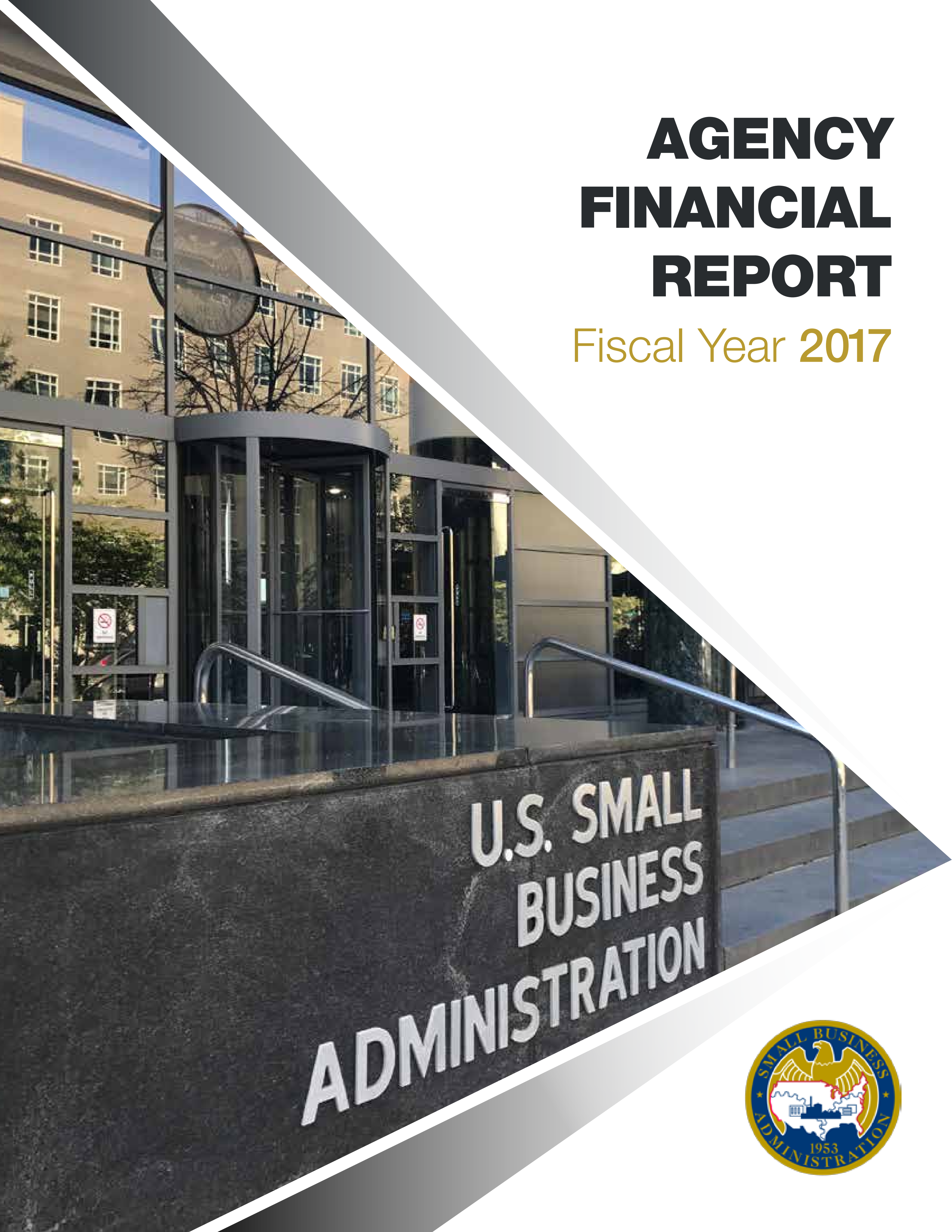

AGENCY FINANCIAL REPORT

Fiscal Year **2017**

SMALL BUSINESS ADMINISTRATION 1953

ABOUT THIS REPORT

The U.S. Small Business Administration's Agency Financial Report (AFR) for FY 2017 provides an overview of the Agency's financial and performance data to help Congress, the President, and the public assess SBA's stewardship over the resources entrusted to it. The AFR is the first of two required annual reports for federal agencies. The *FY 2017 Annual Performance Report* (APR) is the other report and is part of the *FY 2019 Congressional Budget Justification* (CBJ). The CBJ/APR is scheduled for publication in February 2018. The reports can be found at www.sba.gov/performance.

FY 2017 HIGHLIGHTS

(Dollars in Thousands)	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Principal Program Portfolio[1]	$ 114,450,173	$ 118,767,451	$ 124,118,505	$ 131,814,718
Regular FTE Employees	2,114	1,947	1,950	1,960
Disaster FTE Employees	1,015	1,013	1,153	1,311
Total Employees[2]	3,129	2,960	3,103	3,271
Total Assets	$ 13,184,251	$ 12,020,867	$ 12,657,172	$ 13,215,919
Total Liabilities	$ 11,695,803	$ 10,682,837	$ 11,882,988	$ 11,703,589
Total Net Position	$ 1,488,448	$ 1,338,030	$ 774,184	$ 1,512,330
Total Net Cost of Operations	$ (466,394)	$ (644,590)	$ 339,477	$ 3,910
Total Budgetary Resources	$ 10,826,659	$ 10,296,788	$ 10,878,012	$ 12,243,154

(1) The total portfolio consists of guarantied business loans outstanding, guarantied debentures, direct business loans and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged-off.

(2) The total excludes employees in the Offices of Advocacy and Office of Inspector General.

FOR MORE INFORMATION

Information about SBA's programs is available at: www.sba.gov

SBA's plans and reports are available at: www.sba.gov/performance

Para información acerca de los programas de la SBA: www.sba.gov →"Translate" →"Select Language"

Questions and comments regarding the content, presentation and usefulness of this report are welcome and may be addressed to: performance.management@sba.gov

Or, you may write to:

U.S. Small Business Administration
Office of Performance Management
and Chief Financial Officer
409 Third Street, S.W.
Washington, DC 20416

Or, you may call:

Jason Bossie
Director
Office of Performance Management
(202) 205-6449

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SBA'S MISSION

Maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.

HOW THIS REPORT IS ORGANIZED

The U.S. Small Business Administration's *FY 2017 Agency Financial Report* (AFR) provides financial and performance information for the fiscal year beginning October 1, 2016, and ending September 30, 2017. This report presents SBA's operations, accomplishments, and challenges. Following a message from the SBA Administrator are four principal sections: Management's Discussion and Analysis, Financial Reporting, Other Information, and Appendices. "Did You Know?" facts about the SBA appear throughout the report and are each accompanied by a "Success Story" highlighting a small business entrepreneur.

Management's Discussion and Analysis

The Management's Discussion and Analysis section provides a report of the Agency's overall financial position, program performance, and results of operations. It presents SBA's history, organization, and principal programs. This section highlights financial results and analysis; performance results and analysis; and analysis of systems, controls, and legal compliance.

Financial Reporting

The Financial Reporting section provides a detailed report of SBA's finances. It includes the message from the Chief Financial Officer, the Audit and Financial Management Advisory Committee's report, the audit transmittal memorandum from the Inspector General, the Independent Auditors' report, and the audited financial statements and notes. The required supplementary information provides a combined statement of budgetary resources, and the required supplementary stewardship information provides a report on stewardship investments in human capital.

Other Information

The Other Information section includes the Inspector General's report on the Agency's most serious management and performance challenges along with recommended actions. Also included in this section is a summary of financial statement audit and management assurances, and a detailed report on improper payments.

Appendices

The Appendices provide supporting information — a contact list of useful websites and telephone numbers, a glossary, and a detailed report on audit follow-up activity.

MESSAGE FROM THE ADMINISTRATOR

November 14, 2017

It is my honor to present the U.S. Small Business Administration's *FY 2017 Agency Financial Report*.

Since taking leadership of the U.S. Small Business Administration in February, I have had the privilege of meeting with entrepreneurs all over the country. I have visited offices, factories, retail spaces, and restaurants; from Anchorage, Alaska to San Juan, Puerto Rico, and lots of places in between, reflecting the true diversity of our geography and our economy. So many of these entrepreneurs tell me their businesses simply would not exist without the help of the SBA – from the guaranteed loans that provided the capital they needed to realize their dreams of owning a small business, to the counseling services they received from our district offices and resource partners, to the disaster aid they received when it seemed all hope had been lost.

As a member of President Trump's Cabinet, I am honored to advocate on behalf of America's 30 million small businesses. I am committed to revitalizing the spirit of entrepreneurship in America, while ensuring this Agency operates as efficiently and effectively as possible. I want more people to know about the resources available through the SBA, so that our nation's small businesses can continue to create jobs and make our communities vibrant places to live, work, and raise families.

This report highlights SBA's key accomplishments in helping entrepreneurs start, grow, and succeed in business. The financial and performance data published in this report are reliable and complete, and are in accordance with the Office of Management and Budget Circulars A-136 and A-11. In the pages that follow, we detail our achievements in the areas of capital, contracts, counseling, and disaster assistance.

SBA lending activity shows consistent growth, due to increasing loan levels in small business lending through the 7(a) and 504 loan programs, as well as increases in lending to women, veterans, and socially and economically disadvantaged communities in emerging markets. In FY 2017, the SBA approved more than 68,000 loans in the 7(a) and 504 loan programs, providing more than $30 billion to small businesses and supporting nearly 630,000 jobs.

During FY 2017, SBA lending had a significant positive effect on businesses that have historically faced greater challenges in obtaining conventional loans. Minority business owners received a record combined $9.58 billion in 7(a) and 504 approved lending, or 31 percent of SBA's loan portfolio. SBA 7(a) lending to women-owned businesses grew in total dollar and volume, exceeding $7.5 billion in FY 2017, an increase of $298 million from FY 2016. The 504 lending to women-owned businesses reached $955.2 million, a $277 million increase over the previous fiscal year. Loans to veterans totaled $1.15 billion for the 7(a) and 504 programs.

We continue our efforts to modernize and streamline our operations, including our lending practices. The SBA launched its online lender referral tool, Lender Match, which helps connect small business borrowers with participating SBA lenders, even from the comfort and convenience of a smartphone.

The Small Business Investment Company program, in which the SBA partners with private investors to finance small businesses through professionally managed investment funds, supported nearly 1,000 small businesses with $5.7 billion in financing.

Sometimes good advice is just as valuable as capital to get a small business going. The SBA offers a wealth of knowledge aimed at educating entrepreneurs on things like how to write a business plan and how to scale a business. Through SBA's 68 district offices and resource partners, including Small Business Development Centers, Women's Business Centers, Veterans Business Outreach Centers, and SCORE, the SBA expanded outreach to small businesses. In FY 2017, nearly 1.46 million small businesses took advantage of counseling, mentoring, and training assistance.

The U.S. Government is the world's largest purchaser of goods and services. The SBA is committed to ensuring that small businesses have the training they need to access these contracts. The Federal Government has a goal that 23 percent of all contract dollars go to small businesses, and it has specific programs to ensure businesses owned by women and other disadvantaged groups have access to these contracts. This spring, the SBA announced that the Federal Government met the small business prime contracting goal for FY 2016, awarding 24.34 percent of its contracts, worth nearly $100 billion, to small businesses.

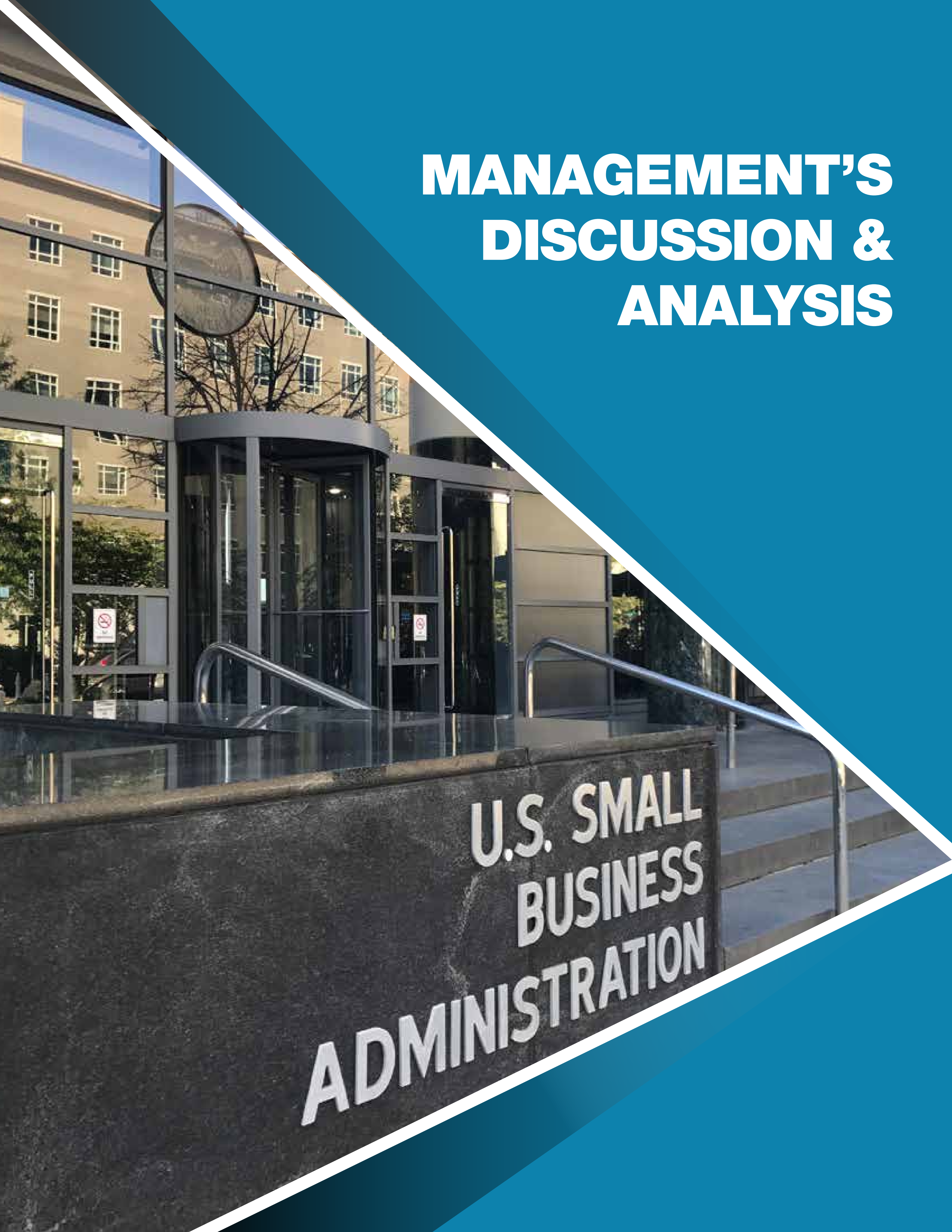
This was a historic year for hurricanes, with three major storms – Harvey, Irma, and Maria – inflicting unprecedented damage on Texas, Florida, Puerto Rico, and the U.S. Virgin Islands. The SBA is working very closely with FEMA and other agencies, as well as with partners at the state and local levels, to help make recovery happen as expeditiously as possible. SBA's low interest loans help homeowners, renters, and businesses take care of uninsured losses so they can get their lives back on track. Small businesses are the backbone of our communities, and getting them operating again will be key to these areas' economic recovery. During FY 2017, the SBA approved nearly 27,000 disaster loans for a total of $1.7 billion.

The SBA is focused on supporting small businesses in our communities at every stage, whether they are launching, expanding or getting through a tough time. Small businesses are the engines of our economy, and half of our workforce either works for or owns a small business. Entrepreneurs find that owning a business is one of the most effective ways to secure a financial future for themselves, provide for their families, exercise their commitments to their communities, and drive our country's economic growth. I am proud to lead a team of professionals dedicated to ensuring entrepreneurs have the support and tools they need. We look forward to building on that success in FY 2018 and beyond.

Warm regards,

Linda McMahon
Administrator

MANAGEMENT'S DISCUSSION & ANALYSIS



DID YOU KNOW

CAPITAL The growth in SBA's 7(a) and 504 loan programs indicates the continued outreach and streamlining of program delivery. The 7(a) loan program showed impressive gains in comparison to FY 2016, with over $25.4 billion in approved loans—an increase of 5 percent. The 504 loan program increased in FY 2017, with $5 billion in approvals. This level of program activity demonstrates that access to capital through conventional sources remains a challenge for America's small businesses.

SUCCESS STORY

Lender Partnerships are Key to Expanding Business and Economic Development

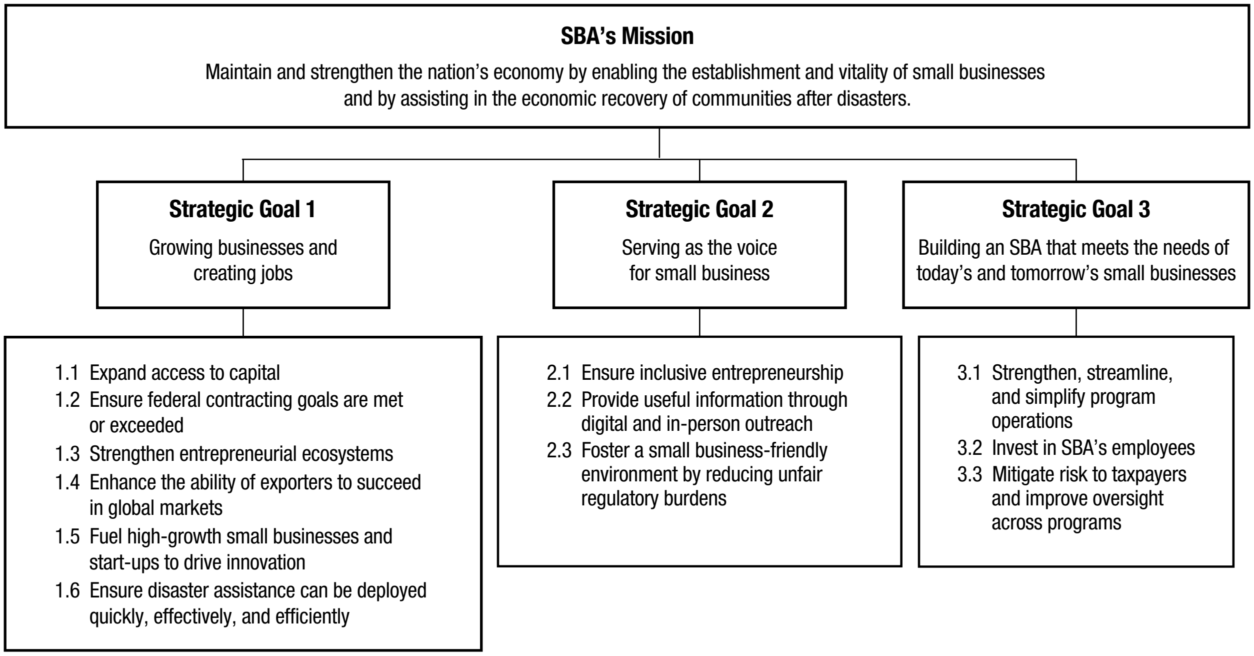
The Auto Bolt Company
Cleveland, Ohio

Founded in 1948, **Robert Chapman Kocian** has owned and operated the Auto Bolt Company since 2005. Robert, who has more than 28 years of experience in the fastener industry, has led the company's resurgence and growth. Just a year after Robert acquired the company, it received a $372,000 SBA 504 loan from Certified Development Company Growth Capital Corp., which was the first of several SBA loans that has allowed Auto Bolt to realize sustained growth. In the last 5 years, the company has received six SBA 504 loans to purchase a new 100,000-square foot industrial building and acquire manufacturing equipment. The company also received a $140,000 SBA Community Advantage Loan in 2014, which provided permanent working capital.

Auto Bolt's workforce has grown more than 35 percent, and it now employs upward of 60 employees. In addition, revenues are up more than 55 percent in the last 4 years. The company has provided an important economic effect to the local community. It has used lender partnerships that encourage and support comprehensive approaches to economic development.

SBA'S HISTORY, GOALS, AND ORGANIZATION

In 1953, Congress created the U.S. Small Business Administration to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." SBA's headquarters is located in Washington, DC, while its business products and services are delivered with the help of field personnel and a network of private sector and nonprofit partners in each U.S. state and territory. Major SBA offices fall under one of three Agency-wide strategic goals, as outlined in SBA's *FY 2014-2018 Strategic Plan*:



STRATEGIC GOAL ONE — *Growing businesses and creating jobs*

Strategic Goal One focuses on business formation, job growth, and economic expansion through capital, contracting, entrepreneurship, exporting, innovation, and disaster assistance.

The *Office of Capital Access* assists small businesses in obtaining capital via the 7(a) Loan, 504 Certified Development Company Loan, and Microloan Programs, as well as obtaining bonds through the Surety Bond Guarantee Program.

The *Office of Disaster Assistance* provides affordable, timely, and accessible financial assistance to homeowners, renters, businesses, and private nonprofit organizations following a disaster. The Disaster Loan program is the only form of SBA assistance that is not limited to small businesses. Disaster assistance funding is deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses back to operation.

The *Office of Entrepreneurial Development* provides business advising, mentoring, and training assistance through its resource partner network composed of Small Business Development Centers, Women's Business Centers, and SCORE and Entrepreneurship Education activities. In addition, SBA's district offices support coordination between SBA resource partners and local small business communities.

The *Office of Government Contracting and Business Development* provides assistance to small businesses competing for federal prime contracting and subcontracting opportunities. These assistance programs include HUBZone, 8(a) Business Development, 7(j) Management and Technical Assistance, All Small Mentor-Protégé, and Women-owned and Veteran-owned Small Business set-asides. The office also sets size standards for small businesses, which determine the size a business must be to be considered a small business for a particular industry.

The *Office of International Trade* enhances the ability of small businesses to export and compete in the global marketplace by facilitating access to capital, providing technical assistance, ensuring the consideration of small business interests in trade negotiations, and contributing to the U.S. Government's international commercial and economic agenda.

The *Office of Investments and Innovation* assists high-growth small businesses through the Small Business Investment Company, Small Business Innovation Research, and Small Business Technology Transfer programs.

STRATEGIC GOAL TWO — *Serving as the voice for small business*

Strategic Goal Two focuses on socially and economically disadvantaged communities[1] in emerging markets and outreach to ensure that all small businesses receive equal representation in the marketplace. SBA's Office of Capital Access, Office of Entrepreneurial Development, and Office of Government Contracting and Business Development (all represented in Strategic Goal One) each have programs that support these communities.

The *Office of Communications and Public Liaison* communicates the Agency's programs and priorities to small businesses, their partners, and the public at large by working with media outlets, developing social media content, creating user-friendly online resources, crafting high-quality marketing materials, organizing events to gain feedback from small businesses, and coordinating strategic partnerships.

The *Office of Field Operations* is SBA's front-line operating team. Most SBA programs and services are executed when small businesses connect with their regional, district, and branch offices, which are located in each state and territory.

The *Office of the National Ombudsman* works with all federal agencies that regulate small businesses to provide a means for businesses to comment on federal government enforcement activities, including audits, on-site inspections, compliance assistance efforts, and other enforcement efforts. The office also maintains a five-member Regulatory Fairness Board in each of SBA's 10 regions to hold public hearings on small business concerns.

The *Office of Intergovernmental Affairs* facilitates continuous and bilateral communications between the SBA and: state and local governments; American Indian, Alaska Native, and Native Hawaiian tribal governments; and insular governments.

The *Office of Veterans Business Development* ensures applicability and usability of all the Agency's small business programs for veterans, service-disabled veterans, reserve component members, and their dependents or survivors. The office accomplishes its work through Veterans Business Outreach Centers, the Boots to Business program, Entrepreneurship Boot Camp for veterans with disabilities, and partnerships with other federal agencies and nonprofit organizations.

The *National Women's Business Council* is a nonpartisan federal government council created to serve as an independent source of advice and policy recommendations to the President, Congress, and the SBA on issues of economic importance to women business owners.

STRATEGIC GOAL THREE — *Building an SBA that meets the needs of today's and tomorrow's small businesses*

SBA's management offices support Strategic Goal Three.

The *Office of the Chief Operating Officer* provides oversight of information technology, administrative services, and human resources for the SBA to maximize internal efficiency and responsiveness to small businesses.

The *Office of Credit Risk Management* within the Office of Capital Access focuses on the mitigation of risk to taxpayers through ever-improving risk management and oversight of SBA lending programs.

The *Office of Performance Management and the Chief Financial Officer* provides Agency performance management, financial, and acquisition oversight. The office is responsible for Agency disbursements, management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

Other support offices include the *Office of Congressional and Legislative Affairs, Office of General Counsel*, and *Office of Hearings and Appeals*.

1 Socially and economically disadvantaged communities in emerging markets include women, veterans, minorities, and individuals in HUBZone and rural areas.

EXECUTIVE SUMMARY

America's 30 million small businesses play a critical role in job creation and retention. During the last two decades, small businesses have been responsible for creating two out of every three net new jobs. In turn, the U.S. Small Business Administration's assistance to those firms and entrepreneurs help drive a healthy economy.

The SBA employs a variety of methods to support America's small businesses. These methods include promoting access to capital, federal contracting, counseling, and disaster assistance.

Throughout FY 2017, three goals from the SBA's *FY 2014-2018 Strategic Plan* guided the Agency's actions:

1. *Growing businesses and creating jobs*
2. *Serving as the voice for small business*
3. *Building an SBA that meets the needs of today's and tomorrow's small businesses*

The following sections highlight financial and performance results for the Agency, including the three Agency Priority Goals. An in-depth analysis can be found in the Analysis of Financial Results and Analysis of Performance Results sections. The complete set of performance results will be reported in the Annual Performance Report, released in February 2018.

Financial Results

For FY 2017, SBA's total budgetary resources used for staffing, operations, and loan subsidy costs were $2.3 billion, and total nonbudgetary resources for loan financing used to purchase guarantied loans in default and to make direct loans were $4.0 billion. SBA's guarantied portion of the outstanding loan principal rose 6.1 percent in FY 2017, to $99.5 billion. New guaranties disbursed by SBA participating banks during FY 2017 were $22.8 billion, a 7.1 percent increase this year that resulted in the net 6.1 percent increase in outstanding guaranties. Purchases of defaulted guarantied loans increased, going from $0.8 billion last year to $1.0 billion this year. The loan receivables portion of the SBA credit program portfolio increased this year from $6.2 billion to $6.4 billion in FY 2017. The small spike in loan receivables was caused primarily by the increase in new disaster direct loan disbursements made to assist FY 2016 flood survivors in the southern United States.

Performance Results

Capital: In FY 2017, the dollar amount of SBA's 7(a) loan program increased by 5 percent, leading to a record year of approvals. Additionally, the 504 loan program exceeded its FY 2017 target with $5 billion in loan approvals. In all, through the 7(a) loan, 504 loan, and Microloan programs, the SBA approved more than 73,000 loans and provided more than $30.5 billion in lending to small businesses. More than $11 billion was invested in small businesses through the Small Business Investment Company program.

Contracts: The SBA continues to work with agencies across the Federal Government to expand small business contracting opportunities. From the beginning of FY 2012 through FY 2016, small businesses accessed nearly $455 billion in federal contracts (FY 2017 contracting numbers continue to be collected and certified).

Counseling: The SBA provided mentoring, business advice, and training assistance to more than 1.4 million entrepreneurs and small businesses this year, which helped entrepreneurs start businesses and create or retain jobs.

Disaster Assistance: Disaster loan applications and approvals increased compared to the previous year, due to flooding in the southeast and hurricanes Harvey, Irma, and Maria. In FY 2017, the Agency worked on 306 active disaster assistance declarations and approved more than 27,000 disaster loans totaling nearly $1.7 billion.

Agency Priority Goals and Outcomes

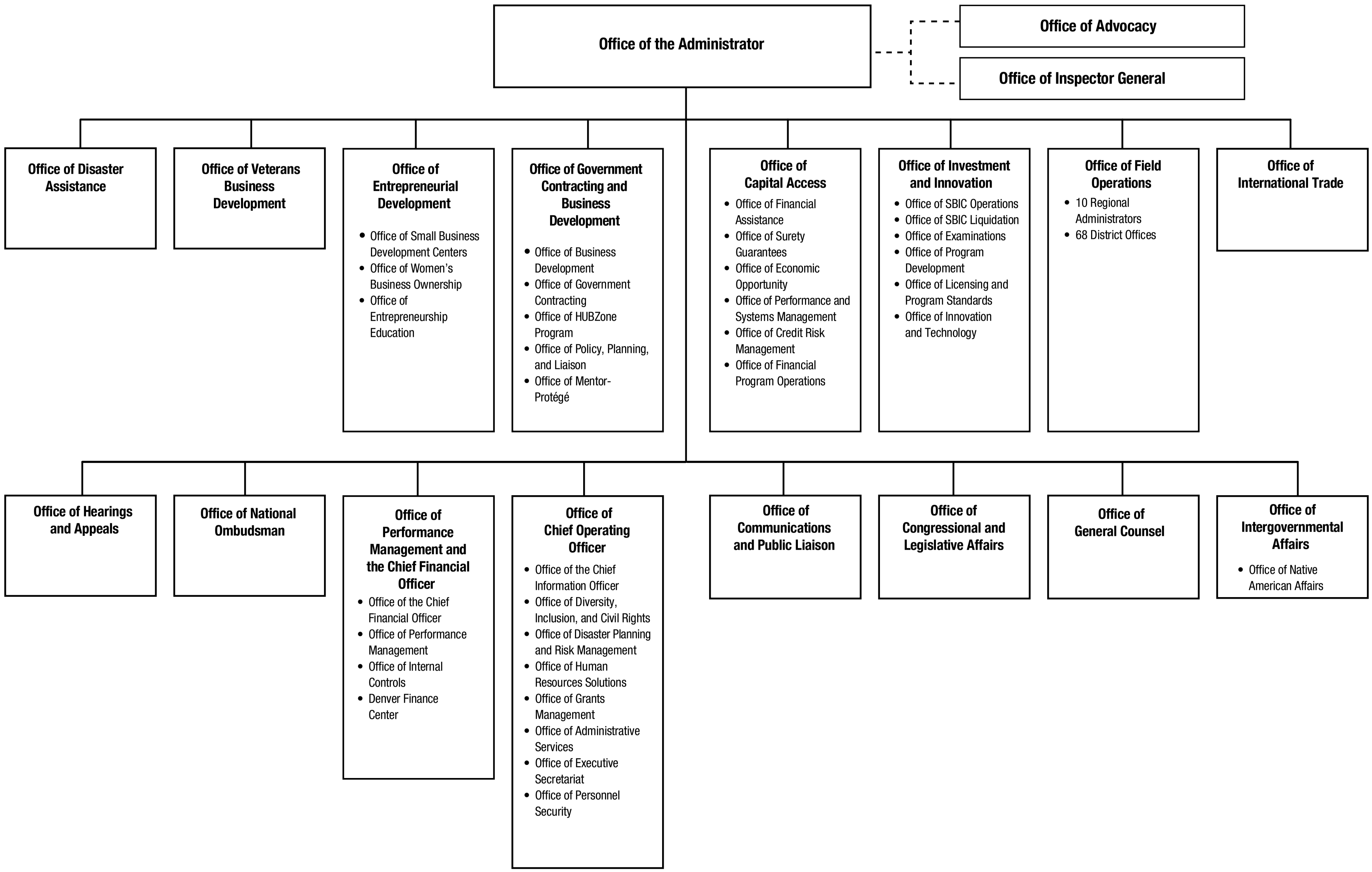
The Government Performance and Results Act Modernization Act of 2010 requires federal agencies to establish a set of 2-year APGs that reflect the highest priorities of agency leadership. The SBA has established three APGs. The goals and outcomes from fiscal year 2017 were as follows.

- **Increase active lender participation.**
  - **Goal:** *By September 30, 2017, expand access to capital for small businesses by increasing the number of active lenders in SBA's 7(a) loan program from 2,244 (FY 2014) to 2,500.*
  - **Outcome:** The SBA increased small business access to capital by adding new and returning lenders to the 7(a) loan program. While the

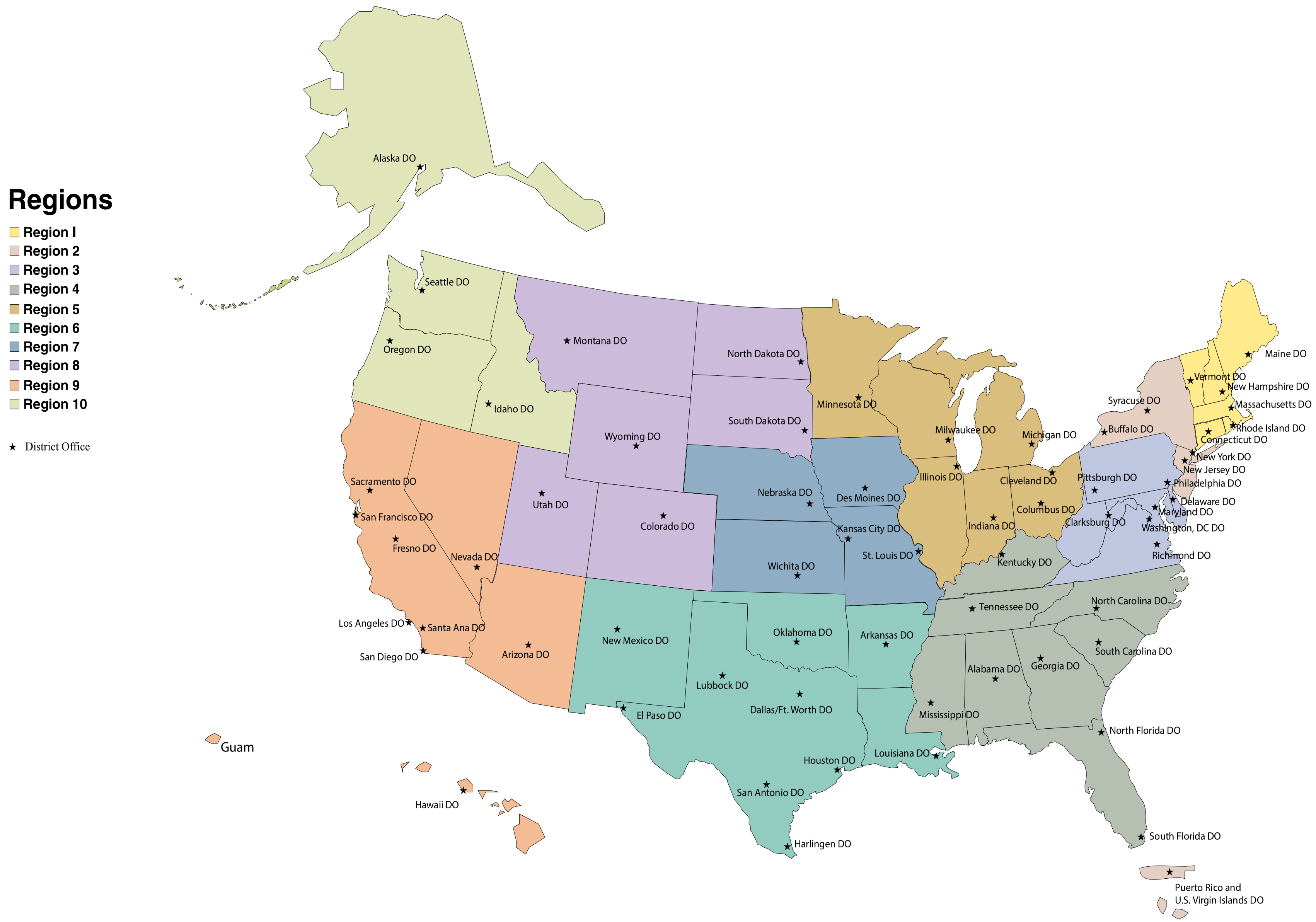
Agency missed its FY 2017 target by 21 percent, lenders provided more than $25 billion in loans to small businesses. Continuing bank mergers translates to fewer unique lenders being able to provide SBA guaranteed loans.

- **Maximize small business participation in government contracting.**
  - **Goal:** *Through September 30, 2017, maximize small business participation in federal government contracting to meet the statutory goal of 23 percent, ensure subgoals are met, and reduce participation by ineligible firms.*
  - **Outcome:** The SBA will continue to collect and certify FY 2017 contracting numbers through the third quarter of FY 2018. The Agency exceeded its FY 2016 target with the Federal Government, making 24.34 percent of contracting dollars available to small businesses. The SBA provided continuous outreach to other federal agencies to ensure that the goal was exceeded.
- **Support more disadvantaged small businesses.**
  - **Goal:** *By September 30, 2017, support more disadvantaged small businesses by increasing the number of approved 8(a) certification applications by 5 percent each fiscal year.*
  - **Outcome:** The SBA instituted several process improvements for the 8(a) Business Development program. The SBA spent time developing existing businesses in the 8(a) program and less time processing applications. As a result, the SBA was under target by 12 percent due to greater focus on increasing the number of 8(a) firms obtaining federal contracts.

SBA ORGANIZATION CHART



SBA REGIONS AND FIELD OFFICES



PRIMER OF SBA'S PRINCIPAL PROGRAMS

CAPITAL (www.sba.gov/financialassistance)

The SBA has a business loan portfolio of $113.7 billion.[2]

7(a) Loan Program — The SBA offers government guaranties on loans (up to $5 million) made by commercial lenders to help expand access to capital for business owners who face challenges in getting approved for financing. The SBA guarantees a portion of 7(a) loans made and administered by commercial lending institutions. Loans can be guaranteed for a variety of general business purposes.

504 Certified Development Company Loan Program — These long-term, fixed-rate loans (up to $5.5 million) support investment in major assets such as real estate and heavy equipment. Loans are delivered by Certified Development Companies, which are private, nonprofit corporations. CDCs work with the SBA and private lenders to provide financing. The SBA guarantees the CDC's portion of these loans.

Microloan Program — The SBA provides loans to nonprofit intermediary lenders, which are community-based organizations with experience in lending and technical assistance, that in turn make these loans (up to $50,000) to small businesses needing small-scale financing and technical assistance for startup or expansion.

Surety Bond Guarantee Program — A surety bond guarantee is a type of contract that guarantees the performance of a contractor. If one party does not fulfill its end of the bargain, then the SBG program provides financial compensation to the other party. The SBA guarantees bonds issued by a surety company in order to encourage the surety company to provide bonds to small businesses, up to $6.5 million for non-federal contracts and up to $10 million for federal contracts.

CONTRACTING (www.sba.gov/contracting)

The SBA leads federal efforts to deliver 23 percent of contracts to small businesses, which is inclusive of 5 percent set-asides for women-owned and small, disadvantaged/8(a) businesses and 3 percent set-asides for HUBZone and service-disabled veteran-owned small businesses.

Procurement Assistance to Small Businesses — Small business contracts represent the largest form of direct monetary support for small business in the Federal Government. Within this goal are four subgoals:

Small Disadvantaged Businesses — This program provides assistance through the 8(a) Business Development program and set-aside contracting for businesses owned and controlled by socially and economically disadvantaged individuals. Over the course of 9 years, a firm is assisted in gaining resources to compete for federal contracts and for contracts in the private sector.

HUBZone Small Businesses — This program provides sole-source and set-aside contracting for firms located in designated economically disadvantaged geographical areas.

Service-Disabled Veteran-Owned Small Businesses — This program allows federal agencies to set-aside contracts for competition only among service-disabled veteran-owned small businesses.

Women-Owned Small Businesses — This program allows federal agencies to set-aside certain contracts for competition only among small businesses owned by women.

ADVISING, MENTORING, AND TRAINING (www.sba.gov/local-assistance)

The SBA and its partners serve more than 1.4 million small business clients a year through the following programs.

Small Business Development Centers — SBDCs deliver an array of services to small businesses and prospective business owners using an extensive network of 63 lead centers managing more than 900 service delivery points throughout the United States and the insular territories.

2 The business loan portfolio of $113.7 billion consists of the following loan programs: 7(a), 504 loan, Microloan, ARC 506, Dealer Floor Plan, 504 First Lien, and 504 Refi.

Women's Business Centers — WBCs provide advising and training through more than 100 nonprofit educational centers across the nation. Many WBCs provide multilingual services, and a number offer flexible hours allowing for mothers with children to attend training classes.

Veterans Business Outreach Centers — SBA's 20 VBOCs provide counseling and training services to veteran-owned and service-disabled veteran-owned small businesses and entrepreneurs, along with reserve component members starting new small businesses or expanding established small businesses.

SCORE — SCORE is a nonprofit association comprised of nearly 11,000 volunteer business mentors that serve entrepreneurs with in-person mentoring and local training workshops. As the largest volunteer business mentor network in the federal government, SCORE adapts its structure and services to meet the needs of small businesses.

Learning Center — The SBA Learning Center is an online portal that hosts a variety of self-paced online training courses, quick videos, web chats, and more to help small business owners explore and learn about many aspects of business ownership.

EXPORTING (www.sba.gov/oit)

The SBA provides loans to exporters and training assistance to small businesses.

Export Loans — The SBA provides several types of export loans, including SBA Export Express loans (up to $500,000), Export Working Capital loans (up to $5 million), and International Trade loans (up to $5 million) that provide small businesses with enhanced export financing options to develop foreign markets, fund their export transactions, and/or support business expansion due to exporting success. The SBA provides technical assistance on trade finance and funding questions through staff located in U.S. Export Assistance Centers.

U.S. Export Assistance Centers — USEACs are staffed by professionals from the SBA, the Department of Commerce, and the Export-Import Bank. Together, their mission is to help small- and medium-sized businesses compete in today's global marketplace by providing export marketing and finance assistance.

State Trade and Export Promotion Program — STEP provides grants to states to assist small businesses with the information and tools they need to succeed in export related activities. These activities include participation in foreign trade missions, foreign market sales trips, international marketing campaigns, export trade shows, and training workshops.

HIGH-GROWTH SMALL BUSINESSES (www.sba.gov/sbic)

The SBA supports high-growth investments through a portfolio of $11.8 billion in guaranteed debentures.

Small Business Investment Companies — SBICs are privately owned and managed investment funds that use their capital plus funds borrowed with an SBA guaranty to make equity and debt investments in qualifying small businesses.

Small Business Innovation Research — The SBIR program is a highly competitive funding agreement program that stimulates high-tech innovation by reserving a specific percentage of federal research and development funds for small businesses. The SBIR program protects the small business and enables it to compete on the same level as larger businesses.

DISASTER ASSISTANCE (www.sba.gov/disaster)

The SBA has a portfolio of $6.2 billion in direct disaster loans to businesses of all sizes, private nonprofit organizations, homeowners, and renters.

Disaster Assistance — The SBA is the federal government's primary source of financing for the long-term repair and rebuilding of disaster-damaged private property for homeowners, renters, businesses of all sizes, and private nonprofit organizations. It is the only form of SBA assistance that is not limited to small businesses.

SBA BY THE NUMBERS

(Dollars in Millions)

		FY 2014	FY 2015	FY 2016	FY 2017
Principal Program Portfolio (1)	**Outstanding Principal Balance**	**$ 114,434**	**$ 118,767**	**$ 124,118**	**$ 131,815**
Capital (2)					
7(a) Loans	Dollars of Gross Loans Approved	$ 19,191	$ 23,584	$ 24,128	$ 25,447
504 Loans	Dollars of Gross Loans Approved	$ 4,199	$ 4,298	$ 4,740	$ 5,014
Microloans	Dollars of Gross Loans Approved to Microborrowers	$ 54	$ 51	$ 58	$ 68
Surety Bonds	Dollars of Bid and Final Bonds Guaranteed	$ 6,413	$ 6,348	$ 5,658	$ 6,032
Contracting (3)					
Prime Contracting	Dollars of Contracts Awarded to Small Businesses	$ 91,682	$ 90,702	$ 99,960	N/A
HUBZone Small Businesses	Dollars of Contracts Awarded to HUBZone Small Businesses	$ 7,000	$ 6,422	$ 6,864	N/A
Small Disadvantaged Businesses	Dollars of Contracts Awarded to Disadvantaged Small Businesses	$ 34,700	$ 35,430	$ 39,134	N/A
Women-Owned Small Businesses	Dollars of Contracts Awarded to Women-Owned Small Businesses	$ 17,200	$ 17,807	$ 19,670	N/A
Service-Disabled, Veteran-Owned Small Businesses	Dollars of Contracts Awarded to Service-Disabled, Veteran-Owned Small Businesses	$ 13,500	$ 13,832	$ 16,337	N/A
Advising, Mentoring, and Training (4)					
Small Business Development Centers (SBDCs)	Number of Clients Advised and Trained	485,487	454,898	453,427	451,041
Women's Business Centers (WBCs)	Number of Clients Advised and Trained	140,037	140,716	145,415	149,121
SCORE	Number of Clients Mentored and Trained	442,374	349,539	433,394	613,286
Online Training	Number of Clients Trained Online	182,002	139,719	187,162	206,172
Veteran's Business Outreach Centers (VBOCs)	Number of Clients Advised and Trained	52,621	62,117	47,342	50,131
Exporting					
Export Loans	Dollars of Gross Loans Approved	$ 1,341	$ 1,454	$ 1,546	$ 1,872
High-growth Small Businesses					
Small Business Investment Company (SBIC)	Dollars of SBA Debenture Leverage Committed to SBICs	$ 2,549	$ 2,553	$ 2,514	$ 1,959
	Dollars of SBIC Debenture Capital to Small Businesses	$ 5,465	$ 6,286	$ 5,529	$ 5,727
Disaster					
Disaster Assistance (2)	Dollars of Gross Loans Approved	$ 332	$ 372	$ 1,407	$ 1,666

(1) The total portfolio consists of guarantied business loans outstanding, guarantied debentures, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged-off.

