AUDIT PLAN

U.S. Small Business Administration
Office of Inspector General
Auditing Division Work Plan
2015

April 24, 2015 Update

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Overview

This work plan outlines the Small Business Administration's (SBA) Office of Inspector General (OIG) audit and evaluation priorities. The anticipated work focuses on SBA's major initiatives and challenges in fulfilling its mission.

The plan is updated quarterly, and projects are categorized by program group as *ongoing* or *planned*. Entries for ongoing projects include the calendar quarter in which the project is expected to be completed, while entries for planned projects include the calendar quarter in which the project is expected to be initiated.

OIG may be required to perform unanticipated work based on congressional requests, OIG Hotline complaints, new statutory mandates, or requests from SBA. Such work, as well as resource constraints, may result in the deferral, cancellation, or modification of projects. Our effectiveness depends on our flexibility to address other priorities as they arise.

Enterprise-wide 2014 Review of SBA's Implementation of the Improper Payments Elimination and Recovery Act (IPERA)

Objectives: Determine the adequacy of SBA's compliance with IPERA and Office of Management and Budget's (OMB) Memorandum M-11-16, "Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123."

Justification: This evaluation is mandated under IPERA (Public Law 111-204) and the Improper Payments Information Act of 2002 (IPIA; Pub. L. 107-300).

Background: An improper payment is any payment that should not have been made or that was made in an incorrect amount. An improper payment also includes any payment that was made to ineligible recipients or for an ineligible good or service, or payments for goods or services not received. Under IPERA, SBA is required to conduct annual risk assessments and if a program is found to be susceptible to significant improper payments, then it must measure the improper payments in that program. IPERA further requires OIG to assess the quality of agency risk assessments and overall progress being made to reduce improper payments. These requirements are stipulated in the Act and OMB Circular A-123.

Under the provisions of OMB guidance, OIG will follow up on open recommendations and assess the adequacy of SBA's processes and procedures over its high-risk programs including its 7(a) Business Loan Guaranty Program, Certified Development Company/504 Loan Program, Small Business Investment Company Loan Program, Disaster Assistance Programs, and other significant outlays such as contracts and grants.

This evaluation will result in recommendations aimed at (1) improving the quality or adequacy of SBA's compliance with IPERA and OMB, and (2) reducing and preventing future improper payments.

Estimated Completion Date: FY 2015, Quarter 3

Evaluation of SBA's Separation Controls

Objectives:	Determine the effectiveness of controls over separated employees and contractors. Specifically, assess how existing procedures are working to ensure SBA system and networks are protected from separated employees and contractors.
Justification:	FISMA and SBA's standard operating procedure requires strict controls relating to separation of employees, contractors, interns, and volunteers. Control weaknesses in this area have not been addressed, as demonstrated by open audit recommendations.
Background:	During the past 3 years, KPMG has identified this area as a weakness, and OIG has outstanding recommendations to remediate the issue. The FY 2014 review identified an instance where a former employee may have accessed the network.
Estimated Completion Date:	FY 2015, Quarter 3

Oversight of SBA's FY 2015 Financial Statements Audit

Objectives: Ensure that SBA's: (1) financial statements audit is conducted in accordance with Federal auditing standards, (2) financial management system controls complies with guidance outlined in the Federal Information System Control Audit Manual, and (3) controls for the transparency and accountability of all appropriated funds are adequate.

Justification: This audit is mandated under the Chief Financial Officers (CFO) Act of 1990.

Background: The CFO Act of 1990 requires each Federal agency to audit financial statements annually. Our oversight will provide assurance that KPMG's report and conclusions are reasonable, that KPMG's audit was conducted in accordance with relevant auditing and accounting standards, and that the credit models accurately estimate the subsidies associated with SBA's loan programs. KMPG's audit will also identify areas of vulnerability in SBA's financial systems that could be exploited.

This year's scope will require a solicitation for a 5-year contract for an independent public accountant to conduct the audit during FY 2015 and complete work in early FY 2016.

