

REPORT ON THE MOST SERIOUS  
MANAGEMENT AND PERFORMANCE  
CHALLENGES IN FISCAL YEAR 2017





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

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**Memorandum**  
Management Challenges

**DATE:** October 14, 2016

**TO:** Maria Contreras-Sweet  
Administrator

**FROM:** Peggy E. Gustafson  
Inspector General

**SUBJECT:** Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2017

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's (OIG) *Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration (SBA) in Fiscal Year (FY) 2017*. The overall goal is to focus attention on significant issues with the objective of working with Agency managers to enhance the effectiveness of 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, which 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 2017.

**Table 1. Summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2017**

	Challenge	Color Scores					
		Status at End of FY 2016				Change from Prior Year	
		Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting	1	1	2		1	
2	IT Leadership			3			
3	Human Capital		2				
4	SBA Loan Program Risk Management and Oversight		5	1			
5	8(a) Business Development Program		2		1	2	
6	Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers		3				
7	Disaster Loan program		2	1			
8	Acquisition Management		4			4	
	TOTAL	1	19	7	1	7	0

Significant changes to this year’s Management Challenges report involve information technology (IT) leadership (Challenge 2), human capital strategies (Challenge 3), loan program risk management and oversight (Challenge 4), and ensuring quality deliverables and reducing improper payments at SBA loan operation centers (Challenge 6).

Last year, we reported that SBA needed to address long-standing IT security weaknesses (Challenge 2). This year, we realigned the discussion to include our concerns regarding SBA leadership in overseeing and addressing IT investments and security risks. Since 2005, SBA has had 8 Chief Information Officer’s (CIO). Prior to the recent appointment of the new CIO, the position had been vacant since July 2015; thereby, adversely affecting the ability of SBA to make lasting improvements in its IT investments and security in multiple areas.

As noted in a Government Accountability Office’s (GAO) report, *Leadership Attention Needed to Overcome Management Challenges* (September 22, 2015), the reason SBA has not mitigated many longstanding management challenges is, in part, due to the lack of sustained priority attention over time and frequent turnover of leadership. Although SBA has made some progress in recent years to address challenges in the area of human capital management (Challenge 3), longstanding recommendations to develop a workforce plan and update guidance have not been implemented. Further, SBA’s human capital challenges continued when it lost its provisional certification for its SES performance appraisal system because it did not timely submit its recertification request to the Office of Personnel Management (OPM). In 2012 and again in 2014, SBA conducted Voluntary Early Retirement Authority/Voluntary Separation Incentive Payment (VERA/VSIP) programs to address the pending retirement wave and create vacancies that could then be filled with employees with needed skills. However, SBA conducted its VERA/VSIP programs before having an agency-wide competency skills gap assessment and a workforce plan, which risked the opportunity to reshape the agency through the VERA/VSIP efforts. As a result of concerns about how the 2014 VERA/VSIP

program was implemented, in FY 2016, OIG began a review of SBA's 2014 VERA/VSIP program. Our review will be completed in FY 2017.

This year, we also consolidated previously reported challenges on lender oversight (previously Challenge 4) and loan agent fraud (previously Challenge 6) into a challenge on loan program risk management and oversight, which is the responsibility of SBA's Office of Credit Risk Management (OCRM). With limited resources, OCRM manages credit risk for a nearly \$120 billion loan portfolio originated by over 2,400 active lenders and Certified Development Companies (CDCs) that have various degrees of expertise regarding SBA loan program requirements. Further compounding this challenge, the majority of SBA loans are originated by lenders with delegated approval authority, resulting in limited SBA review until a default occurs. Many of these lenders also 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 management challenge reports noted SBA's progress in implementing a quality control program for all of its loan centers. While SBA made progress in implementing a quality control program, further improvements are needed for SBA to continue to demonstrate that all elements of the program are being completed and that the program is effective at identifying and correcting material deficiencies. As a result, we realigned Challenge 6 to ensure that SBA reduces improper payments by delivering timely SBA loan approval, servicing, and purchase decisions while ensuring they meet reasonable standards for quality and accuracy.

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 management challenges.