(2) The SBA tracks loan data in three ways: Gross Loans Approved (the total loans approved); Net Loans Approved (gross loans approved plus any loan increases minus any cancellations); and Disbursed Loans (the amount that is actually given to the borrower). Gross Loans Approved is presented in the Capital and Disaster Assistance sections because it is the only loan data that remain constant over time.

(3) FY 2017 contracting numbers will continue to be collected and certified through the third quarter of FY 2018. Therefore, FY 2017 numbers are not yet available.

(4) Resource partners may input data up to 45 days after the close of the fiscal year.

ANALYSIS OF PERFORMANCE RESULTS

Analysis of Performance and Agency Priority Goals

The following section presents key SBA FY 2017 performance data, including the three FY 2016-2017 Agency Priority Goals identified by SBA leadership that are critical to the success of SBA's mission. The presentation of the performance data and analysis is organized by strategic objective, which follows SBA's *FY 2014-2018 Strategic Plan*. The following measures and analysis represent SBA's three strategic goals. Detailed performance information on all SBA programs will be presented, and all variances will be explained in the *FY 2017 Annual Performance Report* to be published in February 2018 with the *FY 2019 Congressional Budget Justification*.

STRATEGIC OBJECTIVE 1.1: Expand access to capital through SBA's extensive lending network.

Priority Goal: By September 30, 2017, expand access to capital for small businesses by increasing the number of active lenders in SBA's 7(a) loan program from 2,244 (FY 2014) to 2,500.

Performance Analysis: New and returning lenders are a major component of SBA's lending portfolio and are essential to growth in the number of loans approved and small businesses assisted. Attaining a high volume of active lenders from one fiscal year to the next creates a consistent pipeline of SBA loans for small businesses. The SBA accomplished 78 percent of its FY 2017 target to reach 2,500 active lenders (see **Chart I**) that made loans totaling $25.4 billion. The number of active lenders recruited slowed in the fourth quarter. A key challenge is the consolidation of lenders through mergers and acquisitions, which has been a continuing trend for several years. The lending community, however, has been responsive to SBA's strategy of fee relief for lower-dollar loans and loan program improvements, and the SBA has been actively recruiting credit unions to join the 7(a) loan program.

Performance Goal: Support 726,900 jobs through capital assistance programs in FY 2017.

Performance Analysis: The number of jobs supported – jobs created and retained as a result of SBA intervention – is an important outcome measure of the effectiveness of SBA's programs. This measure tracks the number of jobs supported through the 7(a), 504 loan, microloan, and surety bond guarantee programs. Since FY 2012, the number of jobs has increased, with more than 675,000 jobs reported in FY 2017 (see **Chart II**). While the SBA missed its target by 7 percent, the Agency saw a record year of 7(a) loan approvals. The SBA's policies for fee relief on smaller dollar loans and continued outreach to credit unions should support more job creation and retention in the future. Additional outreach will be conducted with lenders in FY 2018 to help support this measure.

CHART I NUMBER OF 7(a) ACTIVE LENDERS

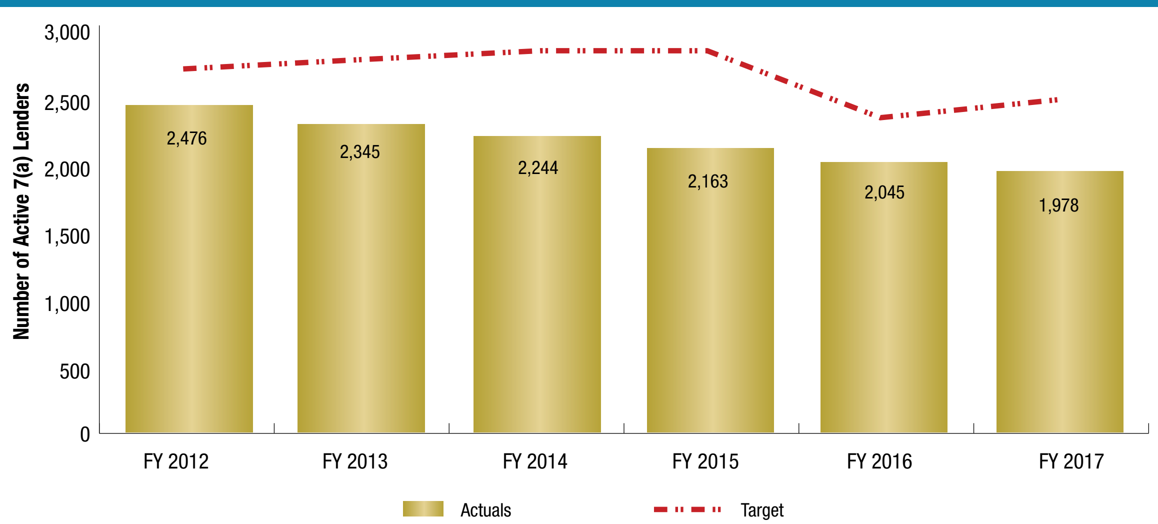


CHART II 7(a), 504 LOAN, MICROLOAN, AND SURETY BOND GUARANTEE JOBS SUPPORTED

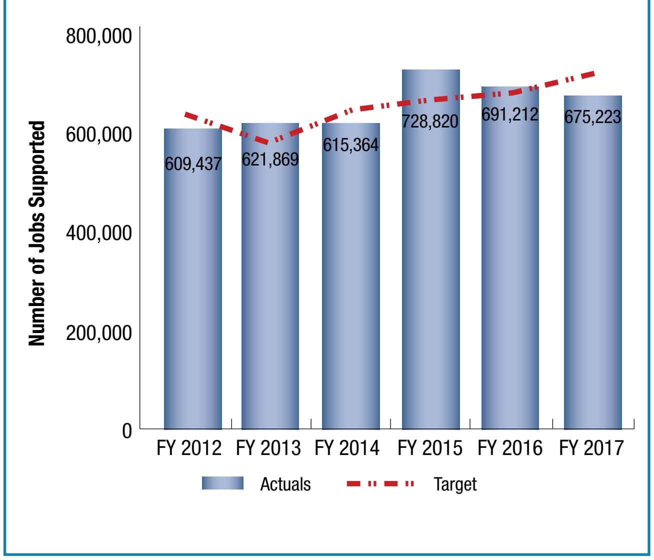
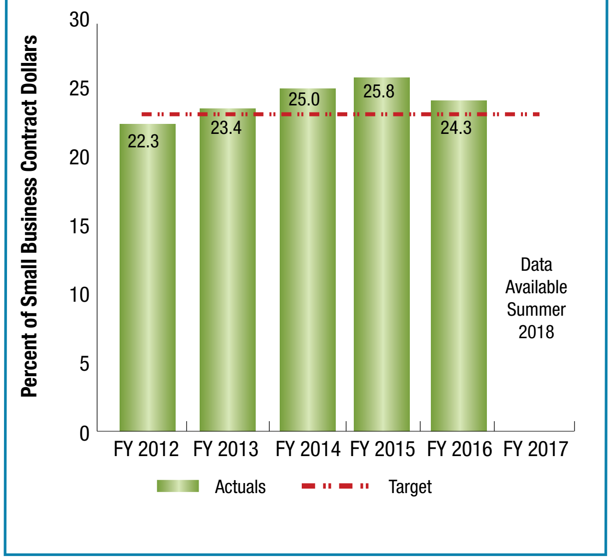


CHART III PERCENT OF FEDERAL PRIME CONTRACT DOLLARS AWARDED TO SMALL BUSINESSES



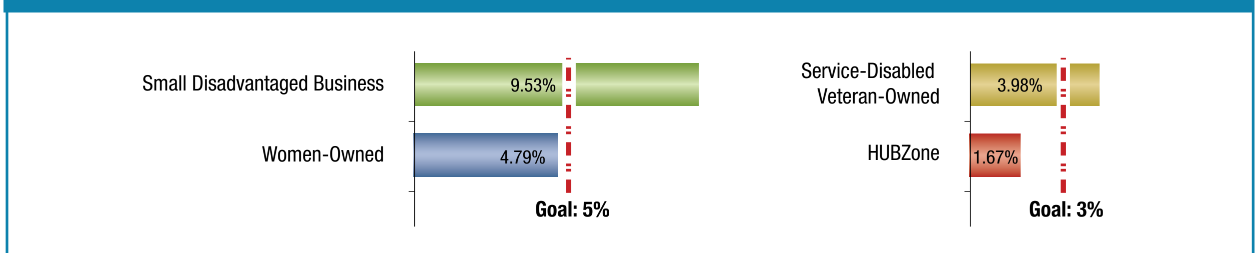
STRATEGIC OBJECTIVE 1.2: Ensure federal contracting goals are met and/or exceeded by collaborating across the federal government to expand opportunities for small businesses and strengthen the integrity of the federal contracting certification process and data.

Priority Goal: Through September 30, 2017, maximize small business participation in federal government contracting to meet the statutory goal of 23 percent, ensure subgoals are met, and reduce participation by ineligible firms.

Performance Analysis: By law, 23 percent of federal government prime contracting dollars are set-aside for small businesses, which includes 5 percent of prime and subcontracts to small disadvantaged businesses and women-owned small businesses, and 3 percent of prime and subcontracts to HUBZone small businesses and service-disabled veteran-owned small businesses (see **Chart III**).

For the fourth consecutive year, in FY 2016 (the latest year of data available due to the data certification process), the Federal Government surpassed its prime contracting goal, awarding small businesses nearly $100 billion in contracting dollars. The SBA surpassed its goals for service-disabled veteran-owned (FY 2016 result was 3.98 percent), and small disadvantaged businesses exceeded its 5 percent target (FY 2016 result was 9.53 percent). Also in FY 2016, women-owned small businesses achieved 4.79 percent of its goal of 5 percent, and HUBZone achieved 1.67 percent of its 3 percent goal (see **Chart IV**). The SBA continued to work with the Office of Federal Procurement Policy to integrate small business data quality reviews (anomaly reports) into each agency's contracting processes and procedures. The SBA developed potential anomaly reports for the top 10 agencies that issued small business award dollars to what appear to be large businesses, missing NAICS codes, or missing contracting officer's size selection data.

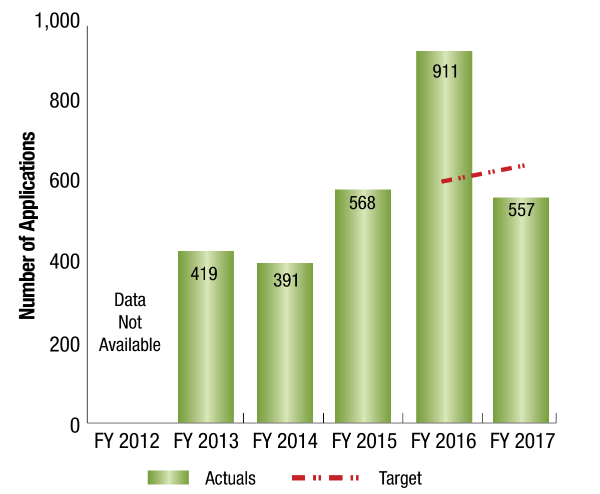
CHART IV FY 2016 PERCENT OF FEDERAL PRIME CONTRACT DOLLARS AWARDED TO SOCIO-ECONOMIC SMALL BUSINESSES



Priority Goal: By September 30, 2017, support more disadvantaged small businesses by increasing the number of approved 8(a) certification applications by 5 percent each fiscal year.

Performance Analysis: The 8(a) program helps socially and economically disadvantaged entrepreneurs gain access to federal government contracting opportunities. In prior years, small businesses had a difficult time negotiating the lengthy 8(a) certification process. The SBA had major success in this program by streamlining the application process. The SBA approved 557 applications, missing the target by 12 percent. As a result of the transition to a new Administration, the SBA has been placing a greater focus on 8(a) firms obtaining federal contracts (see **Chart V**).

CHART V NUMBER OF 8(a) APPLICATIONS APPROVED

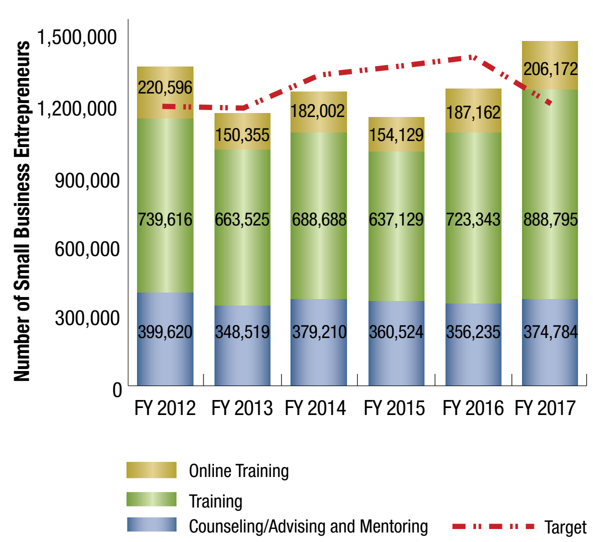


STRATEGIC OBJECTIVE 1.3: Strengthen entrepreneurial ecosystems[3] through a variety of strategic partnerships to provide tailored training, mentoring, and counseling services that support entrepreneurs during every phase of their business growth.

Performance Goal: Reach 1.2 million clients with online and in-person advising, mentoring, and training in FY 2017.

Performance Analysis: The SBA exceeded its performance target for advising, mentoring, and training assistance by 16 percent (see **Chart VI**). Resource partners may input data up to 45 days after the close of the fiscal year, and this information will be made available in the APR publication in February 2018. While the Small Business Development program experienced a slight decrease of 1 percent in the number of clients served from FY 2016 to FY 2017, SCORE and Women's Business Center programs experienced a 42 and 3 percent increase, respectively, in the number of clients advised and trained. SCORE implemented new online training, which greatly increased the number of entrepreneurs assisted. In addition, the SBA developed new regulations for the WBC to provide comprehensive guidance to grantees, and increased the number of VBOC and WBC locations, allowing more entrepreneurs to access vital small business services.

CHART VI SMALL BUSINESS ENTREPRENEURS ADVISED, MENTORED, AND TRAINED



3 The entrepreneurial ecosystem refers to external elements which contribute to the likelihood that a small business will be successful. This ecosystem includes access to markets, capital, technical support, personnel, suppliers, and infrastructure. The SBA addresses these needs through a variety of strategic partnerships with its resource partners.

STRATEGIC OBJECTIVE 1.4: Enhance the ability of current and future small business exporters to succeed in global markets by expanding access to financing, counseling, training, and other export tools.

Performance Goal: Expand small business access to export financing by increasing the number of small business exporters receiving financing to 1,520 in FY 2017.

Performance Analysis: Increasing access to export financing, combined with trade counseling and training, contributes to the enhanced ability of current and future U.S. small business exporters to succeed in the global marketplace. The SBA assisted 2,014 small businesses in export financing, which exceeded the target of 1,520 small businesses by 33 percent (see **Chart VII**). This year, the SBA approved 2,152 export loans for $1.87 billion from 483 lenders, achieving a new SBA record as exports started to increase after annual declines in FY 2015 and FY 2016. The SBA accomplished this result by training and counseling lenders and hosting export roundtables across the country to promote export lending.

STRATEGIC OBJECTIVE 1.5: Fuel high-growth entrepreneurship, innovation, and job creation by providing the tools small businesses need to start and grow their businesses.

Performance Goal: Issue $2.6 billion in debenture leverage to small business investment companies in FY 2017.

Performance Analysis: SBICs provide long-term loans and equity capital to small businesses. The SBICs are privately owned and managed investment funds that are licensed and regulated by the SBA. In FY 2017, the SBA accomplished 75 percent of its target, committing nearly $2 billion in debenture leverage to SBICs. The debentures allowed SBICs to invest more than $5.7 billion in nearly 1,000 small businesses (see **Chart VIII**). The SBA licensed 15 new SBICs and reduced the time to license by 29 percent from FY 2015. As a new strategy, the SBA intends to focus efforts on small businesses in emerging markets, which will be reflected in FY 2018 performance.

CHART VII NUMBER OF SMALL BUSINESS EXPORTERS ASSISTED

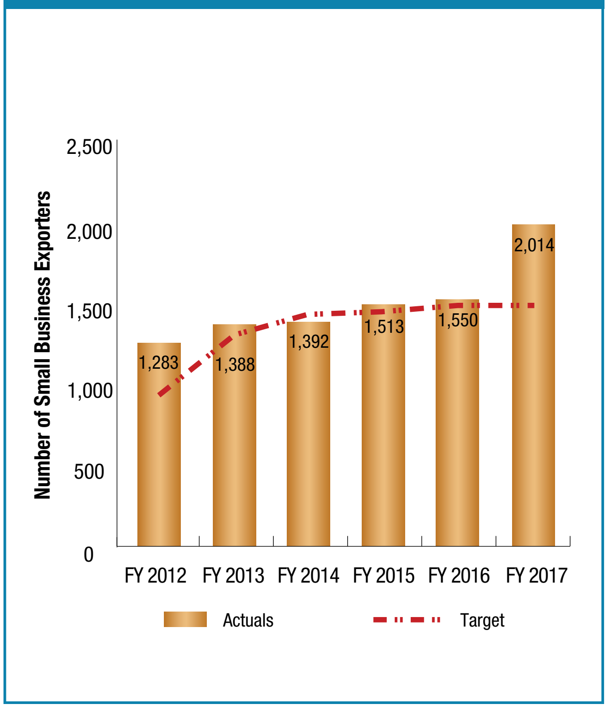
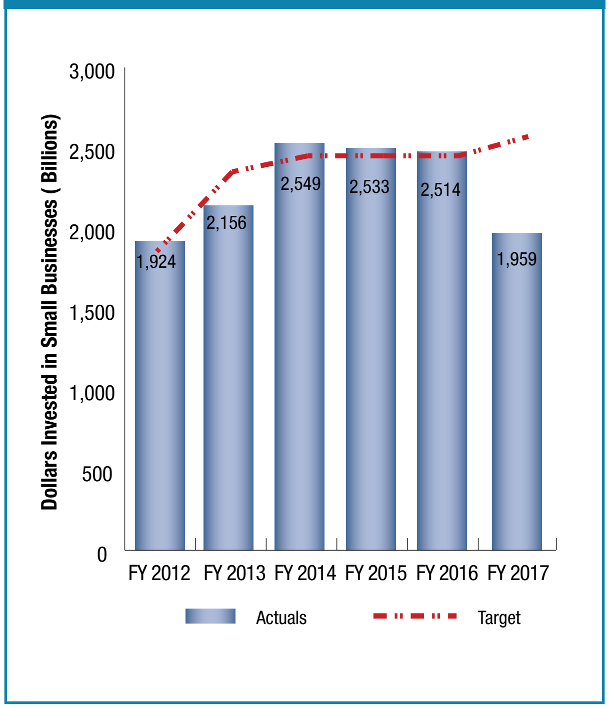


CHART VIII SBIC DEBENTURE LEVERAGE COMMITTED

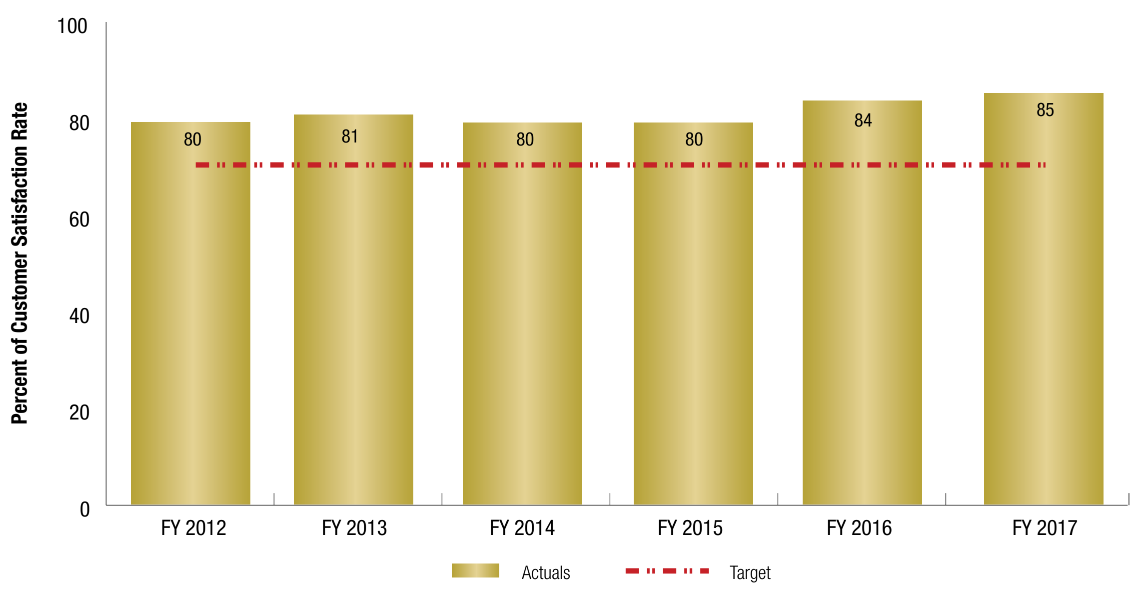


STRATEGIC OBJECTIVE 1.6:
Ensure that SBA's disaster assistance resources for businesses, nonprofit organizations, homeowners, and renters can be deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses to operation.

Performance Goal: Ensure the customer satisfaction rate for disaster loan approvals is 71 percent in FY 2017.

Performance Analysis: The SBA tracks customer satisfaction for its disaster assistance program through an annual survey that uses the American Customer Satisfaction Index. The index summarizes key points in the loan process, including the application, final decision, and closing of the loan. The SBA had a customer satisfaction rate of 85 percent, which exceeds the 71 percent target (see **Chart IX**). The high satisfaction rate is a result of several factors, including the improvements to the application process and upgrades to the Disaster Loan Assistance portal, which allows applicants easier access to general questions, status of their applications, and electronic signatures.

CHART IX CUSTOMER SATISFACTION RATE FOR DISASTER LOAN APPROVALS

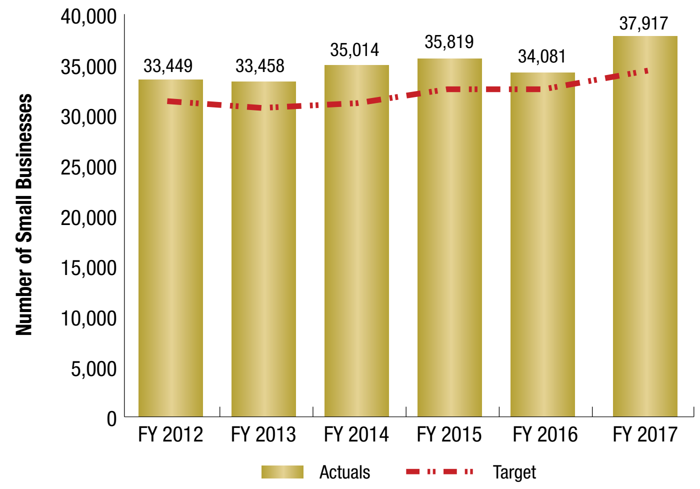


STRATEGIC OBJECTIVE 2.1: Ensure inclusive entrepreneurship by expanding access and opportunity to small businesses and entrepreneurs in communities where market gaps remain.

Performance Goal: Assist 34,050 underserved small businesses through capital assistance programs in FY 2017.

Performance Analysis: Small businesses in socially and economically disadvantaged communities often have difficulty accessing capital and federal contracts. For capital assistance programs, including 7(a), 504 loan, and Microloans, the SBA assisted nearly 38,000 small businesses — exceeding the FY 2017 target by 11 percent (see **Chart X**). The elimination of the fees on small dollar loans ($150,000 or less), streamlined processes, and program improvements attributed to the increase in number of small businesses assisted. In addition to the enhancements of the SBA One electronic platform to submit applications, the SBA introduced the online tool Lender Match to connect distinct borrowers with lenders.

CHART X SMALL BUSINESSES IN EMERGING MARKETS ASSISTED BY 7(a), 504 LOAN, AND MICROLOANS

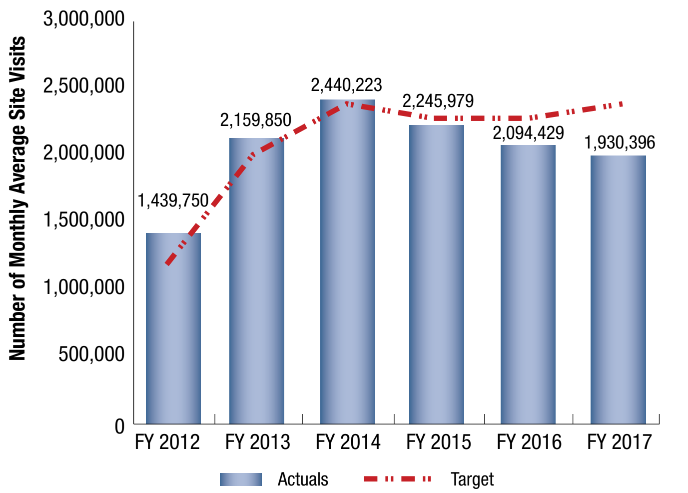


STRATEGIC OBJECTIVE 2.2: Provide timely, instructive, and useful information to the small business community through SBA's extensive digital and in-person outreach efforts.

Performance Goal: Reach 2.4 million average monthly SBA.gov site visits in FY 2017.

Performance Analysis: In FY 2017, SBA.gov averaged 1.9 million monthly site visits. This number is lower than the 2.1 million visitors in FY 2016 and below the 2.4 million target for visits (see **Chart XI**). While the SBA monitors this data using cookies, more site visitors used a Do Not Track feature that the SBA chose to respect, which caused the numbers to decline. In addition, the downward trend this fiscal year is a result of the transition and the continued focus on improving the SBA.gov website.

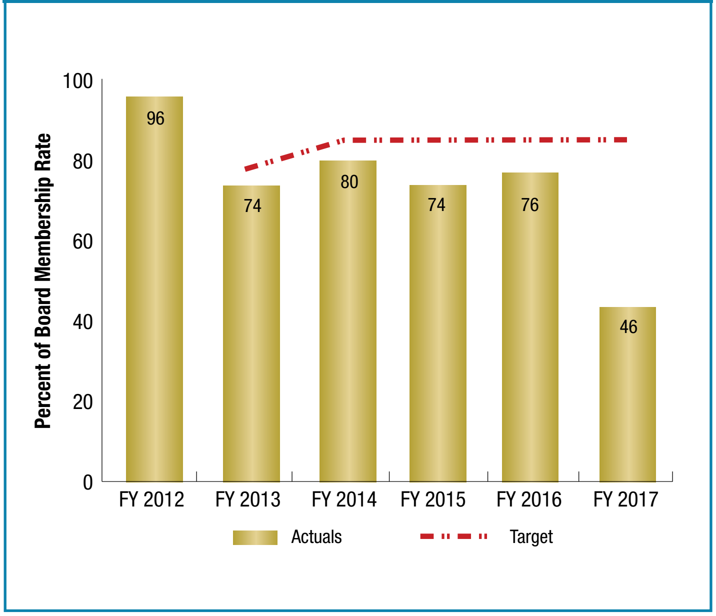
CHART XI NUMBER OF AVERAGE MONTHLY SBA.GOV SITE VISITS



STRATEGIC OBJECTIVE 2.3: Foster a small business-friendly environment by encouraging federal agency awareness about the impact of unfair regulatory enforcement and compliance efforts and reducing burdens on small business.

Performance Goal: Maintain Regional Regulatory Fairness Board membership at 85 percent or better in FY 2017.

CHART XII BOARD MEMBERSHIP RATE



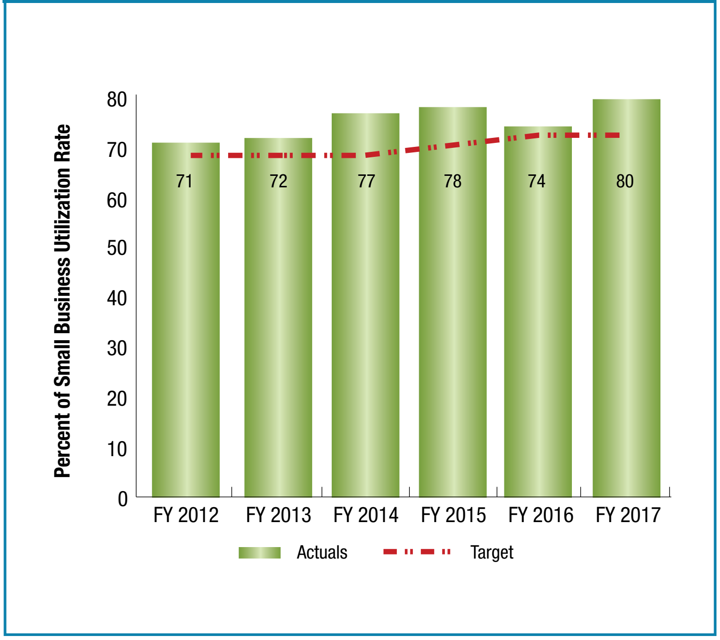
Performance Analysis: SBA's Office of the National Ombudsman works with federal agencies and the small businesses they regulate to provide a confidential, impartial channel for small businesses to comment on enforcement activities, audits, on-site inspections, compliance assistance, or other types of communication. SBA's Regional Regulatory Fairness Board reviews federal regulations impacting small businesses and provides advice to the SBA National Ombudsman. The SBA stopped recruiting new board members due to the transition in administrations, which has led to a 46 percent membership rate on the Regulatory Fairness Board, 39 percentage points below the target of 85 percent (see **Chart XII**). In order to recruit new members and to reduce the time required through the vetting process, the SBA made revisions to the process in FY 2017, and will continue to build a pipeline of candidates to fill current and projected board member vacancies.

STRATEGIC OBJECTIVE 3.1: Streamline, simplify, and strengthen SBA's core programs and operations to ensure that they are high performing, effective, and relevant to the needs of the small business community.

Performance Goal: Award 72.75 percent of SBA contracts to small businesses in FY 2017.

Performance Analysis: The SBA exceeded its small business utilization goal by awarding nearly 80 percent of contracts, totaling $125 million, to small businesses (see **Chart XIII**) and exceeded its subgoals for women-owned, small disadvantaged, HUBZone, and service-disabled veteran-owned small businesses. The SBA exceeded the small business utilization rate by maintaining a default Agency position of awarding contracts to small businesses and only resorting to large vendors when all small business options were exhausted.

CHART XIII SBA SMALL BUSINESS UTILIZATION RATE

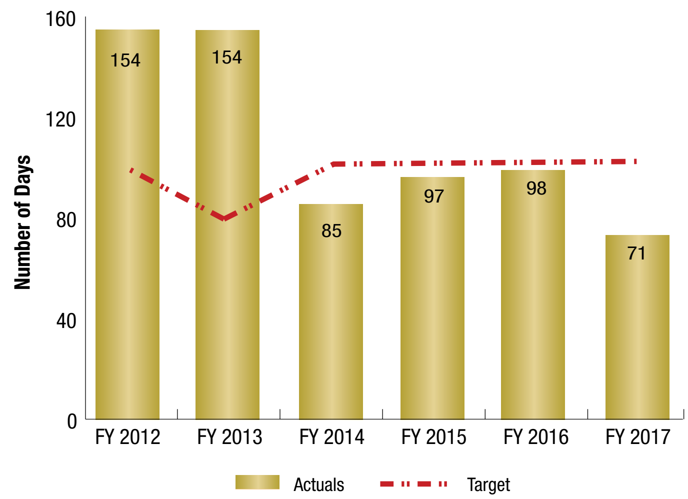


STRATEGIC OBJECTIVE 3.2: Invest in the Agency's employee recruitment, hiring, training, work-life programs, and performance management so staff is engaged to more effectively serve small businesses.

Performance Goal: Ensure that the average time to hire will be less than 100 days in FY 2017.

Performance Analysis: In FY 2017, the SBA continued to improve operational efficiencies which positively impacted the Agency's average number of days to hire. The SBA exceeded its target of 100 days by 29 percent, with a time-to-hire of 71 days (see **Chart XIV**). The SBA partnered with the U.S. Office of Personnel Management to promote effective recruitment of high-quality candidates equipped with the essential skills to support the Agency's mission. A hiring freeze between January and April 2017 also impacted the number of days to hire by reducing the number of applications to process.

CHART XIV AVERAGE NUMBER OF DAYS TO HIRE

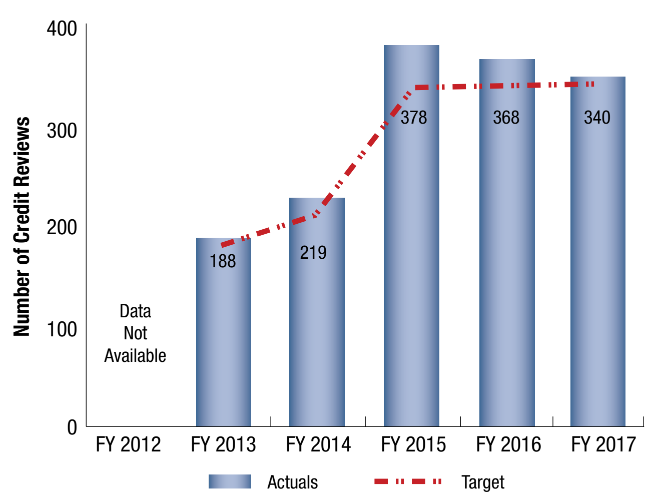


STRATEGIC OBJECTIVE 3.3: Mitigate risk to taxpayers and improve oversight across SBA programs.

Performance Goal: Perform 335 risk-based credit reviews; review 100 percent of 8(a) and 10 percent of HUBZone firms; and conduct 65 financial reviews of entrepreneurial development resource partners in FY 2017.

Performance Analysis: The SBA continued efforts to further mitigate risk this year. For lender oversight, the Agency performed 340 risk-based credit reviews, which provided oversight of loan performance, credit scores, and compliance with SBA loan program requirements (see **Chart XV**). The Agency conducted 64 financial examinations of entrepreneurial development resource partners to review the accuracy in reporting and ensure finances were used properly. After the reviews, the SBA provided face-to-face feedback and training on issues and shared best practices. The SBA exceeded its HUBZone and 8(a) review targets and ensured staff received training in order to provide small businesses with a better understanding of program eligibility requirements and compliance reviews.

CHART XV NUMBER OF RISK-BASED CREDIT REVIEWS OF LENDERS



Evidence and Evaluation

The SBA recognizes the importance of evidence and evaluation to understand and improve the efficiency and effectiveness of SBA programs and operations. Rigorous evidence allows leadership to make sound decisions about program strategy, policy, and resources. In FY 2017, the SBA continued to build and use evidence to improve program performance. SBA leadership uses evidence in its quarterly deep dive reviews and strategic objective annual reviews, and has woven evidence into the development of its Strategic Plan and Annual Performance Plan and Report.

The Agency is developing an enterprise learning agenda with a set of key research and evaluation questions. The ELA identifies areas where evaluation would provide insights about program effectiveness, progress toward outcomes, or test pilot initiatives. The SBA initiated four program evaluations to begin answering questions for the following programs or activities: HUBZone, Boots to Business, Community Advantage, and Small Business Development Centers. In addition, the SBA established a Performance and Evaluation Community of Practice to increase staff capacity and knowledge of program evaluation, developed a program evaluation framework and guidelines, and created an evidence registry. The SBA will initiate new program evaluations annually, which will ultimately continue to build a suite of evidence from which to better inform decisions. The SBA will publish evaluation results on its SBA.gov public website and incorporate findings into its performance management framework.

Verification and Validation of Performance Data

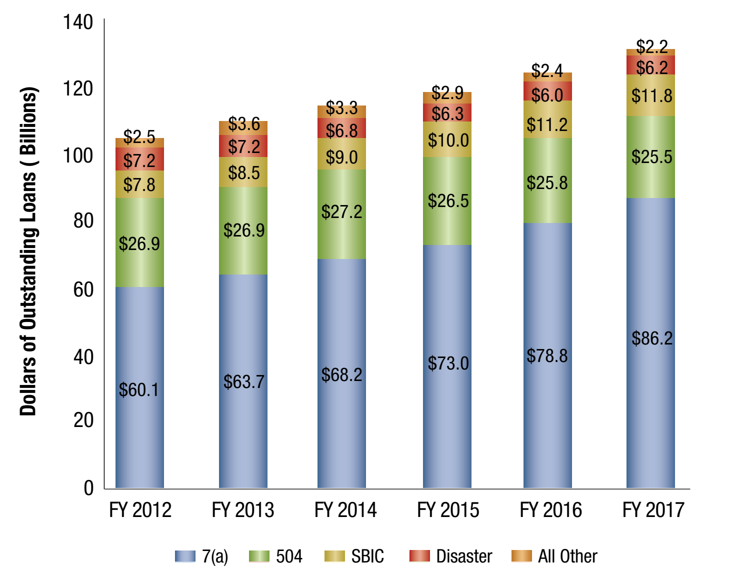
Managing results and integrating performance, financial, and budgetary information requires valid, reliable, and high-quality performance measures and data. Improving data quality is a priority for the SBA. The Agency's performance analysts work with SBA program office leads to acquire and review high-quality data as required by the GPRA Modernization Act and OMB Circular A-11. In addition to using output data internally from its systems, the SBA relies on data from resource partners, federal agencies, and other government entities to assess its accomplishments and effectiveness. The SBA vigorously pursues the following strategies to ensure data quality by:

- *Ensuring the validity of performance measures and data*. The SBA conducts an annual performance measure review to assess the validity of its measures and underlying data. SBA's performance analysts meet with each office for in-depth discussions about proposed externally reported measures. These meetings help determine whether the proposed measures and underlying data are useful for demonstrating a program office's success, which is defined by the goals and objectives.
- *Fostering organizational commitment and capacity for data quality*. The SBA issues a monthly executive performance dashboard to apprise senior management on progress and holds quarterly performance review meetings with the Deputy Administrator, Chief of Staff, Performance Improvement Officer, and program offices. At these meetings, the Agency leadership reinforces its commitment to the performance metrics and works directly with program offices to identify best practices and mitigate challenges. Annually, each Associate Administrator must certify their program office's performance data before it is externally reported and published at www.sba.gov/performance/VV-fy2018.
- *Assessing the quality of existing data*. SBA's performance analysts work with a program office's staff to reconcile data by creating independent performance reports and analyses and comparing the independently generated data with the data reported by the program offices. These activities verify the data and the underlying processes used for reporting.
- *Responding to data limitations*. SBA's performance analysts work with program offices to identify data limitations and specify the necessary steps to improve data. In addition, some program offices rely on data provided by third-party resource partners, who are responsible for collecting, storing, and reporting data to the SBA. The program offices have internal processes for working closely with their resource partners to ensure that data are correctly reported.

Operational Portfolio Analysis

The Operational Portfolio Analysis provides information on SBA's credit programs and does not reference the financial statements. The SBA is the taxpayers' custodian of small business loan guaranties and direct loans portfolio of nearly $132 billion. During FY 2017, the portfolio grew by $7.7 billion, or 6.2 percent. Since existing loans are continually being paid, this growth implies that SBA's lending during FY 2017 was significantly greater than the $7.7 billion reflected in the portfolio growth. By program, the Agency's 7(a) loan portfolio expanded by $7.4 billion, the 504 loan portfolio contracted by $0.3 billion, and the SBIC portfolio grew by $0.6 billion. The Agency's disaster loan portfolio increased by $0.2 billion, while all other portfolios declined by $0.2 billion. From FY 2012 through FY 2017, all of the portfolio's cumulative $27.4 billion growth came from the 7(a) and SBIC programs (see **Chart XVI**).

CHART XVI MAKEUP OF SBA'S OUTSTANDING LOAN PORTFOLIO



NEW GUARANTIED LOANS

The quarterly average loan volume continued to increase in FY 2017, with an average of $7.6 billion. **Chart XVII** demonstrates the growth in loan approvals since FY 2012.

At least three main factors contributed to the loan guaranty portfolio's recent growth:

Continuous Growth in the Economy — Real Gross Domestic Product in the United States grew at an average quarterly rate of 2.2 percent during 2014-2017.[4] This increase in RGDP supports increased revenues and profits at small and large firms, which in turn increases their demand for credit.

Increase in Business Financial Stability — As the economy continues to grow, several factors continue to influence demand and increases in revenues. First, inflation remains low (on average 1.3 percent in 2016),[5] keeping the cost of consumer goods and services affordable. Second, the dollar continued to maintain its strength in international exchange markets during 2016-2017,[6] which also supports the stability of U.S. prices. Finally, the unemployment rate has continued below 5 percent at pre-recession levels, which boosts consumer confidence and spending.[7]

Market for Small Business Lending – According to data from the Federal Deposit Insurance Corporation, the total market for business loans has increased during 2012-2016 by 28 percent ($686 billion). However, 95 percent ($652 billion) of this increase is accounted for by loans to nonsmall businesses,[8] while total small business loans increased by nearly $34 billion. This means the ratio of small business loans compared to the total bank market decreased (see **Chart XVIII**). Furthermore, there has been a trend in the banking industry toward consolidation, which is reflected in the reduction of commercial banks between the 2012-2016 period by 16 percent. This makes SBA's mission of providing access to capital even more critical for growing small businesses that may be denied credit in the private loan market.

NEW DIRECT LOANS

In FY 2017, SBA's annual lending for the Disaster Assistance program was nearly $1.7 billion due to an increase in activity at the end of the year in response to hurricanes Harvey, Irma, and Maria. A large portion of the outstanding balance of the Disaster Assistance loan portfolio is comprised of lending from FY 2006 (hurricanes Katrina, Rita, and Wilma) and FY 2013 (Hurricane Sandy). The SBA will continue to make

4 U.S. Department of Commerce, Bureau of Economic Analysis: www.bea.gov/newsreleases/glance.htm.

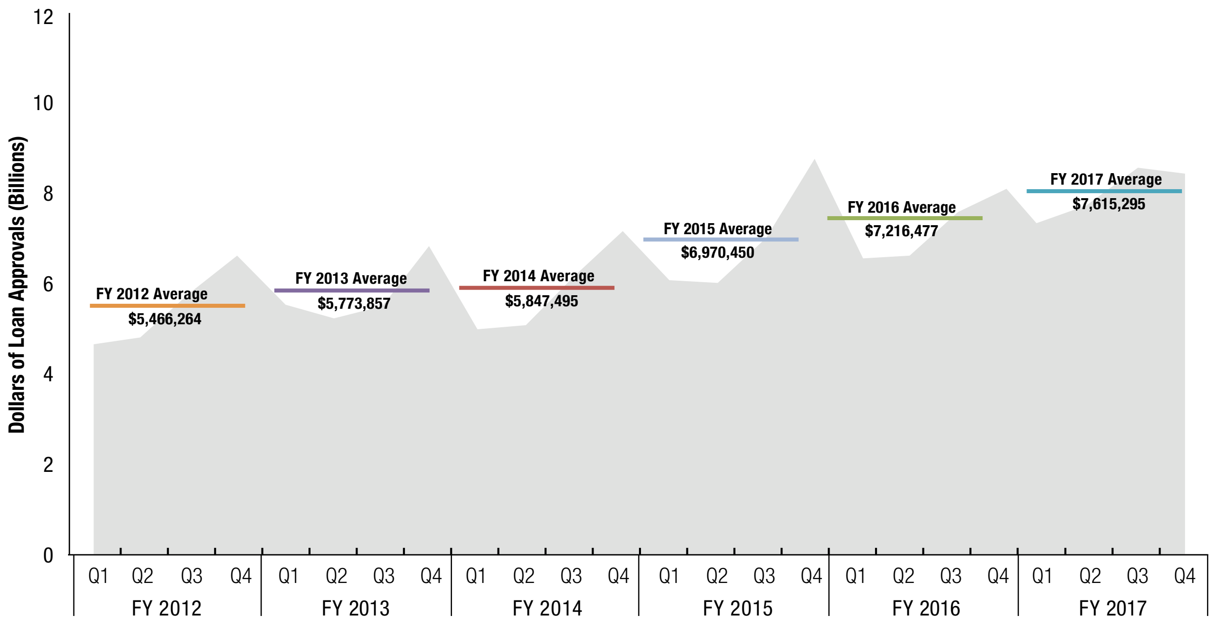
5 U.S. Department of Labor, Bureau of Labor Statistics: www.bls.gov/cpi/home.htm.

6 Financial Deposit Insurance Corporation: www.macrotrends.net/1329/us-dollar-index-historical-chart.

7 U.S. Department of Labor, Bureau of Labor Statistics: data.bls.gov/timeseries/LNS14000000.

8 Nonsmall businesses are firms that have more than 500 employees.

CHART XVII QUARTERLY GROSS 7(a) AND 504 LOAN APPROVALS



disaster loans an important recovery tool for businesses, homeowners, and renters who survive a disaster.

PORTFOLIO PERFORMANCE — DELINQUENCIES

Delinquency rates (i.e., borrowers who are late on their payments) are a leading indicator of the Agency's charge-off rate (i.e., the rate of dollars spent to cover loans that defaulted). Thus, delinquency rates are a general indicator of the Agency's and taxpayers' future liabilities for these programs. A declining delinquency rate (see **Chart XIX**) is a positive indicator for the financial performance of any loan portfolio.

