

AUDIT PLAN

**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
AUDITING DIVISION WORK PLAN
FY 2016**



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Overview

This work plan outlines the Small Business Administration's (SBA) Office of Inspector General (OIG) audit and evaluation priorities. Our statutory mandates are our highest priority, and with our remaining resources, we focus on those programs and operations that pose the highest risk to achieving SBA's strategic goals, objectives, and priorities; meeting budgetary and financial commitments; and complying with applicable laws, regulations, and guidance.

The plan is updated quarterly, and projects are categorized by program area 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.

We 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 deferring, canceling, or modifying projects. Our effectiveness depends on our flexibility to address other priorities as they arise.

Information Technology & Financial Management

ONGOING AUDITS & REVIEWS

SBA Executive and Political Appointee Travel Practices

Objective: Determine the effectiveness of SBA's oversight and controls over executive and political appointee travel.

Background: The Government Accountability Office considers executive travel as a sensitive payment area because senior executives may have the opportunity to bypass internal controls. The Office of the Chief Financial Officer oversees SBA's travel program and through the Denver Finance Center's Administrative Accounting Division, manages the electronic travel system, including processing travel authorizations, reimbursing employees for travel expenses, credit cards, and SBA's travel help desk. SBA OIG initiated this review to ensure that travel funds are being used appropriately and in compliance with the Federal Travel Regulations. The review was also prompted by an earlier Congressional request regarding the reporting of agency luxury travel.

**Estimated
Completion
Date:** FY 2016, Quarter 2

SBA's Contract for Transportation Services

Objective: Determine whether SBA's use of contracted transportation services and government leased vehicles complies with applicable travel and property management laws and regulations.

Background: During the OIG's review of the effectiveness of SBA's oversight and controls over employee travel, the OIG identified a 12-month contract for transportation services for SBA's Administrator and Deputy Administrator. In addition to the contract for transportation services, the SBA also leases two government vehicles from GSA for local travel for all SBA employees. This review is a spin-off of the SBA Travel Practices review to ensure that the use of contracted transportation services and two SBA government leased vehicles comply with laws and regulations and are an appropriate use of taxpayer dollars.

**Estimated
Completion
Date:** FY 2016, Quarter 2

FY 2015 FISMA Reporting Process

Objective: Assess SBA's compliance with provisions of the Federal Information Security Management Act (FISMA) and Office of Management and Budget (OMB) requirements for managing Federal information resources and protecting the privacy of individuals.

Background: FISMA is the Federal Government's information security management scorecard that tracks potential information technology (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

FY 2016 Charge Card Risk Assessments

- Objective:** Assess the effectiveness of internal controls over SBA charge card programs (i.e., purchase and travel).
- Background:** This review is required by the Government Charge Card Abuse Prevention Act of 2012. OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*, requires OIGs to conduct periodic assessments of agency charge card and convenience check programs to analyze the risks of illegal, improper, or erroneous purchases. OMB Memorandum M-13-21 defines periodic as at least annually. This review is targeted to reinforce Agency efforts to prevent waste, fraud, and abuse of Government-wide charge card programs. Inspectors General will use these risk assessments to determine the necessary scope, frequency, and number of IG audits or reviews of these programs. Per the Office of Management and Budget (OMB), Inspectors General will report to the Director of OMB 120 days after the end of each fiscal year on agency progress in implementing audit recommendations.
- Estimated Completion Date:** FY 2016, Quarter 2

Political Appointees' Salary Setting and Pay Increases

Objective: Assess SBA's practices for establishing political appointees' salary levels, and determine if pay increases comply with laws and regulations.

