Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2019

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TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware
Inspector General

SUBJECT: Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2019

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year (FY) 2019. 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 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 four 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 2019.

Summary of the Most Serious Management and Performance Challenges Facing SBA in FY 2019

		Color Scores					
		Status at End of FY 2018				Change from Prior Year	
	Challenge	Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting		2				
2	IT Leadership		6			1	
3	Human Capital		1				
4	SBA Loan Program Risk Management and Oversight	3[1]	1			3	
5	8(a) Business Development Program		3			3	
6	Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers	2				2	
7	Disaster Assistance Program	1	3	1		1	1
8	Grant Management Oversight (New)						
	TOTAL	6	16	1		10	1

Significant changes to this year's management challenges include the removal of the acquisition management challenge and inclusion of a new grant management oversight challenge. SBA made substantial improvements to its acquisition program to address the challenges that we identified. SBA's increased its oversight of the acquisition program, updated its policies and procedures, and implemented a requirement for management to conduct annual reviews of the acquisition process controls. As a result, we are not including the acquisition program as a serious challenge for the agency.

We added a new challenge regarding SBA's grant management oversight. In FY 2018, SBA administered over $247 million in grants and cooperative agreements to its resource partners and other nonfederal entities to provide technical assistance and training programs to develop small businesses. Office of Inspector General audits have identified significant systemic deficiencies in SBA's grant management, including inaccurate financial and performance information, ineffective grantee and program oversight, and inefficient decentralized grant management functions.

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.

[1] For challenge 4 recommendation 2, 7(a) was rated green, while 504 was rated yellow. For simplicity, it is reflected as green in this table.

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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, SBA excludes certain procurements, such as those awarded by the Department of Defense (DoD) for overseas work, from the small business goaling baseline. These exclusions lead to overstatement of small business goaling achievements. In addition, over the years, Congress has expressed concerns about the accuracy of the report. These concerns have been substantiated by Office of Inspector General (OIG) and Government Accountability Office (GAO) audits, which identified widespread misreporting by procuring agencies, since contract awards reported as having gone to small firms have been substantially performed by larger companies. Specifically, in certain circumstances such as long-term contracts (durations of more than five years), if a firm's status as a small business changes and it is no longer small or in an SBA preference program, SBA's regulations allow those firms to be counted as small businesses. As a result, agencies continue to receive credit towards achieving their small business procurement goals for long-term contracts awarded to firms that are either no longer small or in SBA's preference programs. Furthermore, SBA has not implemented a certification process for the Women-Owned Small Business (WOSB) Federal Contracting Program, which can also affect the accuracy of the goaling achievements.

As the advocate for small business, SBA must strive to ensure that only eligible small firms obtain and perform small business awards. Since the goaling achievements SBA reports do not portray federal contract awards made only to small businesses, SBA should ensure transparency with regard to the contracting dollars to businesses that are not small. Further, SBA should ensure that procuring agencies clearly and accurately report contracts awarded to and performed by small businesses when representing their progress in meeting small business contracting goals. Without accurate and transparent data, SBA cannot reliably measure the federal government's small business procurement goal achievements, which weakens the ability of Congress and other federal policymakers to determine whether the government is maximizing contracting opportunities for small businesses.

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

SBA revised its goaling guidelines in FY 2018 to include in the goaling baseline the following four prior exclusions: Utilities, Resale, American Institute of Taiwan, and Non-Appropriated Agencies. However, SBA's guidelines continue to exclude certain types of contracts from the overall dollar baseline used to calculate achievement of small business goals. For example, the goaling guidelines exclude DoD contracts that were both awarded and performed abroad and those performed entirely abroad. While the National Defense Authorization Act for FY 2017 authorized DoD to remove certain contracts from its procurement baseline when reporting DoD-specific 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 the Small Business Act, weaken the ability of Congress and other federal policymakers to determine whether the government is maximizing contracting opportunities for small business awards and participation and meeting small business goals. By excluding certain types of contracts from the goaling baseline, SBA overstates the federal government small business goal achievements. This is evidenced in the General Services Administration FY 2017 Goaling Without Exclusions Report, which reported small business contract expenditure data without goaling exclusions applied, resulting in a small business procurement goal achievement of 21.5 percent—2.3 percent lower than the 23.8 percent reported by SBA. SBA should include the appropriate universe of federal procurement opportunities into the goaling guidelines baseline to ensure policymakers and other interested parties receive the most accurate and transparent picture of small business participation in federal contracting.

