

## FY 2011 OIG Recovery Act Plan Overview

<b>OIG Name:</b>	U.S. Small Business Administration, Office of Inspector General
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<b>OIG Broad Recovery Act Goals:</b>	The OIG has developed oversight plans for deploying additional resources to monitor, evaluate, and report on the performance and oversight of SBA's programs under the Act. These new programs and program changes are inherently high risk, requiring the Agency to establish effective controls and adequate oversight. Therefore, the OIG's oversight efforts will focus heavily on assessing these controls and detecting and deterring fraud, waste and abuse in Recovery Act programs.
<b>OIG Broad Training and Outreach Recovery Act Goals:</b>	The OIG conducted outreach efforts to raise fraud awareness and engage industry trade groups. Outreach efforts focused on providing SBA lenders and employees with information on detecting fraud patterns that have been identified in OIG loan fraud investigations through written guidance, website information, and presentations at trade group events, as well as notifying the public of scams. Additionally, the OIG has posted the results of audits and other reviews on its Recovery Act website. We have continued our outreach efforts in FY 2011.
<b>OIG Recovery Act Risk Assessment Process:</b>	The OIG has taken a number of actions to alert Agency managers of risks and recommend cost effective controls to help prevent fraud, waste, and abuse, and ensure program goals are achieved and stimulus funds are accurately tracked and reported. We are continuing our reviews of SBA's of Recovery Act loans to determine if loans were originated, closed, liquidated and purchased in accordance with SBA's rules and regulations and commercially prudent lending standards. We are also performing an audit to determine whether corrective actions were taken by SBA to mitigate risks identified for high risk lenders making Recovery Act loans. Additionally, we will review SBA's implementation of its secondary market first lien 504 loan pool guarantee program under the Recovery Act. As we identify risks and improper payments, we will continue to provide Agency managers with comments and recommendations for ways to mitigate these risks. SBA OIG also tracks information on all hotline complaints pertaining to Recovery Act loans to assist in determining patterns and trends of fraudulent activity by companies and individuals awarded these loans.

<b>OIG Recovery Act Funds:</b>	\$10,000,000
<b>Expiration Date of OIG Recovery Act Funds:</b>	September 30, 2013

<b>OIG Recovery Act Funds Allocated to Contracts:</b>	Yes
<b>Purpose of Recovery Act Contracts:</b>	Loan reviews and financial statement audits.
<b>Types of Recovery Act Contracts Awarded to Date:</b>	(1) Fixed price modification of the existing financial statement audit contract and (2) fixed price contract for loan reviews awarded 12/8/2009.

<b>Link to OIG Recovery Act Work Plan:</b>	<a href="http://www.sba.gov/office-of-inspector-general/7479">http://www.sba.gov/office-of-inspector-general/7479</a>
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OIG FY 2011 Recovery Act Work Plan

