still needed in the effectiveness and development of SBA improper payment controls and processes for all of the programs or activities we reviewed. Specific areas include:

- completeness of test plans,
- quality of corrective action plans, and
- sufficiency of improper payment recapturing activities.

The OIG also assessed whether the SBA complied with IPERA reporting requirements, as specified in M-11-16. This guidance requires a limited review of controls over Agency reporting. Our evaluation found that the SBA generally met all the IPERA reporting requirements. However, the Disbursements for Goods and Services and Disaster Assistance Loan programs were not compliant because their improper payment rate exceeded the 10 percent threshold. In addition, Disbursements for Goods and Services, as well as the 7(a) Guaranty Approvals and Disaster Assistance Loan programs did not achieve their annual reduction targets.

Table of Contents

Introduction	5
Background	5
Results	7
Section 1: Disbursements for Goods and Services	7
<i>Background</i>	7
<i>Assessment of Agency Efforts</i>	7
<i>AFR Review</i>	8
Section 2: Section 7(a) Loan Guaranty Approvals	9
<i>Background</i>	9
<i>Assessment of Agency Efforts</i>	9
<i>AFR Review</i>	10
Section 3: Section 7(a) Loan Guaranty Purchases	10
<i>Background</i>	10
<i>Assessment of Agency Efforts</i>	11
<i>AFR Review</i>	12
Section 4: Section 504 Loan Guaranty Approvals	12
<i>Background</i>	12
<i>Assessment of Agency Efforts</i>	13
<i>AFR Review</i>	13
Section 5: Disaster Assistance Loan Disbursements	14
<i>Background</i>	14
<i>Assessment of Agency Efforts</i>	14
<i>AFR Review</i>	15
Appendix I: Scope and Methodology	17
Appendix II: Status of Open IPIA/IPERA Audit Recommendations	19
Appendix III: Agency's Comments	20

Introduction

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

Our objectives were to (1) assess progress the SBA made in remediating improper payment-related recommendations, and (2) determine whether the SBA complied with IPERA reporting requirements using guidelines outlined in OMB's implementing guidance, M-11-16.

Background

The SBA offers and guaranties a variety of loans for very specific purposes. During FY 2013, the SBA supported more than \$29 billion in lending to more than 47,000 companies through the 7(a) and 504 programs; and loan approvals totaling \$2,797 million for all disaster activity in FY 2013. The Agency also disbursed approximately \$121.4 million to contractors and vendors for services rendered.

The Improper Payments Information Act of 2002 (IPIA) requires agencies to review and identify those programs susceptible to significant improper payments; report on the amount and causes of improper payments; and develop plans for reducing improper payments. Provisions of the IPERA amended the IPIA by providing alternative improper payments measures and expanding the requirements for corrective action plans. It also increased the scope of recapture audits for all payments and program activities in excess of \$1 million.

An "improper payment"¹ is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Further, the OMB states, "when an Agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment." Incorrect amounts are overpayments or underpayments made to eligible recipients. An improper payment also includes any payment made to an ineligible recipient or for an ineligible good or service or payments for goods or services not received. In addition, according to OMB Circular A-123, Appendix C, Part I, a payment lacking sufficient documentation is an improper payment.

The IPERA guidance further requires that each OIG annually review its Agency's improper payments reporting within 120 days of issuing its AFR. In accordance with Part II of M-11-16, the OMB requested the Inspector General to evaluate the accuracy and completeness of the Agency's reporting in the AFR. The OMB also requested that the OIG evaluate the Agency's performance in reducing and recapturing improper payments and report on recommendations for actions to further improve the Agency's or program's performance in reducing improper payments. In doing so, we performed a qualitative assessment of the Agency's progress in meeting the following criteria:

¹ In accordance with Section 2(d)(2) of the IPIA, as amended by the IPERA.

- Overall assessment of Agency efforts – OIG evaluation of Agency efforts to prevent and reduce improper payments;
- Accuracy & completeness of Agency reporting – OIG assessment of internal controls related to reported information;
- Quality of corrective action plans – OIG evaluation whether corrective action plans are robust and focused on the appropriate root causes of improper payments; and
- Performance in reducing/recapturing improper payments – Agency’s performance of recapture audits.