Agencies Receive Goaling Credit for Ineligible Firms, Firms No Longer in the 8(a) or HUBZone Programs, or Firms that are No Longer Small

Through our audit work, we continue to identify federal agencies that may have received credit towards their small business goals because procuring agency contracting officers incorrectly reported ineligible firms as either certified in the 8(a) or HUBZone programs in Federal Procurement Data System – Next Generation. In a September 2014 audit report, (Report 14-18) we identified over $400 million in FY 2013 contract actions that may have been awarded to ineligible firms. In a September 2018 audit report, (Report 18-22), we also identified that SBA did not consistently detect ineligible firms in the 8(a) program and did not always act to remove firms it determined were no longer eligible for the program. We found that 20 of 25 firms we reviewed should have been removed from the 8(a) program. These firms received $126.8 million in new 8(a) set-aside contract obligations in FY 2017 at the expense of eligible disadvantaged firms. The amount of dollars SBA reports to Congress and the public as being performed by 8(a) and HUBZone firms in the Small Business Goaling Report is significantly impacted by the inclusion of contract actions performed by ineligible program participants. SBA needs to strengthen its oversight to ensure only eligible firms participate in these preference contract programs.

Further, in Report 14-18, we 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. Through additional analytics, we also determined that of approximately $3.1 billion in contracts awarded to the top 100 individually owned 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 SBA preference program. Additionally, in 2006, SBA revised its regulations to address small business size status representations and reporting for long-term Federal contracts. These changes allow procuring agencies to receive credit for an award to a small business throughout the life of the contract, based on the size status of the firm at the time of the offer for 8(a), and at the time of application and award for HUBZone. Therefore, in cases where a small business grows to be other than small, the procuring agency may exercise options and still count the award as an award to a small business.

Although procuring agencies can award these long-term contracts, OIG contends that more transparent reporting of those awards is necessary to aid stakeholders and portray a true picture of the small business goaling achievements. While the regulations allow procuring agencies to receive credit for firms no longer in SBA preference programs, or are other than small, by including those contracts in the reported small business goals, SBA cannot accurately reflect or measure true program impact. SBA should consider enhancing its Small Business Goaling Report to be more transparent and accurately reflect small business participation by specifying the amount awarded under long-term small business contracts to firms that have since left the program, or are other than small.

Women-Owned Small Business Federal Contracting Program Susceptible to Abuse

SBA's Women-Owned Small Business (WOSB) Program provides greater access to federal contracting opportunities to WOSBs and economically-disadvantaged WOSBs that meet the program's requirements. Both OIG and GAO have reported weaknesses in SBA's controls that would ensure only eligible firms receive WOSB Program set-aside contracts. While SBA stated it examines a sample of firms for eligibility and has conducted a compliance review of all four SBA-approved third-party certifiers, these processes and procedures have not yet been formalized.

The National Defense Authorization Act for FY 2015 granted contracting officers the authority to award sole-source awards to firms in the WOSB Program and required firms to be certified by a federal agency, a State government, SBA's Administrator, or a national certifying entity approved by the Administrator. However, SBA implemented the sole-source authority provision first without a certification program. OIG considers allowing sole-source contracting authority in the WOSB Program, without implementing the contemporaneously required certification program, inconsistent with SBA's statutory authorization. In a June 2018 audit report (Report 18-18), OIG identified that due to SBA's implementation of sole-source authority without a certification program, contracting officers at various federal agencies made sole-source awards without having the necessary documentation to determine eligibility. This implementation resulted in the awarding of approximately $52.2 million to potentially ineligible firms. SBA should continue to make progress toward addressing this shortcoming by ensuring timely completion of the remaining steps involved in the creation of a Final Rule for and implementation of a certification process for the WOSB Program. Because SBA still has not implemented a certification process for the WOSB Program as required, firms continue to self-certify, exposing the WOSB Program to potential fraud and abuse, as well as overstating SBA WOSB contracting goals.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 2005)	2014: 1	2015: 0	2016: 1	2017: 0

Recommended Actions for FY 2019	Status at end of FY 2018
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 WOSB Program.	Yellow

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

Challenge 2: SBA Needs to Continue to Improve Information Technology Controls to Address Operational Risks

During the past year, the Office of the Chief Information Officer (OCIO) enhanced its deployment of information technology (IT) controls and implemented most of the key components of the Federal Information Technology Acquisition Reform Act (FITARA). OCIO also made improvements in several security areas in the Federal Information Security Modernization Act (FISMA) criteria, including access controls, continuous monitoring, and configuration management. Notwithstanding these improvements, our assessments showed opportunities for improved or more complete deployment of required policies, procedures, and strategies. These areas include human resource planning, user training, contingency planning, and risk management.