Background: SBA OIG initiated this review to ensure that senior political officials' salaries are processed in accordance with Federal laws and regulations. Per Federal regulations, newly appointed employee salaries should be set at the minimum rate of the highest applicable rate range for the employee's position of record. An agency may set a new employee's salary above the minimum rate if the employee exhibits superior qualifications. The use of superior qualification as a justification for setting higher pay must be documented. Further, Executive Order 13686, *Adjustment of Certain Rates of Pay*, authorized a 1 percent across-the-board increase for statutory pay systems. The 2015 pay schedules became effective on January 11, 2015. Under the Consolidated and Further Continuing Appropriations Act of 2015, the pay rates for certain senior political officials must remain at 2013 levels. This pay freeze prohibits certain senior political officials from receiving the 1 percent pay increase in 2015.

Estimated Completion Date: FY 2016, Quarter 2

Enterprise-wide Review of SBA's Compliance with Improper Payments Reporting Requirements

Objective: Determine if SBA complied with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) reporting requirements using guidelines outlined in OMB Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*.

Background: This review is mandated under the Improper Payments Elimination and Recovery Act (IPERA; Public Law 111-204), and Improper Payments Information Act of 2002 (IPIA; Pub. L. 107-300). IPIA required the head of each agency to annually review all programs and activities the agency administered, identify all such programs and activities that might be susceptible to significant improper payments, and report estimated improper payments for each program or activity identified as susceptible. For programs with estimated improper payments exceeding \$10 million, IPIA required agencies to report the causes of the improper payments, actions taken to correct the causes, and the results of the actions taken. IPERA amended IPIA to decrease the frequency with which each agency was required to review all of its programs but increased Federal agencies' responsibilities and reporting requirements to eliminate and recover improper payments and required each agency's Inspector General to determine whether the agency complied with IPIA.

Estimated Completion Date: FY 2016, Quarter 3

Evaluation of SBA's Migration to Cloud Computing

- Objective:** Evaluate SBA's cloud service contracts and processes to ensure the Agency adopts applicable standards that ensure adequate controls are in place to manage its cloud service providers (CSP) and the data that reside within its cloud systems.
- Background:** Cloud computing refers to a model for delivery of information technology (IT) services through on-demand access to a pool of configurable computer resources. Federal agencies, including SBA, are increasingly adopting cloud computing to lower IT costs and gain efficiencies. To accelerate the Federal Government's use of cloud-computing strategies, the Office of Management and Budget (OMB) requires agencies to adopt a "cloud first" policy when contemplating IT purchases and evaluate secure, reliable, and cost-effective cloud-computing alternatives when making new IT investments. Further, the Council of the Inspectors General on Integrity and Efficiency issued a report in September 2014, which identified best practices and risks that should be addressed in migrating to a cloud environment. These areas include: adequacy of service level agreements, data preservation responsibilities, audit and investigative access for OIGs, Federal agencies meeting Federal Risk and Authorization Management Program (FedRAMP) requirements, and Federal agencies developing accurate cloud inventories.
- Estimated Completion Date:** FY 2016, Quarter 3

Audit of SBA's Management of the VERA/VSIP Process

Objective: Determine whether SBA complied with Federal laws and regulations and the authority granted by the Office of Personnel Management when (1) approving employee applications for the Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Payment (VSIP) plan and (2) filling positions vacated under VERA/VSIP.

Background: OPM gave SBA the authority under the Voluntary Early Retirement Authority (VERA, or "early-out") and Voluntary Separation Incentive Payment (VSIP or "buyout") programs so that the Agency could downsize or restructure its workforce. One condition of the authority granted to SBA is that vacated positions cannot be filled using the same or substantially similar position descriptions used for the employees who left.

**Estimated
Completion
Date:** FY 2016, Quarter 4

PLANNED AUDITS & REVIEWS

Oversight of SBA's FY 2016 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 complied 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.

Background: This audit is required by the Chief Financial Officers (CFO) Act of 1990. The CFO Act requires each Federal agency to have annual audited financial statements. The purpose of a financial statement audit is to determine whether the financial statements present fairly, in all material respects, the financial position of the audited entity for the specified time period. The audited consolidated fiscal years (FYs) 2015 and 2016 financial statements for SBA are due to the Office of Management and Budget (OMB) by November 15, 2016, and November 16, 2016, respectively.