Estimated Completion Date: FY 2016, Quarter 1

Oversight of the FY 2015 FISMA Reporting Process

Objectives:	Assess SBA's compliance with provisions of FISMA and OMB requirements for managing Federal information resources and protecting the privacy of individuals.
Justification:	Mandated under the Federal Information Security Management Act (FISMA).
Background:	FISMA is the Federal Government's Information Security Management scorecard that tracks potential IT security vulnerabilities as well as the implementation of a secure IT environment within the Federal Government. The Act requires that OIG perform an evaluation of the Agency's information security program and practices. This review will identify improvements needed in SBA's IT security program to ensure the early detection of and response to suspicious activity, the protection of systems and applications from unauthorized access, the continuity of operations should disruptions occur, and staff awareness of expected IT security practices.
Estimated Completion Date:	FY 2016, Quarter 2

Planned Audits & Reviews

Review of SBA's Financial System Upgrades

Objectives:	Determine if SBA meets the OMB project management guidance established for relocating its mainframe computing environment and financial systems including: (1) transferring and translating of SBA loan data to a new database management system, and (2) converting and testing a new loan accounting system before implementing it at the proposed site.
Justification:	As required by the Appropriations Act of 2014, OIG is directed to continue routine analysis and reporting on SBA's modernization of its loan management and accounting systems, including acquisition, contractor oversight, implementation, and progress regarding budget and schedule. In addition, the project's timing is at a critical, high-risk phase involving migration of SBA's entire loan portfolio—over $100 billion—to a new platform. The importance of this project has justified OIG's inclusion of the issue in its annual Management Challenges report. This review aims to determine if SBA met its project objectives and successfully moved off its mainframe platform. SBA's efforts to upgrade its financial systems are integral to SBA's strategy for streamlining and automating information technology systems related to loan processing and lender oversight.
Background:	In January 2015, SBA completed the migration of its 35-year old mainframe loan accounting system (LAS) to a modernized, industry standard platform. LAS was inflexible and difficult to navigate and comprehend. Given its limitations it adversely affected SBA's ability to meet the expanding requirements of its current and future business needs.
Estimated Start Date:	FY 2015, Quarter 3

Credit Programs Group

ONGOING AUDITS & REVIEWS

Audit of Hurricane Sandy Expedited Disaster Loan Processing

Objectives: Determine the efficiency and effectiveness of the implementation and execution of (1) policy 12-47, modified Phase II Economic Injury Disaster Loan (EIDL) Processing Procedures for Hurricane Sandy Loans; and (2) policy 12-48, the Sandy Alternative Processing Pilot, an alternative processing method for Hurricane Sandy home loans.

Justification: SBA faces losses as a result of allowing ineligible borrowers to obtain disaster loans. Additionally, there is the potential for reduced benefits to otherwise eligible business EIDL borrowers. Finally, recipients may be receiving benefits that exceed those allowable under normal EIDL Phase II processing.

Background: A memorandum issued in December 2012 by the Agency stated that the extraordinary losses resulting from Hurricanes Sandy presented significant challenges to their ability to process loan requests within the expected timeframe. Therefore, SBA implemented an alternative processing method for Hurricane Sandy disaster home loans and a modified Phase II process for EIDLs. If home applicants meet a minimum credit score and income level, loan officers are not required to perform cash flow analysis to determine repayment ability. Additionally, loan officers are not required to justify increases to maximum available fixed debt under the expedited home loan process. The modified phase II analysis process for EIDL loans uses an economic injury loss period of 6 months in all cases, and an abbreviated needs analysis.

A previous OIG audit found that a similar expedited program, implemented to address the large backlog of loan applications awaiting approval and disbursement during the aftermath of Katrina, resulted in an estimated $1.5 billion in loans approved to borrowers without the ability to repay them. This audit will assess the strength of the underwriting for home and business disaster loans approved using this new accelerated process.

Estimated Completion Date: FY 2015, Quarter 3

Hurricane Sandy—Duplication of Benefits (HUD Grants)

Objective: To determine whether SBA had adequate controls in place to prevent duplication of benefits with Community Development Block Grants (CDBG) administered by the Department of Housing and Urban Development (HUD).