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

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The Small Business Act established a Government-wide goal that 23 percent of all prime contracts be awarded to small businesses each fiscal year. SBA has reported since FY 2013 that the Federal Government met or exceeded its goal of awarding 23 percent of Federal contracting dollars to small businesses. As the advocate for small business, SBA should strive to ensure that only eligible small firms obtain and perform small business awards. Further, SBA should ensure that procuring agencies accurately report contracts awarded to small businesses when representing their progress in meeting small business contracting goals. However, over the years, Congress has expressed concerns about the accuracy of the *Small Business Goaling Report*. These concerns have been substantiated by 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. Awards made to ineligible firms impact procurement opportunities for small businesses and damage SBA's credibility in reporting accurate 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. 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 policy makers 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 OIG [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 contracting goals, even though these firms were no longer in the 8(a) Business Development or Historically Underutilized Business Zone (HUBZone) Programs. SBA regulations permit procuring agencies to claim small disadvantaged business and HUBZone goaling credit on certain contract actions, even after firms have left the program. In our opinion, the amount of dollars that SBA reports to Congress and the public as being performed by 8(a) and HUBZone firms in the *Small Business Goaling Report* is overstated by including contract actions performed by former program participants. Further, in [Report 13-03](#), we identified weaknesses in the 8(a) Mentor Protégé Program that could also allow procuring agencies to include in their small business goal achievements contracts awarded to small businesses in which large businesses perform most of the work. In addressing deficiencies identified in these reports, SBA corrected weaknesses within its small business information systems that impact the accuracy of goaling data.

## **Women Owned Small Business Federal Contracting Program Susceptible to Abuse**

SBA's Women-Owned Small Business Federal Contract Program (WOSBP) provides greater access to Federal contracting opportunities to women-owned small businesses (WOSBs) and economically-disadvantaged WOSB that meet the WOSBP requirements. OIG and GAO have both reported weaknesses in SBA's controls that would ensure only eligible firms receive WOSBP set-aside contracts. The National Defense Authorization Acts (NDAA) for FYs 2013 and 2015 made major programmatic changes to WOSBP. Specifically, the NDAA for 2013 removed previously existing contract caps on set-aside awards for which WOSB and economically-disadvantaged WOSB firms were able to compete. The NDAA 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, is inconsistent with SBA's statutory authorization and exposes the program to abuse. The importance of a certification program is illustrated by SBA's results of the eligibility reviews it recently completed of 25 firms we identified as potentially ineligible (Report 15-10). These firms had previously self-certified into the WOSBP using the existing regulations to enter the program. After conducting the reviews, SBA determined that 40 percent of the firms were ineligible. Absent a certification program, the Government is more likely to award WOSBP contracts to ineligible firms. SBA is still evaluating a path forward for implementing a certification program for the WOSBP

## **SBA Retained High Size Standards Contrary to its Own Analysis**

SBA uses the North American Industry Classification System (NAICS) as the basis for its size standards. For the most part, size standards are based on the number of employees or average annual receipts of a firm and represent the largest size that a business (including its subsidiaries and affiliates) may be to qualify as a small business for Federal contracting programs. Over OIG objection, SBA did not reduce size standards when the Agency's own analysis indicated it was appropriate to do so. Because SBA has not adhered to its own analysis, small businesses will need to compete against larger concerns within certain NAICS codes. Within those NAICS codes, the benefits intended for small business contractors may instead go to larger concerns. Similarly, small businesses will compete against larger concerns within those NAICS codes so that the goaling numbers may be further distorted.

## **Increased Resources and an Improved Surveillance Review Process Gives SBA More Visibility into Federal Agencies Compliance with Small Business Programs**

SBA performs surveillance reviews to assess Federal contracting agencies' compliance with small business programs' requirements and to verify that agencies are properly measuring their small business goal achievements. Over the past few years, SBA has taken several steps to strengthen its surveillance review procedures, practices and execution. For instance, it implemented a new Standard Operating Procedure (SOP) to ensure consistency in conducting its surveillance reviews and it increased the number of Procurement Center Representatives, allowing it to conduct more surveillance reviews. According to SBA officials, during the last three years it has conducted over 100 surveillance reviews using the new SOP, and it continues to improve its surveillance review process. SBA progressed to a "Green" rating for its efforts to ensure that the reviews are conducted in a thorough and consistent manner.

