

**REVIEW OF SBA'S JOB CREATION DATA  
UNDER THE RECOVERY ACT**

*Report Number: ROM 10-15*

*Date Issued: April 30, 2010*



U.S. Small Business Administration  
Office Inspector General

# Memorandum

To: Eric Zarnikow  
Associate Administrator for Capital Access

Date: April 30, 2010

From: Debra S. Ritt /S/ **Original Signed**  
Assistant Inspector General for Auditing

Subject: Review of SBA's Job Creation Data Under the Recovery Act  
Report Number ROM 10-15

This memorandum presents the results of our review of job creation and retention statistics reported by the Small Business Administration (SBA) under the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Office of Inspector General (OIG) conducted this review in response to the Recovery Accountability and Transparency (RAT) Board's focus on ensuring the reliability of job creation and retention data reported by Federal agencies. Our objective was to determine whether lenders reliably reported job creation and retention statistics. While SBA's two major loan programs, known as the 7(a) and 504 loan programs, are not subject to recipient reporting requirements under section 1512 of the Recovery Act, SBA reports job creation and retention statistics in its monthly *Recovery Act Program Performance Report* published on its website.

To conduct our review, we reviewed a sample of 30 Recovery Act loans from 7(a) program which disbursed between March 16, 2009 and May 31, 2009. We also reviewed a sample of 30 Recovery Act loans from the 504 program which were approved between March 16, 2009 and June 30, 2009. The samples were selected from loan data extracted from SBA's Loan Accounting System. For each sampled loan, we reviewed the loan file to determine whether there was documentation provided to support job statistics. Because SBA does not require support in the loan file, we could not determine the reliability of borrower reported data. Instead, we focused our efforts on determining whether lenders and Certified Development Companies (CDCs) collected and reported job statistics consistent with SBA's guidance. To gain an understanding of SBA guidance and the job reporting process, we reviewed SBA regulations, standard operating procedures (SOP), and policy notices pertaining to job creation and retention. We also interviewed Agency officials and lenders. See Appendix I for a full description of our scope and methodology.

We conducted our review from September 2009 to January 2010 in accordance with *Government Auditing Standards* prescribed by the Comptroller General of the United States.

## **BACKGROUND**

On February 17, 2009, the Recovery Act was signed into law in response to the economic crisis. The Recovery Act provided SBA with \$730 million to increase the availability of credit to small businesses. One of the public policy goals of the Act was to sustain and create jobs during an economic downturn. To measure the performance of the Recovery Act, the Office of Management and Budget (OMB) required Agencies to develop program plans and quantifiable measures to assess the impact of Recovery Act programs. SBA selected job creation and retention as a performance measure for its Recovery Act loan programs.

The Recovery Act also established the Recovery Accountability and Transparency (RAT) Board to coordinate and conduct oversight of funds distributed under the Act. Because of the heightened focus on jobs, the RAT Board emphasized to Offices of Inspector General the importance of ensuring the reliability of job creation and retention data being reported by Federal agencies.

The 7(a) Loan Guaranty program is SBA's largest lending program and is the principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. Under this program, SBA guarantees a portion of loans made and administered by commercial lending institutions. Community Express is a pilot subprogram of 7(a) in which borrowers also receive technical and management assistance from a local non-profit provider and/or from participating lenders. SBA's 504 Loan program provides small businesses with long-term, fixed-rate financing, in the form of government-guaranteed loans, for the purchase of land, buildings, machinery, and other fixed assets. These loans are issued through a partnership with CDCs and private sector third-party lenders and are funded through the issuance of government-guaranteed debentures.

Although job creation and retention are not criteria for 7(a) program eligibility, applicants are required to report on their application the number of employees at the time of application and the number of employees "if [the] loan is approved." From this data, lenders determine the number of jobs created and retained and transmit the information to SBA. In the 504 loan program, where job creation and retention is a program criteria, applicants are required to report the number of current employees, jobs to be created in the next 2 years, and jobs to be retained because of the loan; CDCs transmit this data to SBA. The Agency reports "jobs created/retained" for these programs in its monthly *Recovery Act Program Performance Report*. See Appendix II for an example of this report.

A prior OIG audit<sup>1</sup> raised questions about whether SBA had the appropriate controls to ensure the integrity of lender-reported job data and determined that SBA may have overstated job creation and retention. While the prior audit focused on SBA's management of the data in its databases, this review reports on how the information is gathered and transmitted to the Agency.