The OMB further requested the Inspector General to determine whether the Agency was in compliance with the IPERA. In doing so, the Agency must have, at a minimum, met the following criteria to be in compliance with IPERA:

- Posted materials—Published a PAR or AFR for the most recent fiscal year and posted that report and any accompanying materials required by the OMB on the Agency website;
- Published estimates for susceptible programs—Published improper payments estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment(if required);
- Annual reduction target met—Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments;
- Reported rate of less than 10 percent—Reported a gross improper payments rate of less than 10 percent for each program and activity for which an improper payments estimate was obtained and published in the PAR or AFR; and
- Reported recapture information—Reported information on its efforts to recapture improper payments.

Prior OIG audits have identified high percentages of disaster and business loans that were made to borrowers who were ineligible, lacked repayment ability, or did not provide sufficient documentation to justify the approval or disbursement.² Those audits further determined that the improper payment rates reported for these programs were significantly understated.

In 2013, the OIG issued [Audit Report 13-13](#), *Evaluation of SBA’s Progress in Reducing Improper Payments in FY 2012*, stating that the SBA was generally compliant in meeting the minimum reporting requirements for IPERA in its [FY 2012 AFR](#). However, our qualitative review of the Agency’s efforts to prevent and reduce improper payments showed that improvement was still needed in the effectiveness and development of SBA improper payment controls and processes for all areas we reviewed. The specific areas include the accuracy and completeness of reporting, sufficiency of improper payments recapturing activities, and quality of corrective action plans.

Nature of Limited or Omitted Information

No information was omitted due to confidentiality or sensitivity, nor were there limitations to information during this evaluation.

² See reports listed in the Prior Coverage section of this report.

Results

The following five sections summarize the OIG's (1) assessment of the Agency's accuracy and completeness of reporting, and performance in reducing and recapturing improper payments and (2) OIG's review of the Agency's disclosure in the AFR per requirements of M-11-16, by reporting segment. In addition, we assessed the status of OIG's unresolved prior year audit recommendations, which focused on the accuracy and completeness of the Agency's reporting, and performance in reducing and recapturing improper payments. See Appendix II.

Section 1: Disbursements for Goods and Services

Background

The SBA awards contracts for goods and services to assist in carrying out its mission. The SBA made 3,980 disbursements for goods and services—totaling approximately \$121 million—between April 1, 2012, and March 31, 2013. While the SBA continues to make strides toward improving the acquisitions process, our recent audit work with SBA's acquisition activities indicates that continuing challenges exist, including poorly defined requirements and inadequate oversight and monitoring of contractor performance. These on-going deficiencies resulted in the OIG identifying Acquisition Management as one of the issues in its [*Fiscal Year 2014 Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration*](#). This challenge focuses on the need for the SBA to effectively manage the acquisition process.

Assessment of Agency Efforts

The OIG evaluated the Agency's accuracy and completeness of reporting, as well as its performance in reducing and recapturing improper payments. We determined that the SBA made progress in meeting IPERA and IPIA requirements.

We found that the Office of Internal Controls personnel within the Office of the Chief Financial Officer (OCFO) incorporated lessons learned from prior year reviews to perform the testing of disbursements for goods and services for FY 2013. Specifically, the Office of Internal Controls personnel collaboratively reviewed and discussed each other's sample items, which resulted in a consistent treatment of all potential errors. They also vetted their test results with the Acquisitions Director. This improved testing process may have resulted in previously unreported error conditions and improper payments being included in the current year test results; consequently, increasing this year's improper payments rate. The SBA also fully remediated three unresolved, prior year recommendations.

However, further improvement is still needed to fully comply with IPERA and IPIA requirements. For example, the OIG found that the corrective action plan could be improved. While the plan identified root causes for improper payments, the plan did not fully include target dates for completed and implemented corrective actions. We believe that additional actions such as periodic quality assurance reviews of contract files would improve financial and contract management at the SBA and significantly decrease the total number of future improper payments.