OCIO Made Progress in Deploying FITARA Criteria

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, by improving its IT governance structure. Some examples include requiring program offices to engage with the Architectural Review Board for IT investments, updating system development methodology guidance to include cloud migration and Agile, and ensuring that the Business Technology Investment Council reviews performance management baselines. The Agency maintains that it has fully deployed all major process and procedures required by FITARA, and we will monitor these areas this coming year to determine whether critical controls are fully implemented.

Long-Standing Weaknesses in IT Security Controls Are Being Addressed

Our evaluations of SBA's systems and networks indicate that significant effort has been expended to formalize and document policies, procedures, and strategies. During this fiscal year, the Agency closed 35, or approximately 69 percent, of its outstanding IT recommendations, including recommendations dating back to 2011.

However, outstanding IT security vulnerabilities remain. Our evaluations utilizing the Financial Information Systems Audit Control Manual showed that the Agency had a significant deficiency in IT security controls and was assessed as "not effective" against criteria established by FY 2017 Inspector General FISMA Reporting Metrics. There are open recommendations in the areas of continuous monitoring, risk management, incident response, identify and access management and data rights management. OCIO should continue to focus on timely remediation of these vulnerabilities as SBA, like most federal agencies, continues to experience external cybersecurity threats.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 1999, revised in FY 2016)	2015: 0	2016: 0	2017: 0	2018: 0

Recommended Actions for 2019	Status at End of 2018
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.	Yellow↑
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 made substantial progress to address this long-standing challenge. Specifically, SBA developed and implemented plans that aligned talent needs and capabilities with its strategic plan. The Agency also implemented strategic workforce and succession plans to identify competency gaps, strengthen its leadership capacity, and address the challenges of its aging workforce. Nonetheless, according to GAO, agencies need to do further work to fully use workforce analytics to evaluate actions taken to demonstrate progress in closing the competency gaps. According to GAO, mission critical skill gaps within the federal workforce pose a high risk to the nation. Long-term fiscal pressures and the changing nature of the workforce, compounded with a potential wave of employee retirements, could produce gaps in leadership and institutional knowledge.[2]

SBA continues to make progress in addressing our recommendation to update its human capital management policies. In March 2018, SBA issued an Employment Development Program policy; however, two policies are still outstanding. OIG reiterates the need to establish timeframes to update and implement policies in support of the agency's long-term goals and objectives for human capital management.

SBA identified 50 percent of its employees in mission critical occupations and senior positions as being eligible to retire by 2020.[3] As a result, OIG plans in FY 2019 to assess the effectiveness of SBA's actions to mitigate its workforce challenge risk. OIG also plans to evaluate the Agency's use of workforce analytics to evaluate its progress in closing its competency gaps.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2001, revised FY 2007)	2014: 0	2015: 1	2016: 0	2017: 1
Recommended Action for FY 2019				Status at end of FY 2018
1. 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

[2] GAO, High-Risk Series: Progress on Many High Risk Areas While Substantial Efforts Needed on Others, GAO-17-317, dated February 2017.
[3] SBA Strategic Workforce Plan FY 2017–2020.

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 $132 billion loan portfolio originated by lenders and certified development companies 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 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 and update regulations on loan agents.

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 prior audit, OIG found that SBA did not always recognize the significance of lender weaknesses or determine the risks that 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.

From FY 2013 to FY 2017, SBA improved its oversight of lending participants. For example, 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. Additionally, 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. Further, SBA monitored and verified implementation of corrective actions to ensure effective resolution prior to closeout which represented the full implementation of recommendation 1 in FY 2017. In FY 2018, OCRM continued to demonstrate that it monitored and verified implementation of corrective actions.

SBA Improved Portfolio Risk Management Program

A prior OIG report noted 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 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. Specifically, in FY 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 loan status reporting. SBA identified deficiencies with the reporting and subsequently issued Information Notice 5000-1945, reminding lenders of the reporting requirements. Lastly, in FY 2018, SBA analyzed areas of identified risk including assessing the impact of hurricane deferments on 7(a) portfolio performance, accommodations concentration in the 7(a) portfolio, and an evaluation of the Community Advantage Program. Based on these analyses, SBA determined that the hurricane deferments would not have a significant impact on the ability to continue to operate at a zero subsidy, accommodations concentrations warrant continued monitoring, and that changes are necessary to the Community Advantage Program.