## SBA's Continued Collaboration with Federal Agencies Improves Quality of Procurement Data

SBA relies on Federal agencies to implement its programs and maximize procurement opportunities for small businesses. SBA is ultimately responsible for ensuring that small businesses receive a fair and equitable opportunity to participate in Federal contracts. As such, SBA needs to continue to collaborate with other agencies to improve procurement data accuracy supporting small business contracting goals. As part of its ongoing efforts to improve the quality of procurement data on small business contract awards, SBA notifies Federal agencies throughout the year of data quality issues it has identified giving those agencies another opportunity to review and correct the data, if required. SBA is also working with Federal agencies procurement personnel to provide them the tools to facilitate the review of data, implement improvements to procurement systems, and conduct training to improve data accuracy. For example, to assist agencies in improving procurement data quality, SBA worked with the Office of Federal Procurement Policy to integrate small business data quality reviews (anomaly reports) into routine agencies' processes and procedures. In addition, for the FY 2015 small business goaling data, SBA developed potential anomaly reports for the top 10 agencies that either have small business award dollars that have been issued to what appear to be large businesses, missing NAICS codes, or missing contracting officer's size selection data.

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

The Program Fraud Civil Remedies Act (PFCRA) of 1986 was enacted to address smaller dollar value frauds. To this end, 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 is the most logical Federal agency to litigate PFCRA cases involving false claims and statements regarding Small Business Act contracting programs submitted to multiple agencies. SBA has started preliminary discussions about implementing this change, but has not yet promulgated a rule. Independent of the PFCRA changes, SBA is in the process of raising 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 Four Fiscal Years (Challenge first reported in FY 2005)	2012: 1	2013: 0	2014: 1	2015: 0
Recommended Actions for FY 2017				Status at end of FY 2016
1. Strengthen controls to ensure the accuracy of the Federal Government's annual small business procurement goals achievements reported in the <i>Small Business Goaling Report</i> .				Yellow
2. Implement a certification process for WOSBP.				Orange
3. Revise the surveillance review process to ensure that they are conducted in a thorough and consistent manner.				Green ↑
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
<b>Green</b> -Implemented <b>Yellow</b> -Substantial Progress <b>Orange</b> -Limited Progress <b>Red</b> -No Progress				



## **Challenge 2. SBA's IT Leadership Capabilities Need Strengthening to Address Operational Risks and Challenges**

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This challenge focuses on the Office of Chief Information Officer (OCIO) improving its leadership roles in overseeing and addressing information technology (IT) investments and security risks. The OCIO is responsible for implementing leadership guidance outlined in the Clinger–Cohen Act, Federal Information Technology Acquisition Reform Act (FITARA), and IT Security criteria. In 1996, Congress enacted the Clinger–Cohen Act to reform and improve the way Federal agencies acquire and manage IT resources. The Clinger–Cohen Act identifies the Chief Information Officer (CIO) as having primary responsibility for overseeing IT investments. Recently, the National Defense Authorization Act (NDAA) for FY 2015 implemented FITARA to strengthen reforms and establish effective IT leadership within each agency. FITARA requires the CIO to play a critical leadership role in driving reforms to help control system development risks, better manage technology spending, and achieve measurable improvements in agency performance. The CIO must ensure Federal IT security is deployed in SBA's highly decentralized and dynamic IT environment.

### **SBA Faces Long-Term Challenges in Implementing Improvements in IT Investment Oversight as Required by FITARA**

Full deployment of FITARA and IT security standards requires organizational alignment and appropriate management of resources within the Agency. As noted in a Government Accountability Office's (GAO) report, *Leadership Attention Needed to Overcome Management Challenges* (September 22, 2015), since 2005, SBA has had 8 CIO's. Prior to the recent appointment of the new CIO, the position had been vacant since July 2015; thereby, adversely affecting the ability of SBA to make lasting improvements in its IT investments and security in multiple areas. The CIO's departure frequently results in turnover in other key IT positions. For example, during the past year, SBA installed new leadership personnel in information security, network operations, and telecommunications positions. Continuity in these positions is critical to ensuring open vulnerabilities are corrected, operational issues are quickly resolved, current guidance adopted and implemented, and IT expenditures (maintenance and capital investment) are vetted and monitored.

GAO and OIG evaluations of IT investment and security practices indicate controls mandated in FITARA and the related common baseline guidance have not been fully deployed. For example, our recent evaluation of the Office 365 migration ([Report 16-16](#)) indicated the lack of IT investment controls, such as system development methodology, modular project phases, baseline controls, and TechStat sessions.