Strong economic growth, strong profit performance, and tighter lending standards by financial institutions during the past several years have reduced delinquency rates for all business loans, which have been steadily declining since reaching cyclical peaks in the latter part of 2009. A declining national unemployment rate, off a peak rate of 10 percent in October 2009, signals a generally improving environment for small businesses. Delinquency rates for the Agency's major loan programs followed this national downward trend. Delinquency rates for the 7(a) loan program declined from the peak 3.8 percent recorded during January 2009 to 0.7 percent recorded during July 2017. Delinquency rates for the 504 loan program likewise declined from the 5 percent peak recorded during February 2010 to 0.8 percent recorded during July 2017.

CHART XVIII OUTSTANDING COMMERCIAL LOANS TO SMALL VS. NONSMALL BUSINESSES

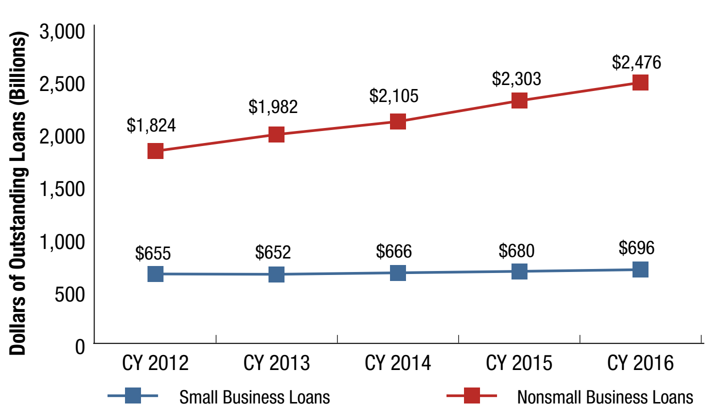
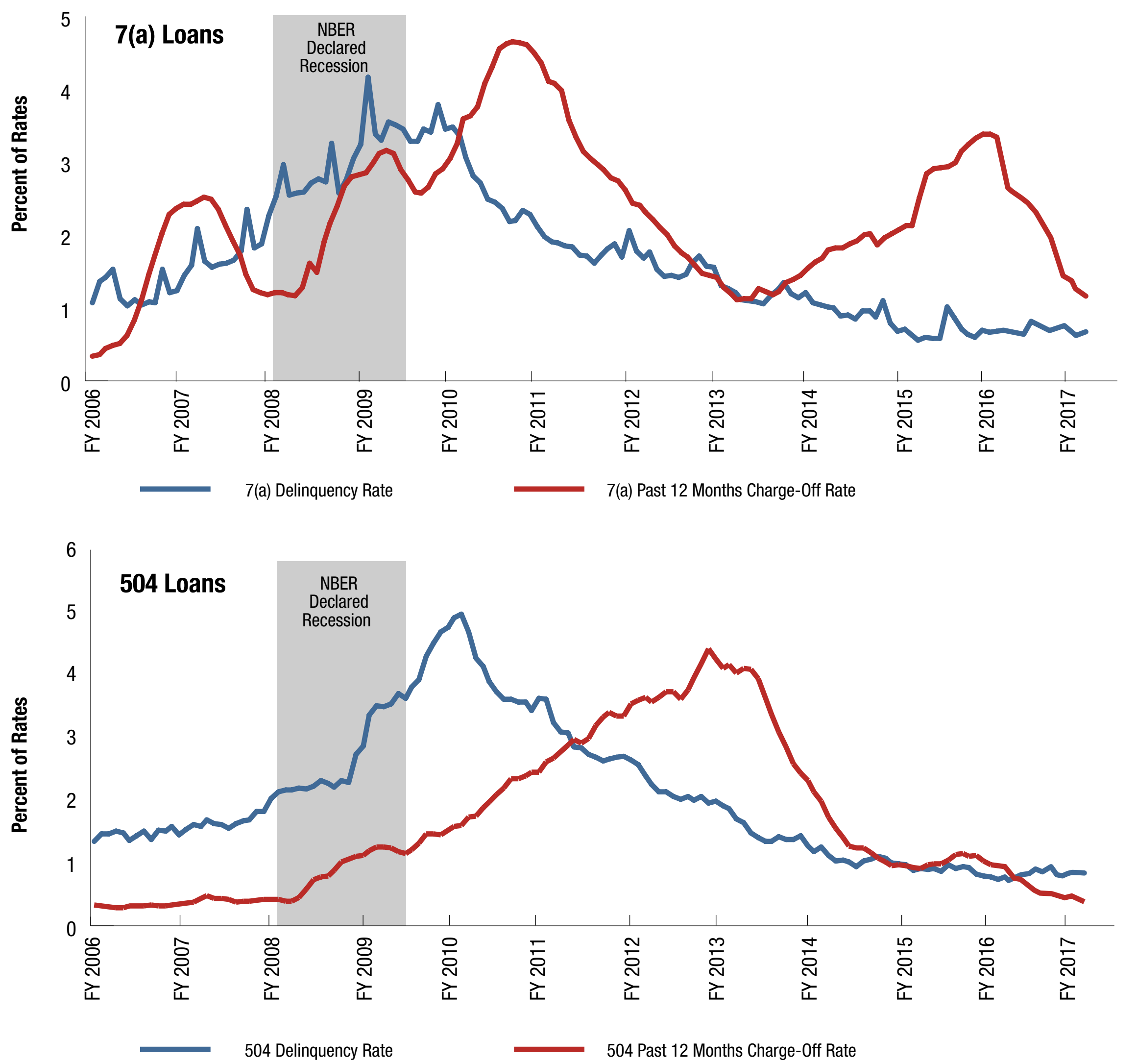


CHART XIX DELINQUENCY AND CHARGE-OFF RATES FOR THE 7(a) AND 504 PROGRAMS BY FISCAL YEAR



PORTFOLIO PERFORMANCE — CHARGE-OFFS

The 12-month charge-off rate for the 7(a) loan program experienced a pronounced decline during the FY 2010-2013 period, declining from 4.3 percent during the fourth quarter of 2010 to 1.2 percent in the third quarter of 2013, but then experienced a noticeable increase thereafter, until coming back down in July 2017 to 1.1 percent (see **Chart XIX**). The 7(a) loans that are not sold on the secondary market become a charge-off only after all efforts to recover a delinquent balance have been exhausted, such as liquidating the underlying collateral. The latent rise of the 7(a) charge-off rate starting in 2013 is attributable to recession-era loans that were charged-off after efforts to recover delinquent balances had been exhausted. Now that this effort to charge-off the recession-era loans is complete, the charge-off rate is mirroring the delinquency rate for FY 2017.

The 12-month charge-off rate for the 504 loan program experienced a continuous increase from FY 2008 to the early part of FY 2013, peaking at 4.4 percent during January 2013, but then recorded a pronounced decline thereafter, dropping to 0.4 percent during July 2017. This trend is not surprising, since the 504 loan program is an economic development program with a commercial real estate focus.

As such, recovery rates of defaulted 504 loans are, with some noticeable time lag, significantly impacted by the pricing trend in this sector. Real estate prices have been on the rise since the latter part of 2009, and as of 2017, commercial real estate prices are increasing.

Quarterly information on the status of SBA's loan portfolio, including outstanding balances and approvals by loan program and purchase rates, is available on SBA's website at www.sba.gov/performance.

FORWARD LOOKING ANALYSIS

The SBA is committed to maintaining and strengthening the nation's economy through the growth of small businesses. While much work has been done to support America's small businesses since the creation of the SBA in 1953, the Agency is committed to ensuring it can adapt to a changing environment. The following areas present the greatest insights into how the Agency shapes its programs and responds to entrepreneurs and small business owners.

An Ever-changing Economy

A small business often feels the first impacts of a slowing economy. Unemployment, taxation, and regulatory uncertainty all determine whether entrepreneurs will invest their time and resources into a new venture. Without large reserves of capital like many corporations, a small business can be shuttered within months during economic decline. To meet these needs, the SBA plays a key role in supporting access to capital. The Agency will continue to depend on lenders to issue capital. However, the decline in the number of banks and credit unions is a concern. As fewer lenders remain, small businesses must become nimbler when searching for capital, and the SBA must provide this support in an ever-changing economy.

Advancements in Technology

It would have been unimaginable 30 years ago to obtain a loan from a bank in Connecticut, submit a patent for a new idea, and then develop and sell that product in the international marketplace all while working from one's home in North Carolina. Today, technology has evolved to the point that entrepreneurs have greater access to markets and more capabilities to start and expand their businesses. Therefore, the SBA must be aware of these technological advancements to better communicate and share successes for entrepreneurs across the country. The SBA needs to develop more online tools and adapt Agency processes to the 21st century. The Agency continues to make progress on this front through tools like SBA One, Certify.SBA.gov, and Lender Match. Greater advancements in technology will continue to develop and shape how small businesses operate and how the Agency responds to and supports small businesses.

Threats from Disasters

A natural disaster can destroy lives, businesses, and communities in little time. While the SBA has many capabilities to respond to hurricanes, tornados, forest fires, and floods, the growing threat and number of these occurrences remain a serious concern, particularly with a changing climate. This year, hurricanes Harvey, Irma, and Maria have demonstrated the threats from an active hurricane season. To this end, small businesses must adapt by planning in advance where to produce and sell goods and services. Disaster preparedness is a key component of SBA's Disaster Assistance program and has helped many small businesses prepare for the unexpected. Among these growing threats, the SBA must be more nimble while simultaneously responding to multiple, large-scale disasters.

An Evolving Workforce

The SBA workforce continues to age and enter a period where the majority of its employees have reached retirement eligibility. As baby boomers retire, the Agency continues to search for ways to recruit and retain the best talent. Competition with industry and other agencies is strong, and retention of new employees can be challenging. The Agency is identifying critical mission areas and developing workforce plans to ensure that it understands where gaps exist. At the same time, the Agency seeks to ensure that its workforce is representative of the public it serves and that it can effectively communicate with entrepreneurs and small business owners in meeting their needs. To this end, the SBA has begun a series of training sessions for its field staff to ensure that they have the tools to help small businesses succeed.

To address these areas and continue enhancing customer service to small businesses, the Agency has instituted processes to help mitigate and improve performance. For example, the SBA is identifying ways to streamline the processing of business development and loan applications. At the same time, new information systems will reduce staff requirements to collect reports and data for compliance purposes, which will allow for greater time supporting small businesses.

ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

Highlights of Financial Results *(As of September 30)*

(Dollars in Thousands)

At End of Fiscal Year	**2017**	**2016**	**% Change**
CONDENSED BALANCE SHEET DATA			
Fund Balance with Treasury	$ 6,719,641	$ 6,255,936	7.41%
Credit Program Receivables and Related Foreclosed Property, Net	6,359,969	6,182,889	2.86%
All Other Assets	136,309	218,347	-37.57%
Total Assets	**$ 13,215,919**	**$ 12,657,172**	**4.41%**
Debt	7,693,059	8,019,526	-4.07%
Downward Reestimate Payable to Treasury	1,215,102	1,239,814	-1.99%
Liability for Loan Guaranties	2,556,368	2,371,505	7.80%
All Other Liabilities	239,060	252,143	-5.19%
Total Liabilities	**11,703,589**	**11,882,988**	**-1.51%**
Unexpended Appropriations	1,653,684	1,425,883	15.98%
Cumulative Results of Operations	(141,354)	(651,699)	78.31%
Total Net Position	**1,512,330**	**774,184**	**95.35%**
Total Liabilities and Net Position	**$ 13,215,919**	**$ 12,657,172**	**4.41%**

For the Fiscal Year	**2017**	**2016**	**% Change**
STATEMENT OF NET COST BY STRATEGIC GOAL			
Goal 1: Growing Businesses and Creating Jobs			
Loan Subsidy Cost Including Reestimates	$ (899,415)	$ (547,531)	-64.27%
All Other Costs, Net of Revenue	757,712	687,711	10.18%
Goal 2: Serving as the Voice for Small Business	86,286	123,151	-29.93%
Goal 3: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses	36,678	41,326	-11.25%
Costs Not Assigned	22,649	34,820	-34.95%
Net Cost of Operations	**$ 3,910**	**$ 339,477**	**98.85%**
CONDENSED STATEMENT OF CHANGES IN NET POSITION			
Beginning Cumulative Results of Operations	$ (651,699)	$ (262,817)	-147.97%
Total Financing Sources	514,255	(49,405)	1,140.90%
Less: Net Cost of Operations	3,910	339,477	-98.85%
Ending Cumulative Results of Operations	**$ (141,354)**	**$ (651,699)**	**78.31%**
Beginning Unexpended Appropriations	1,425,883	1,600,847	-10.93%
Total Budgetary Financing Sources	227,801	(174,964)	230.20%
Ending Unexpended Appropriations	**$ 1,653,684**	**$ 1,425,883**	**15.98%**
Ending Net Position	**$ 1,512,330**	**$ 774,184**	**95.35%**
CONDENSED STATEMENT OF BUDGETARY RESOURCES			
Unobligated Balance Brought Forward	$ 4,966,556	$ 4,978,665	-0.24%
Other Budgetary Resources, Net	(123,924)	6,238	-2,086.60%
Appropriations (discretionary and mandatory)	1,933,824	1,144,588	68.95%
Borrowing Authority (discretionary and mandatory)	1,548,576	1,610,202	-3.83%
Spending Authority from Offsetting Collections	3,918,122	3,138,319	24.85%
Total Budgetary Resources	**$ 12,243,154**	**$ 10,878,012**	**12.55%**
Obligations Incurred, Budgetary	$ 2,333,955	$ 1,700,731	37.23%
Obligations Incurred, Nonbudgetary	4,033,287	4,210,725	-4.21%
Unobligated Balances, Available and Unavailable	5,875,912	4,966,556	18.31%
Total Status of Budgetary Resources	**$ 12,243,154**	**$ 10,878,012**	**12.55%**

Analysis of Financial Results

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

This Analysis of Financial Results references numbers in the Highlights of Financial Results that were derived from the Financial Statements and Notes in this report. As a result, the definitions of the loan and guaranty balances used in this Analysis of Financial Results may differ somewhat from the balances in the Operational Portfolio Analysis section. For example, for the 7(a) program, the total amount of guarantied loans is used in the Portfolio Analysis, but only SBA's guarantied portion is used in the Analysis of Financial Results because it ties to balances in the financial statements.

BACKGROUND

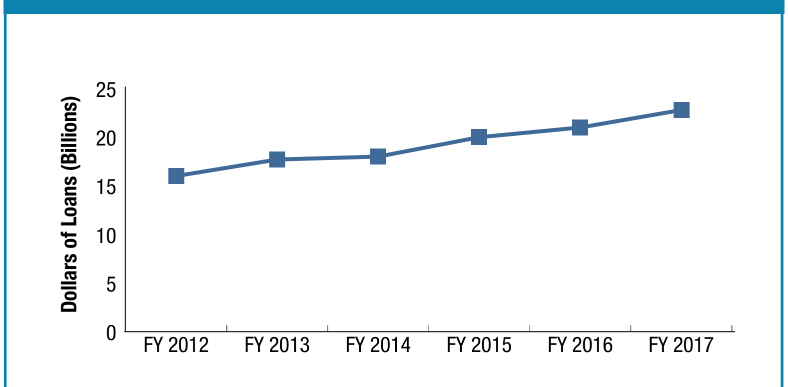
The SBA is a major federal credit agency of the U.S. Government. The SBA had 3,271 employees at the end of FY 2017, including disaster FTE employees. As a result, only $1.1 billion of SBA's $12.2 billion budgetary resources in FY 2017 were for salaries and expenses, with the rest supporting SBA's credit programs. Budgetary resources when apportioned by OMB are available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority and unobligated balances of budget authority provided in previous years. The loan financing funds record all the cash flow activity resulting from post-1991 direct loans and loan guaranties, and are not budgetary costs. The financing accounts are reported separately in the Budget of the United States Government and are excluded from the budget surplus/deficit totals.

The Federal Credit Reform Act of 1990 governs SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under FCRA, direct loans outstanding are reported net of an allowance developed using the present value of forecasted cash flows in subsidy models that are approved by OMB. A Liability for Loan Guaranties is reported also using subsidy models with forecasted cash flows from user fees and defaulted guarantied loans. The direct loan allowance and loan guaranty liability for each loan program cohort is adjusted annually under FCRA through the subsidy model reestimate process. The SBA's FCRA accounting is discussed further below in this section and in Notes 1 and 6.A in the financial statements.

The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives budget authority annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense for non-zero subsidy loan programs. In accordance with the FCRA, the subsidy costs are reestimated annually. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows for each annual cohort of loans. An upward reestimate occurs when the present value of expected cash outflows exceeds the present value of expected cash inflows. A downward reestimate occurs when the present value of expected cash inflows exceeds the present value of expected cash outflows. Increased reestimated costs are funded in the following year by permanent indefinite budget authority, while decreased costs are returned by the SBA to a Treasury general fund.

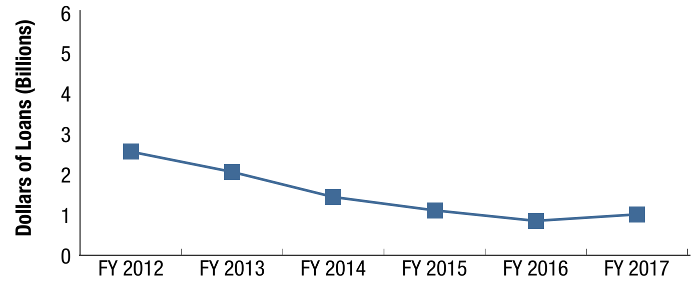
The portion of the outstanding principal guaranteed by the SBA was $99.5 billion as of September 30, 2017, an increase of 6.1 percent from the $93.8 billion guaranteed as of September 30, 2016 (see Note 6.C in the financial statements). As shown in **Chart XX**, new guaranties

CHART XX GUARANTIED LOANS DISBURSED



disbursed by SBA participating banks during FY 2017 were $22.8 billion, a 7.1 percent increase compared to the FY 2016 figure of $21.3 billion. The $1.5 billion increase resulted from a $0.3 billion increase in 504 Certified Development Company loans, a $1.4 billion increase in 7(a) loans, and a $0.2 billion decrease in SBIC Debentures in FY 2017. This net increase in FY 2017 guaranty disbursements and reduction in purchases of guarantied loans contributed to the 6.1 percent increase in outstanding guaranteed principal mentioned above.

CHART XXI PURCHASES OF GUARANTIED LOANS



Credit program receivables for the SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty programs, which are offset by an allowance for subsidy. The allowance for the subsidy cost of the gross loan receivable is recorded as a contra asset, and the net asset is reported on the Balance Sheet. The subsidy allowance is determined by modeling the projected future cash inflows and outflows of SBA credit programs using discounted cash flow methodology. The subsidy allowance for each loan program cohort is reestimated annually, and increases are funded by Treasury while decreases are returned to Treasury by the Agency. Loan losses, the costs of loan servicing, and loan interest rates are factors that affect the subsidy allowance.

SBA credit program receivables were valued at $6.4 billion in FY 2017, which was an increase of $0.2 billion from FY 2016. The change in the credit program receivables resulted from an increase of $0.2 billion in direct disaster loans. The amount of defaulted guarantied loans decreased slightly as collections and charge-offs exceeded new guaranty purchases, partially offset by a lower subsidy allowance amount. This net decrease is attributable to an economy that continued to improve in FY 2017. The amount of direct disaster loans increased as collections and charge-offs were exceeded by new loans, plus a lower subsidy allowance amount.

As reflected in **Chart XXI**, guarantied loan purchases increased $0.2 billion in FY 2017 to $1.0 billion. The increase in purchases this year did reduce the amount of the decrease in the outstanding guarantied business loans receivable after including recoveries, expenses, and charge-offs in the loans purchased portfolio.

FINANCIAL POSITION

Assets

The SBA had total assets of $13.2 billion at the end of FY 2017, up 4.4 percent from FY 2016. Total assets increased primarily due to a $463.7 million increase in the Fund Balance with Treasury, plus a $177.1 million increase in Credit Program Receivables and Related Foreclosed Property. The increase in the FBWT was due primarily to an increase in appropriations received to fund the disbursement of disaster loans. The increase in Credit Program Receivables and Related Foreclosed Property was due primarily to the net increase in the amount of direct disaster loans as collections and charge-offs did not exceed new loans.

Liabilities

The SBA had total liabilities of $11.7 billion at the end of FY 2017, down 1.5 percent from FY 2016. Liabilities consist primarily of the Liability for Loan Guaranties, Downward Reestimate Payable to Treasury, and Debt with Treasury.

The Liability for Loan Guaranties is the estimate of the net present value of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guarantied loans under its guarantied loan programs. The Liability for Loan Guaranties for each loan program cohort is reestimated annually, and increases are funded by Treasury while decreases are returned to Treasury by the Agency. The Liability for Loan Guaranties increased $0.2 billion due to the net of downward reestimates of future costs for SBA's guaranty portfolio, guarantied loan purchases, and the collection of fees.

The Downward Reestimate Payable to Treasury decreased $24.7 million due largely to the change in the year-end accrual of reestimates resulting from lower than projected purchases in FY 2017 for some cohorts in the 7(a) and SBIC Debenture programs, and higher than expected recoveries for the 504 loan program. Better than projected loan performance and higher than expected recoveries across most cohorts were the primary reasons for the downward reestimate in FY 2017.

Debt with Treasury decreased $0.3 billion due to the increase in the amount of borrowing repayments to Treasury in FY 2017, as well as a decrease in borrowing needed to cover disaster loan programs. Note 9 in the financial statements provides additional detail on SBA debt with Treasury.

Net Position

Cumulative Results of Operations is the accumulative difference between expenditures and financing sources since the inception of the Agency. This negative balance decreased $510 million because unfunded upward subsidy reestimates at year-end for almost every program were less for FY 2017 compared to FY 2016. Upward subsidy reestimates determined at year-end are funded in the following year when they are received. **Unexpended Appropriations** increased $228 million this year primarily because the amount of appropriations used was not greater than the appropriations received in FY 2016 for business, disaster, and administrative activities. This affected Budgetary Financing Sources and the Ending Net Position.

NET COSTS OF OPERATIONS

The Net Costs of Operations primarily reflects the costs of SBA credit programs subsidy expenses during the year for new loans and subsidy reestimates at year-end.

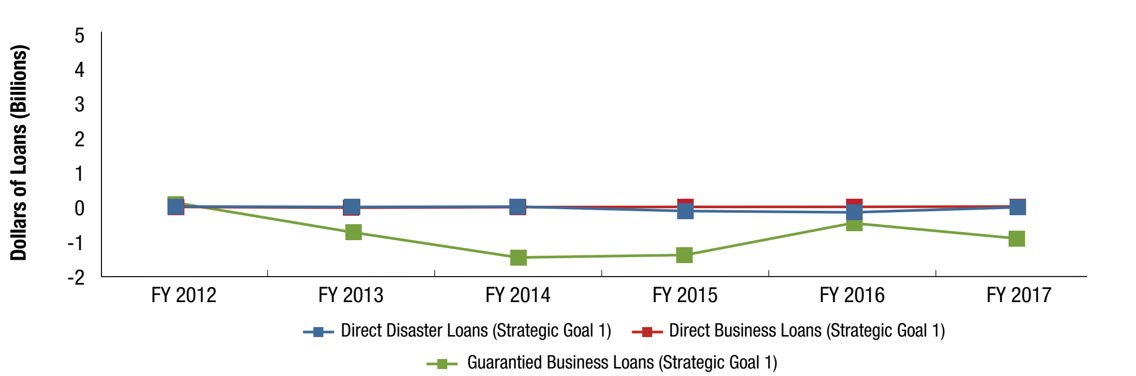
Net downward reestimates were larger in FY 2017 than last year due to a large decrease in the amount of upward reestimates, which affected Strategic Goal 1 costs. Those subsidy reestimates were the largest components of the change (net decrease) in the Agency's net cost. **Chart XXII** reflects the change in the net subsidy reestimates for the guarantied business and direct disaster loan programs in FY 2017.

The net downward reestimate of $0.3 billion in the 7(a) programs was due mostly to lower than average purchases during FY 2017 that decreased the overall purchase curve, which decreased purchase projections in future years and contributed to the downward reestimate for FY 2017.

The 504, 504 Recovery Act, and 504 Jobs Act programs had a large net downward reestimate of $0.4 billion due to better than projected loan performance for the FY 2016 cohort. Further detail on subsidy reestimates can be found in Note 6.I of the financial statements in the Financial Reporting section of this report.

The SBIC Participating Securities and Debenture programs had a net downward reestimate of $0.2 billion in FY 2017 that was due mostly to actual default purchases that were lower than projected in FY 2017.

CHART XXII CREDIT PROGRAM SUBSIDY REESTIMATES

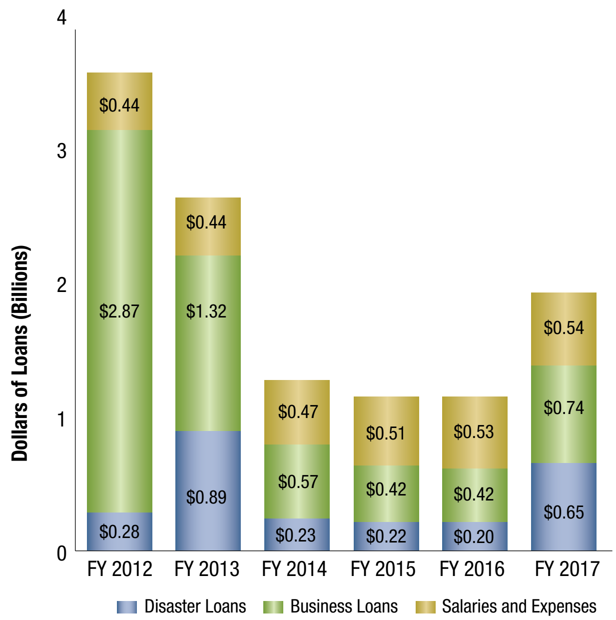


BUDGETARY RESOURCES

Total Budgetary Resources of $12.2 billion increased $1.4 billion in FY 2017. This increase is primarily the net result of a large increase in appropriations and spending authority from offsetting collections this year, as well as the other factors shown in the Highlights table and discussed below. Other Budgetary Resources, Net decreased by $130 million in FY 2017. This change is attributable to a large increase in prior year recoveries, and a significant increase in the amount of debt repaid.

Appropriations (discretionary and mandatory) increased $789 million in FY 2017. As shown in **Chart XXIII**, the increase was the combination of the increase in the amount of appropriations needed to fund SBA's upward credit subsidy reestimates, as well as an increase in the need for subsidy to fund the Agency's disaster program in FY 2017.

CHART XXIII APPROPRIATIONS RECEIVED



Borrowing Authority decreased $62 million in FY 2017 due to a decrease in borrowing needed to cover disaster loan-making, offset by an increase to cover cash shortfalls in the guarantied loan programs. Borrowing authority initially granted to the SBA was $1.8 billion, but the SBA withdrew $0.3 billion at year-end FY 2017, as it was not needed to fund future credit program operations.

Spending Authority from Offsetting Collections increased $0.8 billion in FY 2017. This increase is attributable to larger net collections in both the disaster and guarantied programs. A significantly higher amount of subsidy collected, combined with higher loan repayments and offset by the repayment of borrowings from current year authority in FY 2017, resulted in a higher ending balance.

STATUS OF BUDGETARY RESOURCES

The Total Status of Budgetary Resources increased $1.4 billion in FY 2017 to $12.2 billion. Budgetary obligations increased by $0.6 billion in large part due to the larger upward subsidy reestimate in FY 2017. Nonbudgetary obligations decreased $0.2 billion due to a decrease in guarantied program downward reestimates offset with an increase in purchases of guarantied loans.

Unobligated balances as of September 30, 2017 and 2016 were $5.9 billion and $5.0 billion, which included $4.2 billion and $3.0 billion of unavailable unobligated balances. These balances were unavailable because they were unapportioned by OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts ($4.6 billion in FY 2017 and $3.9 billion in FY 2016) from subsidy estimates and reestimates that are used primarily to pay default claims in future years.

ANALYSIS OF SBA'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Internal Control Environment

The SBA believes that maintaining integrity and accountability in all programs and operations is critical for good government. The ability to demonstrate consistent responsible stewardship over assets and resources is a sign of responsible leadership. SBA's commitment to integrity and ethical values with an effective system of internal controls ensures that every employee remains dedicated to the efficient delivery of services to customers and maximizes desired program outcomes. The SBA has developed and implemented management, administrative, and financial system controls to reasonably ensure that:

- Programs and operations achieve intended results efficiently and effectively;
- Resources are used in accordance with the mission of the Agency;
- Programs and resources are protected from waste, fraud, and mismanagement;
- Program and operation activities are in compliance with laws and regulations; and
- Reliable, complete, and timely data are maintained and used for decision-making at all levels.

Each office within the SBA implements or maintains effective internal controls over operations, reporting, and compliance to achieve programmatic goals. Each year, the SBA conducts an assessment of internal control as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982 in accordance with the Office of Management and Budget's (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The FMFIA requires that the assessment results be reported to the President and Congress in a statement of assurance. The SBA Administrator provides the statement of assurance based on the self-assessment of program managers, internal control reviews, and audits and reviews done by the Government Accountability Office (GAO) and SBA's Office of Inspector General (OIG).

SBA's Office of Internal Controls (OIC) provides training and tools, including checklists designed specifically for program support offices and district offices, to aid management in assessing and documenting the effectiveness of internal controls within their respective area of responsibility. These assessments are performed based on the five components and 17 principles of internal control framework prescribed in GAO's *Standards for Internal Control in the Federal Government*, known as the Green Book.

In support of the Agency's internal control program, the Senior Assessment Team (SAT) oversees the assessment of internal controls conducted by the OIC and directs compliance with the requirements of the OMB Circular No. A-123, Appendix A, *Internal Control Over Financial Reporting*. The SAT, chaired by the Chief Financial Officer and comprised of SBA managers from the major programs and support offices, meets monthly to discuss the progress of the internal control assessment and other emerging internal control matters. The SAT employs a risk-based approach in the selection of processes and systems for a more robust internal control evaluation. SAT members may request additional reviews of business processes that have no material impact on the financial statements but did present some potential for risk or exposure to the Agency. The OIC documents the process and key controls, evaluates and tests the design and effectiveness of controls, and presents the results to the SAT. Each office is responsible for developing and implementing corrective actions for any reported deficiencies. Based on the evaluation of business processes in FY 2017, the OIC identified a number of deficiencies in the internal control over financial reporting, including several in SBA's key business processes. The SAT evaluated the review findings and determined that none reached the level of material weakness.

The SBA Enterprise Risk Management Board continued to oversee and guide SBA's enterprise risk management efforts. The Board is chaired by the Deputy Administrator and comprised of senior leaders from major SBA programs and support offices. The Board continues to consolidate, assess, and prioritize enterprise-level risks and to conduct deep dive assessments on high-impact risks. The Board assigns responsibility for risk response and ongoing monitoring of the risk environment. In addition, the Board has begun the process of strengthening integration efforts with agency strategic planning and performance management. During FY 2017, the Board undertook efforts to better align the Agency's process with GAO's risk management framework, which successfully resolved the related long-standing management challenge previously reported by GAO.

In FY 2017, SBA management identified a control weakness related to the distribution of excess principal to investors when a loan prepays in the secondary market guarantee program. SBA's auditors classified this control weakness as a significant deficiency. The SBA addressed the issue by requiring its fiscal transfer agent to implement a corrective action to accelerate the payment of excess principal to investors. This process change will be reflected in the payments to investors beginning on November 25, 2017.

The SBA continued to have a significant deficiency in information technology security controls, including access controls and change controls. In FY 2017, the SBA continued strengthening the overall security posture of its information technology systems. The enterprise IT system weakness management and oversight program continued prioritizing remediation efforts across all IT systems, especially high-value assets. As a result, the SBA was able to close approximately 60 percent of open OIG Federal Information Security Modernization Act (FISMA) audit findings during FY 2017.

Financial Management Systems Strategy

Financial management systems at the SBA are designed to support effective internal control, produce reliable, timely financial information, and ensure cost-effective loan guaranty processing. Management remains focused on robust financial management systems that support SBA's ability to comply with laws and regulations, provide timely and accurate data to support management analysis and decision-making, enable the Agency to keep pace with its lending partners, and effectively use automation to achieve operational efficiency.

As demonstrated throughout the *FY 2017 Agency Financial Report*, the SBA seeks to comply with all federal financial management system requirements, including the Federal Financial Management Improvement Act of 1996[9] which requires compliance of the Agency's financial management systems with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

The SBA has continued to build on incremental improvement projects designed to modernize the financial management system environment to improve financial system controls, reduce sustainment costs, provide additional functionality for external lending partners, and improve system reliability. After migrating the Agency's systems to a state-of-the-art data center with system redundancy and disaster recovery capabilities that allow for continuity of operations, the SBA has focused on reducing costs and leveraging technology advancements to optimize infrastructure in accordance with the Data Center Optimization Initiative established in OMB Memorandum M-16-19.

In FY 2017, the SBA also appointed a Chief Data Officer to oversee improvements to financial and award system integration to ensure consistency of data, enhance reporting capability, and improve SBA's data analytics capabilities to assist in management decision making. Additionally, the Chief Data Officer oversees the development and interpretation of DATA Act financial reports to analyze and evaluate the effectiveness of SBA programs and operations as well as the development of interactive and flexible data dashboards that present SBA award and financial information for consumption by the public.

The SBA has taken steps to enhance SBA's financial system controls over lending programs and provide for improvement in accessibility to common information, financial and budget management, and financial reporting. SBA's tightly integrated financial systems allow the Agency to respond quickly to both internal and external financial information inquiries and requirements. The SBA completed all requirements of the DATA Act and received the Treasury Secretary's Certificate of Appreciation, recognizing the SBA as the first agency to complete the recommended eight steps in the DATA Act Agency Progress Dashboard.

Core financial systems at the SBA are comprised of three systems operated and managed by the Office of the Chief Financial Officer and the Office of Capital Access. The systems include:

- *Oracle Federal Financials* — The SBA will upgrade to the most current release for budget execution

9 The purpose of the Federal Financial Management Improvement Act of 1996 is to advance federal financial management by ensuring that federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. Core components include applying uniform accounting standards across the federal government; full disclosure of all federal programs and activity; increasing the accountability, creditability, performance, productivity, and efficiency of federal financial management; establishing financial systems to control the cost of federal government; and increasing the capability of agencies to monitor budget execution by comparing spending to results of activities. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, the President, Congress, and the public. (Office of Management and Budget www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2009/m09-06.pdf)

and management for administrative activity in the first quarter of FY 2018.

- *Loan Systems* — SBA-built systems support the lifecycle of loan guaranty processing, loan program funds control, management and accounting for loan servicing, and loan-related expenses.
- *Financial Management System* — An SBA-built system used to consolidate administrative and loan activity, manage cash and control funds, and provide financial reporting.

Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2017

The Small Business Administration continued to strengthen internal controls over its programs and operations during FY 2017. Creating and sustaining a culture of responsibility and accountability while eliminating and preventing waste, fraud, and abuse is critical to meeting our mission at the SBA. I am pleased to report that the SBA continues to achieve its internal control objectives, and that SBA's independent auditor issued an unmodified opinion on the Agency's FY 2017 financial statements for the 13th year in a row.

SBA management is responsible for managing risks and maintaining effective internal controls and financial management systems to meet the objectives of Section 2 and 4 of the Federal Managers Financial Integrity Act. The SBA conducted its assessment of internal controls in accordance with OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Agency managers have issued assertions to me as to the status of the FY 2017 internal controls in their areas of responsibility. These assertions are supported by internal testing, checklists, and other management reviews. Although a few Agency managers reported some operating deficiencies, these were not of a material nature. Based on the results of the Agency managers' assessments and noting the control deficiency identified by the external auditors, I can provide reasonable assurance that internal controls over operations and reporting, as of September 30, 2017, were operating effectively, and no material weaknesses were identified in the design or operation of those internal controls. I can also provide reasonable assurance of compliance with applicable laws and regulations with the exception of an instance of non-compliance identified by SBA's independent auditor.

This instance of non-compliance item related to delays encountered with approving and processing charge-off actions in SBA's internal systems prevented the timely referral of all borrowers and guarantors of direct and guaranty loans to the Department of the Treasury for debt collection as required by the Debt Collection Improvement Act (DCIA). Specifically, a one-time systematic update in November 2016 allowed for principals on loans to be referred to the Department of the Treasury for collection; however, this update prevented liable guarantors from being referred. In addition, untimely data entry of charge-off activities at the SBA loan centers resulted in untimely referrals. The SBA has a DCIA Compliance Team comprised of representatives from the Office of Capital Access' Office of Financial Program Operations, the Office of Performance Systems Management, and the Office of the Chief Information Officer; who work together to identify and resolve problems pertaining to the implementation of the DCIA. The team worked to remediate defective system coding that caused untimely referral of loans, and will implement an internal control to identify non-referral of borrowers and guarantors when system upgrades occur in the future. In addition, the team worked with the loan servicing center directors to ensure charge-offs are processed timely to ensure compliance with DCIA.

In addition, the SBA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular No. A-123. Based on the results of this evaluation, I can provide reasonable assurance that internal controls over financial reporting were operating effectively and no material weaknesses were identified in the design or operation of internal controls over financial reporting for FY 2017. I can also provide reasonable assurance that the Agency's financial management systems conform to the principles, standards, and related requirements prescribed by Section 4 of FMFIA.

The Federal Financial Management Improvement Act requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger. Based on the FFMIA criteria, I can provide reasonable assurance SBA's financial management systems substantially comply with FFMIA for FY 2017.

In compliance with OMB Circular A-11, Section 51.3, the Chief Information Officer and the Chief Financial Officer and Associate Administrator for Performance Management have provided a signed statement that attests:

- The SBA Chief Information Officer reviewed and approved the major IT investments portion of the SBA budget request;
- The SBA Chief Information Officer had a significant role in reviewing planned IT support for major program objectives and significant increases and decreases in IT resources; and
- The SBA IT portfolio includes appropriate estimates of all IT resources included in the budget request.

Linda E. McMahon
Administrator
November 14, 2017

Improper Payments Summary

Improved financial performance through the reduction of improper payments continues to be a key financial management focus of the federal government. SBA management continually develops strategies to reduce improper payments for responsible stewardship of public assets.

The Improper Payments Information Act of 2002 (IPIA), as amended, and as implemented by the Office of Management and Budget (OMB) in Circular No. A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, requires SBA management to review programs and activities to identify those that are susceptible to significant erroneous payments, and to estimate annually the amount of erroneous payments made in those programs deemed risk susceptible. SBA management performs testing to estimate the rates and amounts of improper payments, establishes improper payment reduction targets in accordance with OMB guidance, and develops and implements corrective actions.

The SBA has five programs and activities that are subject to annual improper payment reporting: the 7(a) loan program (approvals and purchases), the 504 Certified Development Company loan program, the Disaster loan program, and disbursements related to goods and services. Since FY 2014, the SBA has reported improper payments for those receiving Hurricane Sandy Disaster Relief funds, which include grant programs and disaster-related administrative expenses of payroll, purchase cards, and travel, to comply with the Disaster Relief Appropriations Act, 2013. In FY 2017, the SBA was granted relief from reporting Hurricane Sandy Disaster Relief funds by OMB, as SBA adequately demonstrated that the previously reported program and activities had at least two consecutive years of improper payments reporting below the IPERA thresholds.

The Circular requires risk assessments at least once every 3 years to determine a program's susceptibility to significant improper payments. The term significant improper payments is defined as gross annual improper payments exceeding (i) both 1.5 percent of program outlays and $10 million of all program or activity payments, or (ii) $100 million. In FY 2017, the SBA identified 10 programs and activities that exceeded the $10 million threshold and conducted assessments according to the guidance to determine whether they were susceptible to significant improper payments. Based on the risk assessments, the SBA concluded that they did not and therefore, for FY 2017, the SBA did not identify any additional programs or activities as susceptible to significant improper payments.

At the beginning of FY 2016, the 7(a) Guaranty Approvals Program was deemed to be a high-priority program for improper payment reporting purposes by OMB, based on the estimated improper payment amount reported in the FY 2015 Annual Financial Report. SBA management has diligently worked to meet the additional requirements for the high-risk program, and has taken several actions to reduce and prevent future improper payments through streamlining and simplifying the lending process as well as improving the quality of the documentation. As a result, the estimated improper payment amounts for FY 2016 and FY 2017 have been significantly reduced and no longer exceed the threshold for a high-priority program. The SBA plans to request that this program be relieved from reporting as a high-priority program in FY 2018.

The majority of improper payments for SBA are due to administrative and documentation errors, which are caused by the absence or lack-of-completeness of supporting documentation necessary to verify the accuracy and validity of a payment. The detection and remediation of improper payments is a priority for the Agency. SBA staff monitor and review for improper payments and are charged with implementing improvements that will reduce improper payment rates. The SBA also continually seeks opportunities to enhance and implement internal controls to reduce the risk for improper payments. Detailed information concerning SBA's improper payment reviews and its efforts to reduce improper payments is presented in the Other Information section of this report.

FINANCIAL REPORTING

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

November 14, 2017

I am pleased to submit SBA's *FY 2017 Agency Financial Report*. For almost 65 years, the Small Business Administration has been a champion for entrepreneurs and small businesses and delivered critical resources to help small businesses start, expand, and remain a vital part of America's economy.

The SBA is committed to being a good steward of its resources and transparent in its financial and performance reporting. As a result, I am proud to announce that the SBA received an unmodified audit opinion on our financial statements, which means that the statements and financial operations present fairly the financial position as of September 30, 2017.

The auditors did not report any material weaknesses; however, two significant deficiencies have been identified. First, information technology security controls need to be addressed; logical access control and system configuration management controls must be improved to effectively manage information system risks. To address this challenge, the SBA, through its Chief Information Officer, will coordinate with program offices to implement stronger policies and controls over information systems. Second, the auditor identified that there were not sufficient monitoring controls over the Secondary Market Guarantee program. In FY 2017, SBA management identified that prepaid principal was not being distributed in accordance with program policy, and has instituted new oversight of its fiscal transfer agent. The issue has been addressed and will not be a deficiency next year.

The auditor also identified an instance of non-compliance with the Debt Collection Improvement Act due to delays encountered with approving and processing charge-off actions in SBA's internal systems. In addition, untimely data entry of charge-off activities at SBA loan centers resulted in untimely referrals. To remedy this issue, the SBA has a team of program office representatives who will work to improve the implementation of DCIA.

Despite these challenges, the SBA achieved significant accomplishments in several areas of financial and performance management. The SBA surpassed its small business acquisition goal, with an even higher target this year and the highest rate in the Federal Government, and exceeded each of the four subgoals for HUBZone, women-owned, service-disadvantaged veteran-owned, and disadvantaged small businesses. In addition, the Inspector General closed the acquisition major management challenge due to the substantial progress my office made to resolve the four outstanding recommendations.

The SBA successfully implemented the Digital Accountability and Transparency Act and received the U.S. Department of the Treasury Secretary's Certificate of Appreciation recognizing SBA's outstanding achievements in implementing the DATA Act and for being the first agency to complete the recommended eight steps in the DATA Act Agency Progress Dashboard. The SBA continued its partnership with the Treasury in a pilot project to develop data visualizations that link financial award information with SBA performance data to improve decision support.

The SBA began drafting its *FY 2018-2022 Strategic Plan* and FY 2018-2019 Agency Priority Goals to reflect Administrator McMahon's vision. SBA senior leaders have met to discuss new strategic goals, objectives, and strategies that better focus on outcomes. The Strategic Plan will provide the blueprint for the Agency's mission and will serve as a framework for resource and policy decisions.

Finally, by establishing SBA's program evaluation function last year, the SBA embarked on four new evaluations with program offices to support continuous improvement. The SBA has completed evaluation plans and begun data collection to better assess and review program effectiveness and efficiency. Upon completion, the SBA will implement the recommendations from the studies and post results at www.sba.gov/performance to support transparency and accountability.

For the 11th consecutive year, the Association of Government Accountants recognized the SBA with the prestigious Certificate of Excellence in Accountability Reporting award, which commends high-quality reporting for accountability and transparency. This award is made to agencies following a rigorous, independent review against established standards for presentation. Additionally, the SBA received a special CEAR best-in-class award for its presentation of performance information in an Agency Financial Report.

I want to thank our Audit Financial Management Advisory Committee for their thoughtful comments and critiques. This report also reflects the dedication of SBA employees not only in financial and performance management, but also across the Agency. Through our employees, the SBA strives to achieve a mission focused on the success of the nation's small businesses, and aims to be an organization that is effective, efficient, and delivers results.

Sincerely,

Tim Gribben

Tim Gribben
Chief Financial Officer and Associate Administrator
for Performance Management

AUDIT AND FINANCIAL MANAGEMENT ADVISORY COMMITTEE'S REPORT

November 14, 2017

The Audit and Financial Management Advisory Committee (the Committee) assists the Administrator in overseeing the U.S. Small Business Administration's (SBA's) financial operations. As part of that responsibility, the Committee meets with Agency management, the Agency's Inspector General, and its external auditors to review and discuss SBA's external financial audit coverage, the effectiveness of SBA's internal controls over its financial operations, and its compliance with certain laws and regulations that could materially impact SBA's financial statements. SBA's external auditors are responsible for expressing an opinion on the conformity of SBA's audited financial statements with generally accepted accounting principles. The Committee reviews the findings of the Inspector General and external auditors, and SBA's responses to those findings, to ensure that SBA's plan for corrective action includes appropriate and timely follow-up measures. In addition, the Committee reviews the draft Agency Financial Report (AFR), including its financial statements, and provides comments to management who has primary responsibility for the AFR.