Due to our limited procedures, we are not providing an assessment as to whether the SBA’s reported improper payments rate of 11.6 percent or \$14.1 million is accurate. The results of the OIG’s evaluation of Agency efforts are summarized below.

Table 3 The OIG's Evaluation of Agency Efforts

OMB Criteria	Status at End of FY 2013
Overall assessment of Agency efforts ³	■
Accuracy & completeness of Agency reporting	■
Performance in reducing/recapturing improper payments	N/A ⁴
Quality of corrective action plans	■

Legend: Implemented Substantial Progress Progress No Progress

AFR Review

Our review of the AFR found that the SBA was fully compliant with most IPERA reporting requirements. However, due to improved testing procedures, previously unidentified error conditions and related improper payments were included in the current year test results, increasing the improper payments rate from 9.6 percent in FY 2012 to 11.6 percent in FY 2013. As a result, the SBA did not meet its annual reduction target. Also, because the FY 2013 rate exceeds 10 percent; the SBA is not compliant with IPERA. The results of the OIG review are summarized below.

Table 4 The OIG's Review of the AFR

OMB Reporting Requirement	Status at End of 2013
Posted materials	<input checked="" type="checkbox"/>
Published estimates for susceptible programs	<input checked="" type="checkbox"/>
Annual reduction target met	■
Reported rate of less than 10 percent	■
Reported recapture information	<input checked="" type="checkbox"/>

Legend: Compliant with IPERA reporting requirements IPERA reporting requirements not met

Agency's Comments

The OCFO appreciated the opportunity to respond to the draft report. The OCFO also appreciated the OIG’s acknowledgement of the Agency’s progress in meeting IPERA and IPIA requirements as well as their efforts to fully remediate three prior year recommendations. Management concurred with the OIG’s assessment of Agency efforts related to the disbursements for goods and services and will continue to work on improving our processes and procedures to reduce improper payments.

OIG's Response

The OIG concurs with the OCFO’s comments.

³ This is a summary of our evaluation results.

⁴ The SBA has determined that payment recapture audits for this program would not be cost effective.

Section 2: Section 7(a) Loan Guaranty Approvals

Background

The Agency's largest lending program, the 7(a) Loan Guaranty program, is the SBA's principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. This program relies on numerous outside parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions, with approximately 76 percent of loans being made by lenders to whom the SBA has delegated loan-making authority. Additionally, the SBA has centralized many loan functions and reduced the number of staff performing these functions, placing more responsibility on, and giving greater independence to, its lenders. The OIG continues to identify weaknesses in the SBA's lender oversight processes. Under the 7(a) Loan Guaranty program, the SBA guaranties up to 90 percent of the principal amount of loans made by banks and other lending institutions to small businesses not able to obtain credit elsewhere. In FY 2013, the SBA guarantied approximately \$11.0 billion in 7(a) loan approvals.

Assessment of Agency Efforts

The OIG evaluated the Agency's accuracy and completeness of reporting, as well as its performance in reducing and recapturing improper payments. We determined that the SBA continued to make substantial progress in meeting IPERA and IPIA requirements.

Specifically, we determined that the SBA developed appropriate testing procedures to assess 7(a) guaranty loan approvals for improper payments in FY 2012. During FY 2013, the SBA continued to enhance its test procedures. In addition, the SBA increased its sample of 7(a) guaranty loan approvals from 111 in FY 2012 to 287 in FY 2013. The improved testing procedures and larger sample resulted in previously unidentified error conditions and related improper payments being included in the current year test results. As a result, the SBA's improper payments rate increased from 1.8 percent or \$233 million in FY 2012 to 4.6 percent or \$511 million in FY 2013. Finally, the SBA developed appropriate corrective action plans to address the root causes of identified improper payments and promote recovery.

Due to our limited procedures, we are not providing an assessment as to whether the SBA's reported improper payments rate of 4.6 percent or \$511 million is accurate. The results of the OIG's evaluation of Agency efforts are summarized below.