In addition, under the current SBA organization structure, there appears to be dual or overlapping accountability in the CIO's role for IT investment oversight. Currently, a Chief Digital Officer (CDO), who heads a digital services team, reports directly to the Chief Operating Officer (COO), while the CIO reports administratively to the COO's Deputy Chief Operating Officer. The CDO stated role is to transform the Agency's existing technology using the right mix of modern technology development and management approaches. This role may be duplicative and potentially in conflict with the role of the CIO who is responsible for recommending modification, termination, or pause of IT projects or initiatives. The OCIO is also accountable for ensuring applicable security guidance is implemented throughout a project's lifecycle.

## Long Standing Weaknesses in IT Security Controls Require Sustained Management Attention and Infrastructure Investments

Recent Government security breaches have heightened the importance of continuously monitoring network and software applications against outside threats. Our evaluations of SBA’s systems and networks indicate improvement in configuration management. This improvement reflects an IT control enhancement program initiated by the Agency. Notwithstanding these efforts, OIG evaluations further indicate significant outstanding vulnerabilities remain. The results of our annual evaluations of SBA’s systems and networks indicate there are currently 39 open recommendations, some dating back to fiscal year 2011. Many are indicative of enterprise-wide vulnerabilities or risks requiring infrastructure investment or more effective monitoring of contractor hosted systems. These general control areas include:

- Information security and continuous monitoring that requires validation of compliance with security requirements through auditing, periodic reviews, and implementing continuous monitoring strategies.
- Risk management that monitors the selection, implementation, and assessment of security controls, and the related formal 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.

To show significant improvement in these areas, SBA’s OCIO, in conjunction with SBA’s various program offices, will need to make sustained investments in enterprise infrastructure, networks, software and human resources. Outlined below are 3 new improvement areas integral to implementing FITARA guidance. In addition, progress in 3 previously identified critical IT security areas (FY 2015 *Management Challenge 2 Weaknesses in Information Systems’ Security Controls Pose Significant Risks to the Agency*) are consolidated and summarized.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 1999, revised FY 2016)	2012: 0	2013: 1	2014: 0	2015: 0
Recommended Actions for 2017				Status at end of FY 2016
1. Establish an OCIO Human Resource Planning process that allows full deployment of FITARA.				New
2. The OCIO performs independent oversight of IT investments consistent with guidance.				New
3. The OCIO facilitates enterprise architecture and demonstrates accountability for IT investments.				New
4. The OCIO establishes and implements Information Security and Continuous Monitoring practices, policies and standards to ensure ongoing effectiveness of information systems.				Orange
5. The OCIO maintains effective risk management practices to minimize vulnerabilities.				Orange
6. The OCIO establishes Configuration Management and Identity and Access Management controls and procedures.				Orange

**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**

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Since it reorganized in 2004, SBA's workforce has faced an ongoing skill gap between the competency mix of employees who had been hired for one mission and the competency mix needed to accomplish a new mission. Although SBA has made progress in recent years to address challenges in the area of human capital management, recommendations to develop a workforce plan and update guidance — both of which OIG believes are necessary to becoming a high-performing organization — have not yet been implemented. Further, SBA's human capital challenges continued when it lost its provisional certification in 2015 because it did not timely submit its recertification request to the Office of Personnel Management (OPM). 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 Significant Progress Toward Completing its Workforce Plan but Whether it Will Address Adequately Long-standing Skills Gaps is Unknown**

After almost a decade of simultaneous budget constraints and program growth, SBA took action to restructure key agency operations. However, it had not adequately analyzed priorities and as a result, there was no assurance that sufficient resources in terms of both numbers of staff and the knowledge and skills possessed by staff were available and appropriately deployed to perform critical functions. Some skills gaps were identified by SBA for its mission critical occupations in 2011 and 2013, but an agency-wide competency and skills gap assessment had not been completed since 2006. In 2012 and again in 2014, SBA conducted Voluntary Early Retirement Authority/Voluntary Separation Incentive Payment (VERA/VSIP) programs to address the pending retirement wave and create vacancies that could then be filled with employees with needed skills. OPM authorized up to 300 employees for each program, but only about 180 in 2012 and 150 in 2014 took advantage of the programs. Since this resulted in fewer vacancies than anticipated, SBA did not gain the flexibility it expected to address the gaps in skills that it had identified.