We will review the independent auditor's work papers to determine whether SBA's financial statement audit was conducted in accordance with Federal requirements. Our oversight will provide assurance the independent auditor's report and conclusions are reasonable, the audit was conducted in accordance with relevant auditing and accounting standards, and the credit models accurately estimate the subsidies associated with SBA's loan programs. The independent audit will also identify areas of vulnerability in SBA's financial systems that could be exploited.

Estimated Start Date: FY 2016, Quarter 2

Review of SBA's Controls over Cash Gifts

Objectives: Determine whether SBA complied with its gift authority and established procedures for soliciting, accepting, holding, and utilizing cash gifts.

Background: This review is mandated under Section 4(g)(2) of the Small Business Act. SBA is required to follow specific Federal laws and regulations regarding gifts and donations. The Act, along with SBA regulations in 13 C.F.R. 106 Subpart E, governs SBA's gift authority. The Act, Public Law 85-536, as amended, gives SBA's Administrator the authority to solicit, accept, hold, administer, utilize, and dispose of gifts, devises, and bequests of cash, certain property, subsistence, and services to carry-out its mission. The Agency may solicit and accept these gifts in support of cosponsored activities, SBA-sponsored activities, general SBA marketing and outreach activities, and other activities that further the mission of the Agency as determined by the Administrator. All gifts must be used in a manner consistent with the Act and any terms imposed by the donor. Under the Act, any gift, devise, or bequest of cash accepted by the Administrator shall be held in a separate account and shall be subject to audit by the Inspector General, who shall report his or her findings to Congress.

Estimated Start Date: FY 2016, Quarter 2

Evaluation of SBA's Progress in Meeting DATA Act Requirements

Objective: Assess SBA's implementation and use of data standards, as set forth in the Digital Accountability and Transparency Act of 2014 (DATA Act).

Background: The DATA Act requires that Federal agencies report financial and payment data in accordance with data standards established by the Department of the Treasury and the Office of Management and Budget. In addition, the DATA Act requires that agency Inspectors General review statistical samples of the data submitted by the agency under the DATA Act and report on the completeness, timeliness, quality and accuracy of the data sampled and the use of the data standards by the agency.

SBA was selected as a pilot for the DATA Act to assist Treasury in documenting an approach for gathering, validating and formatting data elements. As such, we will review SBA's processes, systems, and controls for reporting financial and payment data in accordance with the DATA Act.

Estimated Start Date: FY 2016, Quarter 3

Review of SBA's ITIM Program

Objectives: Determine if SBA is effectively managing its IT investments and assess SBA's IT-related strategic planning and performance measurement activities.

Background: SBA's Information Technology Investment Management (ITIM) program is overseen by the Business Technology Investment Council (BTIC). A council like BTIC is required by the Clinger-Cohen Act of 1996 as well as OMB Circular No. A-11, *Preparing, Submitting, and Executing the Budget*. Prior reviews have identified that BTIC has not adequately overseen SBA's IT investments. Specifically, SBA has not: (1) performed integrated baseline reviews at the start of SBA projects, (2) performed techstats for non-performing or poor performing projects, (3) determined quality assurance to add value to IT project, and (4) enacted independent verification and validation to projects other than the Loan Management Accounting System (LMAS) project.

An agency's management and reporting of IT investments must clearly demonstrate that each investment is needed to help meet the agency's strategic goals and mission as well as show how governance processes are used to plan, select, develop, implement, and operate IT investments. This must be demonstrated through agency major IT business cases, supporting documentation, information resources management strategic plan, enterprise roadmap, IT capital asset summary, and agency IT portfolio summary submissions. The agency must further demonstrate how the investment supports a business line or enterprise service performance goal as documented in the agency's enterprise architecture, and annual enterprise roadmap submission to the Office of Management and Budget (OMB). Documents used to manage the planning, development, implementation, and operation of IT investments and documents which demonstrate the outcomes of agency, branch, and bureau governance decisions should be maintained and made readily available if requested by OMB.