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 2019 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 FY 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 increasing the risk of default. Despite the prevalence of fraud in its loan portfolios, SBA's oversight of loan agents has been limited.

However, SBA has made substantial progress in developing effective methods to disclose and track loan agent activities on 7(a) program loans. Specifically, SBA requires lenders to provide a loan agent disclosure form (Form 159) to SBA's fiscal and transfer agent (FTA). Additionally, the FTA must 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 does not intend to submit the final regulation to the Office of Management and Budget (OMB). SBA has indicated that the additional regulation is no longer necessary to provide effective enforcement procedures for loan agents because those effective enforcement procedures already exist in the SOP. Based on our review, we have determined that SBA's existing regulations and enforcement procedures would likely be sufficient.

In response to our loan agent report, SBA stated that it would explore the feasibility of implementing a registration system. Subsequently, SBA determined that the optimal way to gather information is the enhanced Form 159 that is required to be submitted electronically. The enhanced Form 159 was recently approved by OMB and will be rolled out with official notification and lender training. In addition to the enhanced Form 159, SBA's upcoming FTA contract will require the FTA to develop application and follow-up controls over lender submissions, to ensure that critical fields on each form are completed. SBA expects the enhanced controls to be fully implemented during FY 2019. In FY 2018, OIG removed one action (previously number five) from this challenge because recommended action number three fully addresses the intent of both recommended actions and aligns with the ongoing process improvements.

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 almost 2,500, 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 several 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 Past Four Fiscal Years (Challenge first reported in FY 2001)	2014 7(a) loans: 0 504 loans: 0	2015 7(a) loans: 1 504 loans: 1	2016 7(a) loans: 0 504 loans: 0	2017 7(a) loans: 1 504 loans: 1

Recommended Actions for FY 2019	Status at end of FY 2018	
	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.	Green ↑	Yellow
3. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.	Yellow	Yellow ↑
4. Update regulations (13 CFR Part 103) regarding loan agents to provide effective enforcement procedures.	Green ↑	Green ↑

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. Furthermore, during FY 2018, SBA implemented additional measures for business opportunities specialists to use to assess 8(a) firms' development for those firms participating in the 8(a) mentor-protégé program. Despite these improvements, SBA has not fully implemented an IT system that, among other functionalities, it had designed to aid its monitoring efforts to track 8(a) participants' business development. SBA had made previous attempts to revamp its IT systems for monitoring 8(a) firms that have been unsuccessful. SBA is now taking a more comprehensive approach to service delivery through Certify.sba.gov, which is broader in scope than just the 8(a) program and includes the WOSB, HUBZone, and mentor-protégé programs. To date, SBA implemented limited functionality for the 8(a) program. According to program officials, although the system is not fully operational, they have gained efficiencies by collapsing the functionality of two previous systems they were using to manage the program—E-8(a) and the Business Development Management Information System. As of September 2018, SBA had spent over $24 million on this system, and it plans to continue implementing functionalities for the 8(a) program through FY 2020

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

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 five percent over the previous year through a streamlined application process. However, as of April 2018, SBA reported the 8(a) program includes 4,903 firms, which is a decline of nearly seven percent over the 5,260 firms reported participating in the program as of March 2017.

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; however, it has not implemented any corrective actions during FY 2018.

SBA is responsible for the integrity of the 8(a) program. We urge SBA 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.

Deficiencies in Continuing Eligibility Processes Expose the 8(a) Program to a Higher Risk of Fraud

While SBA continues to consider corrective actions to improve safeguards throughout the initial 8(a) eligibility review process, SBA also needs to implement corrective actions to improve its continuing eligibility review process. In FY 2018, we reported that SBA's oversight was insufficient to ensure that 8(a) Business Development Program participants met continuing eligibility requirements (Report 18-22). We found SBA did not consistently identify ineligible firms in the 8(a) program and did not always act to remove firms it determined were no longer eligible for the program. In addition, SBA did not perform required continuing eligibility reviews when it received specific and credible complaints regarding firms' eligibility and did not log all complaints. We found that 20 of 25 firms we reviewed should have been removed from the 8(a) program. These firms received $126.8 million in new 8(a) set-aside contract obligations in FY 2017 at the expense of eligible disadvantaged firms. Until SBA makes improvements to ensure it delivers an effective 8(a) program, 8(a) firms that are ineligible will continue to compete with and receive federal awards that were intended to develop disadvantaged small businesses.