After working with contractors throughout FYs 2015 and 2016 OHRS now anticipates finalizing its workforce plan by early FY 2017. According to an OHRS official, the workforce plan will include an analysis of the workforce with a particular focus on its mission critical occupations, strategies for building on Agency strengths and addressing challenges, and metrics to track progress. Further, the workforce plan will support the goals and objectives laid out in SBA's Strategic Plan. OIG will not have the opportunity to review the workforce plan before its statutory reporting deadline for this management challenges report. According to GAO, when SBA conducted its VERA/VSIP programs before having a current agency-wide competency skills gap assessment and a workforce plan, SBA risked the opportunity to reshape the agency through these efforts. As a result of concerns about how the 2014 VERA/VSIP program was implemented, in FY 2016, OIG began a review of SBA's 2014 VERA/VSIP program. Our review will be completed in FY 2017.

## SBA Made Progress to Update Human Capital SOPs and Guidance

In FY 2016, OHRS made significant progress in updating and establishing standard operating procedures (SOP) for human capital management as recommended by OIG in this long-standing management challenge. OHRS published its Performance Management and Appraisal System and its Delegated Examining SOPs. Further, it advanced four other critical SOPs into the final stages of the clearance process. It is possible, however, that these pending SOPs will not be finalized during the pending election and possible leadership transition.

## SBA Regains its OPM Provisional Certification of its SES Appraisal System

The Office of Personnel Management (OPM) grants provisional or full certification to agencies with appraisal systems that meet certain criteria. Specifically, OPM grants a 1-year provisional certification when an agency has designed, but not yet fully implemented or applied, an appraisal system for its senior executive, and a 2-year, or full certification, when the appraisal system is designed and applied. The maximum pay a senior level executive employee may earn depends on whether an agency has a performance appraisal system certified by OPM.

In addition to long-standing human capital challenges, in August 2015, SBA lost its provisional certification for its SES performance appraisal system because it did not timely submit its recertification request to OPM. Although SBA regained its provisional certification in July 2016, this occurrence emphasized the continued need for effective human capital strategies to successfully carry out its mission. The loss of the Senior Executive Service (SES) performance appraisal system certification impacted individuals paid on the SES pay schedule as described in our August 2016 *Review of SBA's Practices for Senior Executive Service Initial Pay Setting* ([Report 16-20](#)). In our review, we determined that SBA set initial pay higher than allowed for 4 out of 10 SES employees reviewed. This occurred because SBA personnel were not familiar with certain Federal laws and regulations that govern SES pay settings.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2001, revised FY 2007)	2012: 0	2013:1	2014: 0	2015:1
Recommended Actions for FY 2017				Status at end of FY 2016
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.				<b>Yellow</b>
2. Ensure that human capital management SOPs are updated and appropriately structured to support the Agency's long-term goals and objectives and Government-wide human capital management initiatives. <i>(Previously recommended action #3)</i>				<b>Yellow</b>

**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 Continue to Benefit Small Businesses**

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With limited resources, SBA's Office of Credit Risk Management (OCRM) manages credit risk for a nearly \$120 billion loan portfolio originated by over 2,400 active lenders and Certified Development Companies (CDCs) that have various degrees of expertise regarding SBA loan program requirements. Further compounding this challenge, the majority of SBA loans are originated by lenders with delegated approval authority, resulting in limited SBA review until a default occurs. Many of these lenders also rely on the services of "for-fee" and other third party agents to assist in the origination, closing, servicing and liquidation of SBA loans.

### **SBA Improved Oversight of Lending Participants**

The risks inherent in delegated lending require an effective oversight program to (1) monitor compliance with SBA policies and procedures, and (2) 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 has made substantial progress in its oversight of lending participants. In FY 2013, SBA (1) developed risk profiles and lender performance thresholds, (2) developed a select analytical review process to allow for virtual risk-based reviews, (3) updated its lender risk rating model to better stratify and predict risk, and (4) conducted test reviews under the new risk-based review protocol. These efforts have demonstrated that onsite reviews are now conducted on the highest-risk lending participants based on expanded selection criteria. During FYs 2014 and 2015, OCRM revised its review methodologies for 7(a) and 504 program lenders, engaged contractor support to expand on its corrective action follow-up process, and planned to conduct 170 corrective action reviews between 7(a) and 504 lenders. During FY 2015, OCRM stated that it successfully reviewed 147 corrective action follow-up assessments and issued its FY 2016 Risk Management Plan.