Agency	Program Area	Recovery Act Funds Associated w/Program Area	Type of Review	Entity Performing Review	Project Title	Background	Objective	Review Included on Prior Recovery Act Plan (Y/N)	Expected Quarter Work Begins	Expected Quarter(s) Reports Issued	Expected/Final Number of Reports
SBA	Loans and Loan Guaranties non-tax benefit programs are included in the review	\$630,000,000	Performance	Both OIG Staff and Contractor	Ongoing Reviews of Loans Made Under the American Recovery and Reinvestment Act of 2009	The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided for many enhancements to SBA programs to begin economic recovery for our country's small business sector. The Recovery Act provided reduced loan fees, higher SBA guaranties on loans, and the creation of new SBA credit programs. While such changes were intended to stimulate lending, the higher guaranties increased SBA's risk exposure. Because the higher guaranties reduces lender losses should loans default, less incentive exists for lenders to exercise due diligence in originating loans, thereby increasing the risk of loan defaults. Additionally, SBA's oversight may not be as effective in identifying red flags in loan applications due to public pressure to increase lending. The audit will identify loans with origination issues that should be flagged for thorough review upon default.	To determine if loans disbursed pursuant to the Recovery Act were originated and closed in accordance with SBA's policies and procedures and to identify any evidence of suspicious activity.	Yes	Q1 FY 10	Q2 FY 11 Q3 FY 11 Q4 FY 11	3
SBA	Loans and Loan Guaranties non-tax benefit programs are included in the review	\$630,000,000	Performance	OIG Staff	SBA's Oversight of High Risk Lenders Making Recovery Act Loans	Prior audits have been critical of the Agency's ability to provide adequate oversight of lenders and have identified lender noncompliance with SBA's rules and regulations or prudent lending practices. This audit will evaluate whether SBA's oversight process identified problems with high-risk lenders, and took actions to mitigate the risk of loss from loans made by high-risk lenders under the Recovery Act.	To determine: (1) what lender risks the SBA's oversight process identified before and during the Recovery Act, and (2) whether corrective actions were taken to mitigate these risks.	Yes	Q4 FY 10	Q4 FY 11	1
SBA	Loans and Loan Guaranties non-tax benefit programs are included in the review	\$630,000,000	Performance	OIG Staff	Audits of Purchased Loans Made Under the Recovery Act	SBA guaranties loans that are made by participating lenders under a Guaranty Agreement to originate, service, and liquidate loans in accordance with SBA's rules and regulations. When a loan defaults, the lender can request payment of the guaranty. SBA reviews loan documentation to evaluate the lender's compliance with program rules and regulations. This review is SBA's primary control for ensuring lender compliance and preventing improper payments. In the event of noncompliance, SBA may be released from its liability on a loan guaranty, in full or in part. Previous OIG audits have identified material lender noncompliance in loan origination, closing, and liquidation that were not detected in SBA's purchase review processes, resulting in improper payments. Increased lending under the Recovery Act, combined with limited SBA resources and higher default rates, put the Agency at risk for even higher improper payments.	To determine whether purchased loans were originated, closed, and liquidated in accordance with SBA's rules and regulations and commercially prudent lending standards for 7(a), 504 (including refinancing), and American Recovery Capital (ARC) loans.	Yes	Q1 FY 11	Q2 FY 11 Q3 FY 11 Q4 FY 11	3

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SBA	504 Programs non-tax benefit programs are included in the review		Performance	OIG Staff	SBA's Secondary Market First Lien Loan Pool Guarantee Program	The Recovery Act created a new, temporary program to establish a Secondary Market Guaranty Authority for 504 loans. Under this program, SBA will issue guaranties for the sale of first lien position loans issued by private lenders under the 504 program and develop a secondary market for the purchase of these loans or pools of loans. This program results in SBA guaranties of first mortgages made by private sector lenders to small businesses. Since these are not SBA delegated lenders, they are not subject to SBA's guidance and SOPs and as a result, SBA is required to review loan documents prior to pooling. Inadequate review by SBA prior to pooling greatly increases the risk of SBA losses.	To determine whether: (1) SBA has established an adequate process for evaluating applications for guaranties on pools of 504 first lien loans, (2) SBA's guaranties were properly applied to 504 loans, and (3) the pools of guaranteed loans were sold to third party investors as required.	Yes	Q4 FY 11	Q2 FY 12	1
SBA	Financial Management		Administrative/ Financial	Contractor	KPMG Audit of SBA's FY 2011 Financial Statements - Statement of Budgetary Resources	In conjunction with the annual financial statement audit, KPMG will assess the adequacy of SBA's internal controls to ensure that Recovery Act funds are properly tracked, controlled, and reported.	To determine whether: (1) SBA has adequate controls in place over Recovery Act funds and the Recovery Act budget process is executed in accordance with Federal guidance; (2) SBA's Office of Chief Financial Officer has established general ledger accounts to properly track recovery fund activity and has properly accounted for fixed administrative costs; and (3) recorded spending authority from offsetting collections are available for obligation and referenced to the appropriate authorizing legislation.	Yes	Q3 FY 11	Q1 FY 12	1
SBA	Financial Management		Administrative/ Financial	Contractor	KPMG Audit of SBA's FY 2011 Financial Statements - Credit Receivables - Loan Guaranties	In conjunction with the annual financial statement audit, KPMG will assess the adequacy of SBA's internal controls over the loan guaranty process.	To determine whether SBA has adequate accounting controls in place over loan guaranty approvals, purchases, modifications and charge-offs.	Yes	Q3 FY 11	Q1 FY 12	1
SBA	Financial Management		Administrative/ Financial	Contractor	KPMG Audit of SBA's FY 2011 Financial Statements - Operations Expenses Testwork	In conjunction with the annual financial statement audit, KPMG will assess the adequacy of SBA's internal controls in place over operational expenses related to the Recovery Act.	To determine whether SBA: (1) has a system of quality controls for Recovery-Act related operational expenses; and (2) validates the accuracy of accrual amounts for a sample of expense categories.	Yes	Q2 FY 11	Q1 FY 12	1
SBA	Financial Management		Administrative/ Financial	Contractor	KPMG Audit of SBA's FY 2011 Financial Statements - Statement of Budgetary Resources	In conjunction with the annual financial statement audit, KPMG will assess the adequacy of SBA's internal controls to ensure that Recovery Act funds are properly tracked, controlled, and reported.	To determine whether: (1) SBA has adequate controls in place over Recovery Act funds and the Recovery Act budget process is executed in accordance with Federal guidance; (2) SBA's OCFO has established general ledger accounts to properly track recovery fund activity and has properly accounted for fixed administrative costs; and (3) recorded spending authority from offsetting collections is available for obligation and referenced to the appropriate authorizing legislation.	No	Q2 FY 11	Q1 FY 12	1
SBA	Financial Management		Administrative/ Financial	Contractor	KPMG Audit of SBA's FY 2011 Financial Statements - Credit Receivables - Loan Guaranties	In conjunction with the annual financial statement audit, KPMG will assess the adequacy of SBA's internal controls over the loan guaranty process.	To determine whether SBA has adequate accounting controls in place over loan guaranty approvals, purchases, modifications and charge-offs.	No	Q2 FY 11	Q1 FY 12	1