Estimated Start Date: FY 2016, Quarter 4

FY 2016 FISMA Reporting Process

Objective: Assess SBA's compliance with provisions of the Federal Information Security Management Act (FISMA) and Office of Management and Budget (OMB) requirements for managing Federal information resources and protecting the privacy of individuals.

Background: FISMA is the Federal Government's information security management scorecard, which tracks potential information technology (IT) security vulnerabilities and the implementation of a secure IT environment within the Federal Government. FISMA 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 Start Date: FY 2016, Quarter 4

External Peer Review

Objectives: Determine whether the reviewed OIG audit organization (1) has an established quality control system; and (2) is adequately complying with its quality control system to provide the audit organization with reasonable assurance of conforming to applicable professional standards.

Background: Government Auditing Standards require audit organizations that perform audits or attestation engagements to have an appropriate system of quality control and to undergo external peer reviews at least once every 3 years. The Council of the Inspectors General on Integrity and Efficiency has requested that SBA OIG perform an external peer review of the Department of Interior during fiscal year (FY) 2016.

**Estimated
Start date:** FY 2016, Quarter 4

Credit Programs
ONGOING AUDITS & REVIEWS

Review of HD/ED Purchased 7(a) Loans

Objectives: Determine (1) the extent to which high-dollar, early-defaulted (HD/ED) 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.

Background: OIG will conduct in-depth analyses of HD/ED 7(a) loans. 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 OIG's Office of General Counsel or Investigations Division for further action, as appropriate. Previous SBA OIG audits identified material deficiencies in 68 percent of the HD/ED 7(a) loans reviewed, resulting in unnecessary losses to SBA.

In March 2015, we reported that 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:** Ongoing

CIGIE Interagency Review of Disaster Relief Appropriations Act of 2013

Objective: Compile and report on SBA’s Disaster Relief Appropriations Act of 2013 funding, expenditures, and monitoring.

Background: This review will be conducted as part of a cross-cutting project sponsored by the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

The Disaster Relief Appropriation Act of 2013 provided \$60 billion to 19 Federal entities for necessary expenses related to the consequences of Hurricane Sandy and other presidentially-declared disasters in 2011, 2012, and 2013. Eight Federal entities each received more than \$500 million in aid. Congress separately tasked some but not all of the entities and their Inspectors General to provide oversight.

The Act provided SBA with over \$800 million to fund direct loans, grants, and administrative costs associated with Hurricane Sandy. Specifically, the Act provided SBA with \$20 million to award grants and cooperative agreements to its resource partners to provide technical assistance related to disaster recovery, response, and long-term resiliency to small businesses that are recovering from Hurricane Sandy; \$520 million to be placed in the Disaster Loans Program account for the cost of direct disaster loans related to Hurricane Sandy to remain available until expended; and \$260 million for loan making and servicing administrative expenses used to carry out the Direct Loan Program in response to Hurricane Sandy to remain available until expended. The act also provided OIG with \$5 million for necessary expenses related Hurricane Sandy.

**Estimated
Completion
Date** FY 2016, Quarter 2

Audit of Early-Defaulted Hurricane Sandy Loans

Objectives: Determine the extent to which the Office of Disaster Assistance (ODA) effectively mitigated SBA's risk of loss on Hurricane Sandy disaster loan originations that defaulted early.

Background: In order to be eligible for disaster assistance, SBA must have reasonable assurance of an applicant's ability to repay any proposed loan. SBA requirements state that cash flow, not collateral, is the basis for establishing repayment ability. In general, ODA uses two methods for determining reasonable assurance of repayment ability: the fixed debt method for home and business loans, and the results of a financial analysis of the business. Further, while the SOP provides guidance to loan specialists to evaluate repayment ability the guidance permits a wide range of flexibility based upon the judgment and discretion of the loan specialist. As a result, loan specialists may be misinterpreting guidance or placing unreasonable risk on SBA and Federal taxpayers. Prior audits of early defaulted 7(a) loans have identified material deficiencies in both lender and SBA underwriting analyses that directly contributed to the early default.