Table 5 The OIG's Evaluation of Agency Efforts

OMB Criteria	Status of End of 2013
Overall assessment of Agency efforts	<input type="checkbox"/>
Accuracy & completeness of Agency reporting	<input type="checkbox"/>
Performance in reducing/recapturing improper payments	N/A ⁵
Quality of corrective action plans	<input type="checkbox"/>

Legend: Implemented Substantial Progress Progress No Progress

⁵ The SBA has determined that payment recapture audits for this program would not be cost effective.

AFR Review

Our review of the AFR found that the SBA was fully compliant with most IPERA reporting requirements. However, due to improved testing procedures and a larger sample of 7(a) guaranty loan approvals reviewed, previously unidentified error conditions and related improper payments were included in the current year test results. The improper payments estimate increased from 1.8 percent or \$233 million in FY 2012 to 4.6 percent or \$511 million in FY 2013. As a result, the SBA did not meet its planned reduction target of 1.5 percent for the program. The results of the OIG review are summarized below.

Table 6 The OIG's Review of the AFR

OMB Reporting Requirement	Status at End of 2013
Posted materials	<input checked="" type="checkbox"/>
Published estimates for susceptible programs	<input checked="" type="checkbox"/>
Annual reduction target met	<input type="checkbox"/>
Reported rate of less than 10 percent	<input checked="" type="checkbox"/>
Reported recapture information	<input checked="" type="checkbox"/>

Legend: Compliant with IPERA reporting requirements IPERA reporting requirements not met

Agency's Comments

The Office of Capital Access (OCA) appreciated the opportunity to respond to the draft report and values the OIG's acknowledgement of OCA's efforts in improving testing procedures, updating corrective action plans to identify root causes of identified improper payments and additional progress towards meeting the IPERA and IPIA requirements. Management concurred with the OIG's evaluation of the Agency efforts related to the accuracy and completeness of reporting, as well as its performance in reducing and recapturing improper payments for 7(a) loan guaranty approvals in FY 2013. The OCA will evaluate the future annual reduction targets and continue to make progress in reducing and recapturing improper payments.

OIG's Response

The OIG concurs with the OCA's comments.

Section 3: Section 7(a) Loan Guaranty Purchases

Background

When a loan goes into default, the SBA will conduct a review of the lender's actions on the loan to determine whether it is appropriate to pay the lender the guaranty, which the SBA refers to as a "guaranty purchase." Under SBA regulations, the SBA is released from liability on the guaranty, in whole or in part, if the lender fails to comply materially with any SBA loan program requirement or does not make, close, service, or liquidate the loan in a prudent manner. The guaranty purchase review is SBA's primary control for ensuring lender compliance and preventing improper payments. The OIG's audits continue to identify weaknesses in the SBA's 7(a) Loan Guaranty Purchase program. In FY 2013, the SBA purchased approximately \$1.2 billion in 7(a) loan guaranties.

Assessment of Agency Efforts

The OIG evaluated the Agency's accuracy and completeness of reporting, as well as its performance in reducing and recapturing improper payments. We determined that the SBA made further progress during FY 2013 in meeting IPERA and IPIA requirements.

The OIG found that SBA's testing procedures for assessing the purchases of 7(a) loan guaranties were improved during FY 2013. However, the SBA did not fully address previous OIG recommendations related to SBA's testing procedures and therefore, the testing procedures continued to be incomplete. Specifically, the testing procedures did not require a detailed analysis of creditworthiness (including repayment ability) on early defaulted loans in accordance with SBA Standard Operating Procedures (SOP).⁶ Additionally, the test procedures for SBA Express programs continued to be incomplete and did not require reviews for all areas of improper payments previously noted by the OIG.⁷ For example, the test procedures did not require reviewers to determine whether Express loans complied with SBA requirements related to repayment ability, IRS tax-verification, and business plans.