FY 2017 was a transition year for SBA's Committee due to the change in SBA Administrations and the retirement of the former Committee members. The SBA officially appointed the new Committee members on October 13, 2017. As a result, the Office of the Chief Financial Officer met informally with the new Committee to discuss these responsibilities for the FY 2017 financial management and reporting.

The Committee will resume its official duties in FY 2018 to provide advice to the SBA on its financial management and audit matters.

Tami Perriello
Chairperson
Audit and Financial Management Advisory Committee

INSPECTOR GENERAL'S AUDIT REPORT

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

Final Report Transmittal
Report Number: 18-03

DATE: November 14, 2017

TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware
Acting Inspector General

SUBJECT: Independent Auditors' Report on SBA's FY 2017 Financial Statements

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the U.S. Small Business Administration's (SBA's) consolidated financial statements for fiscal year (FY) 2017, ending September 30, 2017. This audit is an annual requirement of the Chief Financial Officers Act of 1990 and was conducted in accordance with generally accepted government auditing standards; the Office of Management and Budget Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*; and the U.S. Government Accountability Office's *Financial Audit Manual* and *Federal Information System Controls Audit Manual.*

The attached independent auditors' report presents an unmodified opinion on SBA's consolidated financial statements for FY 2017. Specifically, KPMG reported that

- the financial statements were fairly presented in all material aspects in conformity with U.S. generally accepted accounting principles;
- there were no material weaknesses in internal control;
- there is a significant deficiency related to monitoring controls over the Secondary Market Guaranty Program;
- there is also a significant deficiency related to SBA's information technology security controls, which has been identified in the past; and
- there is one instance of noncompliance with laws and regulation related to the Debt Collection Improvement Act of 1996.

Details regarding KPMG's conclusions are included in the "Compliance and Other Matters" section and Exhibit I of this report. Within 30 days of this report, KPMG expects to issue a separate letter to SBA management regarding other, less significant matters that came to its attention during the audit.

We reviewed a copy of KPMG's report and related documentation and made necessary inquiries of their respective representatives. Our review was not intended to enable us to express—and we do not express—an opinion on SBA's financial statements, KPMG's conclusions about the effectiveness of internal controls, or its conclusions about SBA's compliance with laws and regulations. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

We provided a draft of KPMG's report to SBA's Chief Financial Officer, who concurred with its findings and recommendations and agreed to implement the recommendations. The Chief Financial Officer's comments are attached as Exhibit II of this report.

We appreciate the cooperation and assistance of SBA and KPMG. Should you or your staff have any questions, please contact me at (202) 205-6586 or Jeffrey R. Brindle, Director of the Information Technology and Financial Management Group, at (202) 205-7490.

cc: Allie Leslie, Deputy Administrator
Mary Anne Bradfield, Chief of Staff
Timothy Gribben, Chief Financial Officer and Associate Administrator for Performance Management
Pradeep Belur, Senior Advisor to the Administrator
Christopher M. Pilkerton, General Counsel
Martin Conrey, Attorney Advisor, Legislation and Appropriations
LaNae Twite, Director, Office of Internal Controls

Attachment

2

INDEPENDENT AUDITORS' REPORT ON FY 2017 FINANCIAL STATEMENTS

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditor's Report

Acting Inspector General
United States Small Business Administration:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Small Business Administration (SBA), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and in accordance with the Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Small Business Administration as of September 30, 2017 and 2016, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

KPMG

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Message from the Administrator, Other Information and information on pages 38 to 41 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2017, we considered SBA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of SBA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified the following deficiencies in internal control, described in Exhibit I, that we consider to be significant deficiencies:

(1) Improvement Needed in Monitoring Controls over the Secondary Market Guaranty Program

(2) Improvement Needed in Information Technology Security Controls

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SBA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03. Specifically, our audit results noted noncompliance with the *Debt Collection Improvement Act of 1996* (DCIA or Act) which is described below at Exhibit II:

> The DCIA gave the U.S. Department of the Treasury (Treasury) significant responsibilities for collecting delinquent debts, Government-wide. The Act requires Federal agencies to transfer their nontax delinquent debt to Treasury. During our test work over loan charge-offs, we noted that the SBA did not properly or timely refer obligors (i.e., eligible principal borrowers, co-borrowers, and/or guarantors) to the Treasury for offset or cross-servicing as required by DCIA. Similar instances of noncompliance with the Act were reported in prior years.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which SBA's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

SBA's Response(s) to Findings

SBA's response to the findings identified in our audit is described in the accompanying Exhibit III. SBA's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by Government Auditing Standards section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the SBA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 14, 2017

Exhibit I

U.S. Small Business Administration

Significant Deficiencies

(1) Improvement Needed in Monitoring Controls over the Secondary Market Guaranty Program

During the Fiscal Year (FY) 2017 financial statement audit, management determined that the prepaid principal to be distributed to pool investors by its fiscal transfer agent (FTA), as part of SBA's 7(a) Secondary Market Guaranty (SMG) Program, was not being executed in accordance with program policy changes that were published in Federal Register Notice 69 FR 56472, dated September 2004. The changes in the Notice were to apply to loan pools with an issue date on or after October 1, 2004. While SBA management appropriately self-identified this matter, there was not sufficient visibility into the FTA's system and processes regarding the application of prepayments, in order to ensure that SBA's policy change was properly implemented in the FTA's system.

The following criteria were considered with respect to the matter described in the preceding paragraph:

- GAO-14-704G, *Standards for Internal Control in the Federal Government* (Green Book) Sections OV4.01 and OV4.02, Service Organizations
- Federal Financial Accounting and Auditing Technical Release 6*, Preparing Estimates for Direct Loans and Loan Guarantee Subsidies,* Paragraph 35
- Office of Management and Budget Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*

<u>Recommendations:</u>

We recommend that the Associate Administrator for Capital Access:

1. In consultation with the Chief Financial Officer, enhance SBA's complementary controls regarding the SMG program and relevant processes at the FTA. This process should be refined to include a more thorough review and analysis of the FTA's systems and data used for the liability for loan guaranty reestimate.
2. Monitor and perform procedures over their service organization's attestation report regarding user control considerations. This assessment should be performed annually.

(2) *Improvement Needed in Information Technology Security Controls*

During the FY 2017 financial statement audit, we found that the SBA continued to implement corrective actions on some of the prior year findings; however, a number of conditions persisted in FY 2017 that reduced SBA's ability to effectively manage its information system risks. As a result, collectively, these conditions continue to present a significant deficiency in SBA's internal control environment.

In an effort to provide additional clarity to SBA management with respect to the corrective actions required, we enhanced our prior year recommendations where issues persisted in FY 2017, and issued additional recommendations for the new control deficiencies that we identified. In the sections below, we distinguish between recurring conditions and related recommendations, and those that were newly identified in FY 2017. We have omitted some technical details from the conditions and recommendations due to the sensitivity of the information. These details were formally communicated to management in Notices of Findings and Recommendations throughout the audit.

The following criteria were considered with respect to the matter described in the preceding paragraph:

- National Institute of Standards and Technology (NIST) Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations,* Revision 4
- Federal Information Processing Standards (FIPS) Publication 200, *Minimum Security Requirements for Federal Information and Information Systems*
- SBA Standard Operating Procedure (SOP) 90 47 3, *Information System Security Program*

We have summarized the information technology (IT) control deficiencies that we noted during the FY 2017 audit below, and have organized them by the following general IT control objectives: logical access controls, and system configuration management.

Logical Access Controls

An integral part of the effectiveness of an organization's security program management efforts should be to ensure that logical access controls provide reasonable assurance that IT resources, such as data files, application programs, and IT-related facilities/equipment, are protected against unauthorized modification, disclosure, loss, or impairment.

Our audit found that the following control deficiencies identified in prior year(s) persisted in FY 2017:

- Account authorization processes were not implemented in accordance with SBA policy.
- User accounts were not recertified in accordance with SBA policy.
- The employee exit clearance and contractor off-boarding processes were not standardized to ensure that access to SBA's systems was timely removed upon separation.
- Processes for consistently and effectively reviewing audit logs were not implemented.

Our audit identified the following new control deficiency in FY 2017:

- Administrator privilege escalations were not monitored for one general support system.

Recommendations – Logical Access Controls:

We recommend that the Chief Information Officer (CIO) coordinate with SBA program offices to:

3. Continue to implement and monitor procedures to ensure that access is appropriately granted to employees and contractors, consistent with the conditions on their access forms after all approvals have been obtained.

4. Continue to implement access recertification procedures to ensure that user access, including user accounts and associated roles, is reviewed on a periodic basis consistent with the nature and risk of the system, and any necessary account modifications are performed when identified.

5. Continue to enforce the concept of least privilege for privileged accounts or implement mitigating controls to ensure that activities performed using privileged accounts are properly monitored.

6. Continue to improve SBA's administration of logical system access by taking the following actions:

    - Implement an effective off-boarding process, and periodically verify that controls to remove logical access for separated employees are implemented and operating as designed;

    - Establish a process for the identification and removal of separated contractors to help ensure that logical access is timely removed upon contractor separation; and

    - Timely remove access to general support systems and major applications (including development and test environments) when employees and contractors are terminated.

7. Continue to improve SBA's information system logging and auditing program, by taking the following actions:

    - Review and rationalize current audit and logging activities and capabilities to determine their effectiveness in addressing risks to systems and data;

    - Implement and enforce consistent and effective creation of audit records, capturing relevant auditable events, auditing (i.e., manual or automated review of audit records) for specified events, and automated alerting on specified events across SBA's infrastructure using a risk-based approach; and

    - Retain sufficient evidence of the audit log review.

System Configuration Management Controls

An integral part of the effectiveness of an organization's security program management efforts should be to ensure that application change management controls provide reasonable assurance that program changes implemented to the applications are appropriate and authorized.

Our audit identified the following new control deficiency in FY 2017:

- Application change management controls were not consistently implemented in accordance with SBA policy.

Recommendation – System Configuration Management Controls:

We have issued the following recommendation to address the new control deficiency listed in the section above.

We recommend that the CIO coordinate with SBA program offices to:

8. Enhance application change management controls to ensure approval documentation is maintained in accordance with SBA policy.

Exhibit II

U.S. Small Business Administration

Non-Compliance with Debt Collection Improvement Act of 1996

Noncompliance with the Debt Collection Improvement Act of 1996

The *Debt Collection Improvement Act of 1996* (DCIA) assigned the U.S. Department of the Treasury (Treasury) the responsibility for collecting delinquent debts, government-wide. The DCIA requires Federal agencies to transfer their nontax debt over 120 days delinquent to Treasury. During our testwork over loan charge-offs, we noted SBA did not refer obligors (i.e., eligible principal borrowers, co-borrowers, and/or guarantors) to the Treasury for offset or cross-servicing at the time of charge-off, as required by the DCIA. Similar instances of noncompliance with the DCIA were reported in prior years. The SBA's noncompliance with the DCIA was the result of untimely entering of charge-offs at loan centers and a systematic update that resulted in the elimination of certain liable obligors.

We recommend the Associate Administrator of the Office of Capital Access:

9. Perform a comprehensive root cause analysis of system protocols to identify, quantify, and remediate all defective, system coding problems that may cause untimely referral of loans in accordance with the DCIA.

10. Work with the loan servicing center directors and assess processes to timely enter charge-offs within a reasonable timeline, to ensure compliance with the DCIA.

Exhibit III

CFO Response to Draft Audit Report on FY 2017 Financial Statements

DATE: November 14, 2017

TO: Hannibal M. Ware, (Acting) Inspector General

FROM: Timothy Gribben, Chief Financial Officer and Associate Administrator for Performance Management   Tim Gribben

SUBJECT: FY 2017 Financial Statement Audit

The Small Business Administration has reviewed the draft Independent Auditors' Report from KPMG that includes the auditors' opinion on the financial statements and its review of the Agency's internal control over financial reporting and compliance with laws and regulations. The independent audit of the Agency's financial statements and related processes is a core component of SBA's financial management program.

We are pleased that the SBA has again received an unmodified audit opinion with no material weaknesses from the independent auditor. We believe these results accurately reflect the quality of the Agency's financial statements and our continued efforts to further improve our accounting, budgeting, and reporting processes. As you know, the SBA has worked hard in past years to address the findings from our independent auditor.

The audit report includes a continuing significant deficiency in SBA's information technology security controls and a new significant deficiency related to monitoring controls over our Secondary Market Guarantee Program. The auditor also reported that the SBA is not compliant with the Debt Collection Improvement Act of 1996 related to timely referral of charged-off loans to the Department of the Treasury for its tax refund offset and collection programs. The SBA appreciates the recommendations from the auditors, and we look forward to working with you to continue to improve financial management in our Agency. Our response to the findings and recommendations follows.

<u>Exhibit I, Significant Deficiencies Related to Internal Control Over Financial Reporting</u>

1. Improvement Needed in Monitoring Controls over the Secondary Market Guarantee Program

   Management concurs. The SBA self-identified and reported this matter to the auditors. In FY 2018, we will continue to enhance complementary monitoring and user controls over the program and the relevant processes at our fiscal transfer agent.

Exhibit III

2. Improvement Needed in Information Technology Security Controls

   Management concurs. A new CIO onboarded in October 2016, and under her leadership the Office of the CIO moved aggressively to increase governance and oversight, stabilize and modernize SBA's network and systems, address security deficiencies, and improve its cybersecurity posture. In FY 2018, the SBA will pursue additional policies and monitoring activities to address deficiencies in logical access controls and system configuration management.

Exhibit II, Noncompliance with Debt Collection Improvement Act of 1996

The SBA's noncompliance with the DCIA was the result of untimely entering of some charge-offs at a loan center and a systematic update that resulted in the elimination of certain liable obligors. While both situations have been addressed, the SBA will continue to monitor processes and procedures to ensure compliance with DCIA.

Conclusion

We appreciate your efforts and those of your colleagues in the Office of the Inspector General, as well as those of KPMG. The independent audit process continues to provide us with new insights and valuable recommendations that directly support our efforts to further enhance SBA's financial management practices. We remain committed to excellence in financial management and look forward to making more progress in the coming year.

FINANCIAL STATEMENTS AND NOTES

The U.S. Small Business Administration prepares its financial statements as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to the SBA. Preparation of these statements is also an important part of SBA's financial management goal of providing accurate and reliable information that may be used to assess performance and allocate resources.

SBA's management is responsible for the accuracy and propriety of the information contained in the principal financial statements and the quality of internal controls. The SBA prepares these financial statements from its books and records in accordance with generally accepted accounting principles in the United States as well as formats prescribed by the Office of Management and Budget. While these statements have been prepared from SBA's books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity.

The financial statements include the following reports.

The **Consolidated Balance Sheet** summarizes the assets, liabilities, and net position by major category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities resulting from transactions with the public.

The **Consolidated Statement of Net Cost** shows, by strategic goal, the net cost of operations for the reporting period. Net cost of operations consists of full program costs incurred by the SBA, less the exchange revenues earned by those programs.

The **Consolidated Statement of Changes in Net Position** presents SBA's beginning and ending net position by two components—Cumulative Results of Operations and Unexpended Appropriations. It summarizes the change in net position by major transaction category. The ending balances of both components of net position are also reported on the Balance Sheet.

The **Combined Statement of Budgetary Resources** provides information about funding and availability of budgetary resources, and the status of those resources at the end of the reporting period. Data on the Combined Statement of Budgetary Resources are consistent with information reflected on the Report on Budget Execution and Budgetary Resources (SF 133), with the one exception of offsetting receipts. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of the United States Government, but are not reflected in the SF 133. The SBA includes offsetting receipts in this statement for the purpose of reconciling outlay information presented in the Budget of the United States Government.

The **Notes to the Financial Statements** provide information to explain the basis of the accounting and presentation used to prepare the statements and to explain specific items in the statements. They also provide information to support how particular accounts have been valued and computed.

The **Required Supplementary Information** presents a Combining Statement of Budgetary Resources report by principal functional area.

The **Required Supplementary Stewardship Information** provides information on SBA's investment in human capital that supports the increase or maintenance of national economic productivity capacity through education and training programs.

U.S. Small Business Administration

Consolidated Balance Sheet

As of September 30, 2017 and 2016

(Dollars in Thousands)

	2017	2016
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$ 6,719,641	$ 6,255,936
Advances (Note 1)	33,451	54,300
Total Intragovernmental Assets	6,753,092	6,310,236
Assets - Public and Other		
Cash (Note 3)	1,376	1,767
Accounts Receivable, Net (Note 5)	100,874	161,312
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	6,359,969	6,182,889
General Property and Equipment, Net (Note 7)	505	825
Advances (Note 1)	103	143
Total Assets - Public and Other	6,462,827	6,346,936
Total Assets	**$ 13,215,919**	**$ 12,657,172**
LIABILITIES		
Intragovernmental Liabilities		
Interest Payable	$ 2,462	$ 446
Debt (Note 9)	7,693,059	8,019,526
Net Assets of Liquidating Funds Due to Treasury (Note 10)	4,939	14,824
Downward Reestimate Payable to Treasury (Note 1, Note 13)	1,215,102	1,239,814
Other (Note 11)	13,892	12,599
Total Intragovernmental Liabilities	8,929,454	9,287,209
Other Liabilities - Public		
Accounts Payable (Note 1)	20,728	27,028
Accrued Grant Liability (Note 1)	75,890	80,000
Liability for Loan Guarantees (Note 6)	2,556,368	2,371,505
Federal Employees' Compensation Act Actuarial Liability (Note 1, Note 8)	34,889	32,676
Surety Bond Guarantee Program Future Claims (Note 8)	44,942	43,430
Other (Note 11)	41,318	41,140
Total Other Liabilities - Public	2,774,135	2,595,779
Total Liabilities	**11,703,589**	**11,882,988**
NET POSITION		
Unexpended Appropriations (Note 1)	1,653,684	1,425,883
Cumulative Results of Operations (Note 1)	(141,354)	(651,699)
Total Net Position	**1,512,330**	**774,184**
Total Liabilities and Net Position	**$ 13,215,919**	**$ 12,657,172**

The accompanying notes are an integral part of these statements.

U.S. Small Business Administration

Consolidated Statement of Net Cost

For the Years Ended September 30, 2017 and 2016

(Dollars in Thousands)

	2017	2016
STRATEGIC GOAL 1: Growing Businesses and Creating Jobs		
Gross Cost	$ 298,785	$ 597,683
Less: Earned Revenue	440,488	457,503
Net Cost of Strategic Goal 1	**(141,703)**	**140,180**
STRATEGIC GOAL 2: Serving as the Voice for Small Business		
Gross Cost	86,286	123,151
Net Cost of Strategic Goal 2	**86,286**	**123,151**
STRATEGIC GOAL 3: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses		
Gross Cost	36,678	41,326
Net Cost of Strategic Goal 3	**36,678**	**41,326**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	22,649	34,820
Net Cost Not Assigned to Strategic Goals	**22,649**	**34,820**
Net Cost of Operations	**$ 3,910**	**$ 339,477**

The accompanying notes are an integral part of these statements.
See Note 14.

U.S. Small Business Administration

Consolidated Statement of Changes in Net Position

For the Years Ended September 30, 2017 and 2016

(Dollars in Thousands)

	2017	2016
Beginning Cumulative Results of Operations	$ **(651,699)**	$ **(262,817)**
Budgetary Financing Sources		
Appropriations Used	1,670,879	1,227,401
Donations of Cash and Cash Equivalents	105	10
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others	12,162	18,158
Other - Current Year Liquidating Equity Activity	7,463	(4,639)
Other - Non-entity Activity	(1,176,354)	(1,290,335)
Total Financing Sources	**514,255**	**(49,405)**
Less: Net Cost of Operations	**3,910**	**339,477**
Ending Cumulative Results of Operations	**$ (141,354)**	**$ (651,699)**
Beginning Unexpended Appropriations	**$ 1,425,883**	**$ 1,600,847**
Budgetary Financing Sources		
Appropriations Received	1,989,933	1,147,487
Rescissions	(55,000)	–
Adjustment - Cancelled Authority	(34,647)	(91,615)
Return of Unrequired Liquidating Fund Appropriation	(1,109)	(2,899)
Other Adjustments	(497)	(536)
Appropriations Used	(1,670,879)	(1,227,401)
Total Budgetary Financing Sources	**227,801**	**(174,964)**
Ending Unexpended Appropriations	**$ 1,653,684**	**$ 1,425,883**
Ending Net Position	**$ 1,512,330**	**$ 774,184**

The accompanying notes are an integral part of these statements.

U.S. Small Business Administration

Combined Statement of Budgetary Resources

For the Years Ended September 30, 2017 and 2016

(Dollars in Thousands)

	September 30, 2017		
	Budgetary	**Nonbudgetary Financing**	**Total**
BUDGETARY RESOURCES			
Unobligated Balance Brought Forward, October 1	$ 1,078,001	$ 3,888,555	$ 4,966,556
Recoveries of Prior Year Obligations	97,490	463,730	561,220
Other Changes in Unobligated Balance	(29,364)	(655,780)	(685,144)
Unobligated Balance from Prior Year Budget Authority, Net	1,146,127	3,696,505	4,842,632
Appropriations (discretionary and mandatory)	1,933,824	–	1,933,824
Borrowing Authority (discretionary and mandatory)	–	1,548,576	1,548,576
Spending Authority from Offsetting Collections	577,355	3,340,767	3,918,122
Total Budgetary Resources	**$ 3,657,306**	**$ 8,585,848**	**$ 12,243,154**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	$ 2,333,955	$ 4,033,287	$ 6,367,242
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	491,684	1,135,296	1,626,980
Unapportioned, unexpired accounts	785,159	3,417,265	4,202,424
Unexpired Unobligated Balance, end of year	1,276,843	4,552,561	5,829,404
Expired Unobligated Balance, end of year	46,508	–	46,508
Total Unobligated Balance, end of year	1,323,351	4,552,561	5,875,912
Total Status of Budgetary Resources	**$ 3,657,306**	**$ 8,585,848**	**$ 12,243,154**
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid Obligations, Brought Forward, October 1	$ 507,386	$ 926,211	$ 1,433,597
New Obligations and Upward Adjustments	2,333,955	4,033,287	6,367,242
Gross Outlays	(2,224,647)	(3,622,268)	(5,846,915)
Recoveries of Prior Year Unpaid Obligations	(97,490)	(463,730)	(561,220)
Unpaid Obligations, end of year	519,204	873,500	1,392,704
Uncollected Payments:			
Uncollected Payments, Federal Sources, Brought Forward, October 1	–	(145,036)	(145,036)
Change in Uncollected Payments, Federal Sources	–	6,496	6,496
Uncollected Payments, Federal Sources, end of year	–	(138,540)	(138,540)
Memorandum (non-add) Entries:			
Obligated Balance, start of year	**$ 507,386**	**$ 781,175**	**$ 1,288,561**
Obligated Balance, end of year	**$ 519,204**	**$ 734,960**	**$ 1,254,164**
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget Authority, Gross (discretionary and mandatory)	$ 2,511,179	$ 4,889,343	$ 7,400,522
Actual Offsetting Collections (discretionary and mandatory)	(585,557)	(4,156,180)	(4,741,737)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	6,496	6,496
Recoveries of Prior Year Paid Obligations (discretionary and mandatory)	5,283	–	5,283
Budget Authority, Net (discretionary and mandatory)	**$ 1,930,905**	**$ 739,659**	**$ 2,670,564**
Gross Outlays (discretionary and mandatory)	$ 2,224,647	$ 3,622,268	$ 5,846,915
Actual Offsetting Collections (discretionary and mandatory)	(585,557)	(4,156,180)	(4,741,737)
Net Outlays (discretionary and mandatory)	1,639,090	(533,912)	1,105,178
Distributed Offsetting Receipts	(129)	(1,201,066)	(1,201,195)
Agency Outlays, Net (discretionary and mandatory)	**$ 1,638,961**	**$ (1,734,978)**	**$ (96,017)**

The accompanying notes are an integral part of these statements.
See Note 15.

U.S. Small Business Administration

Combined Statement of Budgetary Resources

For the Years Ended September 30, 2017 and 2016

(Dollars in Thousands)

	September 30, 2016		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance Brought Forward, October 1	$ 1,286,459	$ 3,692,206	$ 4,978,665
Recoveries of Prior Year Obligations	55,640	47,959	103,599
Other Changes in Unobligated Balance	(86,861)	(10,500)	(97,361)
Unobligated Balance from Prior Year Budget Authority, Net	1,255,238	3,729,665	4,984,903
Appropriations (discretionary and mandatory)	1,144,588	–	1,144,588
Borrowing Authority (discretionary and mandatory)	–	1,610,202	1,610,202
Spending Authority from Offsetting Collections	378,906	2,759,413	3,138,319
Total Budgetary Resources	**$ 2,778,732**	**$ 8,099,280**	**$ 10,878,012**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	$ 1,700,731	$ 4,210,725	$ 5,911,456
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	299,478	1,690,457	1,989,935
Unapportioned, unexpired accounts	722,884	2,198,098	2,920,982
Unexpired Unobligated Balance, end of year	1,022,362	3,888,555	4,910,917
Expired Unobligated Balance, end of year	55,639	–	55,639
Total Unobligated Balance, end of year	1,078,001	3,888,555	4,966,556
Total Status of Budgetary Resources	**$ 2,778,732**	**$ 8,099,280**	**$ 10,878,012**
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid Obligations, Brought Forward, October 1	$ 457,460	$ 200,981	$ 658,441
New Obligations and Upward Adjustments (total)	1,700,731	4,210,725	5,911,456
Gross Outlays	(1,595,165)	(3,437,536)	(5,032,701)
Recoveries of Prior Year Unpaid Obligations	(55,640)	(47,959)	(103,599)
Unpaid Obligations, end of year	507,386	926,211	1,433,597
Uncollected Payments:			
Uncollected Payments, Federal Sources, Brought Forward, October 1	–	(95,175)	(95,175)
Change in Uncollected Payments, Federal Sources	–	(49,861)	(49,861)
Uncollected Payments, Federal Sources, end of year	–	(145,036)	(145,036)
Memorandum (non-add) Entries:			
Obligated Balance, start of year	**$ 457,460**	**$ 105,806**	**$ 563,266**
Obligated Balance, end of year	**$ 507,386**	**$ 781,175**	**$ 1,288,561**
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget Authority, Gross (discretionary and mandatory)	$ 1,523,494	$ 4,369,615	$ 5,893,109
Actual Offsetting Collections (discretionary and mandatory)	(387,827)	(3,641,970)	(4,029,797)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	(49,861)	(49,861)
Recoveries of Prior Year Paid Obligations (discretionary and mandatory)	4,753	–	4,753
Budget Authority, Net (discretionary and mandatory)	**$ 1,140,420**	**$ 677,784**	**$ 1,818,204**
Gross Outlays (discretionary and mandatory)	$ 1,595,165	$ 3,437,536	$ 5,032,701
Actual Offsetting Collections (discretionary and mandatory)	(387,827)	(3,641,970)	(4,029,797)
Net Outlays (discretionary and mandatory)	1,207,338	(204,434)	1,002,904
Distributed Offsetting Receipts	742	(1,651,174)	(1,650,432)
Agency Outlays, Net (discretionary and mandatory)	**$ 1,208,080**	**$ (1,855,608)**	**$ (647,528)**

The accompanying notes are an integral part of these statements.
See Note 15.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Small Business Act of 1953 created the Small Business Administration as an independent federal agency. SBA's mission is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters. The SBA operates through the execution of a Congressionally-approved budget that funds its programs.

Basis of Accounting and Presentation

The SBA prepares financial statements to report its financial position and results of its operations as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements are prepared from the Agency's records in accordance with generally accepted accounting principles using formats prescribed by the Office of Management and Budget. As a federal agency, the SBA cannot incur obligations without authority from Congress and an apportionment by the OMB.

These financial statements reflect transactions recorded on both a proprietary accrual accounting basis and a budgetary obligation basis, in accordance with concepts and guidance provided by the OMB, the Federal Accounting Standards Advisory Board, and the Department of the Treasury. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting recognizes the legal commitment or obligation of funds in advance of the proprietary accruals and facilitates compliance with legal constraints and controls over the use of federal funds.

The Federal Credit Reform Act of 1990 governs SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under the FCRA, the liability for loan guaranties is determined as the summarized discounted present value of the estimated future net cash inflows and outflows for each fiscal year's cohort of guaranties. For direct loans, the allowance is the current outstanding FCRA loans receivable balance less the discounted present value of the estimated future net cash flows for all the loan cohorts. A cohort of loans receivable or guarantied loans is all of the direct loans obligated or loan guaranties committed in a given fiscal year. Increases to individual loans in a cohort that are made in a subsequent fiscal year are accounted for in the subsequent year's loan cohort. Cohort cash flows include loan repayments, recoveries on defaulted guaranties, and loan fees received by the SBA that are due from the lenders and borrowers when the loan is made and during the life of the loan cohort, as well as expenditures by the SBA for defaulted guaranties, loan servicing expenses, and other required SBA expenditures. An initial allowance or liability for loan guaranties is established in the original year of the loan cohort. The initial amount of the allowance and liability for each cohort is reestimated annually at fiscal year-end, and the adjusted amount is included in SBA's annual financial statements. Note 6 further describes FCRA accounting.

Use of Estimates

SBA's management makes assumptions and uses estimates to prepare the financial statements based upon the facts that exist when the statements are prepared. The SBA also uses economic assumptions provided by the Office of Management and Budget in preparing the estimates. Actual results may differ from those assumptions and estimates, and the differences may be significant. The most significant differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guaranties under guidelines in the Federal Credit Reform Act of 1990. The SBA recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial statements.

Budgets and Budgetary Accounting for Loan Programs

SBA's loan disbursements are financed by appropriations for long-term loan subsidy cost and borrowings from the Treasury's Bureau of the Fiscal Service for the remaining non-subsidized portion of the loans. Congress may provide one year, multi-year, or no year appropriations to cover the estimated long-term costs of the loan programs. The non-subsidized portion of each loan disbursement, financed initially under permanent indefinite authority to borrow funds from the Treasury, is repaid from collections of loan fees, repayments, and default recoveries. Congress authorizes the dollar amount of obligations that can be made for the cost of direct loans and loan guaranties and establishes the maximum amount of loans the SBA can guarantee in its annual appropriation act.

A permanent indefinite authority is available to fund any reestimated increase of subsidy costs that occurs after the year in which a loan is disbursed. Reestimated reductions of subsidy costs are returned to the Treasury and are unavailable to the SBA. As required by the Federal Credit Reform Act of 1990, the SBA uses budgetary "program accounts" to account for appropriations in its credit programs and nonbudgetary "financing accounts" to account for credit program cash flow. Estimates and reestimates of credit program subsidy expenses are recorded in SBA's program accounts. Financing accounts are used to account for Treasury borrowings, the collection of loan fees, repayments and default recoveries, and the disbursement of loans and loan expenses.

Advances

The SBA has both intragovernmental advances and advances to the public. Intragovernmental advances are to the Interior Business Center of the Department of the Interior, for contracting assistance on work not yet performed. Advances to the public represent prepaid grants to counseling and training partners.

Accounts Payable

Accounts Payable are amounts due to public entities that will be liquidated during the next operating cycle. Included in the liability are payables to SBA lenders for their share of loan collections and to vendors for goods and services.

Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. However, some grant recipients incur expenditures prior to initiating a request for disbursement based on the nature of the expenditures. The SBA accrues a liability for expenditures incurred by grantees prior to receiving grant funds for the expenditures. The amount to be accrued is determined through an analysis of historic grant expenditures. The Small Business Development Center program and several other grant programs are subject to this treatment.

Contingencies

The SBA is a party in various administrative proceedings, legal actions, environmental suits, and claims brought against the Agency. In the opinion of SBA's management and legal counsel, the ultimate resolution of these proceedings, actions, suits and claims will not materially affect the financial position or results of SBA's operations.

Cumulative Results of Operations

The Cumulative Results of Operations, presented on the Balance Sheet and on the Statement of Changes in Net Position, is the accumulated difference between expenses and financing sources since the inception of the Agency. The deficits reported reflect timing differences between the recording of expenses and the recognition of resources. Most of this timing difference results from subsidy reestimates which are funded in the following year.

Unexpended Appropriations

Unexpended Appropriations is the portion of SBA's appropriations received which are either undelivered or unobligated. Delivered orders result in expended appropriations and reduce the total reported as Unexpended Appropriations. Undelivered orders are the amount of orders of goods or services which have not been actually or constructively received.

Other Financing Sources

The Statement of Changes in Net Position contains a line item under Other Financing Sources titled Other—Non-entity Activity. This amount is the offset to non-entity collections to the general fund of the Treasury for downward subsidy reestimates that are payable to the Treasury under Federal Credit Reform requirements.

Fiduciary Activities

Fiduciary activities are the receipt, management, protection, accounting, investment, and disposition by the federal government of cash or other assets in which non-federal entities have an ownership interest that the federal government must uphold. Fiduciary cash and other assets are not assets of the government, and are not recognized on SBA's proprietary statements, but they are required to be disclosed in the notes to SBA's financial statements. SBA's fiduciary balances are on deposit in commercial banks. SBA's fiduciary activities are discussed in Note 4.

Employee Benefits

LEAVE

A liability for employee annual leave is accrued as it is earned and reduced as leave is taken. Each year the balance of accrued annual leave is adjusted to reflect current pay rates as well as forfeited "use or lose" leave. Amounts are reported as unfunded to the extent current or prior year appropriations are not available to fund annual leave earned but not taken. Sick leave and other types of non-vested leave are expensed as taken.

EMPLOYEE HEALTH AND LIFE INSURANCE BENEFITS

SBA employees may choose to participate in the contributory Federal Employees Health Benefits and the Federal Employees Group Life Insurance programs. The SBA matches a portion of the employee contributions to each program. Such matching contributions are recognized as current operating expenses.

EMPLOYEE PENSION BENEFITS

SBA employees participate in either the Civil Service Retirement System or the Federal Employees Retirement System and Social Security. These systems provide benefits upon retirement and in the event of death, disability, or other termination of employment, and may also provide pre-retirement benefits. They may also include benefits to survivors and their dependents, and they may contain early retirement or other special features. SBA's contributions to both retirement plans, as well as to the government-wide Federal Insurance Contribution Act, administered by the Social Security Administration, are recognized on the Consolidated Statement of Net Cost as current operating expenses.

Federal employee benefits also include the Thrift Savings Plan. For FERS employees, the SBA matches employee contributions to the plan, subject to limitations. The matching contributions are recognized as current operating expenses.

IMPUTED FINANCING COSTS

The SBA recognizes the full cost of providing all employee benefits and future retirement benefits, including life and health insurance, at the time employee services are rendered. Eligible retired SBA employees can continue to participate in health and life insurance plans. The cost of these benefits is funded through Agency contributions, employee compensation to the extent withheld from employee and retiree pay, from matching of employee withholding for Thrift Savings Plan and FICA, and by the Office of Personnel Management, which administers the retirement programs for SBA employees.

The OPM calculates imputed costs as the actuarial present value of future benefits attributed to services rendered by covered employees and eligible retired SBA employees during the accounting period, net of the amounts contributed by employees, retirees, and the Agency. The SBA recognizes these imputed costs in the Statement of Net Cost and imputed financing in determining SBA's net position.

FEDERAL EMPLOYEES' COMPENSATION ACT

The Federal Employees' Compensation Act provides income and medical cost protection to covered federal civilian employees injured on the job, and to beneficiaries of employees whose deaths are attributable to job-related injury or disease. The FECA program is administered by the Department of Labor.

The DOL pays valid claims as they occur, which are billed to the SBA annually and funded and paid approximately 15 months later. The DOL also calculates an estimated actuarial liability for future benefits based upon historical experience and other economic variables. Projected annual benefit payments are then discounted to present value using the forecasted interest rates for 10-year Treasury notes and bonds published by the OMB in its economic assumptions for the federal budget. The SBA recognizes a current unfunded cost for the actual claims paid and the change in the FECA actuarial liability each year.

NOTE 2 FUND BALANCE WITH TREASURY

The Department of the Treasury processes cash receipts and disbursements on SBA's behalf to pay liabilities and finance loan program costs. Cash receipts are deposited into SBA's account at the Treasury. SBA's fund balances with the Treasury are available to make expenditures to liquidate allowable obligations; except for the Non-entity Fund Balance, which is not available to the SBA to obligate or expend. Separate records are maintained for SBA's program, financing, liquidating, suspense/budget clearing accounts, and other accounts. Fund balances at the Treasury include expired year amounts, which are unavailable for obligation, as well as amounts currently available for new obligations.

(Dollars in Thousands)

As of September 30,	**2017**	**2016**
Appropriated Funds	$ 1,747,177	$ 1,495,657
Financing Funds	4,877,175	4,669,731
Liquidating Funds	2,870	786
Revolving Fund	92,235	88,735
Trust Fund	273	208
Total Entity Fund Balance with Treasury	**6,719,730**	**6,255,117**
Budget Clearing Account Balance	(89)	819
Total Fund Balance with Treasury	**$ 6,719,641**	**$ 6,255,936**
Status of Fund Balance with Treasury		
Apportioned, unexpired accounts	$ 1,626,980	$ 1,989,935
Unapportioned, unexpired accounts	4,202,424	2,920,982
Obligated Balance Not Yet Disbursed	1,254,164	1,288,561
Expired Unobligated Balance	46,508	55,639
Borrowing Authority Not Converted to Funds	(410,346)	–
Nonbudgetary	(89)	819
Total Fund Balance with Treasury	**$ 6,719,641**	**$ 6,255,936**

Unobligated balances become available when OMB approves SBA's request to apportion funds for obligation in the current fiscal year. Obligated balances not yet disbursed include unpaid obligations offset by uncollected customer payments from other federal government accounts. The unobligated and obligated balances are reflected on the Statement of Budgetary Resources.

NOTE 3 CASH

SBA field offices deposit collections from borrowers in SBA's account at the Treasury using an electronic deposit system. At the end of the fiscal year, collections temporarily held by SBA field offices pending deposit are recorded as Undeposited Collections—Cash in Transit and totaled $1.4 million and $1.8 million as of September 30, 2017 and 2016.

NOTE 4 FIDUCIARY ACTIVITIES: MASTER RESERVE FUND AND MASTER RESERVE ACCOUNT

Fiduciary activities are the receipt, management, protection, accounting, investment and disposition by the federal government of cash or other assets in which non-federal entities have an ownership interest that the federal government must uphold. Fiduciary cash and other assets are not assets of the government, and are not recognized on SBA's proprietary statements, but they are required to be disclosed in the notes of SBA's financial statements. SBA's fiduciary balances are on deposit in commercial banks.

The Master Reserve Fund is a fiduciary activity administered by SBA's fiscal transfer agent, Colson Services Corp., a subsidiary of the Bank of New York Mellon. The balance in the MRF is invested, according to SBA policy, entirely in Treasury securities and repurchase agreements that are backed by Treasury securities. The MRF is an integral part of SBA's 7(a) secondary market program. The MRF was authorized by the Small Business Secondary Market Improvement Act of 1984 to facilitate the pooling of 7(a) guarantied loans that are purchased by secondary market investors. The MRF receives monthly payments from SBA guarantied borrowers, and disburses monthly to 7(a) secondary market pool investors based on a schedule of amounts due. The 7(a) secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 7(a) secondary market investors. The MRF supports $32.4 billion and $28.2 billion of outstanding SBA guarantied 7(a) loan principal in the secondary market as of September 30, 2017 and 2016.

The Master Reserve Account is an SBA fiduciary activity that is administered for the SBA by PwC. The balance in the MRA is invested entirely in Treasury securities. The MRA facilitates the operation of the 504 Certified Development Company secondary market program. The MRA was authorized by Section 505 of the Small Business Investment Act of 1958 as amended, as a vehicle to receive, temporarily hold, and distribute 504 program cash flows. The MRA receives monthly payments from 504 borrowers, and retains the payments until a semi-annual debenture payment is due to the secondary market investors. The 504 secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty to 504 secondary market investors. The MRA supports $26.4 billion and $26.7 billion of SBA guarantied 504 debentures outstanding in the secondary market as of September 30, 2017 and 2016.

The composition of the MRF and MRA and a reconciliation of the changes in the assets are included in the following table.

MASTER RESERVE FUND AND MASTER RESERVE ACCOUNT

(Dollars in Thousands)

FIDUCIARY ASSETS

As of September 30,	2017			2016		
	MRF	MRA	Total	MRF	MRA	Total
Cash	$ –	$ –	$ –	$ 12,466	$ –	$ 12,466
Short Term Securities						
Money Market Funds	17,080	686,925	704,005	–	730,806	730,806
Treasury Bills	891,776	–	891,776	973,602	–	973,602
Repurchase Agreements	458,897	–	458,897	486,995	–	486,995
Total Cash and Short Term Securities	**1,367,753**	**686,925**	**2,054,678**	**1,473,063**	**730,806**	**2,203,869**
Long Term Securities						
Treasury Notes/Bonds Including Interest	2,888,112	–	2,888,112	2,134,988	–	2,134,988
Total Long Term Securities	**2,888,112**	**–**	**2,888,112**	**2,134,988**	**–**	**2,134,988**
Net Assets	**$ 4,255,865**	**$ 686,925**	**$ 4,942,790**	**$ 3,608,051**	**$ 730,806**	**$ 4,338,857**

MASTER RESERVE FUND AND MASTER RESERVE ACCOUNT *(continued)*

(Dollars in Thousands)

RECONCILIATION OF FIDUCIARY ASSETS

For the Years Ended September 30,	2017			2016		
	MRF	**MRA**	**Total**	**MRF**	**MRA**	**Total**
Beginning Net Assets	**$ 3,608,051**	**$ 730,806**	**$ 4,338,857**	**$ 3,165,564**	**$ 722,814**	**$ 3,888,378**
Receipts						
Earned Income	33,646	4,856	38,502	29,214	1,115	30,329
Contributions	6,482,967	16,314,573	22,797,540	5,317,512	16,743,968	22,061,480
Net Realized Gain (Loss)	3,821	–	3,821	822	–	822
Total Receipts	**6,520,434**	**16,319,429**	**22,839,863**	**5,347,548**	**16,745,083**	**22,092,631**
Less Disbursements						
Payments to Investors	5,872,620	16,363,310	22,235,930	4,905,061	16,737,091	21,642,152
Total Disbursements	**5,872,620**	**16,363,310**	**22,235,930**	**4,905,061**	**16,737,091**	**21,642,152**
Ending Net Assets	**$ 4,255,865**	**$ 686,925**	**$ 4,942,790**	**$ 3,608,051**	**$ 730,806**	**$ 4,338,857**

NOTE 5 ACCOUNTS RECEIVABLE

Accounts receivable include amounts owed by the public for guaranty fees in SBA's loan and surety bond programs, refunds due from employees and others, as well as other amounts owed by lenders for guarantied loan purchases that lack the required documents. An Allowance for Loss on uncollectible Surety Bond Guaranty fees is based on an aging of delinquent balances. The uncollectible amount for refunds and loan guaranty fees is not significant and no allowance is provided. Amounts over 180 days past due on guarantied loans purchased by the SBA are written off for financial reporting purposes.

(Dollars in Thousands)

As of September 30,	2017	2016
Public		
Guaranty Fees Receivable	$ 83,414	$ 78,982
Refunds	805	776
Other	17,054	81,576
Total Public	**101,273**	**161,334**
Allowance For Loss	(399)	(22)
Net Public	**$ 100,874**	**$ 161,312**

NOTE 6 CREDIT PROGRAM RECEIVABLES AND LIABILITY FOR LOAN GUARANTIES

A. Loan Program Descriptions and Accounting

LOAN PROGRAM DESCRIPTIONS

The SBA provides guaranties that help eligible small businesses obtain loans from participating lenders and licensed small business investment companies to make investments in qualifying small businesses. The SBA also makes loans to microloan intermediaries and provides direct loans that assist homeowners, renters, businesses of all sizes, and private nonprofit organizations recover from disasters.

MAJOR DIRECT LOAN AND LOAN GUARANTY PROGRAMS

Program group	Program type	Program
Disaster	Direct	Disaster Assistance Loans
Business	Guarantied	7(a) Loan Guaranty
Business	Guarantied	504 Certified Development Company
Business	Guarantied	Small Business Investment Company Debentures
Business	Direct	7(m) Microloan

SBA's Disaster Assistance Loan program makes direct loans to disaster survivors under four categories: (1) physical disaster loans to repair or replace damaged homes and personal property; (2) physical disaster loans to businesses of any size; (3) economic injury disaster loans to eligible small businesses and nonprofit organizations without credit available elsewhere; and (4) economic injury loans to eligible small businesses affected by essential employees called up to active duty in the military reserves. The maximum interest rate is 4 percent for loan applicants without credit available elsewhere and 8 percent for applicants with credit available elsewhere.

SBA's business loan programs include its flagship 7(a) Loan Guaranty program in which the SBA guarantees up to 90 percent of the amount of loans made by participating banks and other lending institutions to eligible small businesses not able to obtain credit elsewhere.

The 504 Certified Development Company program guarantees 100 percent of the principal and interest payments on debentures issued by development companies for loans to eligible small businesses secured by real estate or equipment.

The Small Business Investment Company program guarantees principal and interest payments on debentures issued by small business investment companies, which in turn make investments in qualifying small businesses.[10]

The 7(m) Microloan program provides direct loans to nonprofit intermediaries, which use these funds to make loans up to $50,000 to eligible small businesses.