Justification: A prior audit identified concerns regarding SBA's treatment of CDBG funds that were received by borrowers who were also approved for SBA disaster loans. As a result, we want to conduct an audit to determine if applicants received duplicate benefits (SBA loans and Housing and Urban Development (HUD) grants). Also, as a result of the prior audit, SBA and HUD agreed upon a memorandum of understanding. This audit will test whether the agencies are following the terms of this agreement.

Background: A 2009 OIG audit revealed significant weaknesses in the controls to prevent duplication of benefits with CDBGs disbursed by HUD for disaster assistance. Specifically, the audit identified numerous duplications of benefits and also found that grant funds were being disbursed to pay off SBA disaster loans, which circumvented the sequence of delivery established by FEMA.
Under the Stafford Act, Federal agencies administering disaster benefits must ensure that individuals receiving assistance have not already been compensated for their losses by another program, from insurance, or from any other source. FEMA regulations establish a delivery sequence for the various forms of disaster assistance. A recent OIG report found that SBA applied over $900 million of CDBG funds to pay down or reduce undisbursed balances of SBA disaster loans, in effect converting loans into grants. This practice was inconsistent with the delivery sequence required by FEMA. Prior OIG audits also found that at least $4.2 million in assistance was provided that duplicated private insurance assistance.

On January 29, 2013, the President signed the Disaster Relief Appropriations Act of 2013 into law, providing a total of $16 billion in CDBG disaster recovery funding to Hurricane Sandy victims. Subsequently, HUD issued a guidance memo, which provided circumstances in which states administering HUD funds could disregard approved SBA loans that were declined by borrowers when computing HUD grant amounts.

Estimated Completion Date: FY 2015, Quarter 3

SBA's Oversight of Loan Agents

Objectives:	Determine the extent to which (1) SBA has developed controls to effectively track, evaluate, and enforce loan agent participation and performance; and (2) SBA has identified financial and other impacts resulting from the involvement of loan agents in SBA's loan programs.
Justification:	Preliminary OIG analysis has identified high loan default rates associated with specific agents. This audit will allow SBA to better understand the risks imposed by loan agents and will make recommendations for improved oversight where necessary. This audit is related to an earlier audit of SBA's oversight of lender service providers, but is focused on SBA's oversight of third party loan agents.
Background:	A loan agent is an authorized representative, including an attorney, accountant, consultant, packager, lender service provider, or any other person representing an applicant or participant by conducting business with SBA. For years, OIG investigations have revealed a pattern of fraud by agents in the 7(a) Loan Program. These schemes have involved hundreds of millions of dollars. Since FY 2000, OIG has identified the effective tracking and enforcement of loan agents as one of the most serious management challenges facing SBA, yet SBA's oversight of loan agents has been limited, putting taxpayer dollars at risk. SBA is currently tracking loan agent information through a faxed form. However, not all agents are required to use this form and the data quality is extremely poor, making analysis of the data difficult.
Estimated Completion Date:	FY 2015, Quarter 4

Review of High-Dollar/Early-Defaulted (HD/ED) Purchased 7(a) Loans

Objectives: Determine (1) the extent to which high-dollar, early-defaulted 7(a) loans were originated and closed in accordance with SBA rules, regulations, policies, and procedures, and (2) whether material deficiencies exist that warrant recovery from lenders.

Justification: SBA OIG received appropriations in its 2014 budget to create a group to conduct in-depth analyses of high dollar, early-defaulted (HD/ED) 7(a) loans. The group will evaluate loans using an OIG-established methodology. When OIG finds lender negligence, it will recommend recovery of the guaranty. In addition, any indications of suspicious activity or fraud will be referred to the OIG Office of General Counsel or Investigations Division for further action, as appropriate.

Background: Previous SBA OIG audits identified material deficiencies in 68 percent of the HD/ED 7(a) loans reviewed, resulting in unnecessary losses to SBA. Specifically, we determined that HD/ED loans were ineligible, did not have adequate support for the equity injection, and did not have repayment ability. Furthermore, suspicious activity was identified and the OIG Investigations Division opened cases on 24 percent of the loans reviewed.