Estimated Completion Date: FY 2016, Quarter 2

504 Loan Program Liquidation

Objectives: Determine the extent to which SBA (1) effectively managed the 504 liquidation portfolio and (2) maximized recovery when liquidating 504 loans.

Background: SBA's 504 Loan Program provides small businesses with long-term, fixed-rate financing to purchase 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 made and therefore, SBA is responsible for liquidating the loans. 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.

**Estimated
Completion
Date:** FY 2016, Quarter 3

PLANNED AUDITS & REVIEWS

ODA's Management of Disaster Responses

Objectives: To determine (1) the extent SBA is effectively managing the volume of electronic loan applications (ELAs) and (2) whether SBA's modeling is effective in projecting resources needed to properly respond to a disaster.

Background: SBA experiences varying and often unpredictable levels of disaster loan application activity. During FY 2015, SBA approved over \$300 million in disaster loans in the four States with the highest disaster activity: California was affected by floods, mudslides, and wildfires; Texas and Oklahoma were affected by tornados, strong winds, and flooding; and Michigan was affected by severe storms and flooding. During the first quarter of FY 2016, SBA approved over \$59 million in loans in South Carolina due to flooding. These disasters create surges of applications and SBA needs to expand and contract its disaster workforce in response to the volume of loan applications.

During the response to Hurricane Sandy, SBA was challenged by an unexpectedly high volume of ELAs as well as inadequate staffing levels. This influx of ELAs, along with challenges to obtain, train, and reallocate human capital, caused a backlog of applications, resulting in processing delays. SBA officials expressed they were not prepared for the early application submissions after Hurricane Sandy. Additionally, the Agency acknowledged it had relied on inaccurate expectations of staff productivity, which caused SBA to delay its decision to increase its workforce.

In response to the Hurricane Sandy experiences, SBA made changes to its Disaster Preparedness and Recovery Plan and Disaster Playbook that address the expected early usage of ELA and the resulting impact on staffing and resources. This audit will determine the effectiveness of ODA's disaster response from June through December 2015.

**Estimated
Start date:** FY 2016, Quarter 2

Audit of SBA's Oversight of the Secondary Market

Objectives: Determine the extent to which (1) SBA's oversight of lenders participating in the secondary market mitigates its risk of loss and (2) 7(a) loans sold on the secondary market originated and closed in accordance with SBA's rules, regulations, policies, and procedures.

Background: The secondary market was established in the 1970s to provide greater liquidity to lenders and thereby expand the availability of commercial credit for small businesses. When a borrower defaults on a loan that was sold on the secondary market and the lender refuses to buy back the loan, SBA must purchase the guaranty from the registered holder. After purchase, SBA performs a post-purchase review to determine if the purchase amount was correct or if recovery should be sought from the lender due to noncompliance with SBA procedures in originating, servicing, and liquidating the loan.

As of May 31, 2015, the National Guaranty Purchase Center had accrued a backlog of approximately 1,600 loans totaling \$531 million (SBA's share of the outstanding balance) that needed review. Until these loans receive their required post purchase review, any amount owed to SBA by lenders cannot be determined and collected; the loans cannot be charged off; and borrowers and/or guarantors cannot be referred to collection agencies, the Internal Revenue Service or the Department of the Treasury.

**Estimated
Start Date:** FY 2016, Quarter 3

Audit of Applicant Eligibility for Disaster Loans Made During the Hurricane Sandy Extended Application Period

Objectives: To determine whether (1) Hurricane Sandy disaster loans duplicate benefits already provided by other entities, (2) SBA has implemented controls to ensure loan applicants are requesting loans for damages or losses specifically related to Hurricane Sandy, and (3) loan officers are adhering to the procedures when determining economic injury disaster loan (EIDL) amounts.