CREDIT SUBSIDY MODELING

The SBA estimates future cash flows for direct and guarantied loans using economic and financial credit subsidy models. These estimated cash flows are used to develop the subsidy funding required under the Federal Credit Reform Act of 1990. The SBA has developed a customized credit subsidy model for each of its major loan guaranty programs.

SBA's models vary in the specific methodologies employed to forecast future program cash flows. In general, however, models for all major credit programs use historical data as the basis for assumptions about future program performance and then translate these assumptions into nominal cash flow estimates by applying rules about program structure.

10 In February 2009, SBA conducted its last pooling of SBIC participating securities.

Nominal cash flow forecasts are discounted using the Office of Management and Budget's Credit Subsidy Calculator that has both forecasted and actual Treasury interest rates.

Historical data are used as the basis for program performance assumptions. The historical data undergo quality review and analysis prior to its use in developing model assumptions.

Key input to the subsidy models varies by program. Input includes items such as:

- Contractual terms of the loan or guaranty such as loan amount, interest rate, and maturity and grace periods
- Borrower characteristics
- Loan origination methods
- Economic indicators such as gross domestic product growth and unemployment rate
- Loan performance assumptions, for example: conditional purchase and prepayment rates and recovery rates
- Loan fee rates

SUBSIDY FUNDING UNDER THE FEDERAL CREDIT REFORM ACT

FCRA requires that the credit subsidy costs of direct loans and loan guaranties be expensed in the year loans are disbursed. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The cost expressed as a percentage of loans disbursed is termed the subsidy rate. The SBA receives appropriations annually to fund its credit programs based on the subsidy rate that applies to the credit program level approved by Congress. The SBA records subsidy expenses when loans are disbursed. In accordance with FCRA, subsidy costs are reestimated annually.

CREDIT PROGRAM RECEIVABLES AND RELATED FORECLOSED PROPERTY, NET

FCRA governs direct loans made after FY 1991. FCRA direct loans are valued at the present value of expected future cash flows, discounted at the interest rate of marketable Treasury securities. The subsidy allowance represents the difference between the outstanding loans receivable balance and the net present value of the estimated cash flows of the loans over their remaining term. The subsidy allowance is subtracted from the outstanding loans receivable balance to obtain the net loans receivable balance.

Guarantied loans purchased by the SBA upon borrower default are established as loans receivable and are valued in a similar manner as direct loans under FCRA.

Direct loans and defaulted guaranties made prior to FCRA are valued at the current receivable balance net of an allowance for uncollectible amounts calculated using historical loss experience.

The SBA advances payments semiannually to honor SBA's timely payment requirement of principal and interest due for debentures in SBA's 504 Certified Development Company and Small Business Investment Company programs. The advances are liquidated by receipt of the payments due from borrowers in these programs. Advance balances are reported as Other Loans Receivable.

Interest receivable is comprised of accrued interest on loans receivable and purchased interest related to defaulted guarantied loans. Interest income is accrued at the contractual rate on the outstanding principal amount and is reduced by the amount of interest income accrued on non-performing loans in excess of 90 days delinquent. SBA's purchase of accrued interest is limited to 120 days on the defaulted guaranty unless the loan has been sold in the secondary market. Purchased interest is carried at cost and an allowance is established for amounts in excess of 90 days delinquent.

Foreclosed property is comprised of real and personal property acquired through foreclosure on direct loans and defaulted loan guaranties. Properties acquired as a result of defaulted loans committed after FY 1991 are shown at recoverable value, which is adjusted to the present value of expected future cash flows for financial statement presentation through the allowance for subsidy. Other foreclosed property is shown at the appraised value. As of September 30, 2017, SBA's foreclosed property was $17.5 million related to 86 loans. The properties had been held for an average of 1,292 days. As of September 30, 2016, foreclosed property was $24.2 million related to 86 loans. The properties had been held for an average of 1,187 days.

VALUATION METHODOLOGY FOR THE LIABILITY FOR LOAN GUARANTIES UNDER FCRA

FCRA also governs loan guaranties made after FY 1991. A liability for outstanding guaranties is included on SBA's Balance Sheet. The liability for guarantied loans committed after FY 1991 is the net present value of their expected future cash flows, including guaranty fee inflows and the net cash outflows for defaulted guarantied loans purchased by the SBA.

VALUATION METHODOLOGY FOR PRE-FCRA LIABILITY FOR LOAN GUARANTIES

The SBA values pre-credit reform direct and defaulted guarantied loans by estimating an allowance for loan losses. This allowance is offset against gross loan receivables to obtain SBA's expected net collections from these assets. The SBA establishes a 100 percent allowance for pre-credit reform direct and guarantied loans that are past due more than 180 days. A liability is also established for active pre-credit reform loan guaranties. The liability is estimated based on historical experience.

B. Credit Program Receivables and Related Foreclosed Property, Net

(Dollars in Thousands)

As of September 30, 2017	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 1,037	$ 183,856	$ 184,893
Interest Receivable	2,536	315	2,851
Foreclosed Property	3,114	–	3,114
Allowance	(5,544)	(13,343)	(18,887)
Total Direct Business Loans	**1,143**	**170,828**	**171,971**
Direct Disaster Loans			
Disaster Loans Receivable	1,424	6,160,916	6,162,340
Interest Receivable	147	30,531	30,678
Foreclosed Property	–	3,104	3,104
Allowance	(187)	(899,235)	(899,422)
Total Direct Disaster Loans	**1,384**	**5,295,316**	**5,296,700**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	2,251	3,482,179	3,484,430
Other Loans Receivable (see note below)	–	189,796	189,796
Interest Receivable	664	38,073	38,737
Foreclosed Property	1,868	9,427	11,295
Allowance	(3,966)	(2,828,994)	(2,832,960)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**817**	**890,481**	**891,298**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 6,359,969**

As of September 30, 2016	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 2,011	$ 173,528	$ 175,539
Interest Receivable	2,745	405	3,150
Foreclosed Property	3,113	–	3,113
Allowance	(4,687)	(13,128)	(17,815)
Total Direct Business Loans	**3,182**	**160,805**	**163,987**
Direct Disaster Loans			
Disaster Loans Receivable	1,931	5,992,848	5,994,779
Interest Receivable	196	34,337	34,533
Foreclosed Property	–	1,874	1,874
Allowance	(203)	(939,342)	(939,545)
Total Direct Disaster Loans	**1,924**	**5,089,717**	**5,091,641**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	1,512	3,941,186	3,942,698
Other Loans Receivable (see note below)	–	222,318	222,318
Interest Receivable	9,042	37,845	46,887
Foreclosed Property	1,868	17,303	19,171
Allowance	(4,723)	(3,299,090)	(3,303,813)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**7,699**	**919,562**	**927,261**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 6,182,889**

Note: Other Loans Receivable includes payments advanced by the SBA against future reimbursements in the SBIC and 504 loan programs.

C. Loans Disbursed and Outstanding Loan Obligations

(Dollars in Thousands)

DIRECT LOANS

New Loans Disbursed During the Year Ended September 30,	2017	2016
Business Direct Loan Program	$ 41,231	$ 33,594
Disaster Loan Program	886,275	401,121
Total Direct Loans Disbursed	**$ 927,506**	**$ 434,715**

Outstanding Loan Obligations as of September 30,	2017	2016
Business Direct Loan Program	$ 41,835	$ 42,839
Disaster Loan Program	803,049	851,495
Total Direct Loan Obligations	**$ 844,884**	**$ 894,334**

GUARANTIED LOANS

New Loans Disbursed During the Year Ended September 30,	2017	2016
Total Principal Disbursed at Face Value	$ 28,992,380	$ 26,971,386
Total Principal Disbursed Guarantied by the SBA	22,812,816	21,294,900

Outstanding Loan Obligations as of September 30,	2017	2016
Business Guarantied Loan Programs	$ 16,756,254	$ 16,766,201

Loans Outstanding as of September 30,	2017	2016
Total Principal Outstanding at Face Value (see note below)	$ 121,005,886	$ 113,113,553
Total Principal Outstanding Guarantied by the SBA (see note below)	99,512,501	93,764,878

Note: SBA's guarantied loan servicing agent provides data to the SBA on the unpaid principal balance of guarantied loans within a precision of less than 1 percent due to timing.

D. Subsidy Cost Allowance Balances

(Dollars in Thousands)

For the Years Ended September 30,	2017	2016
Post-1991 Business Direct and Purchased Guarantied Loans		
Beginning Balance of Allowance Account	**$ 3,312,218**	**$ 4,756,184**
Current Year's Subsidy (see 6.G for breakdown by component)	3,971	4,000
Loans Written Off	(971,719)	(1,927,638)
Subsidy Amortization	(2,364)	(2,208)
Allowance Related to Guarantied Loans Purchased This Year	314,131	182,476
Miscellaneous Recoveries and Costs	187,293	299,146
Balance of Subsidy Allowance Account before Reestimates	2,843,530	3,311,960
Technical Assumptions/Default Reestimates	(1,193)	258
Ending Balance of Allowance Account	**$ 2,842,337**	**$ 3,312,218**
Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	**$ 939,342**	**$ 1,087,238**
Current Year's Subsidy (see 6.G for breakdown by component)	119,660	48,397
Loans Written Off	(97,691)	(111,340)
Subsidy Amortization	(12,872)	(4,987)
Miscellaneous Recoveries and Costs	64,668	77,684
Balance of Subsidy Allowance Account before Reestimates	1,013,107	1,096,992
Technical Assumptions/Default Reestimates	(113,872)	(157,650)
Ending Balance of Allowance Account	**$ 899,235**	**$ 939,342**

E. Liability for Loan Guaranties

(Dollars in Thousands)

For the Years Ended September 30,	2017	2016
Pre-1992 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**$ 7**	**$ 14**
Adjustment to Expected Losses, Guaranties Outstanding	1	(7)
Ending Balance of Liability for Loan Guaranties	**8**	**7**
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**2,371,498**	**1,661,502**
Current Year's Subsidy (see 6.G for breakdown by component)	10,608	26,292
Fees	1,350,243	1,247,356
Interest Accumulation Factor	77,457	76,294
Claim Payments to Lenders	(1,016,981)	(847,342)
Adjustment Due to Reestimate & Guarantied Loan Purchases	702,850	664,866
Miscellaneous Recoveries and Costs	(20,726)	11,358
Balance of Liability for Loan Guaranties before Reestimates	3,474,949	2,840,326
Technical Assumptions/Default Reestimates	(918,589)	(468,828)
Ending Balance of Liability for Loan Guaranties	**2,556,360**	**2,371,498**
Total Ending Balance of Liability for Loan Guaranties	**$ 2,556,368**	**$ 2,371,505**

F. 2017 Subsidy Rates by Program and Component

Loan Program	Total Subsidy	Financing	Default	Other	Fee
Guaranty					
7(a)	**0.00%**	0.00%	4.48%	0.00%	-4.48%
504 CDC	**0.00%**	0.00%	5.96%	0.64%	-6.60%
504 Refi	**0.00%**	0.00%	6.18%	0.64%	-6.82%
SBIC Debentures	**0.00%**	0.00%	4.97%	0.07%	-5.04%
Direct					
Disaster	**14.42%**	5.62%	13.30%	-4.50%	0.00%
Microloan	**9.08%**	7.26%	2.26%	-0.44%	0.00%

The subsidy rates in Table F pertain only to loans obligated in the current year. These rates cannot be applied to the loans disbursed during the current year to yield the subsidy expense because loans disbursed during the current year include loans obligated in prior years. Subsidy expenses reported in Note 6.G result from the disbursement of loans obligated in the current year as well as in prior years, and include reestimates.

G. Subsidy Expense by Component

(Dollars in Thousands)

For the Years Ended September 30,		2017		2016
Business Loan Guaranties				
Defaults	$	100,099	$	228,080
Fees		(98,224)		(221,728)
Other		8,733		19,940
Subsidy Expense Before Reestimates and Loan Modifications		10,608		26,292
Reestimates		(918,589)		(468,828)
Total Guarantied Business Loan Subsidy Expense	**$**	**(907,981)**	**$**	**(442,536)**
Business Direct Loans				
Interest	$	3,078	$	2,585
Defaults		803		693
Other		90		722
Subsidy Expense Before Reestimates		3,971		4,000
Reestimates		(1,193)		258
Total Business Direct Loan Subsidy Expense	**$**	**2,778**	**$**	**4,258**
Disaster Direct Loans				
Interest	$	38,772	$	10,943
Defaults		119,543		54,571
Other		(38,655)		(17,117)
Subsidy Expense Before Reestimates		119,660		48,397
Reestimates		(113,872)		(157,650)
Total Disaster Direct Loan Subsidy Expense	**$**	**5,788**	**$**	**(109,253)**

H. Administrative Expense

The SBA received appropriations to administer its credit programs, including the making, servicing, and liquidation of its loans and guaranties. Amounts expensed in the Statement of Net Cost are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,		2017		2016
Disaster Direct Loan Programs	$	225,814	$	212,265
Business Loan Programs		152,629		151,692
Total Administrative Expense	**$**	**378,443**	**$**	**363,957**

I. Credit Program Subsidy Reestimates

Reestimates are performed annually, on a cohort-by-cohort basis. The purpose of reestimates is to update original program cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on additional information about historical program performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods. Financial statement reestimates were performed using a full year of FY 2017 performance data for SBA's large loan programs and 9 months of actual and 3 months of projected performance data for the Secondary Market Guaranty, Microloan, and the small loan programs.

BUSINESS GUARANTIED LOAN PROGRAMS

Net subsidy reestimates for the business guarantied loan programs are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,		2017		2016
7(a)	$	(297,874)	$	(163,406)
7(a) - Recovery Act		2,595		19,218
7(a) - Jobs Act		5,507		10,184
Dealer Floor Plan		(57)		(167)
504 CDC		(375,851)		(617,004)
504 CDC - Recovery Act		(14,874)		(46,505)
504 CDC - Jobs Act		(4,904)		(10,369)
504 CDC - Debt Refinancing		(22,336)		(24,683)
504 First Mortgage Loan Pooling - Recovery Act		3,881		3,686
SBIC Debentures		(133,545)		(156,544)
SBIC Participating Securities		(90,473)		(40,499)
Secondary Market Guaranty Program		2,757		546,107
ARC - Recovery Act		(646)		(1,387)
All Other Guaranty Loan Programs		7,231		12,541
Total Guarantied Loan Program Subsidy Reestimates	**$**	**(918,589)**	**$**	**(468,828)**

The 7(a) Loan Guaranty program, SBA's flagship and largest program, had a net downward reestimate in FY 2017 of $297.9 million. The reestimate is primarily due to lower than expected purchases in cohorts 2012 through 2016, and higher than expected recoveries for most cohorts in FY 2017. This better than expected performance in FY 2017 is partially offset by higher projected purchases for most cohorts. The higher projected purchases are due mainly to slower loan payoffs than projected in FY 2017, which results in a higher unpaid principal balance at the end of FY 2017. With a higher unpaid principal balance, more principal is subject to purchase, hence the higher projected purchases.

The 7(a) Recovery Act program had a net upward reestimate in FY 2017 of $2.6 million. The reestimate is primarily due to higher than expected purchases in FY 2017, higher projected purchases, and lower projected recoveries. These factors are partially offset by higher than expected recoveries in FY 2017.

The 7(a) Jobs Act cohort had a net upward reestimate in FY 2017 of $5.5 million. The reestimate is primarily due to higher than expected purchases in FY 2017. This was partially offset by higher than expected recoveries.

The Dealer Floor Plan program had a net downward reestimate of $0.1 million due to better than expected performance during FY 2017.

The 504 Certified Development Company program had a net downward reestimate of $375.9 million. The reestimate is primarily due to better than expected FY 2017 loan performance. Although some cohorts had higher than expected purchases, these higher than expected purchases were offset by higher than expected recoveries. The remainder of the reestimate was due to decreased loss projections for the 2013 and 2016 cohorts as compared to the FY 2016 loss projections.

The 504 Recovery Act program had a net downward reestimate of $14.9 million. The reestimate is mostly due to better than expected FY 2017 loan performance. Actual purchases in the 504 Recovery Act program were approximately half of the purchases projected for FY 2017.

The 504 Jobs Act program had a net downward reestimate of $4.9 million. The reestimate is mostly due to better than expected FY 2017 loan performance. Actual purchases in the 504 Jobs Act program were less than half the purchases projected for FY 2017, while actual recoveries were more than double the recoveries projected for FY 2017.

The 504 Debt Refinancing program had a net downward reestimate of $22.3 million. The reestimate is mostly due to better than expected FY 2017 loan performance. Actual purchases in the 504 Debt Refinancing program were less than those projected for the original 2011 and 2012 cohorts, while actual recoveries were more than those projected for the 2012 cohort. Newly reauthorized in FY 2016, this amount includes a downward reestimate of $2.7 million for the 2016 and 2017 cohorts, reflecting decreased loss projections compared to the original loss projections.

The Section 504 First Mortgage Loan Pooling program had a net upward reestimate of $3.9 million. The majority of the reestimate is due to higher than expected purchases in FY 2017, which were partially offset by higher than expected recoveries.

The SBIC Debentures program had a net downward reestimate of $133.5 million. The primary driver of the reestimate was lower than expected purchases in FY 2017 for the more recent cohorts, including 2011 through 2013 and 2015 through 2017. The lower actual purchase amount was partially offset by lower than expected recoveries.

The SBIC Participating Securities program had a net downward reestimate of $90.5 million. The downward reestimate is due to better than expected loan performance in FY 2017, particularly for the 2004 cohort. The main driver of the downward reestimate was higher recoveries than those projected in FY 2017. These recoveries were partially offset by higher than expected purchases and lower reimbursements of prioritized payments.

The Secondary Market Guaranty program had a net upward reestimate of $2.8 million. The upward reestimate was due to lower than projected pool prepayments, which are offset by increases to future pool prepayments as a result of program changes. All else equal, higher pool prepayments due to loan terminations accelerate pool payments to investors and reduce SBA's reliance on interest earnings to cover its guarantee of timely payment.

The America's Recovery Capital program had a net downward reestimate of $0.6 million. The majority of this reestimate is due to higher than expected recoveries in FY 2017 for both cohorts.

All Other Guaranty Loan Programs include the New Market Venture Capital program that had a net upward reestimate of $7.3 million. The upward reestimate was driven by lower than expected recoveries. The other guaranty loan programs had a net $0.1 million downward reestimate.

BUSINESS DIRECT LOAN PROGRAMS

Net subsidy reestimates for business direct loan programs are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,		**2017**		**2016**
7(m) Microloan	$	(121)	$	224
7(m) Microloan - Recovery Act		(225)		82
Intermediary Lending Pilot Program		(841)		(41)
All Other Direct Loan Programs		(6)		(7)
Total Direct Loan Program Subsidy Reestimates	**$**	**(1,193)**	**$**	**258**

The 7(m) Microloan program had a net downward reestimate of $0.1 million. The downward reestimate is attributed to greater than anticipated cash inflows and fewer defaults in the current year. In addition, there was an increase in projected principal payments in future years.

The 7(m) Microloan Recovery Act program had a net downward reestimate of $0.2 million. The downward reestimate is primarily due to a decrease in projected defaults and prepayments in future years. This is partially offset by a decrease in projected recoveries.

The Intermediary Lending Pilot program had a net downward reestimate of $0.8 million. The downward reestimate was primarily due to greater than anticipated cash inflows from prepayments. The downward reestimate is partially offset by decreased projected net prepayments in future years.

DISASTER DIRECT LOAN PROGRAM

Net subsidy reestimates for the disaster direct loan programs are in the following table.

(Dollars in Thousands)

For the Years Ended September 30,		**2017**		**2016**
Disaster	$	(113,872)	$	(157,650)
Total Disaster Direct Loan Program Subsidy Reestimates	**$**	**(113,872)**	**$**	**(157,650)**

The Disaster Assistance Program had a net downward reestimate of $113.9 million. Most disaster cohorts (except for the 2015 and 2017 regular cohorts) experienced downward reestimates as a result of better than expected performance in FY 2017 and revised performance assumptions. The 2016 cohort experienced a downward reestimate due to updated present value factors applied to projected cash flows, as well as revised performance assumptions. The 2015 cohort experienced a small upward reestimate due to worse than expected performance in FY 2017. The 2017 cohort experienced an upward reestimate due to the actual average borrower's interest rate being lower than the original projected average borrower's interest rate.

NOTE 7 GENERAL PROPERTY AND EQUIPMENT, NET

The SBA capitalizes equipment with a cost of $50,000 or more per unit and a useful life of 2 years or more at full cost and depreciates using the straight-line method over the useful life. The SBA expenses equipment not meeting the capitalization criteria.

Leasehold improvements with modifications of $50,000 or more and a useful life of 2 years or more are capitalized and amortized using the straight-line method over the useful life of the improvement or the lease term, whichever is shorter. Leasehold improvements not meeting the capitalization criteria are expensed.

Software intended for internal use, whether internally-developed, contractor-developed, or purchased, is capitalized at cost if the unit acquisition cost is $250,000 or more and service life is at least 2 years. Capitalized software costs include all direct and indirect costs incurred, including overhead to develop the software. Software for internal use is amortized using the straight-line method over its useful life, not to exceed 5 years. Amortization begins when the software is put into production. The costs of enhancements are capitalized when it is more likely than not that the enhancements will result in significant additional capabilities. Costs that do not meet the capitalization criteria are expensed when incurred.

Assets meeting the capitalization thresholds are detailed in the following table.

(Dollars in Thousands)

As of September 30,		2017		2016
Leasehold Improvements	$	1,811	$	1,811
Amortization of Leasehold Improvements		(1,306)		(1,079)
Net		**505**		**732**
Software in Use		35,863		35,863
Amortization of Software in Use		(35,863)		(35,770)
Net		**–**		**93**
Total General Property and Equipment, Net	**$**	**505**	**$**	**825**

NOTE 8 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

These unfunded liabilities consisted of the following categories, as shown in the following table.

(Dollars in Thousands)

As of September 30,		2017		2016
Intragovernmental Liabilities - Other				
Employment Taxes Payable	$	1,903	$	294
Federal Employees' Compensation Act Payable		6,337		6,580
Total Intragovernmental Liabilities - Other		**8,240**		**6,874**
Federal Employees' Compensation Act Actuarial Liability		**34,889**		**32,676**
Surety Bond Guarantee Program Future Claims		**44,942**		**43,430**
Other Liabilities				
Prior Liens on Real Estate Payable		59		59
Accrued Unfunded Annual Leave		26,452		25,799
Total Other Liabilities		**26,511**		**25,858**
Total Liabilities Not Covered by Budgetary Resources	**$**	**114,582**	**$**	**108,838**

The liability for Surety Bond Guarantees is an estimate of future claims in the SBG program for guaranties outstanding at year-end.

NOTE 9 DEBT

Borrowings payable to the Treasury result from loans provided by the Treasury to fund the portion of direct loans not covered by subsidy appropriations and to fund the payment of downward subsidy reestimates and other credit program disbursements (see Note 15). The SBA makes periodic principal repayments to the Treasury based on the analysis of its cash balances and future disbursement needs.

All debt is intragovernmental and covered by budgetary resources. Debt transactions and resulting balances are shown in the following table.

INTRAGOVERNMENTAL DEBT

(Dollars in Thousands)

As of September 30,		**2017**		**2016**
Beginning Balance	**$**	**8,019,526**	**$**	**7,175,344**
New Borrowing		1,138,230		1,787,103
Repayments		(1,464,697)		(942,921)
Ending Balance	**$**	**7,693,059**	**$**	**8,019,526**

NOTE 10 NET ASSETS OF LIQUIDATING FUNDS DUE TO TREASURY

Net Assets of Liquidating Funds Due to Treasury is the residual of the book value of assets less liabilities in the Liquidating Funds for loans made prior to FY 1992. The FY 2017 and FY 2016 balances include the transfer of the unobligated balance to Treasury as of September 30.

(Dollars in Thousands)

As of September 30,		**2017**		**2016**
Disaster Loan Fund	$	1,384	$	1,924
Business Loan and Investment Fund		3,555		12,900
Total Due Treasury	**$**	**4,939**	**$**	**14,824**

NOTE 11 OTHER LIABILITIES

Other liabilities are shown in the following table.

(Dollars in Thousands)

As of September 30,	2017	2016
OTHER LIABILITIES - INTRAGOVERNMENTAL		
Entity		
Current		
Employment Taxes Payable	$ 3,704	$ 3,530
Advances from Other Agencies	1,942	2,189
Total Current	**5,646**	**5,719**
Non-current		
Employment Taxes Payable	1,903	294
Federal Employees' Compensation Act Payable	6,337	6,580
Total Non-current	**8,240**	**6,874**
Total Entity	**13,886**	**12,593**
Non-entity		
Current		
Payable to Treasury	6	6
Total Other Liabilities - Intragovernmental	**$ 13,892**	**$ 12,599**
OTHER LIABILITIES - PUBLIC		
Entity		
Current		
Accrued Funded Payroll and Benefits	$ 14,740	$ 14,291
Accrued Unfunded Annual Leave	26,452	25,799
Other Liabilities	–	83
Suspense Accounts	67	908
Total Current	**41,259**	**41,081**
Non-current		
Prior Liens on Real Estate Payable	59	59
Total Non-current	**59**	**59**
Total Entity	**41,318**	**41,140**
Total Other Liabilities - Public	**$ 41,318**	**$ 41,140**

NOTE 12 LEASES

The SBA leases all of its facilities from the General Services Administration. The SBA enters into an Occupancy Agreement with GSA for each facility. GSA, in turn, leases commercial facilities or provides space in federal buildings. Agreements for space in federal buildings can be vacated with a 120 to 180 days notice. However, the SBA anticipates continuing the same or similar facilities leases in the future. These leases with GSA are operating leases, and are expensed in the Statement of Net Cost when incurred. The FY 2017 and FY 2016 historical facilities lease costs were $48 million and $45 million. Future lease payments are based on FY 2018 GSA base year estimates. Projections after the base year assume a 3 percent inflation factor. Payments after 5 years reflect only current leases that will still be in effect, projected to the end of each lease.

FUTURE FACILITIES OPERATING LEASE PAYMENTS

(Dollars in Thousands)

Fiscal Year		Lease Projections
2018	$	44,753
2019		46,095
2020		47,478
2021		48,902
2022		50,369
After 2022		14,249
Total	**$**	**251,846**

NOTE 13 NON-ENTITY REPORTING

Non-entity Assets are assets held by the SBA but not available to the SBA. The primary non-entity asset is for SBA's downward subsidy reestimates in its loan programs. Because the loan programs are discretionary, the downward reestimates are not available to the SBA and they are returned to the Treasury in the fiscal year following the accrual of the reestimates. During the year, these general fund accounts contain SBA's prior year reestimates. At year-end, the funds are swept by the Treasury. Also at year-end, the SBA accrues the current year's reestimates, including downward reestimates as applicable. For the downward reestimates, in the loan financing funds, the SBA records an accrual adjustment that records a transfer out to the non-entity fund, a reduction of subsidy allowance or loan guaranty liability, and an account payable to the non-entity fund. In the loan program funds, the SBA records a reduction of loan subsidy expense and the associated impact on the net cost. The non-entity Treasury general funds contain a corresponding account receivable in anticipation of the receipt of the downward reestimates in the following year and a Downward Reestimate Payable to the Treasury.

For consolidated financial statement presentation, the SBA eliminates the payable to the non-entity fund and the non-entity Treasury general fund receivable from the financing funds, since both are included in SBA's reporting entity. The Downward Reestimate Payable to the Treasury in the non-entity Treasury general fund is not eliminated, and is reflected on the Balance Sheet as a liability line item.

(Dollars in Thousands)

As of September 30,		2017		2016
Entity				
Financing Fund Payable	$	(1,215,102)	$	(1,239,814)
Non-entity				
Miscellaneous Receipts Fund Receivable		1,215,102		1,239,814
Downward Reestimate Payable to Treasury		(1,215,102)		(1,239,814)
Balance Sheet Reported Payable	**$**	**(1,215,102)**	**$**	**(1,239,814)**

NOTE 14 CONSOLIDATED STATEMENT OF NET COST

Federal cost accounting standards require the SBA to report operating costs by strategic goal activity. Full costs include all direct and indirect costs for a strategic goal. Full costs are reduced by exchange (earned) revenues to arrive at the net operating cost.

Operating Cost

The full and net operating costs of SBA's major strategic goals are presented in the Consolidated Statement of Net Cost. Full costs are comprised of all direct costs for the strategic goals and those indirect costs which can be reasonably assigned or allocated to the strategic goals, including employee pension and other retirement benefit costs paid by the OPM and charged to the SBA.

Earned Revenue

Earned revenue arises from exchange transactions, and is deducted from the full cost of SBA's major strategic goals to arrive at net strategic goals costs. The SBA recognizes earned revenue when reimbursements are payable from other federal agencies and the public, as a result of costs incurred or services performed. A major source of earned revenue includes interest earned on SBA's outstanding business and disaster loan portfolios and interest earned on uninvested funds in the credit reform financing accounts.

Reporting by Strategic Goal

The SBA reports net costs consistent with its three strategic goals on a full cost allocation basis. Strategic Goal 1 (Growing Businesses and Creating Jobs) includes SBA's loan, disaster and other assistance programs, and STEP grants. Strategic Goal 2 (Serving as the Voice for Small Business) includes small business advocacy and programs to promote entrepreneurship in economic sectors and communities where market gaps remain. Strategic Goal 3 (Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses) contains lender oversight costs. Agency administrative overhead costs are fully allocated to the programs in Strategic Goals 1, 2, and 3. The Management's Discussion and Analysis section of SBA's annual Agency Financial Report includes additional detail on SBA's strategic goals. Costs Not Assigned to Strategic Goals include the Office of Inspector General and grants made under Congressionally-mandated programs. The Office of Inspector General's mission and funding is a separate, independent part of the SBA, and is therefore not assigned. Congressionally-mandated grants to promote local economic development do not necessarily involve small business and are also not assigned.

Intragovernmental Gross Cost is incurred by the SBA in exchange transactions with other federal agencies, and Gross Cost with the Public is incurred in exchange transactions with the public. Intragovernmental Earned Revenue is earned by the SBA in exchange transactions with other federal agencies, and Earned Revenue from the Public is earned in exchange transactions with the public. The General Services Administration and the Treasury are SBA's primary intragovernmental trading partners.

The classification as Intragovernmental Costs or Gross Cost with the Public relate to the source of goods and services received by the SBA and not to the classification of related revenue. The classification of revenue or cost being defined as "intragovernmental" or "public" is defined on a transaction by transaction basis. The purpose of this classification is to enable the federal government to provide consolidated financial statements, and not to match the public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

SBA's Gross Cost with the Public in Strategic Goal 1 is largely determined by estimates and reestimates of its credit program costs (see Note 6.I).

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

(Dollars in Thousands) For the Years Ended September 30,	2017	2016
STRATEGIC GOAL 1: Growing Businesses and Creating Jobs		
Intragovernmental Gross Cost	$ 526,209	$ 497,377
Gross Cost with the Public	(227,424)	100,306
Total Strategic Goal 1 Gross Cost	**298,785**	**597,683**
Intragovernmental Earned Revenue	158,457	136,824
Earned Revenue from the Public	282,031	320,679
Total Strategic Goal 1 Earned Revenue	**440,488**	**457,503**
STRATEGIC GOAL 2: Serving as the Voice for Small Business		
Intragovernmental Gross Cost	$ 23,109	$ 30,378
Gross Cost with the Public	63,177	92,773
Total Strategic Goal 2 Gross Cost	**86,286**	**123,151**
STRATEGIC GOAL 3: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses		
Intragovernmental Gross Cost	$ 9,823	$ 10,194
Gross Cost with the Public	26,855	31,132
Total Strategic Goal 3 Gross Cost	**36,678**	**41,326**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Intragovernmental Gross Cost	$ 6,066	$ 8,589
Gross Cost with the Public	16,583	26,231
Total Gross Cost Not Assigned to Strategic Goals	**22,649**	**34,820**
Net Cost of Operations	**$ 3,910**	**$ 339,477**

NOTE 15 STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources presents information about total budgetary resources available to the SBA and the status of those resources as of September 30, 2017 and 2016. SBA's total budgetary resources were $3.7 billion and $2.8 billion for the fiscal years ended September 30, 2017 and 2016. Additionally, $8.6 billion and $8.1 billion of nonbudgetary resources (including borrowing authority and collections of loan principal, interest, and fees in financing funds) were reported for the fiscal years ended September 30, 2017 and 2016.

Permanent Indefinite Appropriations

The SBA receives permanent indefinite appropriations annually to fund increases in the projected subsidy costs of loan programs, as determined by the reestimation process required by the Federal Credit Reform Act of 1990. The appropriations are received initially in the SBA Program Funds, and then transferred to the Financing Funds, where they are used to fund obligations. SBA's Liquidating Funds also receive permanent indefinite appropriations to fund obligations. The Financing Funds are used to account for credit program obligations made subsequent to FY 1991. Liquidating Funds are used to account for credit program obligations made prior to FY 1992.

Decreases in projected subsidy costs in the Financing Funds are returned to the Treasury through SBA's annual reestimation process. The prior year's ending unobligated balances in SBA's Liquidating Funds are also transferred to the Treasury annually.

Borrowing Authority and Terms of Borrowing

The SBA is authorized to borrow from the Treasury's Bureau of the Fiscal Service when funds needed to disburse direct loans and purchase guarantied loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2017 and FY 2016, the SBA received $1.5 billion and $1.6 billion of borrowing authority from OMB. At the end of FY 2017, the SBA had $0.4 billion in borrowing authority carried over to fund direct loans and default claims to be disbursed in the future. At the end of FY 2016, the SBA had no available borrowing authority. The SBA pays interest to the Treasury based on Treasury's cost of funds. The rate at which interest is paid to the Treasury on the amounts borrowed (or received from the Treasury on uninvested cash balances) in a loan financing fund for a particular cohort is a disbursement-weighted average discount rate for cohorts prior to FY 2001, and a single effective rate for cohorts beginning with FY 2001. The SBA calculates and repays borrowings not needed for working capital at midyear and at year-end for prior year cohorts. The SBA uses the loan principal, interest, and fees collected from the borrowers in its loan financing funds to repay its Treasury borrowings. The repayment maturity dates for the borrowings from the Treasury are based on the loan maturities used in the subsidy calculation. The maturities range from 16 years for direct business loans, 25 years for guarantied business loans, and 30 years for disaster loans.

Apportionment Categories of Obligations Incurred

During FY 2017 and FY 2016, the SBA incurred $6.367 billion and $5.911 billion of direct and reimbursable obligations, of which $0.459 billion and $0.016 billion were apportioned in category A, and $5.908 billion and $5.895 billion were apportioned in category B. Category A apportionments are restricted by quarter and program, while category B apportionments are restricted by purpose and program.

Unobligated Balances

Unobligated balances as of September 30, 2017 and 2016 are $5.9 billion and $5.0 billion, which include $4.2 billion and $3.0 billion of unavailable unobligated balances. These balances are unavailable primarily because they are unapportioned by the OMB. The SBA accumulates the majority of the unobligated balances in its nonbudgetary financing accounts during the fiscal year ($4.6 billion in FY 2017 and $3.9 billion in FY 2016) from fees and subsidy to fund default claims in future years. In addition, unobligated balances are accumulated in budgetary accounts from appropriations ($1.3 billion in FY 2017 and $1.1 billion in FY 2016) that are used to finance SBA's ongoing program operations. The SBA requests OMB apportionments as needed, and after OMB approval, apportioned amounts are available for obligation.

Undelivered Orders

Undelivered orders are obligations that have not yet been disbursed by the SBA. Undelivered orders for the periods ended September 30, 2017 and 2016 were $1.3 billion and $1.3 billion.

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

There was no material difference between the FY 2016 Statement of Budgetary Resources and the President's FY 2018 Budget submission. The President's FY 2019 Budget with actual numbers for FY 2017 has not yet been published. The SBA expects no material differences between the President's Budget "actual" column and the FY 2017 reported results when the budget becomes available in February 2018.

NOTE 16 RECONCILIATION OF BUDGETARY OBLIGATIONS INCURRED TO NET COST OF OPERATIONS

The SBA presents the Statement of Net Cost using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the Statement of Budgetary Resources.

The Federal Financial Accounting Standard No. 7 requires "a reconciliation of proprietary and budgetary information in a way that helps users relate the two." The focus of this presentation is to reconcile budgetary net obligations to the net cost of operations. The objective of this information is to categorize the differences between budgetary and financial (proprietary) accounting.

CONSOLIDATED RECONCILIATION OF BUDGETARY OBLIGATIONS TO NET COST

(Dollars in Thousands)

For the Years Ended September 30,	2017	2016
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$ 6,367,242	$ 5,911,456
Less: Spending Authority from Offsetting Collections and Recoveries	5,296,461	4,183,257
Obligations Net of Offsetting Collections and Recoveries	1,070,781	1,728,199
Less: Offsetting Receipts	1,201,195	1,650,432
Net Obligations	**(130,414)**	**77,767**
Other Resources		
Imputed Financing	12,162	18,158
Other Financing Sources	(1,168,891)	(1,294,974)
Net Other Resources Used to Finance Activities	**(1,156,729)**	**(1,276,816)**
Total Resources Used to Finance Activities	**(1,287,143)**	**(1,199,049)**
RESOURCES THAT DO NOT FINANCE NET COST OF OPERATIONS		
(Increase) Decrease in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	47,183	(725,222)
Resources that Fund Expenses Recognized in Prior Periods	(655,332)	(263,873)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections	4,156,180	3,641,970
Offsetting Receipts	1,201,195	1,650,432
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(3,615,895)	(3,430,648)
Other - Current Year Liquidating Equity Activity	(7,463)	4,639
Other Resources that Do Not Affect Net Cost of Operations	174	(95)
Total Resources that Do Not Finance Net Cost of Operations	**1,126,042**	**877,203**
Total Resources Used to Finance the Net Cost of Operations	**(161,101)**	**(321,846)**
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods		
Change in Annual Leave Liability	653	823
Upward Reestimates of Credit Subsidy Expense	148,831	655,303
Change in Revenue Receivable from Public	8,871	(3,012)
Provision for Losses on Estimated Guaranties	1,513	(249)
Change in Unfunded Employee Benefits	3,579	1,136
Total Components Requiring or Generating Resources in Future Periods	**163,447**	**654,001**
Components Not Requiring or Generating Resources		
Depreciation or Amortization	320	1,737
Change in Bad Debt Expense - Pre-1992 Loans	827	5,525
Other (Income) Expenses Not Requiring Budgetary Resources	417	60
Total Components Not Requiring or Generating Resources	**1,564**	**7,322**
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**165,011**	**661,323**
Net Cost of Operations	**$ 3,910**	**$ 339,477**

Liabilities Not Covered by Budgetary Resources on the Balance Sheet (Note 8) differs from Components Requiring or Generating Resources in Future Periods in this reconciliation primarily due to reestimated subsidy costs of loan programs. The subsidy costs are shown in the Statement of Net Cost and are to be covered by budgetary resources; these resources, while available under permanent and indefinite authority, were not provided by year-end. Additionally, there will always be a difference for existing liabilities because the Reconciliation of Budgetary Obligations Incurred to Net Cost of Operations reports only current year changes, not balances.

The following table details these differences.

(Dollars in Thousands)

As of September 30,		**2017**		**2016**
Current Year Liabilities Not Covered By Budgetary Resources	$	114,582	$	108,838
Less: Prior Year		108,838		107,128
Change in Liabilities Not Covered By Budgetary Resources		5,744		1,710
Upward Reestimates of Credit Subsidy Expense		148,831		655,303
Change in Revenue Receivable from Public		8,871		(3,012)
All Other		1		–
Components (of Net Cost) Generating Resources in Future Periods (Per Reconciliation Above)	**$**	**163,447**	**$**	**654,001**

NOTE 17 SIGNIFICANT EVENTS

In late August and September 2017, hurricanes Harvey, Irma, and Maria struck the continental United States, Puerto Rico, and the U.S. Virgin Islands. When disaster strikes the United States, SBA's loans are the sole form of federal credit assistance for damage to non-farm, private-sector homeowners, renters, businesses, and private nonprofit organizations.

At fiscal year-end, the SBA is uncertain as to the full future effect of the three hurricanes. The SBA has granted deferments to SBA-serviced disaster and business loan borrowers in the Harvey, Irma, and Maria disaster-declared areas, and has encouraged 7(a) lenders, Certified Development Companies, 504 third-party lenders, and Microlenders to provide similar deferment relief. The SBA has provided similar relief in past disasters, and no adverse impact is expected from this relief. However, the SBA could experience future variations in the performance of existing disaster and business loan portfolios as businesses in the affected areas strive to recover.

The SBA has begun to increase its rate of administrative spending as it conducts its disaster response. This spending is consistent with the Agency's experience responding to prior disasters and primarily takes the form of increased expenditures for travel and temporary personnel. In addition, the SBA has arranged for the reassignment of existing disaster and nondisaster staff to assist in the disaster-affected areas.

The provisions of the Federal Credit Reform Act of 1990 govern the valuation of SBA's portfolio of existing business and disaster loans as well as the determination of the appropriate subsidy rate for the disaster loans that the SBA will approve in response to hurricanes Harvey, Irma, and Maria. The FCRA provides permanent indefinite authority for reestimates of subsidy cost for existing loans to the extent necessary. Any initiatives that would change program terms or conditions for existing or new loans would require additional appropriations to fund subsidy costs before implementation. Therefore, any additional significant expenses associated with the hurricanes will be covered by additional appropriations, and would not have an adverse impact on SBA's financial condition.