In March 2015, we reported the results of our ongoing High Risk 7(a) Loan Review Program from July 2014 to February 2015. Our review of seven early-defaulted loans identified material lender origination and closing deficiencies that justified denial of the guaranty for three loans totaling $1.8 million. To facilitate SBA's timely review and recovery of these payments, we issued three notices of finding and recommendation that included detailed descriptions of the identified material deficiencies. We recommended that SBA require the lenders to bring the three loans into compliance and, if not possible, seek recovery of approximately $1.8 million from the lenders.

Estimated Completion Date: FY 2015, Quarter 4

Review of SBA's Credit Available Elsewhere Determination

Objectives: Determine if the Office of Disaster Assistance's (ODA) accurately performs and records Credit Available Elsewhere/Credit Elsewhere Test (CET) determinations to set statutory interest rates, and (2) fairly and uniformly applies CET guidance.

Justification: The Agency determines disaster loan terms, including whether borrowers receive market or the below market interest rates. When an applicant meets the established criteria for Credit Available Elsewhere, the market interest rate applies unless the loan officer validates the applicant's claims that the market interest rate will result in a monthly payment that will cause undue financial hardship. When deemed appropriate, a hardship waiver may be granted and the preferential interest rate applies to the loan. In a recent review of Sandy Disaster home loans, we observed that hardship waivers are commonly granted to applicants simply as an accommodation to borrowers' requests and without any financial basis for the decision.

We believe that the improper CET determination may result in the following adverse effects:

- Increased subsidy cost of the program since less cash flow is generated.
- Violation of the Small Business Act, which prohibits certain types of disaster loans for borrowers with credit available elsewhere, for example mortgage refinancing and economic injury disaster loans.
- Granting unjustified interest rate waivers may undermine the statutory formula that yields a higher interest rate to borrowers with credit available elsewhere. Congress may not have intended for borrowers with credit available elsewhere to be as deeply subsidized as borrowers without access to credit.

Background: For home loans, ODA performs three CETs, credit score, cash flow, and asset tests. If the borrower has a credit score of 700 or above, the two remaining tests are performed; passing either of the two tests results in the market interest rate. The cash flow test measures whether an applicant appears to have sufficient cash flow to support a loan payment that is calculated based on the market interest rate. The asset test uses an asset ratio to measure the borrower's ability to utilize Net Worth to repair or replace the disaster damaged property.

Granting unwarranted waivers to the credit elsewhere rules may increase program subsidy costs that are borne by taxpayers. Credit program subsidy costs are the net present value of government cash outflows (excluding administrative expenses) less the net present value of the cash flow to the government (such as payments of principal and interest; and recoveries from collateral liquidation). These waivers also reduce cash flow to the government and thereby increases subsidy costs, which are paid from appropriations.

Estimated Start Date: FY 2015, Quarter 03

504 Loan Program Liquidation

Objectives: Determine if SBA maximized recovery in liquidating 504 loans.

Justification: A 2009 OIG audit found that SBA did not maximize recoveries in liquidating loans and recommended that SBA evaluate its staffing and processes. Given the significant increase in 504 loan defaults and purchases from 2009 to 2013, there are concerns that if SBA is not properly or efficiently liquidating 504 loans, the Agency is at a higher risk of loss due to insufficient recoveries. An additional concern was raised about the effectiveness of SBA's controls to ensure that any gains on the sale of collateral by first mortgage lenders are properly returned to SBA to offset losses.

Background: SBA's 504 Loan Program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings, machinery, or other fixed assets in the form of Government guaranteed loans. From 2009 to 2013, purchases of 504 loans significantly increased from $116 million to $800 million. SBA approves the majority of 504 loans currently made and therefore, SBA is responsible for liquidating the loans.

Estimated Start Date: FY 2015, Quarter 4

Review of the Office of Disaster Assistance Credit Risk Management Program

Objectives: Determine the extent to which the Office of Disaster Assistance (ODA) has developed a credit risk management program that sufficiently monitored and addressed risk across lines of business and the overall portfolio.