During FY 2013, the SBA developed appropriate corrective action plans to address the root causes of identified improper payments and promote recovery. However, we note that further improvement is needed in the timely resolution and recovery of large improper payments identified by both the Agency and the OIG. In addition, the SBA disclosed in the FY 2013 AFR that its improper payment reviews have indicated that payment recapture audits would be cost effective for 7(a) loan guaranty purchases. However, the SBA has not formalized the cost-benefit analysis to address the OIG recommendation in our previous IPERA evaluation.⁸ The Agency had established an October 4, 2013 deadline to complete its cost-benefit analysis.

Due to our limited procedures, we are not providing an assessment as to whether the SBA's reported improper payments rate of 1.15 percent or \$13.9 million is accurate. The OIG has conducted two previous audits which assessed the accuracy of the SBA's FY 2008⁹ and FY 2011¹⁰ improper payment rates for the 7(a) Loan Guaranty Purchase program. The OIG determined that the estimated improper payment rate for FY 2011 was as high as 20 percent. As noted above, the SBA has continued to make progress in identifying and reducing improper payments. However, based on the results of previous OIG audits, we believe the SBA's estimated improper payments rate of 1.15 percent for FY 2013 for the 7(a) Loan Guaranty Purchase program may be understated. The results of the OIG's evaluation of Agency efforts are summarized below.

⁶ SBA SOP 50 57, *7(a) Loan Servicing and Liquidation*, March 1, 2013.

⁷ OIG [Audit Report 13-07](#), *The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Underestimated*, November 15, 2012.

⁸ OIG [Audit Report 12-10](#), *SBA Generally Meets IPERA Reporting Guidance but Immediate Attention Is Needed to Prevent and Reduce Improper Payments*, March 15, 2012. Recommendation #6.

⁹ OIG [Audit Report 9-16](#), *The Small Business Administration's Fiscal Year 2008 Improper Payment Rate for the 7(A) Guaranty Loan Program*, July 10, 2009.

¹⁰ OIG [Audit Report 13-07](#), *The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Underestimated*, November 15, 2012.

Table 7 The OIG's Evaluation of Agency Efforts

OMB Criteria	Status of End of 2013
Overall assessment of Agency efforts	■
Accuracy & completeness of Agency reporting	■
Performance in reducing/recapturing improper payments	■
Quality of corrective action plans	□

Legend: Implemented Substantial Progress Progress No Progress

AFR Review

Our review of the AFR found that the Agency was fully compliant with IPERA reporting requirements.

Table 8 The OIG's Review of the AFR

OMB Reporting Requirement	Status at End of 2013
Posted materials	<input checked="" type="checkbox"/>
Published estimates for susceptible programs	<input checked="" type="checkbox"/>
Annual reduction target met	<input checked="" type="checkbox"/>
Reported rate of less than 10 percent	<input checked="" type="checkbox"/>
Reported recapture information	<input checked="" type="checkbox"/>

Legend: Compliant with IPERA reporting requirements IPERA reporting requirements not met

Agency's Comments

Management concurred with the OIG's evaluation of the Agency efforts related to the accuracy and completeness of reporting, as well as its performance in reducing and recapturing improper payments for 7(a) loan guaranty purchases in FY 2013. The OCA will evaluate the future annual reduction targets and continue to make progress in reducing and recapturing improper payments.

OIG's Response

The OIG concurs with the OCA's comments.

Section 4: Section 504 Loan Guaranty Approvals

Background

The SBA's 504 Loan Program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings, machinery, and other fixed assets. Local economic development organizations, approved by the SBA, are known as Certified Development Companies (CDCs). The CDCs package, close, and service these loans, which are funded through a mix of funds from private sector lenders, proceeds from the sale of SBA guaranteed debentures, and borrower equity investment. For the 504 program, the SBA guarantees 100 percent of the principal and interest payments on these debentures. In FY 2013, the SBA guaranteed approximately \$6.4 billion in 504 loan approvals.

Assessment of Agency Efforts

The OIG evaluated the Agency's accuracy and completeness of reporting, as well as its performance in reducing and recapturing improper payments. We determined that the SBA continued to make substantial progress during FY 2013 in meeting IPERA and IPIA requirements. Specifically, the OIG determined that the SBA developed appropriate corrective action plans to address the root causes of identified improper payments and promote recovery.