## **RESULTS**

CDCs reported job creation and retention statistics consistent with 504 program guidance. However, because SBA has not defined or provided lenders guidance on how jobs retained are to be measured in the 7(a) program, lenders are generally reporting all existing jobs at the applicant's business as "jobs retained." As a result, SBA's reporting of 7(a) job retention is unclear and misleading. The risk of confusion is compounded by the fact that "jobs created/retained" for the 7(a) and 504 loan programs are reported side by side, even though they are not comparable.

### **Job Creation and Retention Reporting by CDCs Is Consistent with 504 Program Guidance**

CDCs reported job statistics for the loans in our sample consistent with 504 program guidance. SBA defines both job creation and retention in SOP 50 10 5, and provides additional guidance in its *CDC Annual Report Guide*. SOP 50 10 5 defines a job opportunity as "a full time (or equivalent) permanent job created within two years of receipt of 504 funds, or retained in the community because of a 504 loan." Further, the *CDC Annual Report Guide* defines jobs retained as "jobs that otherwise might be lost to the community if the project was not done." It also specifically instructs CDCs not to "count all existing jobs as being retained if they were not at risk of being lost."

The 504 loan application (Form 1244) specifically asks CDCs to report: (1) the number of jobs to be created in the next 2 years; and (2) the number of jobs to be retained because of the project. CDCs we interviewed demonstrated a consistent understanding of SBA's definitions and guidance on the reporting of job statistics.

### **SBA's Reporting of 7(a) Job Retention is Unclear and Misleading**

In contrast to job retention reported in the 504 program, 7(a) lenders reported all current employees at the time of application as retained jobs for 90 percent of the loans in our sample. The job data reported by lenders for each sampled loan is included in Appendix III.

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<sup>1</sup> *Review of Controls Over Job Creation and Retention Statistics Reported by SBA Under the American Recovery and Reinvestment Act of 2009*, ROM 10-04, December 4, 2009.

Lender reporting was impacted by the lack of lender guidance and a definition of “jobs retained” for the 7(a) program. A review of Part 120 of Title 13 of the Code of Federal Regulations, SOP 50 10 5, and SBA policy notices disclosed no lender guidance related to reporting jobs retained. Agency officials confirmed that no guidance has been issued.

Further, the 7(a) loan application (Form 4<sup>2</sup>) does not ask borrowers to report jobs retained. Instead, the form asks the applicants to report the number of employees at time of application and the number of employees “if [the] loan is approved.” From this information, the lender must report the number of current employees, jobs created, and jobs retained to report to SBA through Form 1920SX or E-Tran<sup>3</sup>. While the 7(a) Community Express application (Form 1919<sup>4</sup>) specifically asks for jobs retained, borrowers and lenders reported all employees at the time of application as jobs retained. We found this also to be the case for the 11 Community Express loans in our sample. SBA Forms 4, 1919, and 1920SX are attached in Appendix IV for reference. Lenders we interviewed told us that, in the absence of guidance or training from the Agency, they were left to interpret jobs retained as all current employees.

In implementing the Recovery Act, OMB stated specific accountability objectives, including that the public benefits of these funds be reported clearly, accurately, and in a timely manner. The lack of a definition for “jobs retained” and the discrepancy in the forms used to collect job statistics from 7(a) borrowers and lenders has resulted in a performance metric with questionable clarity and transparency. In SBA’s *Recovery Act Program Performance Report*, the same term is effectively used to describe total employment in the 7(a) program and jobs at risk of being lost in the 504 program, which results in unclear and misleading reporting. Thus, a reader might interpret that all jobs would be lost without the 7(a) loan. The risk of reader confusion is compounded by the fact that jobs created/retained for the 7(a) and 504 loan programs are reported side by side, even though they are measured on a different basis, and cumulatively reported in SBA’s performance report.

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<sup>2</sup> Form 4 is the borrower portion of the 7(a) loan application. It is used for standard 7(a) loans and loans approved under delegated authority through the Preferred Lenders Program.

<sup>3</sup> Form 1920SX (Part B) is a supplemental information form completed by lenders when submitting loan information through the Preferred Lenders Program. Alternatively, these lenders can submit loan information to SBA electronically using SBA’s secure web site, E-Tran.

<sup>4</sup> Form 1919 is the borrower portion of the loan application for SBA’s express programs, including Community Express.

## RECOMMENDATIONS

We recommend that the Associate Administrator for Capital Access:

1. Define “jobs retained” for the 7(a) program, provide justification for the approach, and issue guidance to lenders on this change. Furthermore, disclose any differences in metrics between programs in subsequent monthly *Recovery Act Program Performance Reports* and revise the cumulative “jobs created/retained” metric to reflect any change.

## AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

On March 25, 2010, we provided a draft of the report to SBA's Office of Capital Access for comment. On April 27, 2010, the Associate Administrator for Capital Access provided written comments, which are contained in their entirety in Appendix V. Management agreed with our findings and stated that it would provide a definition for the jobs retained in the 7(a) program and will issue guidance to lenders on this change. SBA will also provide definitional guidance on the metrics contained in its monthly *Recovery Act Program Performance Reports* and disclose any material differences in these metrics. Management also noted that a technical clarification was needed to footnote 3, indicating that SBA Form 1920SX (Part B) is a supplemental information form completed by lenders. The memorandum was modified to add clarifying language to footnote 3, as requested.

The Associate Administrator’s comments were responsive to our recommendation.

## ACTIONS REQUIRED

Please provide your management decision for the recommendation on the attached SBA Form 1824, Recommendation Action Sheet, within 30 days from the date of this report. Your decision should identify the specific action(s) taken or planned for the recommendation and the target date(s) for completion.

We appreciate the courtesies and cooperation of the Small Business Administration during this audit. If you have any questions concerning this report, please call me at (202) 205-[FOIA Ex. 2] or Debra Mayer, Recovery Oversight Group, at (202) 205-[FOIA Ex. 2].

## **APPENDIX I. SCOPE AND METHODOLOGY**

Our audit objective was to determine whether lenders reliably reported job creation and retention statistics.

To determine whether lenders reliably reported job creation and retention statistics, we reviewed a sample of 30 Recovery Act loans from 7(a) program which disbursed between March 16, 2009 and May 31, 2009. We also reviewed a sample of 30 Recovery Act loans from the 504 program which were approved between March 16, 2009 and June 30, 2009. Of the 30 7(a) loans, 11 were Community Express loans. The samples were selected from loan data extracted from SBA's Loan Accounting System. For each sampled loan, we reviewed the loan file to determine whether there was documentation provided to support job statistics. Because SBA does not require support in the loan file, we could not determine the reliability of borrower reported data. Instead, we focused our efforts on determining whether lenders and CDCs collected and reported job statistics consistent with SBA's guidance. For each loan sampled, we interviewed the 7(a) lender or 504 Certified Development Company (CDC) to identify lender/CDC efforts to collect and validate borrower-reported job statistics and to gain an understanding of their interpretation of SBA guidance related to job data. Finally, we reconciled job data provided by lenders and CDCs to SBA's Loan Accounting System to validate SBA's job data.

To gain an understanding of SBA guidance and the job reporting process we reviewed SBA regulations, standard operating procedures (SOPs), and policy notices pertaining to job creation and retention data. We conducted interviews with agency officials and we examined SBA's public job creation and retention reporting.

We conducted our review from September 2009 to January 2010 in accordance with *Government Auditing Standards* prescribed by the Comptroller of the United States and included such tests as were considered necessary to provide reasonable assurance of detecting abuse or illegal acts.

## APPENDIX II. SBA RECOVERY ACT PERFORMANCE REPORT

### Job Creation/Retention Reporting Section:



## January 2010 Recovery Act – Program Performance Report

Program	Metric	Recovery Act Target	Actual as of January 31, 2010
7(a)	Recovery Act Loans Approved, \$ <sup>1</sup>	\$11,100,000,000	\$8,749,552,012
	Jobs Created/ Retained, Estimated <sup>2</sup>	384,200	413,265
	Recovery Act Loans Approved, \$ <sup>1</sup>	\$4,520,000,000	\$4,082,362,000
504	Jobs Created/ Retained, Estimated <sup>2</sup>	66,200	76,513
	Loans Approved by Microlenders, \$	\$32,300,000	\$1,017,099
Microloans <sup>3</sup>	Jobs Created/ Retained, Estimated	9,800	220
	Loans Approved, \$	\$336,000,000	\$184,796,519
ARC	Jobs Created/ Retained, Estimated <sup>2</sup>	55,500	44,547
	Bid Bonds Issued Over \$2M, \$	\$114,000,000	\$202,820,000
Surety Bonds	Final Bonds Issued Over \$2M, \$	\$33,000,000	\$57,060,000
	Jobs Created/ Retained, Estimated <sup>4</sup>	220	287

The Recovery Act period is from Feb. 17, 2009 to Sept. 30, 2010

**Footnotes:**

- 1 This is the total gross loan value approved. Typically, due to cancellations and loan size reductions, 15 – 20% of gross approvals are not disbursed. This goal includes an additional \$125 million in Recovery Act funds appropriated.
- 2 Data is self-reported by the borrower and appears in the SBA loan application form.
- 3 Microlenders have two years from date of their loan approval to make loans to Microborrowers.
- 4 Data is calculated using historical ratios. The surety bond application form is being revised to collect this information from the applicant.