Justification: OMB Circular A-129 prescribes policies and procedures for justifying, designing, and managing Federal credit programs and for collecting non-tax receivables. The provisions of this Circular apply to all credit programs of the Federal Government including direct and guaranteed loan programs. The Circular states that Agencies shall ensure that credit programs are designed and administered in a manner that most effectively and efficiently achieves policy goals while minimizing taxpayer risk. Additionally, the Circular states that Agencies shall operate each credit program under a robust management and oversight structure, with clear and accountable lines of authority and responsibilities for administering programs and independent risk management functions and make every effort to target Federal assistance and mitigate risk. Further, the OMB guidance states that Agencies should develop oversight and control functions that are sufficiently independent of program management and have expertise and stature within the organization to identify emerging issues using real-time information about the outstanding portfolio, including credit and operational risks. Finally, risk mitigation with an emphasis on mitigating risk to taxpayers and improving oversight across its programs is a Strategic Objective for SBA.

Background: SBA's Office of Capital Access (OCA) has established the Office of Credit Risk Management (OCRM), responsible for the risk oversight functions of its guaranteed loan programs and participating lenders (7a, 504, Microloan, etc.). However, it is not apparent that ODA has a similar risk oversight function for its direct disaster loan assistance programs (Home, Business, EIDL). Specifically, ODA does not appear to have a sufficiently independent office dedicated to monitoring the portfolio and managing credit risk.

Estimated Start Date: FY 2015, Quarter 4

Government Contracting & Business Development Group

ONGOING AUDITS & REVIEWS

SBA's Acquisition Process for Information Technology Goods and Services

Objectives: Determine SBA's compliance with Federal information technology (IT) acquisition regulations and SBA policies in procuring IT products and services.

Justification: The results of this audit will help OIG determine if SBA has made adequate progress to address Management Challenge 11: "The SBA Needs to Effectively Manage the Acquisition Program." We also anticipate identifying additional areas for improvement within the IT acquisition process.

Background: SBA's Acquisition Division has a limited number of personnel with experience acquiring IT goods and services. As a result, SBA began using the Department of the Interior's Interior Business Center (formerly the National Business Center) to provide acquisition support to procure IT products and services. IBC provides "cradle to grave" assisted acquisition services for Federal agencies for a set fee, ranging from 2 to 12 percent of total funds obligated under each contract action. Since May 2012, IBC has awarded 27 different contracts for SBA with a total value of $27.7 million. Based upon the total value of the contracts, OIG estimates that SBA paid $1.2 million in fees. Additionally, our work during the audit of SBA's procurement of the OneTrack system revealed that the Agency did not use proper IT contracting techniques, and did not provide proper management and oversight of the contract. Further, it revealed that SBA program offices and the Office of the Chief Information Officer need to improve their coordination to plan and acquire IT products and services.

Estimated Completion Date: FY 2015, Quarter 3

SBA's Management and Administration of the Women-Owned Small Business Federal Contract Program

Objectives: To determine whether (1) contracts awarded under the Women Owned Small Business (WOSB) Program complied with set-aside requirements, and (2) firms that received set-aside contracts conformed to self-certification requirements.

Justification: While the Federal government is encouraging the use of the WOSB Program, WOSBs and Economically-Disadvantaged Women-Owned Small Businesses (EDWOSBs) selected for set-aside awards are not required to undergo a certification by SBA, but rather are required to self-certify to their eligibility and to provide documentary evidence to a repository maintained by SBA. Similar to other Federal Government programs (such as HUBZone), WOSB and EDWOSBs contracting may be vulnerable to fraud and abuse because programs using self-certification in the past have resulted in high instances of fraud. With increased incentives to award WOSB and EDWOSB contracts and only self-certification as evidence of eligibility, this may be an area of increasing fraud which led the OIG to initiate this evaluation. In December 2014, the National Defense Authorization Act for 2015 removed self-certification as an option for firms in the WOSB program. While our report will reflect this change, firms will continue to self-certify until SBA changes its regulations.