Due to our limited procedures, we are not providing an assessment as to whether the SBA's reported improper payments rate of 0.54 percent or \$34.4 million is accurate. The results of the OIG's evaluation of Agency efforts are summarized below.

Table 9 The OIG's Evaluation of Agency Efforts

OMB Criteria	Status at End of 2013
Overall assessment of Agency efforts	<input type="checkbox"/>
Accuracy & completeness of Agency reporting	<input type="checkbox"/>
Performance in reducing/recapturing improper payments	N/A ¹¹
Quality of corrective action plans	<input type="checkbox"/>

Legend: Implemented Substantial Progress Progress No Progress

AFR Review

Our review of the AFR found that the SBA was fully compliant with IPERA reporting requirements.

Table 10 The OIG's Review of the AFR

OMB Reporting Requirement	Status at End of 2013
Posted materials	<input checked="" type="checkbox"/>
Published estimates for susceptible programs	<input checked="" type="checkbox"/>
Annual reduction target met	<input checked="" type="checkbox"/>
Reported rate of less than 10 percent	<input checked="" type="checkbox"/>
Reported recapture information	<input checked="" type="checkbox"/>

Legend: Compliant with IPERA reporting requirements IPERA reporting requirements not met

Agency's Comments

Management concurred with the OIG's evaluation of the Agency efforts related to the accuracy and completeness of reporting, as well as its performance in reducing and recapturing improper payments for 504 loan guaranty approvals in FY 2013. The OCA will evaluate the future annual reduction targets and continue to make progress in reducing and recapturing improper payments.

OIG's Response

The OIG concurs with the OCA's comments.

¹¹ The SBA has determined that payment recapture audits for this program would not be cost effective.

Section 5: Disaster Assistance Loan Disbursements

Background

The Disaster Assistance Loan program plays a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, businesses of all sizes, and non-profit organizations. The SBA offers home and personal property loans, business physical disaster loans, and economic injury disaster loans. The Disaster Assistance Loan program is particularly vulnerable to fraud and unnecessary losses because loan transactions are expedited in order to provide quick relief to disaster victims. In FY 2013, the SBA approved \$2.8 billion in Disaster Assistance loans.

Assessment of Agency Efforts

The OIG evaluated the Agency's accuracy and completeness of reporting, as well as its performance in reducing and recapturing improper payments. We determined that the SBA continues to make progress in meeting IPERA and IPIA requirements, but appears to have difficulty in reducing the improper payment rate to below 10 percent.

Specifically, the SBA did not meet the FY 2013 reduction target of 14 percent. The estimated rate was 18.4 percent, a half percent increase over FY 2012. This occurred despite a robust corrective action plan in which specific recurring improper payment issues are identified then addressed in several ways to prevent and detect improper payments. In the FY 2013 sampling plan, SBA's statistician stipulated that there was a tendency for improper payments to be found in disproportionate numbers in disasters with large numbers of loan applications. The statistician also noted that improper payments are predominantly instances of incomplete documentation, which may result from the need to use less experienced staff to meet the substantial processing demands. Thus, despite extensive efforts to reduce the improper payment rate, major disasters such as Hurricane Sandy may have impeded the Agency's ability to do so. Further, the Agency believed that disbursements in the \$20,000 to \$100,000 range had a disproportionately large share of improper payments. While small on an unweighted basis, the improper payments were large on a weighted basis and caused the rate to be higher.

Due to our limited procedures, we are not providing an assessment as to whether the SBA's reported improper payment rate of 18.4 percent or \$121.1 million is accurate. The results of the OIG's evaluation of Agency efforts are summarized below.

Table 11 The OIG's Evaluation of Agency Efforts

OMB Criteria	Status of End of 2013
Overall assessment of Agency efforts	■
Accuracy & completeness of Agency reporting	☑
Performance in reducing/recapturing improper payments	N/A ¹²
Quality of corrective action plans	☑

Legend: ☑ Implemented ☐ Substantial Progress ■ Progress ■ No Progress

¹² The SBA has determined that payment recapture audits for this program would not be cost effective.