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" as an individual with a net worth of less than $250,000. In FY 2018, a contractor completed a study to assist SBA in defining or establishing criteria for determining what constitutes "economic disadvantage." According to Agency officials, the study concluded that individuals with an adjusted net worth of $375,000 should constitute "economically disadvantaged." Based on the results of the study, the Agency is drafting a proposed rule to address increasing the "economic disadvantage" adjusted net worth.

OIG contends that 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.

Number of Actions Accomplished (Green Status) During Past Four Fiscal Years (Challenge first reported in FY 2003)	2014: 0	2015: 0	2016: 0	2017: 2

Recommended Actions for FY 2019	Status at end of FY 2018
1. Establish objective and reasonable criteria that effectively measure "economic disadvantage" and implement the new criteria.	Yellow ↑
2. Augment and Implement controls that ensure only eligible firms are admitted into the 8(a) program.	Yellow ↑
3. 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.	Yellow ↑
4. Measure 8(a) Business Development Program participant's progress on achieving its individualized business development goals and assess program effectiveness.	New
5. Implement controls to detect ineligible firms in the 8(a) program during the continuing eligibility reviews, effectively address complaints received regarding 8(a) firms, and remove ineligible firms from the 8(a) program timely.	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 2017, the dollar amount of SBA's 7(a) loan approvals reached a record high of $25.4 billion. Most 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 2017, the amount of loans sold on the secondary market totaled approximately $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. Also, 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 hired additional staff at the Loan Guaranty Processing Center, developed training related to corrective actions, and revised its loan review process.

While OCA made substantial improvements, OCA needs to continue 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. Specifically, OCA has formalized its improper payment sampling, demonstrated that its improper payments review process is effective for 7(a) loan approvals, and formalized the recovery process and time standards for 7(a) purchases. In addition, OCA 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.

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. In FY 2018, preliminary estimates from the Agency's statistician indicate that they met their published improper payment reduction target for 7(a) guaranty purchases.

OCA needs to continue to demonstrate in FY 2019 that the developed corrective action plans are effective in reducing improper payments.

SBA Improved Staffing, Training, and Supervision at the Loan Approval Center

Program management's 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. In addition, SBA processing centers often must meet high demands for production with limited resources, resulting in inventory backlogs and a focus on production activities. For example, a prior OIG report 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.

SBA Implemented Corrective Actions to Reduce 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 the related loans.

OIG reviews high-risk loans purchased by SBA to determine whether lenders materially complied with SBA requirements and to identify suspicious activity. As of September 2018 (Report 18-26), under the OIG's High Risk 7(a) Loan Review Program, we reviewed 27 loans with purchase amounts totaling almost $23.2 million. We have recommended recoveries on 11 loans totaling more than $8.5 million. In addition, we identified suspicious activity on five loans totaling nearly $4 million, resulting in formal referrals to our Investigations Division. Our reviews also have identified concerns with change of ownership transactions and SBA's review of improper payments. We recommended that SBA evaluate the time loan specialists must review complex early-defaulted loans. In response to this recommendation, OCA modified the production standards to allow loan specialists more time to review complex early defaulted loans. In addition, OCA made improvements to its review of loans by providing training to loan specialists and updating the loan review checklist.

In FY 2018, OCA continually assessed the inventory and production levels at the loan centers to ensure the appropriateness of staffing. For example, OCA monitors the loan inventory and reallocates staff as necessary to meet the demand and ensures that all purchase reviews are being completed in a timely manner. While OCA is working to backfill vacancies at the National Guaranty Purchase Center (NGPC), the reallocation of staff has allowed the NGPC to continue to meet the demands. In addition, the quality control team conducts ongoing analyses of loan review decisions to determine root causes of deficiencies and develop corrective actions. NGPC management and quality control staff provides targeted training to Center staff based on these analyses.

OCA needs to continue to demonstrate in FY 2019 that the loan centers are appropriately staffed and that the additional time allotted to loan specialists on complex early-defaulted loans is sufficient to identify complex improper payments.

Actions Accomplished (Green Status) During Past Four Fiscal Years (Challenge first reported FY 2010)	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	2017 7(a) Approvals: 0 7(a) Purchases: 1

Recommended Actions for FY 2019	Status at end of FY 2018	
	7(a) Approvals	7(a) Purchases
1. Demonstrate that corrective action plans are effective in reducing improper payments in the 7(a) Loan Program.	Green↑	Green↑
2. 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.	Green↑	Green↑

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

Challenge 7: SBA's Disaster Assistance Program 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 2017 year-end disaster assistance loan portfolio balance was $6.2 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.