REQUIRED SUPPLEMENTARY INFORMATION

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2017 (Unaudited)

(Dollars in Thousands)	BLIF		DLF		SBGRF
	Budgetary	**Nonbudgetary Financing**	**Budgetary**	**Nonbudgetary Financing**	**Budgetary**
BUDGETARY RESOURCES					
Unobligated Balance Brought Forward, October 1	$ 116,183	$ 3,477,097	$ 568,105	$ 411,458	$ 88,348
Recoveries of Prior Year Obligations	9,818	4,123	55,582	459,607	–
Other Changes in Unobligated Balance	(3,799)	(5,465)	–	(650,315)	2,505
Unobligated Balance from Prior Year Budget Authority, Net	122,202	3,475,755	623,687	220,750	90,853
Appropriations (discretionary and mandatory)	743,983	–	646,121	–	–
Borrowing Authority (discretionary and mandatory)	–	270,620	–	1,277,956	–
Spending Authority from Offsetting Collections	–	2,986,516	–	354,251	16,637
Total Budgetary Resources	**$ 866,185**	**$ 6,732,891**	**$ 1,269,808**	**$ 1,852,957**	**$ 107,490**
STATUS OF BUDGETARY RESOURCES					
New Obligations and Upward Adjustments (total)	$ 798,976	$ 2,304,050	$ 582,301	$ 1,729,237	$ 15,543
Unobligated Balance, end of year:					
Apportioned, unexpired accounts	7	1,085,338	44,892	49,958	17,457
Unapportioned, unexpired accounts	67,202	3,343,503	642,615	73,762	74,490
Unexpired Unobligated Balance, end of year	67,209	4,428,841	687,507	123,720	91,947
Expired Unobligated Balance, end of year	–	–	–	–	–
Total Unobligated Balance, end of year	67,209	4,428,841	687,507	123,720	91,947
Total Status of Budgetary Resources	**$ 866,185**	**$ 6,732,891**	**$ 1,269,808**	**$ 1,852,957**	**$ 107,490**
CHANGE IN OBLIGATED BALANCE					
Unpaid Obligations:					
Unpaid Obligations, Brought Forward, October 1	$ 42,643	$ 70,173	$ 102,870	$ 856,038	$ 388
New Obligations and Upward Adjustments	798,976	2,304,050	582,301	1,729,237	15,543
Gross Outlays	(807,466)	(2,302,875)	(514,849)	(1,319,393)	(15,643)
Recoveries of Prior Year Unpaid Obligations	(9,818)	(4,123)	(55,582)	(459,607)	–
Unpaid Obligations, end of year	24,335	67,225	114,740	806,275	288
Uncollected Payments:					
Uncollected Payments, Federal Sources Brought Forward, October 1	–	(41,936)	–	(103,100)	–
Change in Uncollected Payments, Federal Sources	–	18,344	–	(11,848)	–
Uncollected Payments, Federal Sources, end of year	–	(23,592)	–	(114,948)	–
Memorandum (non-add) Entries:					
Obligated Balance, start of year	**$ 42,643**	**$ 28,237**	**$ 102,870**	**$ 752,938**	**$ 388**
Obligated Balance, end of year	**$ 24,335**	**$ 43,633**	**$ 114,740**	**$ 691,327**	**$ 288**
BUDGET AUTHORITY AND OUTLAYS, NET					
Budget Authority, Gross (discretionary and mandatory)	$ 743,983	$ 3,257,136	$ 646,121	$ 1,632,207	$ 16,637
Actual Offsetting Collections (discretionary and mandatory)	(4,054)	(3,087,433)	(881)	(1,068,747)	(19,143)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	18,344	–	(11,848)	–
Recoveries of Prior Year Paid Obligations (discretionary and mandatory)	2,016	–	–	–	2,505
Budget Authority, Net (discretionary and mandatory)	**$ 741,945**	**$ 188,047**	**$ 645,240**	**$ 551,612**	**$ (1)**
Gross Outlays (discretionary and mandatory)	$ 807,466	$ 2,302,875	$ 514,849	$ 1,319,393	$ 15,643
Actual Offsetting Collections (discretionary and mandatory)	(4,054)	(3,087,433)	(881)	(1,068,747)	(19,143)
Net Outlays (discretionary and mandatory)	803,412	(784,558)	513,968	250,646	(3,500)
Distributed Offsetting Receipts	–	(1,033,457)	–	(167,609)	–
Agency Outlays, Net (discretionary and mandatory)	**$ 803,412**	**$ (1,818,015)**	**$ 513,968**	**$ 83,037**	**$ (3,500)**

REQUIRED SUPPLEMENTARY INFORMATION *(continued)*

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2017 (Unaudited)

(Dollars in Thousands)	SE	OIG	ADVOCACY	EDP	BATF	TOTAL	TOTAL	
	Budgetary	**Budgetary**	**Budgetary**	**Budgetary**	**Budgetary**	**Budgetary**	**Nonbudgetary Financing**	**Total**
BUDGETARY RESOURCES								
Unobligated Balance Brought Forward, October 1	$ 277,542	$ 12,495	$ 756	$ 14,396	$ 176	$ 1,078,001	$ 3,888,555	$ 4,966,556
Recoveries of Prior Year Obligations	22,621	489	109	8,868	3	97,490	463,730	561,220
Other Changes in Unobligated Balance	(27,859)	(354)	–	142	1	(29,364)	(655,780)	(685,144)
Unobligated Balance from Prior Year Budget Authority, Net	272,304	12,630	865	23,406	180	1,146,127	3,696,505	4,842,632
Appropriations (discretionary and mandatory)	269,500	19,900	9,220	245,100	–	1,933,824	–	1,933,824
Borrowing Authority (discretionary and mandatory)	–	–	–	–	–	–	1,548,576	1,548,576
Spending Authority from Offsetting Collections	559,610	1,001	–	1	106	577,355	3,340,767	3,918,122
Total Budgetary Resources	**$ 1,101,414**	**$ 33,531**	**$ 10,085**	**$ 268,507**	**$ 286**	**$ 3,657,306**	**$ 8,585,848**	**$ 12,243,154**
STATUS OF BUDGETARY RESOURCES								
New Obligations and Upward Adjustments (total)	$ 681,565	$ 20,875	$ 8,113	$ 226,569	$ 13	$ 2,333,955	$ 4,033,287	$ 6,367,242
Unobligated Balance, end of year:								
Apportioned, unexpired accounts	392,148	5,091	1,972	29,851	266	491,684	1,135,296	1,626,980
Unapportioned, unexpired accounts	439	–	–	406	7	785,159	3,417,265	4,202,424
Unexpired Unobligated Balance, end of year	392,587	5,091	1,972	30,257	273	1,276,843	4,552,561	5,829,404
Expired Unobligated Balance, end of year	27,262	7,565	–	11,681	–	46,508	–	46,508
Total Unobligated Balance, end of year	419,849	12,656	1,972	41,938	273	1,323,351	4,552,561	5,875,912
Total Status of Budgetary Resources	**$ 1,101,414**	**$ 33,531**	**$ 10,085**	**$ 268,507**	**$ 286**	**$ 3,657,306**	**$ 8,585,848**	**$ 12,243,154**
CHANGE IN OBLIGATED BALANCE								
Unpaid Obligations:								
Unpaid Obligations, Brought Forward, October 1	$ 153,273	$ 2,816	$ 1,617	$ 203,747	$ 32	$ 507,386	$ 926,211	$ 1,433,597
New Obligations and Upward Adjustments	681,565	20,875	8,113	226,569	13	2,333,955	4,033,287	6,367,242
Gross Outlays	(644,265)	(20,207)	(8,202)	(213,973)	(42)	(2,224,647)	(3,622,268)	(5,846,915)
Recoveries of Prior Year Unpaid Obligations	(22,621)	(489)	(109)	(8,868)	(3)	(97,490)	(463,730)	(561,220)
Unpaid Obligations, end of year	167,952	2,995	1,419	207,475	–	519,204	873,500	1,392,704
Uncollected Payments:								
Uncollected Payments, Federal Sources Brought Forward, October 1	–	–	–	–	–	–	(145,036)	(145,036)
Change in Uncollected Payments, Federal Sources	–	–	–	–	–	–	6,496	6,496
Uncollected Payments, Federal Sources, end of year	–	–	–	–	–	–	(138,540)	(138,540)
Memorandum (non-add) Entries:								
Obligated Balance, start of year	**$ 153,273**	**$ 2,816**	**$ 1,617**	**$ 203,747**	**$ 32**	**$ 507,386**	**$ 781,175**	**$ 1,288,561**
Obligated Balance, end of year	**$ 167,952**	**$ 2,995**	**$ 1,419**	**$ 207,475**	**$ –**	**$ 519,204**	**$ 734,960**	**$ 1,254,164**
BUDGET AUTHORITY AND OUTLAYS, NET								
Budget Authority, Gross (discretionary and mandatory)	$ 829,110	$ 20,901	$ 9,220	$ 245,101	$ 106	$ 2,511,179	$ 4,889,343	$ 7,400,522
Actual Offsetting Collections (discretionary and mandatory)	(560,218)	(1,013)	–	(142)	(106)	(585,557)	(4,156,180)	(4,741,737)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	–	–	–	–	–	6,496	6,496
Recoveries of Prior Year Paid Obligations (discretionary and mandatory)	606	13	–	142	1	5,283	–	5,283
Budget Authority, Net (discretionary and mandatory)	**$ 269,498**	**$ 19,901**	**$ 9,220**	**$ 245,101**	**$ 1**	**$ 1,930,905**	**$ 739,659**	**$ 2,670,564**
Gross Outlays (discretionary and mandatory)	$ 644,265	$ 20,207	$ 8,202	$ 213,973	$ 42	$ 2,224,647	$ 3,622,268	$ 5,846,915
Actual Offsetting Collections (discretionary and mandatory)	(560,218)	(1,013)	–	(142)	(106)	(585,557)	(4,156,180)	(4,741,737)
Net Outlays (discretionary and mandatory)	84,047	19,194	8,202	213,831	(64)	1,639,090	(533,912)	1,105,178
Distributed Offsetting Receipts	(129)	–	–	–	–	(129)	(1,201,066)	(1,201,195)
Agency Outlays, Net (discretionary and mandatory)	**$ 83,918**	**$ 19,194**	**$ 8,202**	**$ 213,831**	**$ (64)**	**$ 1,638,961**	**$ (1,734,978)**	**$ (96,017)**

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
STEWARDSHIP INVESTMENTS IN HUMAN CAPITAL

(Unaudited)

Human Capital investments are expenses included in net cost for education and training programs that are intended to increase or maintain national economic productive capacity, and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. The definition excludes education and training expenses for federal personnel.

Small Business Development Centers deliver an array of services to small businesses and prospective business owners using an extensive network of lead centers and outreach locations. SBDCs deliver professional business advising and training in key management areas to small business clients throughout the United States, which generates business revenue, creates and retains jobs, and enhances local and regional economies.

SCORE is a nonprofit association comprised of over 11,000 volunteer business mentors that serve entrepreneurs with in-person mentoring, local training workshops, and online resources. SCORE adapts its structure and services to meet the needs of specific small businesses.

Women's Business Centers provide advising and training primarily to women entrepreneurs through over 100 nonprofit educational centers across the nation. Many of the training courses focus on business and financial planning that help women entrepreneurs gain financial literacy. They also provide direct advising to clients and help them access loans, federal contracts, and exporting opportunities.

Microloan Program helps the smallest of small businesses become established and achieve success. Community-based intermediary lenders provide business-based training and technical assistance to microbusinesses. The program is an important source of training assistance for low-income, women, veteran, and minority entrepreneurs.

SBA's Consulting and Training Programs includes SBA's work to develop or expand consulting and training programs focused on key areas, including underserved markets, procurement, exports, and emerging and expanding technological sectors. These small business advising and training programs are provided by or facilitated through an SBA district office, which delivers knowledge, information, or experience on a business-related subject. Training is available on a number of subjects of interest to a small business person and may be delivered to an individual, a class, or online.

Veterans Outreach includes comprehensive outreach through Veterans Business Outreach Centers and technical assistance and training to transitioning veterans that are interested in starting a new or growing an existing business through programs such as Boots-to-Business, Veteran Women Igniting the Spirit of Entrepreneurship, and Entrepreneurship Boot Camp for Veterans with Disabilities. Consistent with the new strategic plan, VBOCs were separately itemized in FY 2014, whereas previously they were included in All Other Training and Assistance Programs.

All Other Assistance Programs not separately detailed include PRIME Technical Assistance, Native American Outreach and the 7(j) program.

Performance results are provided in the Management's Discussion and Analysis section of SBA's annual Agency Financial Report in "SBA by the Numbers."

Significant Human Capital investments occur within the following programs:

(Dollars in Thousands)

For the Five Years Ended September 30,	2017	2016	2015	2014	2013
Small Business Development Centers	$ 118,839	$ 94,196	$ 89,225	$ 154,400	$ 93,427
SCORE	11,737	2,749	19,615	5,758	10,894
Women's Business Centers	24,300	17,135	18,658	24,842	21,049
Microloan Technical Assistance	23,658	28,864	19,216	21,552	16,525
SBA's Consulting and Training Programs	22,191	52,871	51,510	54,620	44,313
Veterans Outreach	22,924	22,999	27,031	13,244	–
All Other Training and Assistance Programs	8,620	16,402	9,010	12,832	6,924
Total	**$ 232,269**	**$ 235,216**	**$ 234,265**	**$ 287,248**	**$ 193,132**

DID YOU KNOW

DISASTER Since 1953, the SBA has approved more than 2 million disaster loans for over $56 billion to businesses of all sizes, private nonprofit organizations, homeowners, and renters.

SUCCESS STORY

Phoenix Award for Outstanding Small Business Disaster Recovery

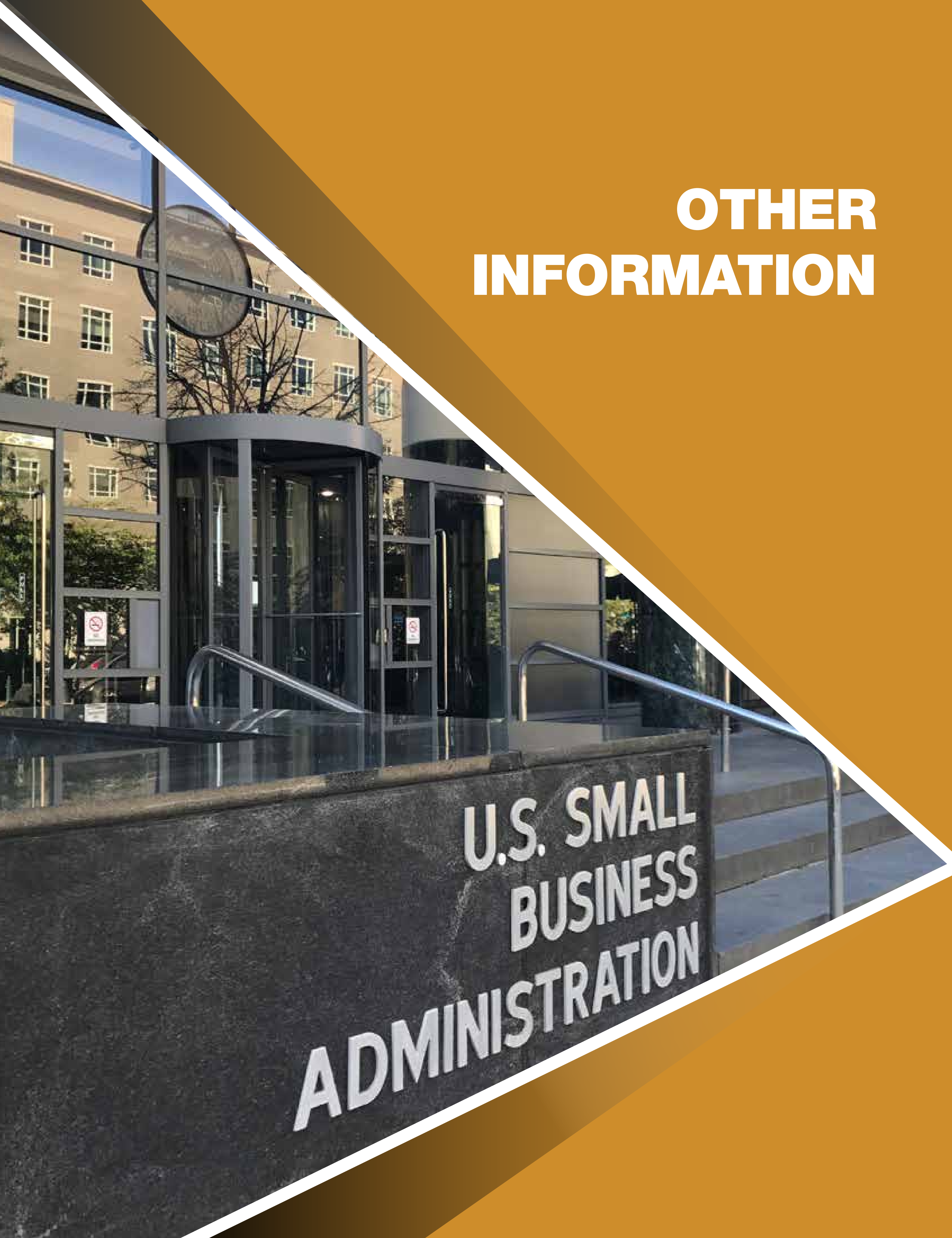
Ember Industries, Inc.
San Marcos, Texas

Ember Industries, Inc. builds, tests, and calibrates electronic devices and wire and cable assemblies. Its products are used to build oil field above-ground tank level monitors and Lockheed Martin military aircraft drones.

Rob Leonardis, President of Ember Industries, Inc., was forced to close his business when the nearby Blanco River crested, destroying about one-third of Ember's raw material inventory, as well as office furniture, computers and servers, and its high-tech production equipment.

Immediately, Rob's core crew of employees, some of whom had lost their homes in the flood, came to the Ember building after the flood waters receded and worked with Rob to clean up the debris. He became a cheerleader and coach, encouraging his workers not to give up and to visualize the day when they could resume production. Within 2 months, Ember Industries, Inc. was approved for a $2 million SBA disaster loan and 3 months later, 60 of its 68 employees were rehired. It took Ember Industries just 6 weeks to resume production. Rob and his team have since revamped their business continuity plan to offset any losses from future disasters.

OTHER INFORMATION



DID YOU KNOW

JOBS CREATED Small businesses create American jobs and account for about 65 percent of private-sector net job creation. Millions of middle class families are working for small businesses that depend on SBA's ability to facilitate access to capital, counseling, and contracting opportunities.

SUCCESS STORY

Dynamic Duo is SBA Small Business Persons of the Year

Maui Brewing Company
Kihei, Hawaii

Garrett and **Melanie Marrero** started Maui Brewing Company in 2005 as a small seven-barrel brewpub restaurant in Kahana on Maui with the help of SBA financing. Today, it is the largest craft beer producer in the state of Hawaii.

By 2007, increasing demand led Garrett and Melanie to open a second location in Lahaina with a 25-barrel capacity, giving them the ability to provide brewery tours, making it a tourist destination as well. Soon, they were producing more than 19,000 barrels, increasing revenue to more than $10 million per year. This boosted the confidence of the two entrepreneurial partners to move ahead with an aggressive expansion strategy.

There was further growth for the Maui Brewing Company in January 2016 as they opened a restaurant on Oahu. The new brewpub employs 240 people. Two more restaurants opened in 2017 in Kailua and Kihei. By the end of 2018, Maui Brewing Company will employ a workforce of 700.

OIG REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES IN FISCAL YEAR 2018

October 14, 2017 **REPORT NUMBER 17-02**

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

Memorandum
Management Challenges

DATE: October 12, 2017

TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware
Acting Inspector General

SUBJECT: Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2018

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's (OIG's) *Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2018*. The overall goal is to focus attention on significant issues with the objective of working with Agency managers to enhance the effectiveness of the Small Business Administration's (SBA's) programs and operations. We have prepared similar reports since fiscal year (FY) 2000.

Within each management challenge is a series of recommended actions to enhance the effectiveness of Agency programs and operations. Each recommended action is assigned a color score to indicate its status. The scores are as follows: green for "implemented," yellow for "substantial progress," orange for "limited progress," and red for "no progress." If a recommended action was added since last year's report, no color score was assigned, and the recommended action has been designated as "new." Actions that were scored green last year, and remained green this year, have been moved up to the "history bar" above the recommended actions. The history bar highlights any progress that the Agency has made on a challenge over the past 4 fiscal years (or as long as the challenge has existed, if shorter) by showing the number of actions that have moved to green each year. In addition, an arrow in the color box indicates that the color score went up or down from the prior year.

The following table provides a summary of the most serious management and performance challenges facing SBA in FY 2018.

Table 1. Summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2018

		Color Scores					
		Status at End of FY 2017				Change from Prior Year	
	Challenge	Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting		2	1		1	
2	IT Leadership		5	1		5	
3	Human Capital	1	1			1	
4	SBA Loan Program Risk Management and Oversight	1	3[a]	1		1	
5	8(a) Business Development Program	2		1		3	
6	Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers	1	2			1	
7	Disaster Assistance Program		4			1	
8	Acquisition Management	4				4	
	TOTAL	9	17	4		17	0

a For Management Challenge number 4 recommendation 3, 7(a) was rated yellow, while 504 was rated orange. For simplicity, it is reflected as yellow in this table.

The management challenge process is an important tool that we hope will assist the Agency in prioritizing its efforts to improve program performance and enhance its operations. We look forward to continuing to work with SBA's leadership team in addressing the Agency's most serious management and performance challenges.

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Challenge 1. Weaknesses in Small Business Contracting Programs and Inaccurate Procurement Data Undermine the Reliability of Contracting Goal Achievements

The Small Business Act established a Governmentwide goal that 23 percent of all prime contracts be awarded to small businesses each fiscal year. In its annual *Small Business Goaling Report*, the Small Business Administration (SBA) has reported since fiscal year (FY) 2013 that the Federal Government met or exceeded its goal of awarding 23 percent of Federal contracting dollars to small businesses. However, over the years, Congress has expressed concerns about the accuracy of the report. These concerns have been substantiated by SBA Office of Inspector General (OIG) audits and other Government studies that have shown widespread misreporting by procuring agencies, since many contract awards that were reported as having gone to small firms have actually been substantially performed by larger companies. Specifically, in certain circumstances SBA's regulations allow firms that are not small to be counted as small businesses. As a result, agencies continue to receive Small Disadvantaged Business and Historically Underutilized Business Zone (HUBZone) goaling credit for contracts awarded to firms no longer in SBA's preference programs. In addition, SBA has opted to exclude certain procurements such as those awarded by the Department of Defense (DoD) for overseas work from the small business goaling baseline, an exclusion that leads to overstatement of small business goaling achievements. Furthermore, SBA has not implemented a certification process for the Women-Owned Small Business Federal Contracting Program (WOSBP), which can affect the accuracy of the goaling achievements. Finally, SBA restricted how it can use the Program Fraud Civil Remedies Act of 1986 (PFCRA) for small business contracting cases, which can result in large businesses obtaining small business contracts, which falsely increases goaling numbers.

As the advocate for small business, SBA should strive to ensure that only eligible small firms obtain and perform small business awards to ensure goaling statistics portray Federal contract awards made only to small businesses. Further, SBA should ensure that procuring agencies accurately report contracts awarded to small businesses when representing their progress in meeting small business contracting goals. Counting firms in categories in which they are no longer eligible misrepresents actual small business contracting goals achievements. While some contractors may misrepresent or erroneously calculate their size, the incorrect reporting also results from errors made by Government contracting personnel, including the misapplication of small business contracting rules. Moreover, without reliable data, SBA cannot accurately measure the Federal Government's small business procurement goals achievements, which in turn weakens the ability of Congress and other Federal policymakers to determine whether the Government is maximizing contracting opportunities for small businesses.

Agencies Receive Goaling Credit for Firms No Longer in the 8(a) or HUBZone Programs

In Report 14-18, we identified over $400 million in FY 2013 contract actions that may have been awarded to ineligible firms. We also found that over $1.5 billion dollars in FY 2013 contract actions were included towards small business contacting goals, even though the firms were no longer in the 8(a) Business Development or HUBZone programs. Furthermore, we determined that of approximately $3.1 billion in contracts awarded to the top 100 firms in the 8(a) program in FY 2016, approximately $1.5 billion was awarded to firms no longer in the program. SBA revised its regulations in 2004 to permit procuring agencies to claim small disadvantaged business and HUBZone goaling credit on certain contract actions, even after firms have left the program. SBA added these regulations in order to codify the existing "practice" of the agencies to include these firms even though they were no longer in a program. According to SBA officials, if they remove this provision, Federal agencies would be reluctant to use SBA programs, or would be required to award new contracts in order to obtain small disadvantaged business credit. They also believe that by awarding new contracts, agencies would incur additional administrative costs, and doing so would be inefficient and would not benefit the Government or businesses. However, more proactive acquisition planning by the agencies would help offset inefficiencies in the procurement cycle.

Citing administrative inconvenience as the rationale to include firms no longer in a program undermines one of the main missions of SBA which is to help Americans start, build, and grow businesses. Counting firms no longer in the 8(a) and HUBZone programs weakens the very intent of these programs and does not maximize opportunities for all small businesses. Additionally, by counting firms no longer in the 8(a) and HUBZone programs, SBA cannot accurately reflect or measure true program impact.

Federal agencies contracting officers also have little incentive to award 8(a) or HUBZone set-aside contracts to new firms if they can attain goals by counting previously awarded contracts to firms no longer in a program.

Exclusions From the Small Business Goaling Report Impact the Overall Prime Contract Goal

SBA's goaling guidelines exclude certain types of contracts from the overall dollar baseline used to calculate achievement of small business goals. For example, the goaling guidelines exclude contracts that were both awarded and performed abroad and those performed entirely abroad. In addition, the National Defense Authorization Act for FY 2017 authorized SBA to remove certain DoD contracts from the procurement baseline when reporting Governmentwide small business contracting goals and achievements. As a result, SBA excludes these contracts notwithstanding the fact that in FYs 2008 and 2015, SBA's own Office of General Counsel stated that "the Small Business Act, including its goaling provisions, applies to acquisitions conducted by Federal agencies overseas and the Act applies to Federal procurements contracts performed overseas." Although the DoD can remove certain contracts from the baseline for DoD-specific reporting requirements, the congressional mandate does not exclude these categories of prime contracts from the Governmentwide goal of 23 percent.

These exclusions, which are not mandated by statute, weaken the ability of Congress and other Federal policymakers to determine whether the Government is maximizing contracting opportunities for small businesses and meeting small business goals. In our opinion, by excluding certain types of contracts from the goaling baseline, SBA overstates the Federal Government small business goal achievements. Including the appropriate universe of Federal procurement opportunities into the goaling guidelines baseline will ensure policymakers and other interested parties receive the most accurate picture of small business participation in Federal contracting.

Women-Owned Small Business Federal Contracting Program Susceptible to Abuse

SBA's WOSBP provides greater access to Federal contracting opportunities to women-owned small businesses (WOSBs) and economically-disadvantaged WOSBs that meet the WOSBP requirements. OIG and Government Accountability Office (GAO) have both reported weaknesses in SBA's controls that would ensure only eligible firms receive WOSBP set-aside contracts.

The National Defense Authorization Act for 2015 granted contracting officers the authority to award sole-source awards to firms in WOSBP and required firms to be certified by a Federal agency, a State government, the Administrator, or a national certifying entity approved by the Administrator. However, SBA implemented the sole-source authority provision first without a certification program. We believe allowing sole-source contracting authority in WOSBP, without implementing the contemporaneously required certification program, was inconsistent with SBA's statutory authorization. In the meantime, this continues to be a risk that exposes the program to abuse by having firms incorrectly self-certify as a woman-owned small business, which overstates goaling for women-owned firms. SBA began addressing this shortcoming in FY 2017 by drafting a proposed rule for implementing a certification process for the WOSBP. Currently, SBA's Office of General Counsel is reviewing the proposed rule after which it will be provided to the Administrator for review.

SBA Needs the Full Range of Federal Program Enforcement Tools to Address Fraud

Having a robust enforcement program is crucial to deterring fraud in small business programs, and by extension, ensuring reliability of reported goaling numbers. Agencies need to have, and use, the full range of available remedies to protect federal procurement effectively. The Program Fraud Civil Remedies Act of 1986 (PFCRA), for example, was enacted to address smaller dollar value frauds. SBA has, however, restricted how it can use the PFCRA for small business contracting cases. The Agency should modify its PFCRA regulations so that SBA can pursue any small business contracting program violations, subject to the PFCRA's jurisdictional limits, under that statute. SBA has started preliminary discussions about implementing this change, but it has not yet proposed a rule. Independent of the PFCRA changes recommended above, SBA has increased its PFCRA penalty level, along with several other civil penalties, as mandated by the Federal Civil Penalties Inflation Adjustment Improvements Act of 2015.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 2005)	2013: 0	2014: 1	2015: 0	2016: 1
Recommended Actions for FY 2018				**Status at end of FY 2017**
1. Strengthen controls to ensure the accuracy of the Federal Government's annual small business procurement goals achievements reported in the *Small Business Goaling Report*				**Yellow**
2. Implement a certification process for WOSBP.				**Yellow ↑**
4. Revise SBA's Program Fraud Civil Remedies Act regulations so that SBA can pursue violations of its Federal contracting programs and demonstrate a capacity for taking enforcement actions under that statute.				**Orange**

Green-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

Challenge 2. SBA's Information Technology Leadership Capabilities Need Strengthening to Address Operational Risks and Challenges

During the past year, the Office of the Chief Information Officer (OCIO) made significant progress in improving its oversight of information technology (IT) investments and deploying other key components of the Federal Information Technology Acquisition Reform Act (FITARA). Policies and related governance protocols have been revised to ensure OCIO plays a major role in the entire IT investment cycle, from strategic planning to implementation. Critical OCIO human resources have been augmented with the hiring of a Deputy CIO and nine other key IT personnel. Consequently, OCIO is more effectively applying governance principles to better assess, communicate, and mitigate risk throughout the enterprise.

However, like most Federal agencies, SBA continues to experience a growing risk of outside cybersecurity threats. In FY 2016, one SBA program office experienced a ransomware incident that adversely affected its operations; the OCIO prepared an After Action Review outlining causes, lessons learned, and future changes concerning this incident on May 26, 2017. These IT security threats increase the importance of improving risk management procedures, continuously monitoring internal networks, deploying effective incident response strategies, and implementing effective contingency plans.

OCIO Made Significant Progress in Deploying Key Components of FITARA

FITARA was enacted in December 2014. The goal of this legislation was to realize long-term cost savings through improved IT risk management, transparency, and more effective IT investment oversight. During this past year, OCIO incorporated many of the FITARA requirements into its organizational structure. Some examples include re-initiation of the Investment and Architecture Review Boards, issuance of an Agency-wide standard operating procedure (SOP) that outlines the CIO role in IT acquisitions and periodic meetings of its IT investment oversight governance board, the Business Technology Investment Council. In addition, the digital service system development group was realigned to report directly to OCIO, providing improved oversight of this group's development efforts.

In order to realize the long-term cost savings and operational benefits of FITARA, OCIO needs to improve implementation of key baseline criteria outlined in the legislation. For example, human resource planning, investment oversight, and enterprise architecture need to be implemented on an enterprise-wide basis. In addition, OCIO's investment transparency needs to be improved through improved project planning, i.e., periodic updates of project activity against pre-established baselines, and consistent and timely reporting of project results.

Long-Standing Weaknesses in IT Security Controls Are Being Addressed, but Accelerated Progress Is Needed to Meet Growing Cybersecurity Threats

Our evaluations of SBA's systems and networks indicate significant improvement in information security and continuous monitoring practices, contractor systems, configuration management, and identity and access management. This improvement reflects an IT control enhancement program initiated by the Agency. During this fiscal year, the Agency closed at least 34, or approximately 60 percent, of its outstanding IT recommendations. Notwithstanding these efforts, significant vulnerabilities remain. The results of our annual evaluations of SBA's systems and networks indicate there are approximately 23 open recommendations, some dating back to FY 2011. Also, many are indicative of enterprisewide vulnerabilities or risks requiring infrastructure investment or more effective monitoring of contractor hosted systems. These general control areas include the following:

- Information security and continuous monitoring that require validation of compliance with security requirements through auditing, periodic reviews, and implementing continuous monitoring strategies.
- Risk management, contingency planning, and incident response that monitors the selection, implementation, and assessment of security controls, and authorization to operate both internal and hosted systems.
- Configuration management and identity and access management controls that document and manage baselines establish a comprehensive personally identifiable information data loss prevention program, and require full implementation of system access procedures.

OCIO has made significant progress by initiating continuous diagnostic and mitigation capabilities in the cloud and will complete Phase 1 deployment in FY 2017. However, to show significant improvement in these areas, OCIO should resolve existing vulnerabilities and continue to implement risk management and system improvement initiatives such as continuous diagnostic and mitigation deployment, the Advanced Threat Protection pilot, data loss prevention for email traffic, data rights management for email and attachments, and its cloud migration strategy.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 1999, revised in FY 2016)	2013: 1	2014: 0	2015: 0	2016: 0
Recommended Actions for FY 2018				**Status at end of FY 2017**
1. Establish an OCIO human resource planning process that allows full deployment of FITARA.				**Yellow ↑**
2. The OCIO performs independent oversight of IT investments consistent with guidance.				**Yellow ↑**
3. The OCIO facilitates enterprise architecture and demonstrates accountability for IT investments.				**Yellow ↑**
4. The OCIO establishes and implements information security and continuous monitoring practices, and contractor systems policies and standards to ensure ongoing effectiveness of information systems.				**Yellow ↑**
5. The OCIO maintains effective risk management, contingency planning, and incident response practices to minimize vulnerabilities.				**Orange**
6. The OCIO establishes configuration management and identity and access management controls and procedures.				**Yellow ↑**

Green-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

Challenge 3. SBA Needs Effective Human Capital Strategies to Carry Out Its Mission Successfully and Become a High-Performing Organization

Over a decade ago, we identified human capital management as a top challenge for SBA. Since that time, SBA has made substantial progress to address this long-standing challenge. Specifically, during FY 2016 SBA completed a skills assessment, last performed in 2006, that focused on core and leadership competencies. As a result, the Office of Human Resources Solution (OHRS) issued a new Strategic Workforce Plan for 2017–2020 with strategies and metrics to address challenges, recruit and retain the right workforce, and track progress. In conjunction, OHRS issued a 2017–2018 Talent Development Plan designed to address the unique developmental needs of SBA's program offices workforce and address skills gaps in SBA's mission critical positions. As part of its talent development plans, SBA participates in Governmentwide rotational programs to develop future leaders and actively recruits candidates through the Presidential Management Fellows Program. Additionally, OHRS continues to follow the 2013–2016 Leadership Succession Plan to transfer knowledge for key positions. These plans are essential for obtaining and maintaining a workforce with the skills necessary to achieve SBA's mission.

Although substantial progress has been made, SBA has not fully implemented our recommendation to update human resources guidance. OIG believes it is necessary to update and establish critical procedures in support of its long-term goals and objectives and Governmentwide human capital management initiatives to become a high-performing organization. In FY 2015, GAO reported that the reason SBA has not mitigated this and other management challenges is, in part, due to the lack of sustained priority attention over time and frequent turnover of leadership.

SBA Made Progress to Update Human Capital SOPs and Guidance

In FY 2017, OHRS continued to make significant progress in updating and establishing SOPs for human capital management as recommended by OIG in this long-standing management challenge. OHRS published its Discipline and Adverse Actions, Senior Executive Service Management, and Senior Leaders SOPs. Additionally, OHRS submitted three SOPs to SBA's clearance process and are finalizing a draft to update the last remaining human resource SOP it had identified as critical.

In addition to updating and establishing SOPs, OHRS took steps to update its internal policies with more comprehensive guidance for Executive Resources personnel. Specifically, OHRS disseminated updated guidance to all OHRS personnel and developed a desk guide as an action to remedy the improper pay setting practices identified in a series of three OIG management advisories (Report 16-20, 17-08, and 17-16). These guides, if utilized correctly, provide OHRS staff with integral knowledge needed to achieve its mission.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 2001, revised FY 2007)	2013: 1	2014: 0	2015: 1	2016: 0
Recommended Actions for FY 2018				**Status at end of FY 2017**
1. Ensure the Agency has an effective, comprehensive workforce and succession plan that aligns talent needs and capabilities with SBA's FY 2011-2016 strategic plan. SBA's workforce and succession planning goals should reflect the need to recruit and retain the appropriate talent, and should establish appropriate metrics to gauge SBA's success at having the right people, in the right jobs, at the right time.				**Green ↑**
2. Ensure that human capital management SOPs are updated and appropriately structured to support the Agency's long-term goals and objectives and Governmentwide human capital management initiatives.				**Yellow**

Green-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

Challenge 4. SBA Needs to Improve Its Risk Management and Oversight Practices to Ensure Its Loan Programs Operate Effectively and Will Continue to Benefit Small Businesses

SBA's Office of Credit Risk Management (OCRM) manages credit risk for a nearly $142 billion loan portfolio originated by over 2,500 active lenders and Certified Development Companies (CDCs) that have various degrees of expertise regarding SBA loan program requirements. The majority of SBA loans are originated by lenders with delegated approval authority, resulting in limited SBA oversight and quality control reviews until a default occurs. Many lenders rely on the services of "for-fee" and other third-party agents to assist in the origination, closing, servicing, and liquidation of SBA loans.

Previous OIG audits identified that SBA did not recognize significant lender weaknesses, develop an effective portfolio risk management program, or effectively identify and track third-party agent involvement in its 7(a) and 504 loan portfolios. Since the audits, SBA has significantly improved its oversight of lenders and made progress in implementing a portfolio risk management program. However, SBA made limited progress in identifying and tracking third-party agents.

While SBA improved its oversight of lenders and the risk management program, SBA still faces challenges demonstrating that identified lender weaknesses are addressed by monitoring and verifying lenders' corrective actions. Also, SBA needs to show that the portfolio risk management program is used to support risk-based decisions and implement additional controls to mitigate risks. Moreover, SBA needs to develop an effective method for tracking loan agents, update regulations on loan agents, and implement a loan agent registration system.

SBA Improved Oversight of Lending Participants

The risks inherent in delegated lending require an effective oversight program to monitor compliance with SBA policies and procedures and take corrective actions when a material noncompliance is detected. However, in a September 2012 audit report (Report 12-20R), OIG found that SBA did not always recognize the significance of lender weaknesses or determine the risks lender weaknesses posed to the Agency during its onsite reviews. The report also found that SBA did not link the risks associated with the weaknesses to the lenders' corresponding risk ratings and assessments of operations. Further, SBA did not require lenders to correct performance problems that could have exposed SBA to unacceptable levels of financial risk.

Since the time of the audit, SBA improved its oversight of lending participants. In FY 2013, SBA developed risk profiles and lender performance thresholds, developed a select analytical review process to allow for virtual risk-based reviews, updated its lender risk rating model to better stratify and predict risk, and conducted test reviews under the new risk-based review protocol. During FYs 2014 and 2015, OCRM revised its review methodologies for 7(a) and 504 program lenders and engaged contractor support to expand on its corrective action follow-up process. During FY 2016, OCRM stated that it successfully reviewed 281 corrective action follow-up assessments and issued its FY 2017 Risk Management Plan. In FY 2017, SBA monitored and verified implementation of corrective actions to ensure effective resolution prior to closeout. As a result, SBA implemented recommendation 1 and needs to continue to demonstrate in FY 2018 that it monitors and verifies implementation of corrective actions.

SBA Improved Portfolio Risk Management Program

A July 2013 OIG report (Report 13-17) found that SBA traditionally focused on loan approval volume and loss rates to evaluate overall program performance with risk being assessed at the lender level. As a result, SBA had not developed an effective portfolio risk management program that monitored portfolio segments to identify risk based on default statistics. Our limited analysis showed that SBA continued to guarantee loans to high-risk franchises and industries without monitoring risks, and where necessary, implementing controls to mitigate those risks. OIG reports have also found that SBA did not establish measures to evaluate the performance of pilot loan programs or evaluate performance when performance measures were established. For example, SBA's Community Express loan program was maintained as a pilot program for over 10 years without SBA performing an evaluation of the program. The pilot had been dominated by two lenders employing questionable credit practices and charging higher interest rates that ultimately led to SBA ending the program.

Since that time, SBA has made substantial progress in demonstrating that information from the portfolio risk management program is used to support risk-based decisions and implementing additional controls to mitigate risks in SBA loan programs. In 2016 SBA established performance measures and risk mitigation goals applicable to each loan program and the entire lending portfolio. OCRM also conducted portfolio analyses of problem lenders with heavy concentrations in SBA 7(a) lending and sales on the secondary market. In response, OCRM proposed actions to mitigate SBA exposure on the secondary market. In FY 2017, SBA began an ongoing study of lender compliance with SBA Form 1502 reporting. SBA identified deficiencies with certain types of reporting and subsequently issued Information Notice 5000-1945, reminding lenders of the reporting requirements.

SBA maintains that the current program tracks performance to support risk-based decisions at the portfolio, sub-program, and lender level, and that identified risk issues are presented to SBA executive leadership at Lender Oversight Committee meetings. SBA will need to continue to demonstrate during FY 2018 that information from this program is used to support risk-based decisions and implement additional controls to mitigate risks.

Increased Risk Introduced by Loan Agents

Prior OIG audits and investigations identified that SBA did not have a way to effectively identify and track loan agent involvement in its 7(a) and 504 loan portfolios and had outdated enforcement regulations. Additionally, OIG investigations have revealed a pattern of fraud by loan packagers and other for-fee agents in the 7(a) Loan Program, involving hundreds of millions of dollars. Since 2005, OIG has investigated at least 22 cases with confirmed loan agent fraud, totaling at least $335 million. Further, OIG has determined that loan agents were involved in approximately 15 percent of all 7(a) loans and resulted in increased risk of default. Despite the prevalence of fraud in its loan portfolios, SBA's oversight of loan agents has been limited.

In response to this challenge, SBA has made limited progress. To track loan agent activity on 7(a) program loans, SBA decided to have lenders fax a loan agent disclosure form (Form 159) to SBA's fiscal and transfer agent (FTA) and require the FTA to enter the data into a database accessible to SBA. SBA also began linking 7(a) loan Form 159 information with its loan data. However, a September 2015 OIG report on SBA's loan agent oversight (Report 15-16) identified significant issues in the data quality on the Form 159. While SBA has implemented an automated Form 159 within the SBA One system, an automated lending platform that assists lenders with everything from determining loan eligibility through closing their loan, SBA will likely need to make further modifications to this process. In 2016, SBA issued a notice to lenders reiterating its requirements for loan agent disclosures and submission of the Form 159 to its FTA.

Additionally, in response to OIG concerns that SBA loan agent enforcement regulations are outdated, SBA prepared the Final Rule for Agent Revocation and Suspension Procedures, which was submitted to and approved by the SBA Administrator. However, due to the Presidential Executive Order on Reducing Regulation and Controlling Regulatory Costs, SBA has not submitted the final regulation to the Office of Management and Budget (OMB).

OIG maintains that SBA also needs to develop a system to assign a unique identifier to loan agents that participate in the 7(a) Loan Program. The lack of a unique identifier limits SBA's ability to perform effective oversight. In response to our loan agent's report, SBA stated that it will explore the feasibility of implementing a registration system. To date, no solutions have been implemented.

In addition, a March 2015 audit (Report 15-06) noted that the outsourcing of traditional lender functions to Lender Service Providers (LSPs), a type of loan agent, has significantly increased in recent years. Specifically, in 2014, over 770 lenders—or approximately 28 percent of the active 7(a) lenders—had an approved agreement with at least one LSP. Additionally, SBA loan portfolios associated with the three largest LSPs exceeded that of many of the top 100 active SBA 7(a) program lenders.

Since our 2015 report, the number of SBA-approved LSP agreements has reached over 2,200, due in part to SBA's effort to better control access by LSPs to its systems. Specifically, SBA assigns an identifying number for all LSPs that access SBA systems and records all SBA-approved LSP agreements. This trend has enabled OCRM to develop initial performance metrics on LSP performance, but oversight is still limited. This audit also noted that a number of referrals regarding improper loan agent activities had not been acted upon by OCRM. In response, OCRM developed and now maintains a tracking system on referrals.

As loan agent involvement in the 7(a) program continues to increase, it will become especially important for SBA to have oversight tools in place to identify and track loan agent involvement in this sizeable program.

Number of Actions Accomplished (Green Status)During Last 4 Fiscal Years (Challenge first reported in FY 2001)	2013 7(a) loans: 2 504 loans: 2	2014 7(a) loans: 0 504 loans: 0	2015 7(a) loans: 1 504 loans: 1	2016 7(a) loans: 0 504 loans: 0
Recommended Actions for FY 2018			**Status at end of FY 2017**	
			7(a)	504
1. Monitor and verify implementation of corrective actions to ensure effective resolution prior to closeout.			**Green ↑**	**Green ↑**
2. Demonstrate that information from the portfolio risk management program is used to support risk-based decisions and implement additional controls to mitigate risks in SBA loan programs.			**Yellow**	**Yellow**
3. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.			**Yellow**	**Orange**
4. Update regulations (13 CFR Part 103) regarding loan agents to provide effective enforcement procedures.			**Yellow**	**Yellow**
5. Implement a loan agent registration system, including the issuance of a unique identifying number for each agent.			**Orange**	**Orange**

Green-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

Challenge 5. SBA Needs to Ensure That the Section 8(a) Business Development Program Identifies and Addresses the Needs of Program Participants, Only Eligible Firms Are Admitted Into the Program, and Standards for Determining Economic Disadvantage Are Justifiable

SBA's 8(a) Business Development Program was created to provide business development assistance to eligible small disadvantaged businesses seeking to compete in the American economy. A major benefit of the 8(a) program is that 8(a) firms can receive sole source, as well as set-aside, competitive Federal contracts so that small businesses do not need to compete with large businesses that may have an industry advantage. SBA's challenge has been to ensure that it is providing effective business development assistance to 8(a) firms and that only eligible firms are admitted into and remain in the program. Additionally, SBA faces the challenge of developing objective and reasonable criteria for determining at which point socially disadvantaged individuals are deemed economically disadvantaged.

SBA Continues to Address Its Ability to Deliver an Effective 8(a) Program

SBA has made its assistance more readily available to program participants by using resource partners, such as small business development centers, SCORE, and procurement technical assistance centers. SBA also has taken steps to ensure business opportunity specialists assess program participants' business development needs during site visits. Additionally, in September 2016, SBA issued its 8(a) program SOP to reflect the March 2011 regulatory changes.

While SBA took a positive step by issuing the 8(a) program SOP, SBA has made limited progress in its monitoring efforts to track participants' progress. For example, although SBA awarded a $1.9 million contract in December 2011 to develop and deploy a new IT system to assist in monitoring 8(a) program participants, in 2014, SBA decided not to deploy this new system. Instead, SBA is now developing and implementing another IT system, Certify.sba.gov, that is broader in scope than just the 8(a) program to include the WOSB, HUBZone, and Mentor-Protégé programs. SBA plans to implement the 8(a) program functions later in 2017. As of August 2017, SBA has spent $6.8 million on this system.

Streamlined Application Process May Expose the 8(a) Program to a Higher Risk of Fraud

Since 2010, there had been a steady decline in the number of firms participating in the 8(a) program from about 7,000 in 2010 to about 4,900 as of August 2016. Consequently, in FY 2016, SBA leadership developed an aggressive growth plan to increase the number of participants in the 8(a) program by 5 percent over the previous year through a streamlined application process. As of March 2017, SBA reported the 8(a) program includes 5,260 firms.

According to SBA officials, the streamlined application process is less burdensome for firms applying to the 8(a) program. As part of this modified process, various documents previously used to determine an applicant's eligibility to participate in the 8(a) program would no longer be requested or would be required in a modified version. However, shortening the review process by eliminating documents may erode core safeguards that prevented questionable firms from entering the 8(a) program. Furthermore, in FY 2016, we initially reported that SBA did not fully document that 30 of 48 firms were eligible for the 8(a) program. As a result, it was not clear whether these 30 firms should have been approved into the 8(a) program (Report 16-13). At the request of SBA's former Deputy Administrator, we conducted a follow-on audit to determine whether SBA resolved eligibility concerns for the 30 firms. We determined that SBA resolved eligibility concerns for 20 of the 30 firms that we reviewed. However, we continued to question the eligibility of 10 of the 30 firms (Report 17-15). Based on the audit, SBA agreed to add additional controls to the process.

Although SBA's efforts to increase the participation in the 8(a) program is consistent with its mission, SBA still needs to ensure that only eligible firms are admitted into and remain in the program, and that the documentation supporting 8(a) program application approvals is maintained in a method ensuring clear eligibility of the applicant. A lack of documentation clearly demonstrating eligibility of applicants or a lack of due diligence by SBA program managers can present evidentiary challenges when pursuing fraud against SBA and its program participants.

SBA Dollar Threshold for Economic Disadvantage Not Justified

In March 2011, SBA revised its regulations and established additional standards to address the definition of "economic disadvantage." Although the March 2011 regulations establish the threshold for "economic disadvantage," we have concerns that SBA's standards for determining economic disadvantage are not justified or objective because they are not based on economic analysis.