Background: The WOSB Program provides greater access to federal contracting opportunities for WOSBs and EDWOSBs. The program allows contracting officers to set aside specific contracts for certified WOSBs and EDWOSBs and will help Federal agencies achieve the existing statutory goal of 5 percent of Federal contracting dollars being awarded to WOSBs. In fiscal year 2013, the Federal government awarded approximately $15.4 billion or 4.3 percent of Federal contracting dollars to businesses in the WOSB program. The Small Business Reauthorization Act of 2000 authorized contracting officers to set aside and restrict competition to EDWOSBs and WOSBs that are considered underrepresented in the North American Industry Classification Systems (NAICS) code that is assigned to certain solicitations. To further increase EDWOSB and WOSB contract awards, the National Defense Authorization Act for 2013 removed all contract award size caps for which WOSB and EDWOSB concerns have been able to compete.

Estimated Completion Date: FY 2015, Quarter 3

Audit of Hurricane Sandy Technical Assistance Grants

Objectives:	To evaluate SBA's management and oversight of technical assistance grants awarded under the Hurricane Sandy Disaster Relief Appropriations Act of 2013.
Justification:	The Disaster Relief Appropriations Act (DRAA) of 2013 mandated that SBA expedite the delivery of assistance in disaster-affected areas. DRAA also granted the Agency the discretion to waive the requirement for matching funds that recipient organizations receiving grant funds from programs authorized by section 21(a)(4)(A) and 29(c) of the Small Business Act are traditionally required to provide. To prevent the increased risk of fraud, waste, and abuse presented by relief funds, the Office of Management and Budget required agencies to implement additional controls. To further combat this increased risk—including the risk of improper payment—SBA OIG received $5,000,000 under DRAA to provide oversight of the Hurricane Sandy Disaster.
Background:	On January 29, 2013, Congress enacted DRAA, which provided $19 million to SBA for grants to provide technical assistance to small businesses recovering from Hurricane Sandy. SBA's Office of Entrepreneurial Development carried out this mandate through its existing network of resource partners small business development centers, women's business centers, and the SCORE Association. These organizations specialized in providing small businesses with technical assistance services and were already receiving grant funds under programs authorized by the Small Business Act.
Estimated Completion Date:	FY 2015, Quarter 3

Audit of Select SBDCs' Compliance with Grant Requirements

Objectives: Determine whether SBDCs complied with grant requirements.

Justification: SBA's Small Business Development Center (SBDC) Program is the largest grant program in the Agency's grants portfolio. In FY 2014, SBDCs were awarded $111.4 million in grant funding from the Office of SBDCs within SBA's Office of Entrepreneurial Development. Each year, the amount awarded to SBDCs exceeds $100 million and far surpasses the amount SBA spends on traditional purchases each year. In the past, OIG identified co-mingling of SBDC grant funds with private-enterprise contributions and improper accounting for matching donations as significant risks to the effectiveness of the SBDC Program. Some SBDCs are co-located with women's business centers that also receive grant funding and may have directors that also serve on SBDCs' staff, creating the risk of duplicative service. In a recent review of a $625,000 grant awarded to an SBDC, the OIG determined that SBA's internal controls did not detect the SBDC's non-compliance with statutory matching requirements for grant funding and other critical grant requirements.

Background: The SBDC Program represents the Agency's largest grant-funded service delivery network. Authorized in 1980 as Section 21 of the Small Business Act, the program offers "one-stop" management and technical assistance for existing and prospective small business owners and provides a full spectrum of counseling and training services. The relationship between SBA and an SBDC is based on their governing agreement, called a "cooperative agreement," negotiated between the Agency and the funding recipient that is either an educational institution or a women's business center.

Estimated Completion Date: FY 2015, Quarter 4

Planned Audits & Reviews

Review of SBA's Unliquidated Obligations

Objectives: Determine whether SBA properly accounted for and de-obligated unliquidated obligations on contracts in a timely manner.

Justification: In January 2014, KPMG LLP, an independent public accountant, reported that SBA did not have a standard operating procedure that delegates specific responsibilities for creating an obligation, monitoring undelivered orders (UDOs) and de-obligating funds in its accounting system. KPMG noted that in February 2013, SBA issued a procedural notice that outlined the UDO review and close-out responsibilities of the Office of Planning and Budget and the Denver Finance Center staff. However, the notice was temporary and did not adequately address the responsibilities of the Denver Finance Center staff, which has been delegated the responsibility of initiating obligations and ensuring the timely de-obligation of UDOs in the accounting system.