In FY 2008, following Hurricane Katrina, 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 these programs. The authorizing legislation required SBA to implement guaranteed disaster loan programs in partnership with private lenders. In FY 2018, two of the programs had their unobligated funding canceled, and SBA is now requesting the same for the two other programs in FY 2019. After that, SBA plans to seek congressional support for the cessation of program authority for all four programs. 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. In October2017, SBA announced the implementation of the Express Bridge Loan Pilot Program. The pilot program provides a streamlined approach to quickly get emergency financial relief of up to $25,000 to small businesses in presidentially declared disaster areas. The pilot program is scheduled to run for three years from October 16, 2017, through September 20, 2020; however as of August 17, 2018, SBA has not approved or disbursed any loans under this program.

We also are concerned that SBA does not sufficiently 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. On September 6, 2017, ODA increased MAFD to 75 percent for all income levels without the need to provide justification.

Finally, disaster loans are vulnerable to improper payments, fraud, and default because loan transactions are often expedited to provide quick relief to disaster survivors. SBA is continually challenged to maintain a low improper payment rate in this program. Lending personnel hired in connection with a disaster declaration may lack sufficient experience, and the volume of loan applications may overwhelm SBA's resources and its ability to exercise careful oversight of lending transactions. SBA had an increase in its reported improper payment rate from prior years, because of the need to mobilize a new workforce to respond to large-scale disasters. For example, in response to Hurricanes Harvey, Irma, and Maria, ODA increased trained staff from 800 to its peak of 5,094 on December 13, 2017. ODA increased trained staff at all five of its centers in response to the three hurricanes.

Private Lender Programs Intended to Quickly Disburse Disaster Funds Not Implemented

Following Hurricane Katrina, congressional representatives expressed concern that SBA did not effectively develop and use programmatic innovations intended to assist in disbursing funds quickly and effectively. The Small Business Disaster Response and Loan Improvements Act of 2008required SBA to establish three new guaranteed disaster programs using private sector lenders—the Economic Injury Disaster Assistance Program (EDAP), the Private Disaster Assistance

Program (PDAP), and the Immediate Disaster Assistance Program (IDAP). Together, these programs are collectively known as the “Guaranteed Disaster Assistance Programs.”

While SBA established regulations and procedures to deliver IDAP, it did not do so for the EDAP and PDAP. SBA notified Congress that it had sought advance public comment on proposed rulemaking and received limited responses, most which were opposed to their implementation. SBA also reported that its partner lenders chose not to participate. Therefore, SBA is in the process of seeking rescission of these three programs. As SBA requested, the Appropriations Act of 2018 included permanent cancelation of $2.6 million in unobligated funding for IDAP and EDAP. SBA has requested rescission of the remaining PDAP program in its FY 2019 Congressional Budget Justification. SBA officials expect that Congress will follow the precedent set last year and permanently cancel PDAP in the Appropriations Act of 2019. After that, SBA plans to seek congressional support for cessation of program authority for all three guaranteed disaster loan programs. OIG notes that GAO has closed all audit recommendations related to these programs.

SBA indicated that it has improved its disaster assistance delivery channel and is now better equipped to provide more timely disaster assistance. The Agency also indicated that its larger unsecured disaster loan limit, now at $25,000, allows more funds to be disbursed quickly following a disaster.

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 this loan program within 270 days, which was not done.

In FY 2017, SBA studied this proposed program and concluded that it duplicates the existing SBA Express Loan Program, and cannot be delivered as designed without subsidy costs, which 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. SBA also believes that the proposed five-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 requested rescission of the program in its FY 2019 Congressional Budget Justification and has deferred creation of program regulations. SBA plans to seek congressional support for cessation of this program.

On October 16, 2017 SBA announced the implementation of the Express Bridge Loan Pilot Program. The pilot program adopts some of the objectives included in the RISE Express Recovery Opportunity Loan Program, without duplicating or endangering the existing SBA program. It provided a streamlined approach to quickly get emergency financial relief of up to $25,000 to small businesses in presidentially declared disaster areas. This is in the form of expedited guaranteed bridge loan financing for disaster-related purposes, while small businesses apply for and await long term financing. SBA is running the pilot program for three years from October 16, 2017, through September 20, 2020. As of August 17, 2018, SBA has not approved or disbursed any loans under the pilot program.