Agency officials stated that the comments they received to the revised regulations served as an adequate proxy to objectively and reasonably determine effective measures for economic disadvantage, and they were not aware of any reliable sources of data to determine economic disadvantage. OIG contends that public comment, while valuable, cannot replace the expert and independent analysis that Congress entrusted SBA to provide when implementing this program. The Agency should develop objective and reasonable criteria for determining the threshold where socially disadvantaged individuals face economic disadvantage due to diminished credit and capital opportunities. In September 2017, SBA awarded a contract to conduct a study to assist them in defining or establishing criteria for determining what constitutes "economic disadvantage."

Number of Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported in FY 2003)	2013: 0	2014: 0	2015: 0	2016: 0
Recommended Actions for FY 2018				**Status at end of FY 2017**
1. Develop and implement a plan, including SOP provisions, which ensures that the 8(a) Business Development Program identifies and addresses program participants' business development needs on an individualized basis.				**Green ↑**
2. Update and issue the 8(a) Business Development SOP to reflect the March 2011 regulatory changes.				**Green ↑**
3. Establish objective and reasonable criteria that effectively measure "economic disadvantage" and implement the new criteria.				**Orange ↑**
4. Augment and Implement controls that ensure only eligible firms are admitted into the 8(a) program.				**New**
5. Develop and implement a system to assist program officials in monitoring participants' progress in the 8(a) Business Development Program and providing business development needs on an individualized basis.				**New**

Green-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

Challenge 6. SBA Can Improve Its Loan Programs by Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers

In FY 2016, the dollar amount of SBA's 7(a) loans approvals reached record highs of $24.1 billion. The majority of these loans are made by lenders with delegated approval authority. When a loan goes into default, SBA will conduct a review of the lender's actions on the loan to determine whether it is appropriate to pay the lender the guaranty, which SBA refers to as a "guaranty purchase." For loans sold on the secondary market, SBA is obligated to purchase the guarantee from the investor and performs a review of the lenders actions after payment is made. Pursuing recovery from a lender on sold loans is generally a more difficult task for SBA. In FY 2016, the amount of loans sold on the secondary market reached record highs of $9.4 billion.

Previous OIG audits noted that quality control activities were not being performed at the Centers in accordance with SBA's overall Quality Control and Center specific guidance, and SBA management emphasized quantity over quality for 7(a) loan origination reviews and loan specialists were not provided adequate guidance or training. In addition, OIG identified 7(a) loans that were ineligible, lacked repayment ability, or were not properly closed, resulting in improper payments. These improper payments occurred in part because SBA did not adequately review loans.

Since the audits, the Office of Capital Access (OCA) improved the quality control program for its loan centers and took actions to accurately report and reduce improper payments. Also, OCA modified the structure of a key loan center to allow for appropriate supervision and revised production standards for loan specialists. Further, OCA is also in the process of hiring additional staff.

While OCA made substantial improvements, it needs to continue to demonstrate in FY 2018 that its process over disputed cases ensures adequate and timely resolution. In addition, OCA needs to provide evidence that the developed corrective action plans are effective in reducing improper payments. OCA will also need to demonstrate that its loan centers are staffed with qualified resources that are appropriately trained and supervised.

SBA Improved Its Quality Control Program to Ensure Timely Implementation of Corrective Actions

OCA has made significant progress in developing and implementing a quality control program for all of its loan centers to verify and document compliance with the loan process, from origination to closeout. Additionally, OCA has taken actions to accurately report and reduce improper payments in SBA's 7(a) Loan Program. OCA has formalized its improper payment sampling, demonstrated that its improper payments review process is effective for 7(a) loan approvals, formalized its process to review disputed cases, formalized the recovery process and time standards for 7(a) purchases, developed corrective action plans for 7(a) loans, established repayment ability review requirements that are effective at identifying improper payments, revised improper payment review checklists, and demonstrated recovery from lenders in a timely manner during FY 2016.

To improve effectiveness, OCA revised its dispute resolution process and established a committee of senior leaders that meets regularly to discuss disputed cases and reach consensus. This committee includes directors from key OCA offices, including the Office of Credit Risk Management. In FY 2017, OCA created a specialized team to triage loans in inventory, dedicated a staff member to work on denial cases involving origination issues, and resolved 125 denial cases. In addition, SBA noted that there were no disputed loans in the last 3 years between the National Guaranty Purchase Center and Office of Portfolio Management. To further improve reviews of loans, OCA is working on assigning analysts based on the primary denial issues and age of the loans. OCA is also completing its "triage project," which it believes will help resolve issues by obtaining additional information from lenders.

In FY 2017, OCA developed enhanced improper payments reporting to monitor root causes and identify operational risk. These reports inform management on training opportunities and improvements needed in policies and procedures. Further, the quality control team recommended policy changes in the SOP 50 10 rewrite to reduce improper payments.

OCA needs to continue to demonstrate in FY 2018 that its process over disputed cases ensures adequate and timely resolution. Further, OCA needs to provide evidence that the developed corrective action plans are effective in reducing improper payments.

Inadequate Staffing, Training, and Supervision Have Resulted in Material Underwriting Deficiencies

The need to deliver timely SBA loan approval, servicing, and purchase decisions while ensuring they meet reasonable standards for quality and accuracy is often a difficult balance for program management. In addition, SBA processing centers often have to meet high demands for production with limited resources, resulting in inventory backlogs and a focus on production activities. For example, a 2014 report (Report 14-13) noted that SBA management emphasized quantity over quality for 7(a) loan origination reviews at the Loan Guaranty Processing Center (LGPC) and that loan specialists were not provided adequate guidance or training to conduct their 7(a) loan review activities. SBA addressed our recommendations to revise production standards, improve internal guidance, develop a training plan, and allocate resources to ensure risk is mitigated and quality is emphasized. In doing so, SBA modified the structure of the LGPC to allow for appropriate supervision. Additionally, the center revised production standards for loan specialists related to screen outs. SBA will need to continue to demonstrate that the LGPC is appropriately staffed with qualified resources that are appropriately trained and supervised.

Improvements Are Needed in the Identification of Improper Payments

As noted above, OCA has taken actions to accurately report and reduce improper payments in SBA's 7(a) Loan Program. However, OIG audits have identified 7(a) loans that were ineligible, lacked repayment ability, or were not properly closed, resulting in improper payments. These improper payments occurred in part because SBA did not adequately review loans.

OIG reviews high-risk loans purchased by SBA to determine whether lenders materially complied with SBA requirements or identify suspicious activity. Results to date (Report 16-22) have found that both SBA purchase and quality control operations continue to miss material lender underwriting deficiencies, resulting in improper payments. Specifically, we have recommended recoveries of nearly $5 million on six loans. In addition, we identified suspicious activity on tow loans totaling $1.4 million, resulting in formal referrals to our Investigations Division. While previous audits have noted that the application of increased scrutiny was necessary on high-dollar loans that default early, further improvements are needed for SBA to ensure that the risk of improper payments on these loans is sufficiently mitigated. For example, the 7(a) loans we review are often complex and require additional time and research to validate the appropriateness of lender actions. We observed that in some cases, SBA loan specialists questioned lenders on material compliance issues; however, these loan specialists ultimately accepted explanations and documentation from lenders that did not cure the deficiencies. We noted that loan specialists are generally required to complete loan file reviews within 6 hours. We recommended that SBA evaluate the time National Guaranty Purchase Center loan specialists have to review complex early-defaulted loans.

In FY 2017, OCA modified the production standards to allow loan specialists more time to review complex early-defaulted loans. In addition, OCA made the decision to increase the staffing level at the NGPC and is in the process of hiring staff. OCA needs to demonstrate in FY 2018 that the additional time allotted to loan specialists on complex early-defaulted loans, is sufficient to identify complex improper payments. Further, OCA needs to provide comprehensive training plans.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 2010)	2013 7(a) Approvals: 1 7(a) Purchases: 0	2014 7(a) Approvals: 1 7(a) Purchases: 1	2015 7(a) Approvals: 0 7(a) Purchases: 1	2016 7(a) Approvals: 0 7(a) Purchases: 0
Recommended Actions for FY 2018			**Status at end of FY 2017**	
			7(a) Approvals	**7(a) Purchases**
1. Reassign responsibility for final approval of disputed denial, repair, and improper payment decisions to the Office of Credit Risk Management (OCRM) to ensure an adequate and timely resolution.			**N/A**	**Green ↑**
2. Demonstrate that corrective action plans are effective in reducing improper payments in the 7(a) Loan Program.			**Yellow**	**Yellow**
3. Ensure that centers are appropriately staffed with qualified resources that are appropriately trained and supervised and that the quality of Center resource deliverables is appropriately balanced against their production requirements.			**Yellow**	**Yellow**

Green-Implemented Yellow-Substantial Progress Orange-Limited Progress Red-No Progress

Challenge 7. Disaster Assistance Must Balance Competing Priorities to Deliver Timely Assistance and Reduce Improper Payments

The disaster loan programs play a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, businesses of all sizes, and non-profit organizations. SBA's FY 2016 year-end disaster assistance loan portfolio balance was $6 billion. SBA must balance the priority of delivering timely assistance to disaster survivors in the immediate aftermath of a devastating life event against the need to ensure program integrity.

Following Hurricane Katrina, in 2008, new private sector disaster loan programs were statutorily authorized and were intended to assist in disbursing funds quickly and effectively. SBA has not fully implemented all of these programs. The authorizing legislation required SBA to implement guaranteed disaster loan programs in partnership with private lenders. SBA only has promulgated regulations to implement two of the three new private sector disaster loan programs, which were intended to facilitate more timely assistance to disaster survivors by leveraging private sector resources. The Recovery Improvements for Small Entities (RISE) After Disaster Act of 2015 also authorized another private lender disaster loan program, which SBA has not implemented. The ability to provide low-interest disaster loans in a timely manner is necessary to help small businesses and homeowners recover from a declared disaster, which is a key tenet of SBA's mission—to assist in the economic recovery of communities after disasters.

We also are concerned that SBA does not limit the proportion of a borrower's gross income that may be relied on to service debt, potentially leaving borrowers with insufficient income to cover living expenses, taxes, and loan payments. Loans to borrowers with high debt burdens are more likely to default. Additionally, prior audits performed by OIG and GAO have found that because SBA had not taken sufficient steps to prepare for large-scale disasters, such as properly preparing and training a new workforce for high application volumes, the program has often been unable to provide timely assistance in the aftermath of major disasters.

Finally, disaster loans are vulnerable to improper payments, fraud and default because loan transactions are often expedited in order to provide quick relief to disaster survivors, lending personnel hired in connection with a disaster declaration may lack sufficient training or experience, and the volume of loan applications may overwhelm SBA's resources and its ability to exercise careful oversight of lending transactions. SBA has greatly reduced its reported improper payment rate from prior years, but because of the need to mobilize a new workforce to respond to large-scale disasters such as Hurricane Harvey, SBA is continually challenged to maintain a low improper payment rate in this program.

Private Lender Programs Intended to Quickly Disburse Disaster Funds Not Implemented

In the wake of disasters like Hurricane Sandy, congressional representatives expressed concern that SBA did not effectively develop and utilize programmatic innovations intended to assist in disbursing funds quickly and effectively. In particular, SBA has not implemented two of the three private lender disaster loan programs mandated by the Small Business Disaster Response and Loan Improvements Act of 2008. Through these mandates, Congress sought to expand steps taken by SBA after Hurricane Katrina and require new measures to help ensure that SBA would be prepared for future disasters. The act included three provisions requiring SBA to issue regulations to establish new guaranteed disaster programs using private sector lenders—the Economic Injury Disaster Assistance Program (EDAP), the Private Disaster Assistance Programs (PDAP), and the Immediate Disaster Assistance Program (IDAP). Together, these programs are collectively known as the "Guaranteed Disaster Assistance Programs."

SBA established regulations and procedures to deliver IDAP, but has not done so for the EDAP and PDAP. In July 2016, SBA notified Congress that it had sought advance public comment on proposed rulemaking for EDAP and PDAP and received limited public responses, the majority of which were opposed their implementation. SBA also reports that its partner lenders have chosen not to participate in IDAP. That aside, SBA indicates that it has improved its disaster assistance delivery channel and is now better equipped to provide more timely disaster assistance. SBA asserts that larger unsecured disaster loan limits, now $25,000, allow more funds to be disbursed quickly following a disaster.

In FY 2017, SBA continued to refine internal procedures to account for IDAP loans. However, SBA also has requested Congress to rescind the program in its FY 2018 Budget Justification. Correspondingly, the House Appropriations markup includes permanent cancellation of $2.6 million in unobligated funding for IDAP and EDAP in FY 2018. OIG notes GAO has closed all audit recommendations related to these programs. Without congressional action to rescind the Guaranteed Disaster Assistance Programs, SBA should seek lender participation in IDAP and conclude the rulemaking process to establish regulations implementing EDAP and PDAP in compliance with the law.

Express Recovery Opportunity Loan Program Not Implemented

The RISE After Disaster Act, enacted November 25, 2015, introduced the Express Recovery Opportunity Loan Program that was intended to leverage private sector resources to quickly provide up to $150,000 loans to disaster survivors. The Act required SBA to promulgate regulations for the loan program within 270 days, which SBA has not yet accomplished.

In FY 2017, SBA studied this proposed program and concluded that it duplicates the existing SBA Express Loan Program, cannot be delivered as designed without subsidy costs, and puts the entire SBA Express Loan Program at risk due to an extended eligibility period. SBA determined that this program could not be delivered at zero subsidy with the fee structure that was enacted. The Act provides for loans with an 85 percent guarantee with a fee equivalent to 50 percent guarantee; we note, however, that the Act provides an exception to this fee structure in years where the program cost is greater than zero and this cost can be attributed to Express Recovery Opportunity Loans. SBA also believes that the 5-year disaster eligibility period will cause lenders to shift ordinary Express loans to Recovery Express loans due to the higher guarantee rate, exposing SBA to greater risk and endangering the program. SBA stated that it plans to request rescission of this program in its FY 2019 Budget Justification and for this reason, it has deferred creation of program regulations. Without congressional action on its request to rescind the Express Recovery Opportunity Loan Program, SBA must promulgate regulations in compliance with the law.

Maximum Allowable Fixed Debt May Be Exceeded, Limiting Borrower's Ability to Repay Disaster Loans

SBA's disaster assistance loan officers work diligently to provide eligible disaster survivors with the maximum available financial assistance on attractive terms. On occasion, in order to facilitate widespread program delivery of disaster home loan benefits, SBA exceeds its normal home loan debt-to-income lending parameters, potentially straining and/or limiting the borrowers' ability to repay the disaster loans. SBA's disaster assistance home loan rules do not specify an upper limit to the proportion of a borrower's gross income that may be relied upon to service debt. Allocating too much of the borrower's income for debt servicing could result in the borrower having insufficient income to cover unavoidable living expenses, such as health insurance, utility bills, and taxes. This practice also results in more defaulted loans and additional financial distress to disaster survivors.

The revised disaster assistance SOP, issued in 2015, permits approval of home loans with greater than normal debt-to-income ratios; however, the SOP did not establish an upper threshold to income allocated for home loan debt service under this provision. While SBA's disaster assistance SOP does provide a formula for determining the minimal amount of income reserved for living expenses and taxes when evaluating disaster business loan guarantors' repayment ability, the disaster home loan program rules do not include a similar required reserve of income to meet necessary living expenses.

An August 2016 report (Report 16-18) on early-defaulted Hurricane Sandy loans found that loans to borrowers who did not otherwise have repayment ability were approved by allocating high proportions of borrower income to service debt. Home loans with higher than normal debt service ratios given to borrowers with low incomes and poor credit histories appeared especially vulnerable to default. SBA should determine when the borrower's proposed debt service ratio creates an unacceptable financial burden to the disaster survivor and train its loan officers to safeguard loan affordability.

In FY 2017, SBA continued to train loan processing personnel on repayment ability and provide guidance to make appropriate credit decisions. In FY 2018, SBA should establish policy that limits the percentage of income that may be relied upon to service debt and provide a reasonable percentage of income remaining to meet essential needs.

Reserve Staff Require Training to Sustain Productivity During Mobilization

During large-scale disasters such as Hurricanes Sandy and Harvey, SBA must bring on new loan officers and loss verifiers in order to match the volume of loan applications and prevent processing backlogs that delay the delivery of disaster assistance. A prior Hurricane Sandy GAO audit found that new loan officers were not adequately trained to quickly respond to the backlog of loan applications and took longer than expected to learn how to correctly process loans. SBA has since adjusted its training approach, but Hurricane Harvey is the first large-scale mobilization since Hurricane Sandy in 2012.

In FY 2017, SBA conducted loan officer and loss verification training and developed just-in-time training for new staff. This training imparts required knowledge and skills for immediate application at the time staff are mobilized. SBA believes that because staff will immediately use the material taught, they will be motivated and focused to learn it. SBA has trained 100 loan officers and 100 loss verifiers who can be quickly mobilized in the event of a disaster. In FY 2018, SBA should monitor its results and refine its training approach, if needed, depending on the results of the Hurricanes Harvey and Irma disaster cycles.

Improper Payment Rate Remains Above IPERA Significance Threshold

In FY 2016, the Disaster Assistance Program's improper payment rate decreased to 5.32 percent from the 8.13 percent reported in FY 2015.[11] However, it remains above the threshold for significant improper payments defined by IPERA ($10 million and 1.5 percent of program outlays)—improper payments were $18.35 million of the $345 million in program outlays in FY 2016. To reduce disaster loan improper payments, SBA's Office of Disaster Assistance (ODA) should strengthen controls related to verification and documentation of loan eligibility, insurance coverage, and other program requirements that have been identified as the most prevalent errors in the program. If properly addressed, SBA can effectively reduce the improper payment rate in future years. While SBA has made progress in reducing improper payments in the disaster loan programs, our ongoing audit work indicates that further improvements are needed. In FY 2018, SBA needs to continue to meet its improper payment reduction targets.

Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported FY 2015)	2013: N/A	2014: N/A	2015: N/A	2016: N/A
Recommended Actions for FY 2018				Status at end of FY 2018
1. Promulgate regulations for the new guaranteed disaster loan programs mandated by Congress in 2008.				**OCA** **Yellow ↑**
2. Promulgate regulations for the Express Recovery Opportunity loan program provided by the RISE After Disaster Act.				**OCA** **Yellow**
3. Demonstrate that the Agency has adequately trained loan processing resources that can be quickly mobilized in the event of a disaster.				**ODA** **Yellow**
4. Establish policies that limit borrower debt burdens to affordable levels and train loan processing personnel in the application of those policies.				**ODA** **Yellow**
5. Reduce the improper payment rate to 4.78 percent or lower in FY 2018, in accordance with the reduction targets established in the FY 2016 Agency Financial Report.				**ODA** **Yellow**

Green-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

11 The most current improper payment data available at this time are for FY 2016.

Challenge 8. SBA Needs to Effectively Manage Its Acquisition Program

Annually, SBA spends over $100 million on contracts for goods and services required to meet its mission. With decreasing budgets, it is essential that SBA manages its acquisition program in an efficient, effective, and accountable manner to ensure the Agency obtains quality goods and services on time and at a fair price. However, prior OIG audits have identified instances where this was not the case. For example, SBA did not always comply with Federal regulations when determining whether using interagency acquisitions was the best procurement approach, and it inadequately planned its requirements for procuring IT products and services.

During FY 2017, SBA took appropriate actions to address challenges in its acquisition program. SBA hired a Senior Procurement Executive, responsible for managing and directing the Agency's acquisition system, including implementing unique acquisition policies, regulations, and standards. SBA also implemented actions to address the deficiencies identified in its assessment of the acquisition program's internal controls by, among other things, revising and issuing the Government Acquisition Program SOP, streamlining the hiring process for contracting officers, and making significant improvements to its information systems. Though OMB recently suspended its requirement for agencies to conduct such reviews, SBA plans to continue to conduct internal control reviews of its acquisition program. As a result, these implemented improvements fully address the concerns in this challenge.

Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported FY 2013)	2013: 0	2014: 0	2015: 1	2016: 0
Recommended Actions for FY 2018				**Status at end of FY 2017**
1. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions, and timeframes to address deficiencies identified in the organizational alignment and leadership assessment area.				**Green ↑**
2. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions, and timeframes to address deficiencies identified in the acquisition policies and processes assessment area (i.e., acquisition management SOP).				**Green ↑**
3. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions, and timeframes to address deficiencies identified in the acquisition workforce assessment area.				**Green ↑**
4. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions, and timeframes to address deficiencies identified in the knowledge management and information systems assessment area.				**Green ↑**

Green-Implemented Yellow-Substantial Progress Orange-Limited Progress Red-No Progress

PAYMENT INTEGRITY

As required by the Improper Payment Information Act of 2002 (IPIA), as amended, and OMB Circular No. 123, Appendix C, *Management's Responsibility for Internal Control: Requirements for Effective Estimation and Remediation of Improper Payments*, the SBA reviews programs identified as susceptible to improper payments.

Improper payment reviews are a multi-layered process that starts with a risk assessment. If an assessment indicates a program is susceptible to improper payments, then testing is performed using a statistically valid sampling technique. Based upon the testing results, a corrective action plan is determined for the types of errors uncovered. If a significant amount of recoverable dollars is found, the SBA considers the appropriateness of performing a recapture audit.

The SBA reviewed five programs and activities deemed susceptible to significant improper payments, which included three major credit programs as mandated by OMB, as well as disbursements for goods and services. The three major credit programs are:

- 7(a) business loan program that includes guaranty purchases and guaranty approvals;
- 504 Certified Development Company (CDC) loan guaranty approvals; and
- Disaster direct loan disbursements.

The Disaster Relief Appropriations Act, 2013 provided funding for disaster relief in response to Hurricane Sandy to certain agencies, including the SBA. The Act deemed all Hurricane Sandy funds as susceptible to significant improper payments and, regardless of risk assessment results, mandated that agencies report an improper payment estimate for the funds. The SBA received Hurricane Sandy Disaster Relief funds for the disaster direct loan program and certain grant programs as well as administrative expenses of payroll, purchase cards, and travel related to the disaster direct loan program. Since 2014, the SBA has conducted improper payment reviews and reported the results for such programs and activities to comply with the Disaster Relief Appropriations Act, 2013. In FY 2017, the SBA obtained relief from reporting from OMB, as the SBA successfully demonstrated the low occurrence of improper payments in those programs and activities for at least two consecutive years.

Risk Assessments

In addition to the annual assessment of the five programs and activities susceptible to significant improper payments, OMB Circular No. A-123, Appendix C requires risk assessments at least once every 3 years for programs not deemed susceptible to significant improper payments, or earlier if a low-risk program was subjected to a significant change in legislation or funding level. Significant improper payments are defined as gross annual improper payments exceeding (1) both 1.5 percent of program outlays and $10 million, or (2) $100 million. In FY 2017, due to the expiration of the 3-year assessment period, the SBA reviewed 27 programs and activities, and conducted the risk assessments for 10 of those programs and activities that had outlays exceeding $10 million to determine whether they were susceptible to significant improper payments, as that term is defined. The SBA evaluated the nine OMB risk factors in performing the risk assessments as detailed in the Circular, and determined that no additional programs or activities are susceptible to significant improper payments.

The next sections discuss SBA efforts and results related to improper payment assessments and reviews. More detailed information on improper payments and information previously reported in the AFR that is not included in the FY 2017 AFR can be found at paymentaccuracy.gov.

Parts I and VII - Payment Reporting and Statistical Sampling

Payment Reporting

Table 1 presents a summary of SBA's improper payment review results and reduction outlook. There is no improper payment made by the recipients of federal money under SBA programs, as the SBA does not have an intermediary.

TABLE 1 IMPROPER PAYMENT REPORTING AND REDUCTION OUTLOOK ($ IN MILLIONS)													
Program	FY 2016			FY 2017							FY 2018		
	Outlays[1] $	IP %	IP $	Outlays[1] $	IP %	IP $	Over-paid %	Under-paid %	Over-paid $	Under-paid $	Outlays[1] $	IP %	IP $
7(a) Guaranty Purchases[1, 2]	576.92	2.32	13.37	655.56	4.32	28.35	3.31	1.01	21.69	6.66	615.54	4.22	25.98
7(a) Guaranty Approvals[1,2,3]	17,457.04	0.96	166.77	18,115.96	1.29	233.87	1.29	0.00	233.87	0.00	21,017.29	1.19	250.11
504 CDC Guaranty Approvals[1, 2]	4,594.81	2.60	119.59	4,947.60	1.20	59.16	1.20	0.00	59.16	0.00	5,095.97	1.10	56.06
Disaster Loan Disbursements[1, 4]	344.91	5.32	18.36	903.88	13.65	123.38	12.87	0.78	116.28	7.10	2,500.00	9.00	225.00
Disbursements for Goods and Services[2]	112.43	10.35	11.64	110.21	4.99	5.49	4.98	0.01	5.48	0.01	116.24	4.89	5.68
Hurricane Sandy Disaster Relief Grants[5]	5.57	0.074	0.004	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hurricane Sandy Disaster Relief Administrative Funds - Payroll[5, 6]	27.11	0.24	0.066	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hurricane Sandy Disaster Relief Administrative Funds - Travel[5, 6]	0.27	0.06	0.0002	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hurricane Sandy Disaster Relief Administrative Funds - Purchase Cards[5, 6]	0.15	0.61	0.0009	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total[7, 8]	23,119.21	1.43	329.80	24,733.21	1.82	450.25	1.76	0.06	436.48	13.77	29,345.04	1.92	562.83

1 Outlays in this report represent the base amount of the program activity related to SBA improper payments; and this amount will differ from the amount reported as outlays in SBA's President's Budget submissions because they include reestimates of subsidy cost, reimbursements to SBA administrative funds and other costs. Outlays for 7(a) loan guaranty purchases are the amount of disbursements for the purchase of defaulted guarantied loans. Outlays for 7(a) loan guaranty approvals are the amount of new guaranty approvals by banks and other SBA lending partners. Outlays for 504 CDC loans guarantied are approvals irrespective of disbursement, net of approval increases, decreases, reinstatements, and cancellations for the current year. Outlay figures for Disaster are loan disbursements on current year approvals.
2 Outlay projections do not match the President's Budget as the timeframe is not the fiscal year. Outlays are estimated by taking the average growth rate in outlays for the previous 3 years and applying it to the current level of outlays to project outlays in future years.
3 For 7(a) loan guaranty approvals, amounts reported are based on the guarantied amount only.
4 Outlay projection does not match the President's Budget as the timeframe is not the fiscal year. The FY 2018 outlay is estimated based on the historical disbursement rate of 54 percent and applying it to the estimated loan approvals. The FY 2018 loan approvals are based on actual fourth quarter 2017 loan approvals and projected quarterly loan approvals for the rest of the year due to the extremely active 2017 hurricane disasters (hurricanes Harvey, Irma, and Maria).
5 In 2017, the SBA was granted relief from reporting Hurricane Sandy Disaster Relief funds by OMB.
6 Data reported is for period March 1, 2014, through February 28, 2015, due to inadvertent lack of reporting in FY 2014.
7 Total improper payment estimates and improper payment percentages do not represent a true statistical estimate for the Agency.
8 Total does not include Hurricane Sandy Disaster Relief Indirect Expenses of $9.5 million; SBA recorded funds with regular indirect administrative disaster program funds as was allowed by appropriation law. Improper payments for Hurricane Sandy Disaster Relief direct funds for administrative expenses of payroll, travel, and purchase cards were reported above.

Table 2 presents a summary of the root causes of SBA's improper payments.

To provide more clarity for the reader, this section is organized by the five programs subjected to review for improper payments and provides statistical sampling information and review results coupled with corrective actions.

7(A) LOAN GUARANTY PURCHASES

Statistical Sampling

Using Probability Proportional to Size sampling with replacement, the 7(a) purchase sample cases were chosen from all purchases approved during the 12-month period ending March 31, 2017. The purchase population was divided into four strata based on the following factors:

TABLE 2 IMPROPER PAYMENT ROOT CAUSE CATEGORIES BY PROGRAM MATRIX ($ IN MILLIONS)											
Reason for Improper Payment		**7(a) Guaranty Purchases**		**7(a) Guaranty Approvals**		**504 CDC Guaranty Approvals**		**Disaster Direct Loan Disbursements**		**Disbursements for Goods and Services**	
		Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment
Program Design or Structural Issue											
Inability to Authenticate Eligibility				233.87		59.16		2.05	7.10		
Failure to Verify:	Death Data										
	Financial Data										
	Excluded Party Data										
	Prisoner Data										
	Other Eligibility Data										
Administrative/Process Error Made by:	Federal Agency	21.69	6.66							4.69	0.01
	State or Local Agency										
	Other Party										
Medical Necessity											
Insufficient Documentation to Determine								114.23		0.79	
Other Eligibility Data											
Total Estimated Improper Payments		**21.69**	**6.66**	**233.87**	**0.00**	**59.16**	**0.00**	**116.28**	**7.10**	**5.48**	**0.01**

1) whether the loan was considered an early default, regardless of servicing office, and 2) which servicing office processed the purchase among three locations. The SBA determined the appropriate total sample size to be 200 loans from the population. The sample included aggregate purchase outlays of $135,468,315 and an absolute value of improper payments of $5,268,025 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population was calculated as 4.32 percent. This represents a considerable increase from the 2.32 percent reported in FY 2016. The increase is primarily due to new center staff making administrative and process errors, including the purchase of ineligible loans, reimbursement of ineligible expenses, incorrect calculation of the number of days interest that was owed, and selection of an inaccurate interest rate. These errors should have been prevented by supervisory review; however, the supervisors were new in their role and did not identify the errors prior to purchase.

The 7(a) loan guaranty purchase reviews were conducted to examine if the lender complied materially with the 7(a) loan program origination requirements, including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The reviews were to determine if the lender (1) originated, serviced, and liquidated the loan in a prudent and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk.

Corrective Action

The root cause for all 7(a) loan guaranty purchase improper payments were administrative/process errors made by the Agency. Improper payments generally arose when new purchase processors failed to identify material lender deficiencies in the handling of an SBA guaranteed loan, and made administrative errors in the purchasing process. The primary reasons for purchase errors included:

- Ineligible purchases due to legal requirements, environmental due diligence, and use of proceeds to pay ineligible debt;
- Reimbursement of lender expenses that were not fully justified or ineligible;
- Incorrect payment of interest due to a miscalculation of days owed; and,
- Inaccurate interest rate.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 7(a) loan guaranty purchase centers. Specific corrective actions are determined based upon the primary reason for the error, with the purpose of both remedying the error and ensuring the error does not occur in the future. Plans for improvement include:

- Internal training for purchase processors, reviewers, and approvers to determine proper eligibility for guarantee loan purchases, appropriate lender expenses, the appropriate number of days interest owed, and the proper interest rate; and,
- Recovery of lender expenses that were not fully justified and deemed ineligible.

The corrective actions are currently underway. Internal feedback was provided to center staff regarding the specific loan level deficiency upon detection; internal training will be provided by the end of the first quarter of FY 2018.

Corrective actions are tracked at the loan level through a centralized database. The Quality Control Specialists for the 7(a) guaranty purchase centers monitor errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met. All improper payments identified as a result of the FY 2017 IPERIA reviews have been resolved through obtaining additional documentation, collection of funds from the lender, or reimbursement to the lender. Corrective actions were generally completed at the loan level within 60 days, with all actions taken by the end of the fiscal year.

7(A) LOAN GUARANTY APPROVALS

Statistical Sampling

Using PPS sampling with replacement, the 7(a) approval sample cases were chosen from all loan guaranties approved during the 12-month period ending March 31, 2017. The approval population was divided into two strata based on whether the loan was SBA Express or not. The SBA determined the appropriate total sample size to be 239 loans from the population. The sample included net guaranteed approvals of $317,316,635 and improper payments of $867,750. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the 7(a) Loan Guaranty Approvals was calculated as 1.29 percent. Although this represents a slight increase from the FY 2016 rate of 0.96 percent, the improper payment rate remains well below the targeted rate of 3.90 percent for FY 2017.

The 7(a) loan guaranty approval reviews were conducted to examine if the lender complied materially with the 7(a) loan program origination requirements, including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The reviews were to determine if the lender (1) originated the loan in a prudent and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk.

Corrective Action

Approximately 80 percent of all 7(a) loan guarantee approvals are performed by lenders with delegated authority; these lenders were responsible for all identified improper payment approvals in FY 2017. The most prevalent root cause stemmed from the delegated lenders' failure to authenticate borrowers' eligibility at origination, in compliance with loan program requirements. The primary reasons for 7(a) approval errors in FY 2017 included:

- Change of ownership policy requirements not satisfied; and
- Lack of evidence of repayment ability.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 7(a) loan guaranty approval centers. Specific corrective actions are determined based upon the primary reason for the error, with the purpose of both remedying the error and ensuring the error does not occur in the future. Plans for improvement include:

- Collaborating with the Office of Credit Risk Management to ensure specific lender deficiencies are monitored and incorporated into Risk-based Reviews; and
- External training for lenders to ensure appropriate documentation is obtained and analyzed prior to loan approval, policy governing change of ownership requirements is properly followed, and the repayment ability of the borrower is adequately assessed.

The corrective actions are currently underway. OFPO intends to share the loan level and lender deficiencies identified during the reviews with OCRM in October 2017, and will continue its efforts to ensure lender deficiencies are monitored and incorporated into lenders' Risk-based Reviews. External training will be provided by the end of the first quarter of FY 2018.

Specific corrective actions on loans reviewed are tracked at the loan level through a centralized database. The Quality Control Specialist for 7(a) loan guaranty approvals monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met. All improper payments identified as a result of the FY 2017 IPERIA reviews have been resolved through obtaining additional documentation, loan modification, or cancellation of the loan guaranty. Corrective actions were generally completed at the loan level within 60 days, with all actions taken by the end of the fiscal year.

High-Priority Program

In FY 2015, the OMB designated the 7(a) Loan Guaranty Approvals program as a high-priority program due to reported improper payments of $848 million, which exceeds the OMB's high-priority threshold of $750 million. In both FY 2016 and FY 2017, the improper payment amount fell below the threshold, and SBA will be seeking a rescission of the designation of high-priority for this program in FY 2018.

Approximately 80 percent of 7(a) Loan Guaranty Approvals are made by participating lenders. With this in mind, the SBA identified the use of SBA One by lenders as a supplemental measurement of improper payments. SBA One, released in October 2015, was designed to streamline and simplify the 7(a) lending process by creating a single portal addressing loan eligibility, underwriting, closing, loan modification, servicing, and guaranty purchase. Furthermore, the tool is designed to automate document uploads, form generation, credit scoring, and electronic signatures. It promotes a guided path including numerous validations and additional requests for inputs on behalf of the lenders as a means to ensure all required loan documents are completed in compliance with SBA's loan program requirements. It also contains built-in features to alert lenders throughout the loan approval process of any applications returned due to errors, awaiting signatures, and missing documents, as well as loan approvals. It also notifies lenders of required actions at various stages, important dates, and upcoming events. Thus, the use of this tool by SBA lenders facilitates loan eligibility and lender compliance throughout the loan approval process.

The supplemental measure for the 7(a) Loan Guaranty Approval program is based on the number of loans submitted utilizing the SBA One tool. In FY 2016, non-delegated lenders processed 2,977 loans using the SBA One tool, which increased to 4,744 loans in FY 2017. In total, there were 15,182 loans submitted through the SBA One tool by both delegated and non-delegated lenders in FY 2017, or 24 percent of all loans, which exceeds the Supplemental Measure target of 13,846 loans.

504 CDC LOAN GUARANTY APPROVALS

Statistical Sampling

Using PPS sampling with replacement, the 504 CDC approval sample cases were chosen from all loan guaranties approved during the 12-month period ending March 31, 2017. The approval population was not stratified. The SBA determined the appropriate total sample size to be 180 loans from the population. The sample included net approval outlays of $307,651,000 and improper payments of $3,347,500. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the 504 CDC loan guaranty approvals was calculated as 1.20 percent, for an estimated total of $59 million. This represents a significant decrease from the FY 2016 rate of 2.60 percent and $120 million. The root cause of the improper payments was due to lack of documentation to support the repayment analysis and eligibility.

The 504 CDC loan approval reviews were conducted to examine if the lender complied materially with the program's origination requirements, including statutory provisions, SBA regulations, any agreement the CDC executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 504 CDC loan program. The reviews were to determine if the CDC (1) originated the loan in a prudent and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk.

Corrective Action

The improper payment rate of 1.20 percent does not exceed the 1.5 percent threshold for reporting a corrective action plan.

DISASTER DIRECT LOAN PROGRAM

Statistical Sampling

The Office of Disaster Assistance performs a Quality Assurance Review of the approved loan portfolio annually. A part of the QAR is to identify any deficiency that would result in an improper payment. The statistical methodology used followed widely accepted practices and was approved by the Office of Management and Budget in 2012. The review population consisted of disaster loan disbursements made during the 12-month period ending June 30, 2017, with total disbursements of $903,883,752. A sample of 532 payments was selected for testing, which yielded a weighted estimated improper payment rate of 13.65 percent. Based on the sample results, the estimated amount of improper payments was $123,389,000. The primary reason for an increase from the FY 2016 rate of 5.32 percent is due to a lack of justification of repayment ability outside SBA guidelines, lack of documenting insurance coverage, and eligible loan amounts not properly determined as a result of insurance or other payments received by the borrower related to the disaster.

The scope of the ODA's review covers three primary compliance areas: (1) basic eligibility; (2) adherence to relevant laws, rules, regulations, and standard operating procedures; and (3) credit worthiness.

Corrective Action

The significant increase in the improper payment rate indicates stronger corrective measures must be taken to ensure the improper payment rate decreases to pre-2017 levels. The root causes for the disaster direct loan program improper payments in FY 2017 include:

- Lack of appropriate justifications for assistance made to borrowers who may not have had a repayment ability based on their Maximum Accepted Fixed Debt (MAFD) percentage exceeding ODA's stated limits;
- Failure to validate personal property insurance coverages on disaster survivors' temporary housing locations; and,
- Disbursements made in excess of eligible loan amount due to duplication of benefits, such as when the borrower receives insurance proceeds for the same disaster damage.

The ODA plans to perform the following corrective actions to remediate the above root causes and to reduce the improper payment rate within the targeted rate:

- Increase the MAFD percentage limits to validated acceptable income-to-debt ratios by December 31, 2017. For the past 24 months, ODA has worked closely with an independent data analysis firm that monitors the ODA loan portfolio quarterly. This firm has validated that the increased MAFD percentage limits will have an insignificant impact on the loan portfolio's loss rate. This will lessen the need to provide justifications outside ODA's stated limits. In addition, ODA will provide training to loan officers and supervisory loan officers to ensure that justifications are present when required.
- Consider a change to ODA's policy to include an analysis of a borrower's existing homeowner's policy coverage to meet the requirement of insurance on temporary quarters by January 31, 2018.
- Consider a possible simplification to ODA's policy requiring personal property coverage at temporary quarters by January 31, 2018.
- Re-examine how and at what stage of the loan process duplicate benefits are determined and ensure all duplicate benefits are identified prior to a loan's final disbursement by January 31, 2018.

Corrective actions will be monitored on a monthly basis, with the results reported to the Associate Administrator for Disaster Assistance to ensure compliance with policy and to assess the soundness of increased MAFD percentage limits.

DISBURSEMENTS FOR GOODS AND SERVICES

Statistical Sampling

Disbursements for goods and services samples were chosen using PPS, with replacement methodology from payments completed during the 12-month period ending March 31, 2017. The total number of disbursements was 3,118 and the total dollar amount was $110,209,945. The SBA determined the appropriate sample size to be 382 unique invoices having total outlays of $53,958,701. Based upon the sample results, the estimated FY 2017 disbursements for goods and services improper payment rate is 4.99 percent, for an estimated total of $5,494,624. This represents a significant reduction in the improper payment rate and dollars over the last fiscal year, which reported a rate of 10.35 percent and $12 million. The primary reason for the reduction was the implementation of an automated interface between SBA's financial system and the System for Award Management (SAM) in January 2016, which ensured that the SBA used only the most current vendor information when making payments.

The scope of the review covered three areas: invoice accuracy, compliance with contract terms, and accuracy of invoice processing.

Corrective Action

The improper payment amount of $5,494,624 does not exceed the $10 million threshold for reporting a corrective action plan.

Part II - Recapture of Improper Payments Reporting

Payment Recovery Effort

Agency efforts to recapture improper payments are discussed by program.

7(A) LOAN PROGRAM PURCHASES

Overpayments identified in the improper payments reviews are recaptured from the lender. The Quality Control staff tracks and collects any monetary overpayment. Refer to Part I above for corrective action plans to prevent future improper payments.

7(A) LOAN PROGRAM APPROVALS AND 504 LOAN GUARANTY APPROVALS

Overpayments recaptured outside of payment recapture audits are not applicable to 7(a) loan guaranty approval and 504 CDC loan approval as no payment is made at the time of approval. Improper payments identified through both the annual improper payment and continuous quality control reviews are remediated through the cancellation of the SBA guaranty, reduction in loan guaranty percentage, or loan modification, as appropriate. This determination is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval and lender authority.

DISASTER DIRECT LOAN PROGRAM

Overpayments are the result of the borrower receiving both an SBA loan and insurance payments or other benefits received as a result of the disaster. If the duplication of benefit is recognized prior to the final disbursement, the loan amount is modified to reflect a lower amount and no repayment is required. If the duplication of benefit is identified after the final disbursement of the loan, then the borrower is given 30 days to provide evidence to prove that the disaster loan was not over-disbursed. For example, the borrower can provide documentation demonstrating that insurance funds received did not duplicate the disaster loan purpose. If the borrower has not provided the appropriate evidence within the 30-day period, a demand is made for the over-disbursed funds. Collection efforts continue at the disaster loan servicing centers, but if these efforts fail, the borrower will still be liable for the over-disbursed amount in the form of monthly payments in accordance with the loan agreement. Thus, any actual loss, if any, is the cost of funds related to the over disbursement.

DISBURSEMENTS FOR GOODS AND SERVICES

The SBA thoroughly analyzed the condition of each improper payment identified during the improper payment review of the disbursements for goods and services, and issued demand letters or requested credit memos on future invoices to the responsible vendors to recoup the overpayments as applicable. The SBA will continue to monitor internal controls in place to further reduce the improper payment rate.

Payment Recapture Audits

On September 15, 2011, the SBA submitted a *Payment Recapture Audit Cost-Effective Analysis* to the Office of Management and Budget. The analysis discussed the 7(a) Business Loan Guaranty Program, the 504 Certified Development Company Loan Guaranty Program, the Disaster Direct Loan Program, Disbursements for Goods and Services, the Small Business Investment Company Financing Guarantee Program (SBIC), the Surety Bond Guarantee Program, and Grants, which included all grant programs. The analysis described the program, the controls over financial disbursements, and the size of the program, and concluded for each program that recapture audits would not be cost effective due to low error rates, complexity of the program, or limited amount of outlays. A subsequent cost analysis for the 7(a) loan guaranty purchase program was submitted to OMB on September 13, 2017, to include the results of a payment recapture audit performed in 2015, which again concluded that such an audit is not cost effective.

The specific justification and analysis are discussed by program.

7(a) loan guaranty purchase improper payment reviews, continuous Quality Control Reviews, and OMB Circular A-123, Appendix A reviews in FY 2014 warranted a reconsideration of the cost effectiveness of a payment recapture audit. In FY 2015, the SBA performed a payment recapture audit for the 7(a) Loan Guaranty Purchase program, and the results revealed that the cost of labor hours for performing and reporting the payment recapture audit exceeded the actual overpayments identified. This was reported in the FY 2015 AFR with the statement that no additional payment recapture audits would be performed. In September 2017, the SBA submitted a cost analysis to OMB and OIG to support this decision.

7(a) loan guaranty approval and 504 CDC loan approval are not subject to payment recapture audits, as no payment is made at the time of approval.

Disaster direct loans recapture audits would not be cost effective, as improper payments are generally the result of loan documentation errors and do not result in a disaster survivor receiving funds for which they are not eligible. Improper payments are not recovered upon discovery; they are realized as the borrower makes each payment on the loan. Further, the majority of loans are collateralized, which promotes maximum recovery. Less often is the identification of duplication of benefit, which occurs when a borrower receives insurance or another benefit related to the disaster in addition to the SBA loan. Only one ineligible disbursement was identified, in the amount of $19,500. The improper payment audit was completed using 4,400 hours of staff time at an approximate labor cost of $185,850. Based on the cost to audit versus the estimated dollars of recovery of $19,500, it is clear that further expenditures for a separate recovery audit is not cost effective.

Disbursements for goods and services recapture audits would not be cost effective. The improper payment testing required 674 labor hours at a cost of $42,347. Payments identified during the improper payment review as eligible for recapture totaled $5,419; thus, the cost of the review exceeds the return.

Table 3 presents a summary of Improper Payment Recaptures without Audit Programs.

TABLE 3 IMPROPER PAYMENT RECAPTURES WITHOUT AUDIT PROGRAMS ($ IN MILLIONS)

	Overpayments Recaptured Outside of Payments Recapture Audits		
Program or Activity	Amount Identified $	Amount Recaptured $	Source
7(a) Guaranty Purchase[1]	3.54	3.54	Statistical samples conducted under IPIA
Disaster Loan Disbursements[2]	0.02	0.01	Statistical samples conducted under IPIA
Disbursemtents for Goods and Services[1]	0.005	0.002	Statistical samples conducted under IPIA
Total	3.565	3.556	

1 Period of review is for the 12-month period ending March 31, 2017.
2 Period of review is for the 12-month period ending June 30, 2017.