According to SBA data, as of December 2014, it had $22 million in unliquidated obligations for contracts awarded as far back as FY 2009. This is particularly important because susceptibility for misuse increases as obligations age. The Federal Acquisition Regulation requires that firm-fixed price contracts—the majority of contracts awarded by SBA—should be closed within 6 months after the date on which the contracting officer receives evidence of physical completion. Since SBA does not have a documented process in place to track unliquidated obligations, it is imperative that each dollar they obligate is monitored and tracked with the upmost of scrutiny. Additionally, without accurate and timely reviews of unliquidated obligations, SBA may be missing opportunities to use the funds for other allowable requirements.

Background: On an annual basis, SBA awards about $130 million in contracts to acquire goods and services. SBA's Office of Acquisition personnel are responsible for awarding, managing, and closing out the Agency's contracts. When a contract is completed, personnel in the Procurement Division close the contract, which includes ensuring the contractor has provided all goods and services, the Government has received and inspected the goods and services, all invoices have been paid and unneeded funds have been de-obligated. Obligations must be liquidated within certain time limits. If obligated funds are not used for their original purpose within these time frames, SBA is required to release the funds for other allowable purposes or, depending on restrictions placed by Congress, return the money to the U.S. Treasury.

Estimated
Start Date: FY 2015, Quarter 3

Audit of the Discretionary Grants Award Process for a Select Program

Objectives: Determine the extent SBA awards discretionary grants through competitive processes that are open and fair.

Justification: SBA awards about $40 million in grants on a competitive process. These discretionary grant programs are all awarded under processes of various SBA program offices. One of the programs, Boots to Business (B2B) is a partnership that SBA launched with the Department of Defense and the Department of Veterans Affairs. For FY 2014, SBA projected grant awards totaling $7 million for the B2B Program. The Agency also requested $7 million for FY 2015. The B2B Program is delivered in partnership with SBA's resource partners, SCORE Association mentors, small business development centers, women's business centers, veterans' business outreach centers, and the Institute for Veterans and Military Families at Syracuse University.

Background: Discretionary grants are those that Federal agency officials decide (1) which eligible applicants will receive awards and (2) how much will be awarded. The Federal Grant and Cooperative Agreement Act states that competition in assistance programs should be encouraged, where appropriate. The reason for promoting competition in discretionary programs is to identify and fund the best possible projects proposed by applicants, thereby more effectively achieving program objectives. According to the Office of Management and Budget, the award cycle for a discretionary grant program that effectively promotes competition includes:

- Widespread solicitation of eligible applicants and disclosure of essential application and program information in written solicitations,
- Independent application reviews that consistently apply written program evaluation criteria, and
- Written justification for award decisions that deviate from recommendations made by application reviewers.

Estimated Start Date: FY 2015, Quarter 3

Audit of the SCORE Association's Compliance with Hurricane Sandy Grant Requirements

Objectives: Determine whether SCORE Association complied with Hurricane Sandy grant requirements.

Justification: SCORE Association (SCORE) received $840,000 in Hurricane Sandy grant funding as a primary grant recipient. In addition, SCORE received a $500,000 sub-award for Hurricane Sandy from the New York Small Business Development Center and $80,000 from the New Jersey Small Business Development Center. SCORE also received Hurricane Sandy grant funds from the States of Connecticut, Rhode Island, Maryland, and Massachusetts. During our Hurricane Sandy technical assistance audit, auditors identified indicators of improper transactions and other risks to SCORE grant funds.

Background: SCORE Association is a nonprofit volunteer organization sponsored by SBA that offers mentoring and training for small business owners. The SCORE Association is one of SBA's primary resource partners that provides services to the small business community through counseling, educational training workshops, and online assistance. Organizationally, SCORE consists of a national headquarters in Herndon, VA, and 11,000 volunteer business mentors in its 320 chapters located throughout the United States and its territories. SCORE's operations and activities must abide by Office of Management and Budget requirements governing the accountability and allowability of costs charged to the Federal cooperative agreement that the organizations enter into with SBA based on a budget and technical proposal approved by SBA. SBA's Office of Entrepreneurial Education within the Office of Entrepreneurial Development is responsible for monitoring and overseeing SCORE's operations for the effective and efficient use of Federal funds.