Increased Maximum Acceptable Fixed Debt Threshold May Limit Borrower's Ability to Repay Disaster Loans

SBA uses the fixed debt method to determine disaster home loan affordability. This method assumes that there is a debt threshold, known as the maximum acceptable fixed debt (MAFD) beyond which loans become unaffordable and likely to default. Prior to November 2012, there were two MAFD tiers: 36 percent for incomes below $25,000 and 40 percent for incomes above $25,000. A November 2012 policy memorandum increased the number of tiers and raised MAFD to 50 percent for incomes of $60,000 and above. The policy memorandum, later incorporated into SOP 50 30 8, also diminished the level of authorization required to approve loans that do not conform to the established MAFD percentages. The provisions of policy memorandum have since been incorporated into SOP 50 30 8, Disaster Assistance, issued in July 2015.

On September 6, 2017, ODA issued Memo 17-22, New Credit Model Pilot, effective for all disasters declared on or after August 25, 2017. The memo provides increasing MAFD to 75 percent for all income levels without the need to provide justification, increasing the thresholds for RAPID loan processing to credit score of 670 and income of at least $50,000, and increasing the auto-decline threshold from a credit score of 539 to 569. ODA asserted in the FY 2017 Annual Financial Report that the increase in MAFD was warranted based on 24 months of working closely with a third-party consulting firm. According to ODA, the firm validated that increased MAFD percentage limits will have an insignificant impact on the loan portfolio's loss rate. On May 31, 2018, ODA issued SOP 50 30 9, which has incorporated the provisions of Memo 17-22.

ODA believes that credit score is more of an indicator of charge-off likelihood than any other factor. Further, the data supports decreasing emphasis on debt to income (DTI) as it relates to the ODA decision-making process. It is for this reason that ODA now considers credit score and income as the primary factors to determine repayment ability. When ODA is unable to make a decision based on these factors, ODA will use a DTI calculation, allowing up to 75 percent. OIG recently commenced an audit to assess ODA's MAFD and determine its potential impact on the charge-off rate.

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 to match the volume of loan applications and prevent processing backlogs that delay the delivery of disaster assistance. In response to Hurricanes Harvey, Irma, and Maria, ODA increased trained staff from 800 to its peak of 5,094 on December 13, 2017. This included the Processing and Disbursement Center, which increased staff by more than 700, Field Operations Centers East and West combined increased by more than 360, the Damage Verification Center increased by more than 200, and the Customer Service Center increased by more than 130. ODA trained over 1,000 loan processing staff and 600 loss verifiers to mobilize in response to the hurricanes. In addition, ODA deployed 1,500 field personnel and staffed more than 443 disaster centers in response to the three hurricanes.

On May 31, 2018, ODA completed an After Action Report for Hurricanes Harvey, Irma, and Maria, which identified successes, challenges, and action items. As a result, ODA launched a cross-functional Training Plan Development Team that is developing core training modules, as well as online and automated tutorials. In FY 2019 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

SBA's improper payment rate for the Disaster Direct Loan Program disbursements increased from 5.32 ($18.4 million) in FY 2016 to 13.65 percent ($123.38 million) in FY 2017, The Agency asserted the rate increase was anticipated due to larger disaster volume and less experienced staff. OMB Memorandum M-15-2 requires agencies to identify the reasons their programs or activities are at risk in developing their corrective action plan. Furthermore, it states that, for programs susceptible to significant improper payments, agencies should identify the root causes of the improper payments, and implement appropriate, robust corrective actions to prevent and reduce the related improper payments. To reduce disaster loan improper payments, 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 2019, 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)	2014: 0	2015: 0	2016: 0	2017: 0

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 staff that can be quickly mobilized in the event of a disaster and refine its training approach, if needed, depending on the results of the Hurricanes Harvey, Irma, and Maria disaster loan cycles.	ODA Green↑
4. Strengthen internal controls to minimize the risk of charge-offs associated with the increased MAFD threshold.	ODA Yellow
5. Reduce the improper payment rate to meet the reduction targets in FY 2018, in accordance with the FY 2017 Agency Financial Report to comply with the Improper Payments Elimination and Recovery Improvement Act of 2012.	ODA Orange↓

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

Challenge 8: SBA Needs Robust Oversight of Its Grant Management

In FY 2018, SBA administered over $247 million in grants and cooperative agreements to its resource partners and other nonfederal entities to provide technical assistance and training programs to develop small businesses. With recent governmentwide emphasis on grant management reform, it is SBA's responsibility to develop processes and policies to ensure its grant programs effectively and efficiently accomplish program objectives. However, OIG reviews of SBA's grant programs continue to identify significant systemic deficiencies in SBA's grant management. Specifically, we identified systemic issues with SBA's accuracy of grant data for both financial and performance reporting, ineffective oversight, and inadequate standard operating procedures.