### APPENDIX III. JOB DATA FOR 7(A) SAMPLE LOANS

Sample #	Jobs Created	Jobs Retained	# of Employees
1	0	5	5
2	3	0	5
3	4	12	12
4	6	0	0
5	0	7	7
6*	2	3	3
7	0	2	2
8*	0	4	4
9*	5	5	5
10	5	17	17
11	0	6	6
12	0	5	5
13	5	45	40
14	2	12	12
15	1	4	5
16	0	0	2
17*	0	2	2
18	3	9	9
19*	1	1	1
20*	0	4	4
21*	2	1	1
22*	0	2	2
23*	0	1	1
24*	1	5	5
25	10	1	1
26	7	5	5
27	0	7	7
28*	0	1	1
29	0	10	10
30	3	2	2

\* Denotes Community Express Loans

## APPENDIX IV. SBA LOAN APPLICATION FORMS

### Form 4 (selection)

U. S. Small Business Administration <b>APPLICATION FOR BUSINESS LOAN</b>					OMB Approval No. 3245-0016 Expiration Date: 11/30/2012
Individual		Full Address			
Name of Applicant Business				Tax I.D. No. or SSN	
Full Street Address of Business				Tel. No. (inc. Area Code)	
City	County	State	Zip	Number of Employees (including subsidiaries and affiliates)	
Type of Business			Date Business Established	At Time of Application <input type="text"/>	
Bank of Business Account and Address				If Loan is Approved <input type="text"/>	
				Subsidiaries or Affiliates _____ (Separate for above)	

Form 1919 (selection)

OMB Control No.: 3245-0348
Expiration Date: 6/30/2010

SBA EXPRESS AND PILOT LOAN PROGRAMS (EXPORT EXPRESS, COMMUNITY EXPRESS, AND PATRIOT EXPRESS) BORROWER INFORMATION FORM

(To be completed by each proprietor, partner, officer, director, holder of 20% or more of voting stock of a corporate applicant any other person, including a hired manager, who has authority to speak for and commit the borrower in the management of the applicant business. For clarification regarding any of the questions, the person completing this form should contact the SBA Participating Lender that will be processing the loan request.)

APPLICANT BUSINESS NAME: \_\_\_\_\_

INDIVIDUAL NAME: \_\_\_\_\_ TITLE: \_\_\_\_\_

SOCIAL SECURITY NUMBER: \_\_\_\_\_ DATE OF BIRTH: \_\_\_\_\_

PLACE OF BIRTH (City & State or Foreign Country): \_\_\_\_\_

ALL QUESTIONS MUST BE ANSWERED

- (1) Are you presently under indictment, on parole or probation? Yes No
(2) Have you ever been charged with or arrested for any criminal offense other than a minor vehicle violation... Yes No
(3) Have you ever been convicted, placed on pretrial diversion, or placed on any form of probation including adjudication withheld pending probation for any criminal offense other than a minor vehicle violation? Yes No
(4) Has an application for the loan you are applying for now ever been submitted to SBA under any program? Yes No
(5) Are you presently debarred, suspended, proposed for disbarment, declared ineligible, or voluntarily excluded from participation in this transaction by any Federal department or agency? Yes No
(6) If you are at least a 50% or more owner of applicant business, are you more than 60 days delinquent on any obligation to pay child support arising under an administrative order, court order, repayment agreement between the holder and a custodial parent, or repayment agreement between the holder and a state agency providing child support enforcement services? Yes No

If 'YES' to any above question, this application may not be submitted under this expedited procedure except as described in the applicable SOP or notice. Please contact the local SBA office for assistance.