Estimated Start Date: FY 2015, Quarter 3

Audit of SBA's 8(a) Continued Eligibility Reviews

Objectives: Determine whether SBA's continued eligibility reviews ensure that only eligible participants continue in the 8(a) Business Development Program.

Justification: In 2012, SBA shifted the responsibility to conduct 8(a) continued eligibility reviews to the Division of Program Certification and Eligibility within the Office of Government Contracting and Business Development. Prior to this realignment, the business opportunity specialists (BOS) in SBA's district offices performed the continued eligibility reviews as part of the statutory mandated annual reviews. Personnel in this new unit operate independently of the BOSs in the district offices who are closest to the 8(a) firms. As a result, they may not have the knowledge about the company's operations and would not be able to identify indicators of fraud, abuse, and mismanagement. Additionally, prior audits by the Government Accountability Office (GAO) and SBA OIG have identified oversight weaknesses in SBA controls that are intended to help ensure that only eligible small businesses gain access to Federal contracting opportunities. In September 2014, SBA OIG reported that Federal agencies received credit towards their small business goals for contracts awarded to ineligible 8(a) firms. Eligibility reviews are critical because they could uncover program participants that no longer meet program eligibility requirements. Without appropriate oversight, SBA may allow ineligible 8(a) firms to continue participating in the 8(a) Program.

Furthermore, staff workload may pose a risk to the quality and effectiveness of the continued eligibility reviews. As part of the realignment, SBA stated that 22 positions were allocated to perform the continued eligibility reviews. However, the approximate number of 8(a) firms in the program at that time was 7,900. If all resources are devoted to conducting these reviews, then each staff is responsible for conducting 359 reviews each year, which may impact the quality of the reviews.

Background: A firm must meet several initial eligibility requirements to qualify for the 8(a) Program, and then meet other requirements to continue participation. Firms admitted in the 8(a) Program are eligible to receive business development assistance from SBA, including preferential contracting arrangements with the Federal Government. Participation in the 8(a) Program encompasses two phases over a 9-year period. In FY 2013, firms in the 8(a) Program received approximately $14 billion in Federal contracts. Sections 7(j) and 8(a) of the Small Business Act require SBA to annually determine the continued eligibility of 8(a) Program participants.

Estimated Start Date: FY 2015, Quarter 3

Audit of SBA's Oversight of the SCORE Association

Objectives:	Determine whether SBA's controls ensure SCORE Association is complying with grant requirements.
Justification:	While SCORE Association (SCORE) is considered the largest volunteer business mentor network in the Federal Government, the salary and benefits of SCORE's chief executive officer exceeded $500,000. In addition, OIG previously identified non-compliance issues pertaining to SCORE's failure to report its use of program income that totals millions each year. The risk is further increased by the fact that SBA does not perform financial examinations of SCORE. SBA reportedly expended $10.9 million on the SCORE during FY 2013 and $5.8 million in FY 2014.
Background:	SCORE Association is a nonprofit volunteer organization sponsored by SBA that offers mentoring and training for small business owners. The SCORE Association is one of SBA's primary resource partners that provides services to the small business community through counseling, educational training workshops, and online assistance. Organizationally, SCORE consists of a national headquarters in Herndon, VA, and 11,000 volunteer business mentors in its 320 chapters located throughout the United States and its territories. SCORE's operations and activities must abide by Office of Management and Budget requirements governing the accountability and allowability of costs charged to the Federal cooperative agreement that the organizations enters into with SBA based on a budget and technical proposal approved by SBA. SBA's Office of Entrepreneurial Education within the Office of Entrepreneurial Development is responsible for monitoring an overseeing SCORE's operations for the effective and efficient use of Federal funds.
Estimated Start Date:	FY 2015, Quarter 4