Part III - Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The SBA has implemented the Do Not Pay Initiative and incorporated the use of DNP post-payment services using the data sources Death Master File and the Excluded Parties List System. The Agency has also implemented limited use of the online portal for processing of manual 7(a) loan applications as a part of pre-award eligibility. The SBA is working to enhance its use of DNP data sources by exploring an interface with SBA systems to identify ineligible recipients at the time of pre-award, in lieu of current practices to manually enter requests for information.

Part IV - Statutory or Regulatory Barriers

The SBA does not have any statutory or regulatory barriers limiting improvement to its performance on the improper payments initiative.

Part V – Accountability

The focus of SBA's Strategic Goal 3 is to build an SBA that meets the needs of today's and tomorrow's small businesses. Strategic Objective 3.1 is designed to strengthen SBA's core programs and operations to ensure that they are high-performing, effective, and relevant to the needs of the small business community. SBA's strategic goals are included in annual performance plans for all of its programs as business objectives, and these are also included in employee performance plans. SBA management monitors accomplishments of these business objectives and takes action when progress toward goal achievement is not on target. Executive and management bonuses are based on the accomplishment of business objectives included in employee annual performance plans. This management process helps assure accountability for the reduction of improper payments.

Part VI – Information Systems and Other Infrastructure

7(a) loan guaranty purchases are supported by the Guaranty Purchase Tracking System. It is continually updated to enhance the overall integrity of the purchase process. Resources as they relate to human capital are currently adequate.

7(a) loan guaranty approvals have adequate internal controls and are supported by E-Tran, SBA's electronic loan processing/servicing system. Both the SBA and delegated lenders process applications through the system and lenders may also handle unilateral servicing actions electronically. The system provides increased efficiency and decreased costs in the loan guaranty origination and servicing processes. The loan programs are also supported by SBA One, an automated lending platform to streamline the lending process. Resources as they relate to human capital are currently adequate.

Disaster direct loan program has the information systems and other infrastructure it needs to reduce improper payments to targeted levels. For example, the Office of Disaster Assistance has an integrated, electronic loan processing system, the Disaster Credit Management System, to streamline, enhance, and improve the loan-making process. This system supports workflow management, electronic file management, and document generation functions. Many of the business rules governing DCMS have been designed to improve the quality assurance process. In fact, the ODA quality assurance team works continually with the DCMS development team to improve the quality assurance process, with a goal to minimize future improper payments as much as possible. The disaster direct loan program has adequate human capital to maintain its internal controls.

Part VII – Sampling and Estimation

To provide more clarity for the reader, the Sampling and Estimation section was coupled with the Payment Reporting information in Part I, organized by the five programs subjected to review for improper payments.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

As required by OMB Circular A-136, Section II.5.4, the following summarizes SBA's Financial Statement Audit and Management Assurances:

Summary of Financial Statement Audit

Audit Opinion	Unmodified					
Restatement	No					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Compliance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems conform to financial management system requirements.					
Non-Compliance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

FRAUD REDUCTION REPORT

Based on leading industry and government practices, the SBA is in the process of developing an enterprise-wide fraud risk management process that will be integrated into its enterprise risk management framework. This comprehensive approach to risk management will provide greater assurance that fraud risk is being addressed throughout the organization and not just in silos. To date, SBA senior leadership has identified key programs that are highly susceptible to fraud, identified an individual to lead the Agency's fraud risk management activities, and has held discussions focused on fraud at ERM Board meetings. SBA senior leadership has made a strong commitment to fraud prevention, which will be reflected in the Administrator's attitude statement. There are planned series of detailed presentations from program managers, which will help guide the development of the Agency's fraud risk assessment process. The SBA also plans to hold the Agency's first-ever fraud detection and prevention workshop. As the SBA moves toward further implementation of its fraud risk management process, the Agency will continue to apply best practices found in GAO's *A Framework for Managing Fraud Risks in Federal Programs* and other related guidance.

REDUCE THE FOOTPRINT REPORT

REDUCE THE FOOTPRINT POLICY BASELINE COMPARISON			
	FY 2015 Baseline	2016 (CY-1)	Change (FY 2015 Baseline - 2016 (CY))
Square Footage (SF in Millions)	1.363	1.238	0.125
REPORTING OF O&M COSTS – OWNED AND DIRECT LEASE BUILDINGS			
	FY 2015 Reported Cost	2016 (CY-1)	Change (FY 2015 - 2016 (CY-1))
Operation and Maintenance Costs ($ in Millions)	$0	$0	$0
The SBA only occupies buildings that are leased by the U.S. General Services Administration and subject to occupancy agreements between the GSA and the SBA.			

According to Section 3 of Office of Management and Budget Memorandum M-12-12 *Promoting Efficient Spending to Support Agency Operations* and OMB Management Procedures Memorandum 2013-03 the *Reduce the Footprint* policy implementing guidance, all CFO Act entities must set annual targets to reduce the total square footage of domestic office and warehouse inventory compared to the FY 2015 baseline.

Within the SBA, effective real property asset management begins with an accurate inventory that is verified and validated on a continual basis to ensure real-time data is available for timely, quality decision making. As a fully-leased agency, close coordination between GSA and the SBA is required regarding cyclical lease expirations, space requests related to program activities and missions, security assessments, and facility-related deficiencies and emergencies. The SBA maintains an ongoing verification and validation process to assess the Agency's lease holdings and ensure functionally appropriate right-sizing using appropriate space design standards.

The SBA is aggressively moving to reduce leased holdings by 1 percent annually by adopting federal space standards at all locations, where possible. The SBA will make every effort to consolidate, co-locate, and share resources wherever functional requirements align, with an emphasis on occupying federal space. For example, SBA's office in Casper, Wyoming transitioned from a large space to a smaller one within the same federal building, and the new space also houses HUD personnel for additional efficiency and collaboration.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. A civil monetary penalty is defined as any penalty, fine, or other sanction that is for a specific monetary amount as provided by federal law or has a maximum amount provided for by federal law; and is assessed or enforced by an agency pursuant to federal law; and is assessed or enforced pursuant to an administrative proceeding or a civil action in the federal courts. To improve compliance with the Act, and in response to multiple audits and recommendations, agencies must report the most recent inflationary adjustments to civil monetary penalties to ensure penalty adjustments are both timely and accurate. Pursuant to the Act, the SBA reviewed each of the penalty amounts under its statutes and penalty amounts for inflation when required under the law. The SBA applied a prescribed formula from the Act for calculating the penalty.

SBA FEDERAL CIVIL PENALTIES						
Statutory Authority	**Penalty (Name or Description)**	**Year Enacted**	**Latest Year of Adjustment (via Statute or Regulation)**	**Current Penalty Level ($ Amount or Range)**	**Sub-Agency/ Bureau/Unit**	**Location for Penalty Update Details**
Small Business Investment Act, 15 USC 687(g)	Failing to File Report Timely for a Small Business Investment Company (SBIC)	1966	2017	$254	Office of Investment and Innovation	Federal Register 81 (9 February 2017): 31489-31492.
Small Business Investment Act, 15 USC 650(j)	Failing to File Report Timely for a Small Business Lending Company (SBLC)	2004	2017	$6,331	Office of Capital Access	Federal Register 81 (9 February 2017): 31489-31492.
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 3802(d)	Administrative Remedies for False Statements and Claims	1986	2017	$10,957	Multiple offices	Federal Register 81 (9 February 2017): 31489-31492.
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 1352	Penalty for Violation of Lobbying Restrictions	1990	2017	$19,246 to $192,459	Multiple offices	Federal Register 81 (9 February 2017): 31489-31492.

The following table reflects the authorities imposing the penalties, the civil penalties, the adjustment years, the current penalty levels, the offices of the program, and the locations for the penalty updates.

GRANTS OVERSIGHT AND NEW EFFICIENCY (GONE) ACT REPORT

The Grants Oversight and New Efficiency Act was passed by Congress with a goal of closing expired grants. The GONE Act requires the Office of Management and Budget, in coordination with the U.S. Department of Health and Human Services, to submit to Congress and HHS a report that provides a status on an agency's grants.

The SBA Office of Grants Management has established an internal team to reduce the number of expired grants that are not closed. The team reviews applicable administrative actions and required paperwork to ensure that procedures are followed. The team reviews for prompt payment of allowable costs, immediate refund by the recipient of any unexpended funds, submission of final financial and program reports and proper disposition of property acquired because of the award, and any outstanding audits.

As a challenge, SBA grants must be closed in a grants administration system and a financial system. However, the two systems often do not interface. The financial management system may show that a grant award has expired when, in fact, the performance end date has been extended in the grants management system. In addition, program management elements may directly impact the effective financial management of grants. For example, program managers may sometimes not alert the grants management officer that the award has been prepared and ready to close. The SBA is taking steps to address these challenges.

The following table summarizes GONE Act data.

Category	2–3 years	>3–5 years	> 5 years
Number of Grants/ Cooperative Agreements with Zero Dollar Balances	163	41	2
Number of Grants/ Cooperative Agreements with Undisbursed Balances	67	19	32
Total Amount of Undisbursed Balances	$1,591,458.80	$327,104.23	$232,360.70

DID YOU KNOW

CONTRACTING For the fourth consecutive year, in FY 2016, the federal government exceeded the 23 percent small business contracting goal, purchasing $99.96 billion in goods and services from small businesses through prime contract procurements. This total represented 24.34 percent of all eligible federal spending, and supported more than 587,000 jobs in the American economy.

SUCCESS STORY

8(a)-certified Firm Credits Success to the 8(a) Business Development Program

Gemini Industries, Inc.
Burlington, Massachusetts

At the age of 4, **Victoria Bondoc** was diagnosed with a rare condition that permanently left her with 20/200 vision, meaning that she had an extreme sensitivity to light and colorblindness. But Victoria was a girl with an attitude: "The only disability in life is a bad attitude. Life does not care about what you want, what you need, or what you deserve. The will to fight and the will to succeed helps you create the future that you choose, and to achieve your goals."

That no-fail, no-excuses approach is the driving force behind the success of Gemini Industries, Inc., the 8(a)-certified firm founded by Victoria more than 30 years ago that has created more than 1,360 jobs through more than $200 million in contracts supporting national defense programs. Under Victoria's determined leadership, Gemini's operations have expanded to 12 locations across the United States and overseas. Over the 3-year period ending December 2015, she increased sales from $51 million to $468 million in contract awards.

APPENDICES

DID YOU KNOW

COUNSELING The SBA provides mentorship, counseling, and strategic advice to more than 1 million small business owners annually through Small Business Development Centers, Women's Business Centers, Veterans Business Outreach Centers, SCORE, the online SBA Learning Center, and through 68 SBA district offices.

SUCCESS STORY

SBA Resources Partners Help Entrepreneurs Realize Dreams

Oscarware, Inc.
Road Bonnieville, Kentucky

Oscarware, Inc. is a family-owned manufacturing business founded in 1989 by **Debra** and **Reg Dudley**. Sensing the anything-can-be-grilled trend, they invented a new product called the Grill Topper, making it possible to cook a variety of meals on an outdoor grill.

When Reg Dudley passed away unexpectedly in 2006, it was both a personal and a business loss, and the responsibility of the manufacturing-side of the business fell on Debra's shoulders.

It became difficult to grow the business due to insufficient cash flow. Debra began working with the Western Kentucky University Small Business Development Center (SBDC) in Bowling Green. She and her SBDC counselor developed a business plan that enabled the company to obtain several commercial bank loans. Now, Oscarware, Inc. has 32 employees and distributes products across the United States, Europe, Canada, and Mexico. In the past 3 years, revenue has rapidly grown and cash flow and liquidity have improved, all with the help of the SBA.

APPENDIX 1—CONTACT SBA: USEFUL WEBSITES AND NUMBERS

The SBA home page is www.sba.gov. Information on SBA programs may be accessed from this website. Several of the more frequently visited websites are listed here:

SBA and BUSINESS INFORMATION	
About the SBA	www.sba.gov/aboutsba
SBA Performance, Budget & Finances	www.sba.gov/performance
Small Business USA	https://business.usa.gov
Local Assistance	www.sba.gov/local-assistance
Qualifying as a Small Business	www.sba.gov/content/am-i-small-business-concern
Starting a Business	www.sba.gov/thinking-about-starting

CAPITAL	
Small Business Loans & Grants	www.sba.gov/financialassistance
Lender Resources	www.sba.gov/lender_resources
Surety Bonds	www.sba.gov/content/surety-bonds-explained
Export Products	www.sba.gov/exporting
Fund Your Business	www.sba.gov/business-guide/plan/fund-your-business

CONTRACTING	
Government Contracting	www.sba.gov/contracting
Register as a Contractor	www.sam.gov
Contracting Certifications	https://certify.sba.gov

COUNSELING	
SBA Learning Center	www.sba.gov/training
Small Business Development Centers	www.sba.gov/sbdc
Women's Business Centers	www.sba.gov/tools/local-assistance/wbc
SCORE	www.sba.gov/score
Veterans Business Outreach Centers	www.sba.gov/tools/local-assistance/vboc

DISASTER ASSISTANCE	
Disaster Assistance	www.sba.gov/disaster
Disaster Center Office Locations	www.sba.gov/about-offices-list/4

SBA INFORMATION	
SBA National Answer Desk	(800) 827-5722 (Toll Free)
Disaster Assistance Customer Service Center	(800) 659-2955 (Toll Free)
Facebook	www.facebook.com/SBAgov
Twitter	www.twitter.com/sbagov
YouTube	www.youtube.com/sba
SBA blog	www.sba.gov/blogs
Instagram	https://www.instagram.com/sbagov

APPENDIX 2—GLOSSARY

Available at: www.sba.gov/performance, FY 2017 Agency Financial Report

504 Loan — **504 Certified Development Loan Program**
The 504 loan program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings, and long-life capital equipment.

7(a) — **7(a) Loan Guaranty Program**
The 7(a) loan program is SBA's primary loan program; it provides general loan financing for a wide variety of purposes.

7(j) — **7(j) Management and Technical Assistance Program**
The 7(j) loan program provides specialized assistance to underserved small businesses.

7(m) — **7(m) Microloan Program**
The microloan loan program provides small, short-term loans to small businesses and certain types of nonprofit child care centers.

8(a) — **8(a) Business Development Program**
The 8(a) program assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream.

A-123 — **Designation for OMB Circular on Internal Control Systems**
The A-123 guidance prescribes policies and procedures to be followed by executive departments and agencies in establishing, maintaining, evaluating, improving, and reporting on internal controls in their program and administrative activities.

AFR — **Agency Financial Report**
The AFR is an annual report that provides to OMB, Congress, and the public, an overview of the Agency's financial and performance data.

AGA — **Association of Government Accountants**
AGA is the member organization for government financial management professionals.

APG — **Agency Priority Goal**
GPRAMA requires federal agencies to establish a set of 2-year APGs that reflect the highest priorities of agency leadership.

APR — **Annual Performance Report**
The APR is required by the Government Performance and Results Act and presents a federal agency's progress in achieving the goals in its strategic plan and performance budget.

ARC 506 — **America's Recovery Capital Loan Program**
ARC 506 loans are part of the 2009 American Recovery and Reinvestment Act Section 6 that provided loans up to $35,000 for short-term relief to businesses experiencing immediate financial hardship.

BATF — **Business Assistance Trust Fund**
BATF is a trust fund in the U.S. Department of the Treasury maintained to receive and account for donations made by private entities for activities to assist small businesses.

BLIF — **Business Loan and Investment Fund**
BLIF is a fund operated by the U.S. Department of the Treasury to maintain the accounting records of loans approved prior to 1992.

CBJ — **Congressional Budget Justification**
The CBJ is a federal agency's annual budget request to Congress.

CDC — **Certified Development Company**
CDCs are nonprofit corporations, certified and regulated by the SBA, that work with participating lenders to provide financing to small businesses.

CEAR — **Certificate of Excellence in Accountability Reporting**
CEAR is awarded to agencies that are considered to have excellent Agency Financial Reports.

CFO — **Chief Financial Officer**
The CFO is the financial leader of the OCFO, whose duties include overseeing all Agency disbursements, management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

CIO — **Chief Information Officer**
The CIO is the senior executive for the information technology and computer systems that support enterprise goals.

DATA Act — **The Digital Accountability and Transparency Act of 2014**
The DATA Act is a law that aims to make information on federal expenditures more easily accessible and transparent.

DCIA — **Debt Collection Improvement Act of 1996**
DCIA provides federal agencies with new and enhanced delinquent debt collection tools.

DCMS — **Disaster Credit Management System**
DCMS is the electronic system used to process loan applications for all new disaster declarations.

DLF — **Disaster Loan Fund**
DLF assists eligible small businesses impacted by disasters.

DNP — **Do Not Pay Initiative**
DNP was established by IPERIA to support federal agencies with their efforts to prevent and detect improper payments.

DoD — **Department of Defense**
The DoD is America's oldest and largest government agency.

DOL — **Department of Labor**
DOL's mission is to foster, promote, and develop the welfare of the wage earners, job seekers, and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights.

EDAP — **Expedited Disaster Assistance Loan Program**
EDAP is a loan guaranteed by SBA for up to $150,000.

EDP — **Entrepreneurial Development Program**
The EDP account reports entrepreneurial development expenses.

ELA — **Enterprise Learning Agenda**
The ELA is a plan that aligns with the Agency's strategic goals to identify where evaluations could provide insights about program effectiveness.

ERM — **Enterprise Risk Management**
The ERM provides a framework to manage risks and seize opportunities related to the achievement of their objectives.

FBWT — **Fund Balance with Treasury**
The FBWT is an asset account that shows the available budget spending authority of federal agencies.

FCRA — **Federal Credit Reform Act**
FCRA is a law enacted to provide a more realistic picture of the cost of U.S. Government direct loans and loan guaranties.

FECA — **Federal Employees' Compensation Act**
FECA provides compensation benefits to federal civilian employees and to their surviving dependents for work-related injuries or illnesses.

FEMA — **Federal Emergency Management Agency**
The primary purpose of FEMA is to coordinate the response to a disaster that has occurred in the United States.

FERS — **Federal Employees Retirement System**
FERS is a three-tiered retirement plan for federal employees hired after 1984, composed of Social Security benefits, a basic benefit plan, and contributions to a Thrift Savings Plan.

FFMIA — **Federal Financial Management Improvement Act**
FFMIA is a law that requires each agency to implement and maintain financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and the United States Standard General Ledger.

FICA — **Federal Insurance Contributions Act**
FICA is a federal payroll (or employment) tax imposed on both employees and employers to fund Social Security and Medicare federal programs that provide benefits for retirees, disabled people, and children of deceased workers.

FIPS — **Federal Information Processing Standards**
FIPS are publicly announced standards developed by the federal government for use in computer systems by non-military government agencies and government contractors.

FISMA — **Federal Information Security Management Act**
FISMA is a law that defines a comprehensive framework to protect government information, operations, and assets against natural or man-made threats.

FITARA — **Federal Information Technology Acquisition Reform Act**
FITARA is legislation to improve the acquisition and management of federal information technology assets.

FMFIA — **Federal Managers Financial Integrity Act**
FMFIA is a law that primarily requires ongoing evaluations and reports on the adequacy of the internal accounting and administrative control systems of executive agencies. It also requires evaluations and reports on the conformance of financial management systems.

FPDS-NG — **Federal Procurement Data System – Next Generation**
FPDS-NG is a single source for U.S. government-wide procurement data.

FTA — **Fiscal Transfer Agent**
The FTA is the SBA agent tasked with the responsibility to administer each SBA Pool or Individual Certificate. This maintains a registry of Registered Holders and other information as the SBA requires.

FTE — **Full-Time Equivalent**
FTE indicates the workload of an employed person. An FTE of 1.0 means that the person is equivalent to a full-time worker while an FTE of 0.5 means that the worker is only half-time.

FY — **Fiscal Year**
The Federal Government fiscal year begins October 1 and ends the following September 30.

GAAP — **Generally Accepted Accounting Principles**
GAAP is the standard framework of guidelines for financial accounting generally known as accounting standards or standard accounting practice.

GAO — **U.S. Government Accountability Office**
GAO is an independent, nonpartisan agency that investigates how the federal government spends taxpayer dollars and reports their findings to Congress.

GCBD — **Office of Government Contracting and Business Development**
GCBD works to create an environment for maximum participation by small, disadvantaged, and women-owned businesses in federal government contract awards and large prime subcontract awards.

GONE Act — **Grants Oversight and New Efficiency Act**
The goal of the GONE Act is to close out expired grants.

GPRAMA — **Government Performance and Results Act (GPRA) Modernization Act of 2010**
The GPRAMA modernizes the federal government's performance management framework, retaining and amplifying some aspects of the Government Performance and Results Act (GPRA) of 1993 while also addressing some of its weaknesses.

GSA — **General Services Administration**
GSA is a federal agency of the Executive Branch whose mission is to deliver the best value real estate, acquisition, and technology services to government agencies.

HHS — **U.S. Department of Health and Human Services**
The goal of HHS is to protect the health of all Americans and provide essential human services.

HUBZone — **Historically Underutilized Business Zone**
HUBZone is an SBA program that encourages economic development by the establishment of federal contract award preferences for small businesses located in historically underutilized business zones.

HUD — **U.S. Department of Housing and Urban Development**
HUD develops and executes policies on housing and metropolises.

IDAP — **Immediate Disaster Assistance Program**
IDAP is a guaranteed disaster loan program for small businesses that have suffered physical damage or economic injury due to a Declared Disaster.

IPERA — **Improper Payments Elimination and Recovery Act**
IPERA requires that agencies examine the risk of, and feasibility of, recapturing improper payments in all programs and activities.

IPERIA **Improper Payments Elimination and Recovery Improvement Act of 2012**
IPERIA is an act to intensify efforts to identify, prevent, and recover payment error, waste, fraud, and abuse within federal spending.

IPIA **Improper Payment Information Act**
IPIA is a federal law enacted in 2002 to identify and reduce erroneous payments in the government's programs and activities.

IRS **Internal Revenue Service**
IRS is the U.S. tax collection agency that administers the Internal Revenue Code enacted by Congress.

ISCM **Information Security Continuous Monitoring**
An ISCM is a strategy designed to provide a roadmap that focuses on a near-real-time approach to SBA risk remediation, operational awareness, and long-term risk management.

IT **Information Technology**
IT refers to matters concerned with the design, development, installation, and implementation of information systems and applications.

LAN/WAN **Local Area Network/Wide Area Network**
LAN/WAN provides office automation capabilities for government and contractor personnel.

LGPC **Loan Guarantee Processing Center**
The 7(a) LGPC has two physical locations (one in Hazard, Kentucky and one in Citrus Heights, California) that are linked technologically into one process for efficiency and optimal staff utilization.

LSP **Lender Service Provider**
An LSP carries out functions in originating, dispersing, servicing, or liquating a specific SBA business loan or loan portfolio for compensation from the lender.

MAFD **Maximum Accepted Fixed Debt**
MAFD are standards used to calculate the risk of loan approvals.

MRA **Master Reserve Account**
SBA's fiscal agent maintains this escrow fund to facilitate the operation of the Certified Development Company program.

MRF **Master Reserve Fund**
SBA's fiscal and transfer agent maintains this reserve fund to facilitate the operation of the 7(a) secondary market program.

NAICS **North American Industry Classification System**
NAICS classifies business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. economy. The NAICS industry codes define establishments based on the activities in which they are primarily engaged.

NBER **National Bureau of Economic Research**
A private, nonprofit, nonpartisan organization dedicated to conducting economic research and providing findings to academics, public policy makers, and business professionals.

NDAA **National Defense Authorization Act**
The United States federal law specifying the budget and expenditures of the U.S. Department of Defense.

NGPC **National Guaranty Purchase Center**
The NGPC, located in Herndon, Virginia, was created to centralize SBA's 7(a) loan guaranty purchase function into a single national location.

NIST **National Institute of Standards and Technology**
NIST is a measurement standards laboratory, and a non-regulatory agency of the U.S. Department of Commerce. Its mission is to promote innovation and industrial competitiveness.

OBD **Office of Business Development**
OBD assists small, disadvantaged businesses to gain access to federal and private procurement markets.

OCA **Office of Capital Access**
OCA is responsible for small business loans, lender oversight, and the Surety Bond Guarantee program.

OCFO **Office of the Chief Financial Officer**
OCFO is responsible for the financial leadership of the Agency, including all Agency disbursements, management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

OCIO **Office of the Chief Information Officer**
OCIO is responsible for the management of information technology for the Agency, including the design, implementation, and continuing successful operation(s) of information programs and initiatives.

OCRM **Office of Credit Risk Management**
OCRM manages program credit risk, monitors lender performance, and enforces lending program requirements.

ODA **Office of Disaster Assistance**
ODA is SBA's office that promotes economic recovery in disaster-ravaged areas. Disaster loans are the Agency's primary form of federal assistance for non-farm, private sector disaster losses for individuals and businesses.

OFPO **Office of Financial Program Operations**
OFPO leads the financial services industry in quality products and services to SBA partners and customers, and protects the integrity of SBA programs.

OGC **Office of General Counsel**
OGC provides comprehensive legal services to the Administrator and all Agency offices.

OHRS **Office of Human Resources Solutions**
OHRS develops and provides innovative human capital strategies. The office advises SBA management with respect to selecting, developing, and managing a high-quality, productive workforce.

OIC **Office of Internal Controls**
OIC, an office within the Office of the Chief Financial Officer, has the lead in ensuring managers comply with internal control standards.

OIG **Office of Inspector General**
OIG conducts and supervises audits, inspections, and investigations relating to SBA programs and operations.

OMB **U.S. Office of Management and Budget**
OMB is the White House office that oversees preparation of the federal budget and supervises its administration in Executive Branch agencies.

OPM **U.S. Office of Personnel Management**
OPM is the federal government's human resources agency.

OSDBU **Office of Small Disadvantaged Business Utilization**
OSDBU's mission is to enable small disadvantaged businesses to gain access to economic opportunity through federal contracts.

PDAP **Private Disaster Assistance Program**
PDAPs help residents, businesses, organizations and communities recover from natural disasters.

PFCRA **Program Fraud Civil Remedies Act of 1986**
A statute that provides an administrative remedy to Executive Branch agencies related to false, fictitious, or fraudulent claims and statements.

PPS **Probability Proportional to Size**
PPS is a method of sampling that takes the varying size of each item within the population into account when selecting the audit sample.

QAR **Quality Assurance Review**
QAR is a review to identify any deficiencies, to include improper payments.

RGDP **Real Gross Domestic Product**
RGDP is an inflation-adjusted measure that reflects the value of all goods and services produced in a given year, expressed in base-year prices.

RISE **Recovery Improvements for Small Entities After Disaster Act of 2015**
This bill amends the Small Business Act to authorize a small business, homeowner, nonprofit entity, or renter that was located within a declared major disaster area during Superstorm Sandy in 2012 to apply for a Small Business Administration (SBA) loan.

SAM **System for Award Management**
SAM is the federal government system that tracks grant awards.

SAT **Senior Assessment Team**
SBA's SAT is chaired by the Chief Financial Officer and comprised of SBA managers from the major programs and support offices to oversee the assessment of internal controls for financial reporting performed by the Office of Internal Controls.

SBA — **U.S. Small Business Administration**
The SBA is the federal agency of the Executive Branch whose mission is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.

SBDC — **Small Business Development Center**
SBDCs provide management and technical assistance, economic development, and management training to existing and prospective small businesses through cooperative agreements with universities and colleges and government organizations.

SBG — **Surety Bond Guarantee**
The SBG program provides guaranties, bid, performance, and payment bonds for contracts up to $2.0 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels.

SBGRF — **Surety Bond Guaranty Revolving Fund**
All the contractor and surety fees collected by the SBA are deposited in the SBGRF at the U.S. Department of the Treasury, which is used to pay claims.

SBIC — **Small Business Investment Company**
An SBIC provides long-term loans, debt-equity investments, and management assistance to small businesses, particularly during their growth stages.

SBIR — **Small Business Innovation Research**
The SBIR is a highly competitive SBA program that encourages domestic small businesses to engage in federal research/research and development that has the potential for commercialization.

SBLC — **Small Business Lending Company**
SBLCs are non-depository small business lending companies listed by the SBA Office of Capital Access.

SBPAC — **Small Business Procurement Advisory Council**
SBPAC was established by Section 7104(b) of the Federal Acquisition Streamlining Act of 1994 to develop positions on proposed procurement regulations affecting the small business community.

SE — **Salaries and Expenses**
The SE account reports salaries and administrative costs.

SMG — **Secondary Market Guarantee**
SMG is an SBA loan that provides SBA lenders with an efficient process through which to sell their SBA backed loans, which significantly increases their liquidity and enables them to make additional SBA loans.

SOP — **Standard Operating Procedure**
An SOP is the primary source of the Agency's internal control.

STEP — **State Trade and Export Promotion Program**
STEP is a pilot export initiative to make matching fund awards to states to help small businesses enter and succeed in the international marketplace.

USEAC — **U.S. Export Assistance Center**
USEACs are located nationwide and help firms grow internationally by assisting in developing a plan of action with solutions tailored to their needs.

VBOC — **Veterans Business Outreach Center**
VBOCs provide entrepreneurial development services such as business training, counseling and mentoring, and referrals for eligible veterans owning or considering starting a small business.

WBC — **Women's Business Center**
WBCs provide long-term training and advising to women who own or manage a business, including financial, management, marketing, and technical assistance and procurement.

WOSB — **Women-Owned Small Businesses**
The WOSB program allows federal agencies to set aside certain contracts for competition only among small businesses owned and controlled by women.

WOSBP — **Women-Owned Small Business Federal Contracting Program**
The WOSB Federal Contracting Program was implemented in February 2011 with the goal of expanding the number of industries where WOSB were able to compete for business with the federal government.

APPENDIX 3—OIG AUDIT FOLLOW-UP ACTIVITY

Throughout the year, the Office of Inspector General conducts audits of SBA's processes, procedures, and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on SBA's financial and administrative operation, but are beneficial to SBA's management. If SBA management disagrees with an OIG recommendation, the OIG may revise the recommendation or refer the issue to a higher level of SBA management. When both SBA management and the OIG agree on the recommendation, SBA management develops a corrective action plan, including a target date for completion. This recommendation is identified as having a "Management Decision." When the corrective action plan is implemented and the recommendation has been fully addressed, the recommendation is identified as having a "Final Action."

The OCFO maintains a database to track the recommendations through to the conclusion, or Final Action. During FY 2017 there were 119 Final Actions, resulting from 9 monetary and 110 non-monetary recommendations.

The following tables depict SBA's Final Action activity for FY 2017 and the status of corrective action plans not implemented within 1 year:

- Table I: Final Action on Audit Recommendations with Disallowed or Questioned Costs.
- Table II: Final Action on Audit Recommendations with Funds Put to Better Use.
- Table III: Final Action on Audit Recommendations Not Completed within One Year.

TABLE I: FINAL ACTION ON AUDIT RECOMMENDATIONS WITH DISALLOWED OR QUESTIONED COSTS OCTOBER 1, 2016 – SEPTEMBER 30, 2017

	Number of Recommendations	Disallowed Costs (Rounded to Thousands)
A. Recommendations with Management Decisions on which Final Action had not been taken at the beginning of the period.	8	$4,761
B. Recommendations on which Management Decisions were made during the period.	6	$4,398
C. Total recommendations pending Final Action during the period.	14	$9,159
D. Recommendations on which Final Action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	2.5	$545
(b) Property		
(c) Other	5.0	$5,304
2. Write-Offs	1.5	$240
3. Total	9.0	$6,089
E. Recommendations needing Final Action at the end of the period.	5	$3,070

TABLE II: FINAL ACTION ON AUDIT RECOMMENDATIONS WITH FUNDS PUT TO BETTER USE OCTOBER 1, 2016 – SEPTEMBER 30, 2017	Number of Recommendations	Funds to be Put to Better Use (Rounded to Thousands)
A. Recommendations with Management Decisions on which Final Action had not been taken at the beginning of the period.	0	$0
B. Recommendations on which Management Decisions were made during the period.	0	$0
C. Total recommendations pending Final Action during the period.	0	$0
D. Recommendations on which Final Action was taken during the period. 1. Value of recommendations implemented (completed): 2. Value of recommendations that management concluded should not or could not be implemented or completed	0	$0
3. Total	0	$0
E. Recommendations needing Final Action at the end of the period.	0	$0

TABLE III: FINAL ACTION ON AUDIT RECOMMENDATIONS NOT COMPLETED WITHIN ONE YEAR AS OF SEPTEMBER 30, 2017

Report #12-04, Audit of Annual Small Business Procurement Calculations

Program: GCBD

Date Issued: 12/06/11

Management Decision Date: 09/23/15

Explanation: The four remaining recommendations are to the Office of Government Contracting and Business Development and require 1) revision of the Goaling Guidelines for the Small Business Preference Programs to include contracts awarded and/or performed overseas; 2) revision of the Goaling Guidelines based on the Office of the General Counsel's (OGC's) final opinion on the exemptions from goaling; 3) notification of the GSA, Federal Procurement Data Center of any necessary programming updates to the FPDS-NG resulting from the changes to goaling guidance; and 4) revision of Goaling Guidelines in the Federal Register notifying participating agencies of any changes. Relative to the recommendations:

- The GCBD revised the Goaling Guidelines for the Small Business Preference Programs to include contracts awarded and/or performed overseas in the small business goaling baseline beginning with FY 2016. The Department of Defense requested and was granted a partial waiver for FY 2016 and FY 2017. In FY 2018, the DoD will have a blanket waiver for overseas contracts as provided in NDAA 2017.
- The GCBD revised the Goaling Guidelines for the Small Business Preference Programs to include contracts awarded and/or performed overseas based on the OGC's final opinion on the Exemptions from Goaling that acknowledged the agency could provide exemptions for policy reasons.
- The GCBD notified the GSA, Federal Procurement Data Center of necessary programming updates to the FPDS-NG resulting from changes to goaling guidance on contract exclusions.
- The GCBD issued revised Goaling Guidelines at the SBPAC after discussion with participating agencies' OSDBUs. The GCBD posted the changes to goaling guidance on the GSA FPDS-NG website in lieu of a separate and unnecessary Federal Register notice.

The GCBD has determined that further research and discussion with the OIG is required for all recommendations. The estimated completion date is 09/30/18.

Report #12-15, Audit of FY 2011 Federal Information Security Management Act Review
Program: OCIO
Date Issued: 07/16/12
Management Decision Date: 08/16/12
Explanation: The two remaining recommendations are to the Office of the Chief Information Officer and require the office to 1) perform recertification reviews of agency general support systems or design compensating controls, and 2) continuously monitor remote access audit logs for unauthorized activity. The OCIO states: 1) Resource constraints have delayed the administration of the data call to supervisors to validate and re-certify all LAN/WAN users; and 2) A customized solution is required to automate the import of log data and the OCIO is evaluating the cost and feasibility to implement. The estimated completion date is 03/31/18.

Report #13-01, Audit of SBA's Section 8(a) Program's Use of Internal Revenue Service Tax Verification form 4506T
Program: OBD
Date Issued: 10/04/12
Management Decision Date: 03/11/13
Explanation: The four recommendations are to the Office of Business Development and require changes to SOP 80 05 A to ensure 1) completion of Form 4506T and prompt submission; 2) completion of Form 4506T prior to the start of the annual review and prompt submission; 3) suspension of the firm if tax returns submitted to the SBA do not agree with those submitted to the IRS; and 4) comparison of IRS transcripts with the tax return and advise the OIG of discrepancies. The Acting Associate Administrator for Business Development is actively reviewing each recommendation and intends to take action by 12/31/17.

Report #13-03, Audit of Mentor-Protégé Joint Ventures
Program: GCBD
Date Issued: 10/23/12
Management Decision Date: 01/24/13
Explanation: The three remaining recommendations are to the Office of the Government Contracting and Business Development and require a review of the Mentor-Protégé program to 1) develop specific measurements to evaluate the benefits of joint venture agreements, 2) assess the risk of the program, and 3) verify information submitted by 8(a) firms as part of the annual review. The Acting Associate Administrator for Business Development is actively reviewing each recommendation and intends to take action by 12/31/17.

Report #13-04, Audit of SBA's FY 2012 Financial Statements
Program: OCIO
Date Issued: 11/14/12
Management Decision Date: 03/08/13
Explanation: The one remaining recommendation is to the Office of the Chief Information Officer and requires procedures to ensure system access is removed for terminated or transferred users in a timely manner. The OCIO is coordinating with the Office of Human Resources Solutions and other program offices to redesign and improve the separation process to ensure a timely removal of system access. This project has been delayed due to the scope of access rights that need to be reviewed. The estimated completion date is 09/30/18.

Report #13-06i, Audit of SBA's Section 8(a) Annual Review

Program: OBD

Date Issued: 11/13/12

Management Decision Date: 03/11/13

Explanation: The two recommendations are to the Office of Business Development and require that SOP 80 05 3 be revised to extend time for annual reviews, subject firms to termination if information is not provided, and allow the SBA to place an 8(a) firm in a "decision pending" category during the additional period. The Acting Associate Administrator for Business Development is actively reviewing each recommendation and intends to take action by 12/31/17.

Report #13-08, Audit of SBA's 8(a) Information Technology Contracts

Program: OCFO

Date Issued: 12/03/12

Management Decision Date: 01/18/13

Explanation: The one remaining recommendation requires the Office of the Chief Financial Officer to establish and implement an invoice approval procedure that includes attaching and reviewing a receiving report to each invoice prior to payment processing. The implementation has been delayed due to the required coordination among all offices in the SBA. The estimated completion date is 09/30/18.

Report # 14-04, Audit of SBA's FY 2013 Financial Statements

Program: OCIO

Date Issued: 12/16/13

Management Decision Date: 04/09/14

Explanation: The remaining two recommendations require the Office of the Chief Information Officer to 1) implement procedures to periodically review user access, and 2) enforce a network security baseline across the network. Resolution activities include 1) documentation of procedures for account authorization, creation, and periodic access reviews; and 2) the OCIO has enforced a security baseline across the LAN/WAN, and the supporting evidence is being generated to close this recommendation. Both final actions are delayed due to resource constraints; in addition, the latter is delayed due to differing types of logging and auditing. The estimated completion dates are 09/30/18 and 03/31/18, respectively.

Report # 14-12, FY 2013 Federal Information Security Management Act Review

Program: OCIO

Date Issued: 04/30/14

Management Decision Date: 04/30/14

Explanation: The one remaining recommendation requires that the Office of the Chief Information Officer improve Security Authorization Packages and retain all documentation. Resolution activity includes reviewing and correcting each system Assessment and Authorization package as they are scheduled for re-assessment. The estimated completion date is 9/30/18.

Report # 14-15, Audit of Non-Manufacturer Rules Waiver Program

Program: GCBD

Date Issued: 08/14/14

Management Decision Date: 08/11/14

Explanation: The two remaining recommendations require the Office of Government Contracting and Business Development to publish a Standard Operating Procedure for the Non-Manufacturer Rules Waiver Program and establish procedures to ensure all data and memorandums are complete, accurate, and up-to-date. The GCBD has developed an SOP for the Non-Manufacturer Rules Waiver Program, which includes procedures for maintaining file documentation. The SOP has gone through clearance and will be published shortly. The estimated completion date is 10/31/17.

Report # 14-19, Audit of the District of Columbia Small Business Development Center

Program: SBDC

Date Issued: 09/29/14

Management Decision Date: 09/29/14

Explanation: The two remaining recommendations require the Office of Small Business Development Centers to 1) update their Standard Operating Procedures to address statutory and regulatory changes and to establish corresponding internal controls, and 2) implement Lead Center controls to exclude excess sub-recipient costs when computing indirect costs. The updating of the SOP was delayed, due to waiting for the issuance of revised regulations. The SOP has been updated to include statutory and regulatory changes, has been cleared by all offices for publication, and is awaiting final signature. The estimated completion date for both recommendations is 12/31/18.

Report # 15-07, Audit of SBA's FY 2014 Federal Information Security Management Act

Program: OCIO

Date Issued: 03/13/15

Management Decision Date: 03/03/15

Explanation: The two remaining recommendations require the Office of the Chief Information Officer to 1) implement Information Security Continuous Monitoring (ISCM) program requirements; and 2) ensure general support systems and major applications have valid and up-to-date authorizations to operate while those systems are in production. Resolution activities include 1) developing an agency-wide ISCM program implementation guide, and 2) ensuring an Assessment and Authorization package is completed for each IT system. The estimated completion dates are 12/31/17 and 09/30/18, respectively.

Report # 15-12, Audit of Separation Controls and Procedures

Program: OCIO

Date Issued: 05/26/15

Management Decision Date: 05/04/15

Explanation: The one remaining recommendation requires the Office of the Chief Information Officer to ensure network oversight includes enabled network accounts which have never been accessed. Resolution activities include OCIO documentation of procedures for account authorization and creation, including requesting and granting elevated privilege account access and performing user access reviews. The estimated completion date is 12/31/17.

Report # 15-16, Audit of Oversight of Loan Agents

Program: OCA

Date Issued: 09/25/15

Management Decision Date: 01/07/16

Explanation: The four remaining recommendations require 1) feasibility of a report determined to provide lenders with information on loan agents and their performance, 2) benchmarks developed for contractor performance and controls to ensure integrity of the Form 159 database, 3) a process implemented to uniquely identify loan agents, and 4) a method developed for CDCs to electronically report loan agent compensation. Agreement has not been reached between the program office and the OIG as to the resolution of recommendations 2 and 3. The program office is working with the Office of General Counsel to review the audit, and an additional discussion with the OIG is forthcoming. The estimated completion date is 09/30/18.

Report # 16-02, Audit of SBA FY 2015 Financial Statements

Program: OCIO

Date Issued: 11/16/15

Management Decision Date: 02/24/16

Explanation: The two remaining recommendations require the Office of the Chief Information Officer to coordinate with SBA program offices to 1) implement procedures to ensure that user access is reviewed periodically, and 2) improve the SBA's administration of logical system access. Resolution activities include 1) performing an annual user recertification of all LAN/WAN users, and 2) improving or clarifying policies on authentication, remote access, and multifactor authentication. The estimated completion date is 03/31/18.

Report # 16-10, Audit of FY 2015 Federal Information Security Management Act Review

Program: OCIO

Date Issued: 03/10/16

Management Decision Date: 03/10/16

Explanation: The one remaining recommendation requires that information system contingency plans are tested and consistent with the National Institute of Standards and Technology guidance. Resolution activities include coordination with all program offices to ensure that all FISMA systems perform annual contingency plan tests. The estimated completion date is 12/31/17.

Report # 16-11, Audit of a High Risk 7(a) Loan

Program: OFPO

Date Issued: 03/17/16

Management Decision Date: 03/10/16

Explanation: The one remaining recommendation requires that a lender bring a loan into compliance or that OFPO seek recovery of the guaranty paid. Complex legal and financial issues pertaining to equity injection, construction contracts, leases and lawsuits have delayed the resolution of this issue. The estimated completion date is 12/31/17.

Report # 16-13, Audit of SBA 8(a) Business Development Program Eligibility
Program: GCBD
Date Issued: 04/07/16
Management Decision Date: 04/07/16
Explanation: The one remaining recommendation requires GCBD management to clearly document justifications for approving or denying applicants into the 8(a) program. The Acting Associate Administrator for Business Development is actively reviewing this recommendation and intends to take action by 12/31/17.

Report # 16-19, Audit of a High-Risk 7(a) Loan
Program: OFPO
Date Issued: 08/16/16
Management Decision Date: 08/23/16
Explanation: The one remaining recommendation requires that a lender bring a loan into compliance or that OFPO seek recovery of the guaranty paid. The lender has provided additional information which is being reviewed by OFPO and the Office of General Counsel. Additional information may be required. The estimated completion date is 12/31/17.

Report # 16-23, Audit of SBA 504 Loan Liquidation Process
Program: OFPO
Date Issued: 09/30/16
Management Decision Date: 10/05/16
Explanation: The one remaining recommendation requires OFPO to review internal guidance, systems, and practices to ensure that 504 loans are liquidated consistently nationwide. The OFPO has reviewed the guidance and submitted information to close this recommendation to the OIG on 09/21/17.

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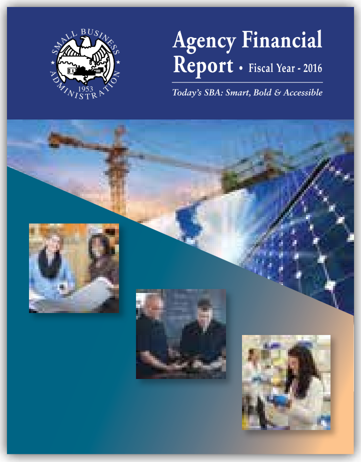
CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING



For the past 11 years, FY 2006 to FY 2016, the U.S. Small Business Administration is proud to have received the prestigious *Certificate of Excellence in Accountability Reporting* award from the Association of Government Accountants for its Agency Financial Report. The CEAR program was established by the AGA in conjunction with the Chief Financial Officers Council. The award recognizes high-quality Performance and Accountability Reports and Annual Financial Reports that effectively illustrate and assess financial and program performance, accomplishments and challenges, and cost and accountability.

The SBA is also the proud recipient of four CEAR Special/Best-in-class awards:

2016 — Presentation of Performance
2015 — Presentation of Forward Looking Information
2013 — Inspector General's Summary of Management and Performance Challenges
2011 — Improper Payments Elimination and Recovery Act Detail

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