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SBA	Financial Management		Administrative/ Financial	Contractor	KPMG Audit of SBA's FY 2011 Financial Statements - Operations and Grant Expenses Testwork	In conjunction with the annual financial statement audit, KPMG will assess the adequacy of SBA's internal controls in place over the grant management/accounting processes, which will include Microloan program grants funded by the Recovery Act. We will also assess controls over operational expenses.	To determine whether SBA: (1) performs internal control assessments to evaluate the risk of waste, fraud, and/or abuse and identifies strategies to prevent and timely detect waste, fraud, and abuse involving grants and operational expenses; (2) has a system of quality controls for accrued grant liabilities and operational expenses in the financial statement footnotes; and (3) validates the accuracy of accrual amounts for a statistical sample of grants and operational expenses.	No	Q3 FY 11	Q1 FY 12	1
SBA	Financial Management		Administrative/ Financial	OIG Staff	Adequacy of Controls over FY 2010 Recovery Act Recipient Reporting	The Recovery Act established new reporting requirements related to the award and use of funds to promote transparency. We will review SBA's process for monitoring recipient reporting of Recovery Act funds for the year ending September 30, 2010.	To determine whether SBA has established a process to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors, and notify the recipients of the need to make appropriate and timely changes.	No	Q1 FY11	Q2 FY 11	1
SBA	Contracts	\$20,000,000	Administrative / Financial	OIG Staff	Award and Administration of Information Technology Contracts to DRT Strategies, Inc.	Under the Recovery Act, SBA received \$20 million to improve, streamline, and automate information technology systems. Prior to August 2009, SBA had not awarded any contracts to DRT. However, between August 2009 and March 2010, SBA issued four 8(a) sole-source contracts to DRT, totaling an estimated \$8 million. Approximately \$4 million of this amount was awarded with Recovery Act funds. Because the contracts appear to be for related work, the awards collectively may have exceeded the competitive threshold. Further, we have identified potential deficiencies within the award process, including problems with splitting contract requirements, price reasonableness, and missing or incomplete contract files.	To determine whether SBA: (1) split contract requirements to circumvent the \$3.5 million statutory competition threshold for the 8(a) procurement; (2) received a fair and reasonable price; and (3) maintained adequate contract files in compliance with Federal policies, guidance, and statutory requirements.	No	Q4 FY 11	Q3 FY 12	1
SBA	Contracts		Administrative / Financial	OIG Staff	Use of North American Industrial Classification System (NAICS) Codes in Awarding Recovery Act and Other Federal Contracts	When acquiring a product or service, the procuring agency's contracting officers are responsible for selecting and designating the proper NAICS code and size standard in Federal solicitations that best describe the principle purpose of the requirement. Selection of the proper NAICS code is essential to ensure the appropriate small businesses are considered for contract award because SBA size standards define whether a business entity is small, and thus, eligible for Government programs and preferences reserved for small businesses.	To determine whether: (1) procuring agencies are applying the proper NAICS codes to contracts (including Recovery Act contracts) for which status as a small business is required; and (2) SBA has an appropriate process in place to identify and resolve instances where agencies have not applied the proper NAICS code to their procurement.	No	Q3 FY 11	Q2 FY 12	1