Background: In October 2012, Hurricane Sandy devastated portions of the mid-Atlantic and northeastern United States. The primary means for businesses and homeowners to obtain long-term Federal financial assistance in the wake of disasters such as Hurricane Sandy is the SBA's Disaster Assistance Program.

The Government Accountability Office (GAO) found that SBA did not meet its timeliness goals for processing Hurricane Sandy business loan applications. According to GAO, SBA stated that it was challenged by an unexpectedly high volume of loan applications that it received early in its response to Hurricane Sandy. Congress concluded that this resulted in many affected businesses and homeowners being unable to apply for financing from SBA.

To address this concern, the Hurricane Sandy Relief and Disaster Loan Program Improvement Act of 2015 amended the Small Business Act to ensure that those in the disaster areas will be able to rebuild and to revitalize the adversely affected communities. The Act provides Hurricane Sandy survivors an additional year to apply for SBA disaster loans. It also requires the Office of Inspector General to perform a review of the controls for ensuring applicant eligibility for loans made under the revised deadlines provided by the Act.

**Estimated
Start date:** FY 2016, Quarter 3

Review of SBA's Credit Available Elsewhere Determination

Objectives: Determine if the Office of Disaster Assistance (ODA) (1) 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.

Background: SBA determines disaster loan terms, including whether borrowers receive market or the below-market interest rates. 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.

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. Granting unwarranted waivers to the credit elsewhere rules may increase program costs by deeply subsidizing borrowers with credit available elsewhere.

**Estimated
Start Date:** FY 2016, Quarter 4

Review of the ODA Credit Risk Management Program

Objective: 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.

Background: 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. Agencies shall also make every effort to target Federal assistance and mitigate risk. Further, the 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.

**Estimated
Start Date:** FY 2016, Quarter 4

Audit of Loan Liquidation and Charge-Off Activities at NGPC

- Objective:** Determine if the National Guarantee Purchase Center (NGPC) adequately manages loans in liquidation status to maximize recovery and ensure timely charge-off.
- Background:** During the fiscal year (FY) 2014 financial statement audit, KPMG determined that SBA's NGPC was not timely charging off loans that had exhausted all reasonable chances of recovery through liquidation. OIG analysis of NGPC's liquidation portfolio as recent as April 2015 determined that over 6,200 purchased loans with outstanding guaranteed balances of over \$2 billion have been in a liquidation status for at least 5 years. Further, approximately 4,000 of these loans for \$1.5 billion are secondary market purchases with average dates from purchase exceeding 6 years. SBA's Office of Credit Risk Management has raised concerns that the rate of 7(a) loans in active default status of 3 years or more has increased from historic averages of 20 percent to nearly 32 percent in recent years, its highest level to date. Finally, NGPC established a FY 2014 portfolio goal to charge off at least \$750 million 7(a) loans that are over 2 years delinquent and planned to use contracted staff, unfamiliar with SBA requirements, to support this effort. As a result, there may be an increased risk for improper payments and loss to SBA and taxpayers.
- Estimated Start Date:** FY 2016, Quarter 4

Government Contracting & Business Development

ONGOING AUDITS & REVIEWS

Audit of SBA's Oversight of the B2B Program

Objectives: Determine whether SBA (1) awarded the Boots to Business (B2B) grant in accordance with applicable Federal laws, regulations, and other guidance; (2) ensured program goals and objectives were achieved; and (3) ensured grant costs were allowable and supportable.

Background: The B2B Program started in July 2012 as a pilot initiative to provide entrepreneurial training to transitioning military service members. In fiscal year (FY) 2014, SBA's Office of Veterans Business Development received \$6.9 million for the B2B Program. In April 2014, SBA awarded Syracuse University a discretionary grant for \$3 million to provide entrepreneurship education at military installations across the country and overseas under the B2B Program. The performance period of April 1, 2014, through March 31, 2015, was subsequently extended to June 30, 2015, to allow Syracuse University additional time to complete its project and spend its remaining grant funds of \$527,063.