AFR Review

Our review of the AFR found that the SBA was fully compliant with most IPERA reporting requirements. However, our review showed that the SBA reported an 18.4 percent improper payments rate, which exceeded the 10 percent level necessary to comply with IPERA requirements. Further, it did not meet the reduction target of 14 percent set by the SBA for FY 2013. The results of the OIG's review of the AFR are shown below.

Table 12 The OIG's Review of the AFR

OMB Reporting Requirement	Status at End of 2013
Posted materials	☑
Published estimates for susceptible programs	☑
Annual reduction target met	■
Reported rate of less than 10 percent	■
Reported recapture information	☑

Legend: ☑ Compliant with IPERA reporting requirements ■ IPERA reporting requirements not met

Agency's Comments

Management offered no comment or suggested changes to the draft report.

Agency's Comments and Office of Inspector General's Response

On March 26, 2014, we provided a draft copy of this report to the responsible Agency officials for comment. On April 4, 2014, the Office of Inspector General received a coordinated response where management emphasized its commitment to the successful implementation of IPERA. We incorporated management's comments and OIG's evaluation in the detailed results. The SBA's formal comments are included in their entirety in Appendix III.

Appendix I: Scope and Methodology

To perform the evaluation, our scope included an assessment of improper payments the SBA reported for Section 7(a) loan guaranty approvals, Section 7(a) loan guaranty purchases, Section 504 loan guaranty approvals, Disaster Assistance loan disbursements, and disbursements for goods and services. In FY 2012, the OMB waived the requirement for the SBA to report on improper payments for the Small Business Investment Company program.

To achieve our objectives we assessed controls the SBA has implemented to address prior year OIG recommendations, and evaluated whether the SBA addressed required provisions. More specifically, we interviewed SBA officials, and reviewed SBA documentation and plans to assess compliance with identified controls and IPERA provisions. We also assessed records and other documents obtained from SBA officials. We further assessed the Agency's efforts to prevent and reduce improper payments, and reviewed the completeness of improper payment disclosures in the AFR, as specified in OMB guidance. Moreover, we assessed progress the Agency had made against the baseline we established in 2011. We did not test or provide an assessment as to whether the reported improper payment rates were accurate.

We conducted this evaluation between September 26, 2013, and February 22, 2014, in accordance with the Council of Inspectors General on Integrity and Efficiency (CIGIE) *Standards for Inspection and Evaluations*. Those standards require that we plan and perform the evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objectives.

Use of Computer-Processed Data

We relied on the data prepared by the SBA program offices that was generated from the Disaster Credit Management System (DCMS), Joint Accounting and Administrative Management System (JAAMS), and Electronic Loan Information Processing System (ELIPS). We believe the information is reliable for the purposes of this audit.

Prior Coverage

Small Business Administration-Office of Inspector General Reports

Purchase Reviews Allowed \$4.6 Million in Improper Payments on 7(a) Recovery Act Loans, [Report 13-16R](#), issued June 14, 2013.

Evaluation of SBA's Progress in Reducing Improper Payments in FY 2012, [Report 13-13](#), issued March 14, 2013.

The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Understated, [Report 13-07](#), issued November 15, 2012.

A Detailed Repayment Ability Analysis is Needed on High-Dollar Early-Defaulted Loans to Prevent Future Improper Payments, [Report 12-18](#), issued 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](#), issued March 23, 2012.

SBA Generally Meets IPERA Reporting Guidance but Immediate Attention Is Needed to Prevent and Reduce Improper Payments, [Report 12-10](#), issued March 15, 2012.

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

Material Deficiencies Identified in Five 7(a) Recovery Act Loans Resulted in \$2.7 Million of Questioned Costs, [ROM 11-06](#), issued August 25, 2011.

Banco Popular Did Not Adequately Assess Borrower Repayment Ability When Originating Huntington Learning Center Franchise Loans, [Report 11-16](#), issued July 13, 2011.