Data Accuracy Concerns

SBA's issues with grant program data quality affects SBA's ability to report timely, complete, and accurate information as required by the Digital Accountability and Transparency Act of 2014. In a management advisory memorandum (Report 18-15), we reported on the material weakness identified by an independent accounting firm pertaining to SBA's controls over the accuracy of data reported on USASpending.gov. Overall, the firm reported a 32 percent error rate for the transactions it reviewed, including procurement, grants, and disaster business loans. However, of the 72 randomly selected grant transactions, the firm found 64, or 89 percent, had inaccuracies reported in USASpending.gov. Further, in its own internal A-123 review on the grant management process used by the Office of Grant Management, the Agency component responsible for administering most of SBA's grants, SBA's internal auditors found that 100 percent of the sampled transactions contained inaccuracies. Without accurate reporting in USASpending.gov, policymakers and the public cannot effectively track federal spending.

Inadequate Oversight of Grant Recipient's Use of Federal Funds and Grant Program Performance

As stewards of taxpayer funds, SBA needs to make substantial improvements to its grant management processes and procedures to ensure the funds are used for allocable, allowable, and reasonable expenditures. We identified systemic issues with SBA's oversight of grant recipients' use of federal funds. These included SBA not enforcing financial reporting requirements, not detecting grant recipient budget reallocations, using weak financial review procedures, and missing supporting documentation. Further, SBA did not have adequate controls to ensure it completes grant closeouts in accordance with federal regulations, recently brought to the forefront for federal grant management with recent reporting requirements in Grants Oversight and New Efficiency Act. Without more robust review procedures, SBA's programs are at risk of funds not being used for their intended purpose.

Further, recent OIG reviews of SBA's grant programs continue to identify significant weaknesses within SBA's oversight of its grant program performance. Specifically, we've found that SBA did not ensure that performance data was accurate or complete, that recipients provided sufficient supporting documentation for its reported performance, that it enforced performance reporting requirements, and that it performed comprehensive review procedures. Without accurate and complete performance reporting and comprehensive reviews of performance reports, SBA risks its grant programs not achieving the intended results. Moreover, OIG consistently reports that SBA did not ensure that performance measures adhered to Government Performance and Results Modernization Act of 2010. Further, without outcome-based measurements, SBA cannot determine whether the program achieved its intended impact.

Organizational Structure Challenges

SBA's decentralized grant management function further perpetuates the inefficiencies found in SBA's grant management process. Currently, SBA has three offices that award, monitor, and close out grants. These offices use separate policies and procedures to manage Agency grants. Though the three offices all perform the same responsibilities, there is no overarching office or official responsible for ensuring that the various grant-making components adhere to federal laws and regulations, grant officers are adequately trained, or that process and procedures used to award and monitor grants are efficient and effective. Because the grant management function is not aligned under a centralized office, implementing corrective measures to minimize the impact of the systemic issues and sustaining the corrective actions continues to be a challenge for SBA. In recognizing common issues throughout its grants programs, SBA management should collaborate to foster agency wide improvements to ensure federal funds are used for its intended purposes and that its programs achieve intended results.

Planned Improvements

The Office of Grants Management officials acknowledged that there are systemic issues within its grant management processes and plan to address these issues by implementing a new grant management system, implementing policies to establish an overarching oversight function for all of SBA's grants, establishing new training requirements for grants officers, and focusing resources on closing out grants to comply with Grants Oversight and New Efficiency Act requirements.

New Challenge for FY 2019	2014: N/A	2015: N/A	2016: N/A	2017: N/A
Recommended Actions for FY 2019				Status at end of FY 2018
1. Conduct an overall evaluation of its grant management organizational structure with an emphasis on centralizing the oversight of these programs in order to reduce and ultimately eliminate systemic issues for maximum program success.				New
2. Implement a system to effectively manage and monitor grant awards, to include a process for ensuring the data submitted to USASpending.gov complies with DATA Act requirements.				New
3. Update grant management policies and procedures to ensure grant officers enforce grant recipients comply with financial and performance requirements, verify that reported information is accurate and complete, and ensure applicants' proposals include plans to measure performance in a way that will help SBA achieve program outcomes.				New
4. Establish training requirements for all grants officers and program personnel responsible for monitoring grant recipients performance to enforce compliance with SBA's established procedures for grant management and best practices for administering grant awards and monitoring performance. The training should address the systemic issues we identified in this summary report.				New

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