- (7) Are you a U.S. Citizen? Yes No
If 'No,' are you a Lawful Permanent resident alien? Yes No

Provide Alien Registration Number \_\_\_\_\_

- (8) Are any of your business' products or services exported or do you plan to begin exporting as a result of this loan? Yes No
(9) If 'Yes' to (8) above, estimated total export sales this loan will support: \$
(10) Is your business a franchise? Yes No
(11) Have you, the applicant business, its affiliates, or any business owned or controlled by you, the applicant business or any of its Associates ever requested government financing? Yes No
If Yes, is any of the financing currently delinquent? Not Applicable Yes No
Did any of this financing ever default and cause a loss to the government? Not Applicable Yes No
(12) Have you, the applicant business, its affiliates, or any businesses owned or controlled by you, the applicant business or any of its Associates had a previous SBA loan? Yes No
If yes, is the loan either current or paid in full? Not Applicable Yes No

- (13) How many employees does your business have?
(14) How many jobs will be created by the new loan? How many retained?

Form 1920SX (Part B) (selection)

OMB Control No.: 3245-0348  
Expiration Date: 6/30/2010

**Supplemental Information for SBA Express, Pilot Loan Programs and PLP Processing**

- SBA Express (Revolving: Yes  No  Patriot Express (Revolving: Yes  No  Export Express (Revolving: Yes  No  )
- Community Express (Revolving: Yes  No  (\$25M or less  HUBZone  CRA Area  Special District Market  )
- PLP (IT: Yes  No  ) (EWCP: Yes  No  )

Borrower Name:

Trade Name (dba):  (if no trade name, enter "NA")

Borrower Contact:  Mr  Ms First  MI Last

Borrower Street:

Borrower Zip Code:  Borrower Phone #:

Borrower SSN #:  (must include SSN # for principal of borrower)

Employer ID #:  (if available)

Borrower State:  (2 letter abbreviation)

Borrower County:  Borrower City:

Lender Name:

Lender ID #:  Loan Maturity:  (in months)

Loan Amount: \$  SBA Guaranty %:  %

Construction Amount: \$   New Construction?

Interest Rate: Fixed <input type="checkbox"/> Variable <input type="checkbox"/>	<input type="checkbox"/> Prime rate* = _____ + Spread _____ = Loan Interest Rate: _____
	<input type="checkbox"/> LIBOR *(1 month) + 3.0% = _____ + Spread _____ = Loan Interest Rate: _____
	<input type="checkbox"/> SBA Peg Rate = _____ + Spread _____ = Loan Interest Rate: _____
*in effect on the first business day of the month as identified in a national financial newspaper	

Exporter? Yes  No  If yes, amount in export sales applicant has projected loan will support \$ \_\_\_\_\_

- New Business
- Outstanding SBA Loan
- New Loan is Collateralized

Rural  Urban

NAICS Code:

Number of Employees:  Number of Jobs Created:  Number of Jobs Retained:

## APPENDIX V. MANAGEMENT COMMENTS



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

April 27, 2010

**TO:** Debra S. Ritt  
Assistant Inspector General for Auditing

**FROM:** Eric R. Zarnikow  
Associate Administrator  
Office of Capital Access

**SUBJECT:** Review of SBA's Job Creation Data Under the Recovery Act  
Project No. 9513

Thank you for the opportunity to respond to the Draft Report on the Review of SBA's Job Creation Data Under the Recovery Act Project No. 9513 dated March 25, 2010. Please find our response to the proposed recommendation below.

1. Define "*jobs retained*" for the 7(a) program, provide justification for the approach, and issue guidance to lenders on this change. Furthermore, disclose any differences in metrics between programs in subsequent monthly *Recovery Act Program Performance Reports* and revise the cumulative "jobs created/retained" metric to reflect any change.

SBA will provide a definition for the jobs retained in the 7(a) program and will issue additional guidance to 7(a) lenders on how the information should be reported to the Agency. SBA will also provide definitional guidance on metrics it includes in the monthly *Recovery Act Program Performance Reports*. Material differences in these metrics reported by SBA in the monthly report will be disclosed.

As discussed with your staff, we noted that there is a need for a technical clarification to Footnote 3 of the draft report. SBA Form 1920SX (Part B) is not the "SBA eligibility checklist," rather it is a supplemental information form supplied by the lender. The "SBA eligibility checklist" for PLP and Express loans is SBA Form 1920SX (Part C), a different form. Appendix IV should also reflect this clarification. The "selection" provided in Appendix IV contains part of the SBA Form 1920 (Part B), but states that it is a "selection" from the SBA Form 1920SX. This is not one form. There are three separate forms---SBA Form 1920SX (Part A), SBA Form 1920SX (Part B) and SBA Form 1920SX (Part C). The "selection" provided is from SBA Form 1920SX (Part B).

We appreciate the opportunity to comment on the Draft Notice of Finding and Recommendation prepared by your office. Please let us know if you have any questions or need additional information.