America's Recovery Capital Loans Were Not Originated and Closed In Accordance With SBA's Policies and Procedures, [ROM 11-03](#), issued March 2, 2011.

Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans, [ROM 10-19](#), issued September 24, 2010.

SBA's Management of the Backlog of Post-Purchase Reviews at the National Guaranty Purchase Center, [Report 9-18](#), issued August 25, 2009.

The Small Business Administration's Fiscal Year 2008 Improper Payment Rate for the 7(a) Guaranty Loan Program, [Report 9-16](#), issued July 10, 2009.

Appendix II: Status of Open IPIA/IPERA Audit Recommendations

Audit Report No., Title, Date	Recommendation	Decision Date	Action Date
12-10, <i>SBA Generally Meets IPERA Reporting Guidance but Immediate Attention Is Needed to Prevent and Reduce Improper Payments</i> , dated 3/15/12	04 Require loan officers to thoroughly evaluate creditworthiness (including repayment ability) on early default loans during both guaranty purchase and improper payment reviews.	5/15/12	1/31/14
Recommendations for Credit Programs in this report were addressed to the Associate Administrator for Capital Access	06 Upon completing the revised improper payment rate projection for 7(a) purchases, conduct a detailed and objective cost/benefit analysis for payment recapture audits of 7(a) purchases.	9/26/12	10/4/13
13-07, <i>The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Underestimated</i> dated 11/15/12	01 Create a more comprehensive improper payment detection checklist for reviewing 7(a) guaranty purchases to address the many requirements that reviewers must be familiar with when conducting improper payment reviews. See report for the full recommendation.	3/13/13	1/31/14
Recommendations in this report were addressed to the Director, Office of Financial Programs Operations	02 Develop a procedure for monitoring the effectiveness of the checklist for detecting improper payments.	11/4/13	4/1/14
	10 Seek recovery of \$1,106,116, less subsequent liquidation recoveries, from American Business Lending, Inc. for loan number [FOIA Ex. 4] to [FOIA Ex. 4] [FOIA Ex. 4]		
	12 Seek recovery of \$714,444, less subsequent liquidation recoveries, from Community South Bank for loan number [FOIA Ex. 4] to [FOIA Ex. 4] [FOIA Ex. 4]		

There were no open recommendations for Disbursements for Goods and Services or Disaster Assistance.

Appendix III: Agency's Comments



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

To: Robert Westbrooks
Deputy Inspector General

Through: Sara D. Lipscomb
General Counsel

From: Tami Perriello
Acting, Chief Financial Officer
Office of the Chief Financial Officer

Ann Marie Mehlum
Associate Administrator
Office of Capital Access

James E. Rivera
Associate Administrator
Office of Disaster Assistance

Subject: Agency Response to *SBA's Progress in Complying with the Improper Payments Elimination and Recovery Act*

I. OCFO Response

The Office of the Chief Financial Officer (OCFO) appreciates the opportunity to respond to the draft report "SBA's Progress in Complying with the Improper Payments Elimination and Recovery Act." We also appreciate the OIG's acknowledgement of the agency's progress in meeting IPERA and IPIA requirements as well as our efforts to fully remediate three prior year recommendations. OCFO concurs with the OIG's assessment of agency efforts related to the disbursements for goods and services. We will continue to work on improving our processes and procedures to reduce improper payments.

II. OCA Response

The Office of Capital Access (OCA) appreciates the opportunity to respond to the draft report and values the OIG's acknowledgement of OCA's efforts in improving testing procedures, updating corrective action plans to identify root causes of identified improper payments and additional progress towards meeting the IPERA and IPIA requirements. OCA concurs with the OIG's evaluation of the agency efforts related to the accuracy and completeness of reporting, as well as its performance in reducing and recapturing improper payments for 7(a) and 504 Loan Guaranty Approvals and 7(a) Loan Guaranty Purchases in Fiscal Year (FY) 2013. OCA will evaluate the future annual reduction targets and continue to make progress in reducing and recapturing improper payments.

III. ODA Response

Office of Disaster Assistance (ODA) offers no comment or suggested changes to the OIG's draft evaluation report.