**Estimated
Completion
Date:** FY 2016, Quarter 2

Audits of SBA's 8(a) Business Development Program Participants' Eligibility

Objective: Determine whether SBA's procedures and processes ensure 8(a) Business Development program participants meet eligibility requirements.

Background: The 8(a) Business Development Program was created to assist small disadvantaged businesses compete in the American economy through business development. Firms admitted into the 8(a) Program are eligible to receive preferential contracting arrangements, including competitive and sole source set-aside contracts with the Federal Government. According to the fiscal year (FY) 2014 small business goaling report, the number of contract actions for 8(a) small businesses totaled 91, 651, which represented about \$16.3 billion in Federal contract funding.

As of October 2, 2015, the 8(a) Program included about 5,200 participants. There have been longstanding concerns about fraud in these SBA preferential contracting programs. Prior audits by the Government Accountability Office 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.

Participation in the 8(a) Program encompasses two phases over a 9-year period. A firm must meet several initial eligibility requirements to qualify for the 8(a) Program and then meet other requirements to continue participation. Initial and continued eligibility reviews are critical in uncovering program participants that do not meet program eligibility requirements.

Since 2012, SBA's Division of Program Certification and Eligibility (DPCE) within the Office of Government Contracting and Business Development has been responsible for performing both the initial and continued eligibility reviews of 8(a) applicants. However, as of September 2015, the continued eligibility review function has not been fully transitioned to DPCE, requiring the business opportunity specialists in SBA's district offices to continue performing the 8(a) continued eligibility reviews as part of the statutory mandated annual reviews. Further, SBA is implementing new procedures intended to streamline the 8(a) application process by reducing the amount of documentation required from applicants and used to determine program eligibility. Without adequate controls, SBA may allow ineligible 8(a) firms to participate in the 8(a) Program.

**Estimated
Completion
Date:** Ongoing

Audit of Hurricane Sandy Technical Assistance Grants

Objective: Determine whether recipients of SBA Sandy technical assistance grants complied with grant requirements.

Background: 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.

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:** Ongoing

PLANNED AUDITS & REVIEWS

Audit of SBA's Oversight of the SCORE Association

- Objective:** Determine whether SBA's controls ensure that the SCORE Association (SCORE) is complying with grant requirements.
- Background:** SCORE is a nonprofit volunteer organization sponsored by SBA that offers mentoring and training for small business owners. SCORE is one of SBA's primary resource partners and 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 2016, Quarter 2

Audit of SBA's Grant Closeout Process

Objectives: Determine whether the Small Business Administration: (1) closed expired grants in a timely manner, (2) ensured unused grant funds were de-obligated, and (3) ensured no draw-downs occurred on expired grant funds.

Background: Each year, SBA awards grants totaling more than \$200 million to public and private organizations to deliver services and provide assistance to eligible individuals and small businesses. Prior OIG audits have identified weaknesses in SBA's internal controls and oversight of grant funds, including standard operating procedures that have not been updated in more than 30 years. In addition, a report issued by the Government Accountability Office (GAO) in 2012 (GAO-12-360) raised concerns about Federal agencies' untimely grant closeout procedures. In the report, GAO stressed that by keeping dormant grant accounts open, agencies are more susceptible to fraud, waste, and mismanagement.

**Estimated
Start Date:** FY 2016, Quarter 3

Audit of SBA's Unliquidated Obligations

Objective: Determine whether SBA properly accounted for and deobligated unliquidated obligations on contracts in a timely manner.

Background: SBA awards about \$130 million yearly 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 deobligated. 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 Department of the Treasury.

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 utmost scrutiny. Additionally, without accurate and timely reviews of unliquidated obligations, SBA may be missing opportunities to use the funds for other, allowable requirements.

**Estimated
Start Date:** FY 2016, Quarter 4