### **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. We determined 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. By 2010, the program 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 significant progress in implementing a portfolio risk management program for its loan programs. Further, in 2016 SBA established performance measures and risk mitigation goals applicable to each loan program and the entire lending portfolio. 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 (LOC) meetings. In FY 2016, OCRM 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. SBA will need to continue to demonstrate during FY 2017 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 have identified that SBA does not have a way to effectively identify and track loan agent involvement in its 7(a) and 504 loan portfolios, does not adequately list suspended loan agents to prevent their involvement in the program, and has 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. Yet SBA's oversight of loan agents has been limited, putting program dollars at risk.

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. SBA will likely need to make further modifications to this process. The FTA is testing 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. Additionally, in response to OIG concerns that SBA loan agent enforcement regulations are outdated, SBA published proposed revised regulations and is preparing to provide final submission to the Office of Management and Budget (OMB). Recently, SBA issued a notice to lenders reiterating its requirements for loan agent disclosures and submission of the Form 159 to its FTA.

OIG maintains that SBA also needs to develop a system to assign a unique identifier to loan agents that participate in the 7(a) Program. Otherwise, suspended agents could circumvent SBA by simply changing their name and continuing to participate in the program. In response to our loan agents report, SBA stated 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 report, the number of SBA approved LSP agreements has reached over 1,700, due in part to SBA’s effort to better control access by loan agents to its systems. This trend has enabled OCRM to develop initial performance metrics on loan agent 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 Past Four Fiscal Years (Challenge first reported in FY 2001)	2012 7(a) loans: 1 504 loans: 1	2013 7(a) loans: 2 504 loans: 2	2014 7(a) loans: 0 504 loans: 0	2015 7(a) loans: 1 504 loans: 1
Recommended Actions for FY 2017			Status at end of FY 2016	
			7(a)	504
1. Monitor and verify implementation of corrective actions to ensure effective resolution prior to close-out.			<b>Yellow</b>	<b>Yellow</b>
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.			<b>New</b>	<b>New</b>
3. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.			<b>Yellow</b>	<b>New</b>
4. Update regulations (13 CFR Part 103) regarding loan agents to provide effective enforcement procedures.			<b>Yellow</b>	<b>Yellow</b>
5. Implement a loan agent registration system, including the issuance of a unique identifying number for each agent.			<b>Orange</b>	<b>New</b>

**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 in the Program, and Standards for Determining Economic Disadvantage are Justifiable**

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SBA's 8(a) 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 8(a) guidance, controls, and practices truly prepare participating firms for a competitive market. In the past, SBA had not placed adequate emphasis on business development to enhance the ability of 8(a) firms to compete and did not adequately ensure that only 8(a) firms with economically disadvantaged owners in need of business development participated in the program.

### **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 has also taken steps to ensure business opportunity specialists assess program participants' business development needs during site visits. Additionally, in September 2016, SBA finalized its 8(a) Program SOP to reflect the March 2011 regulatory changes. Although we provided comments to a draft version of the SOP, we did not have an opportunity to review the final SOP before publishing this report. We are currently reviewing the SOP to verify that the SOP reflects the regulatory changes. However, monitoring efforts to track participants' progress have made limited 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.

### **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. During the past year, 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 pilot streamlined application process. According to SBA officials, it is trying to make the application process less burdensome for firms applying to the 8(a) Program. As part of the streamlined application 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. Federal prosecutors have told OIG that it would be difficult for them to describe SBA, the procuring agency, or honest 8(a) competitors as fraud victims when SBA is perceived not to have exercised proper due diligence in admitting firms' in the 8(a) Program. Although SBA's efforts to increase the participation in the 8(a) Program is commendable, SBA still needs to ensure that only eligible firms are admitted into the program, and the documentation supporting 8(a) Program application approvals is maintained in a method ensuring clear eligibility of the applicant.



## SBA Dollar Threshold for Economic Disadvantage Not Justified

In March 2011, SBA revised its regulations to ensure that companies deemed “business successes” graduate from the program, rather than allowing them to remain in the program and receive 8(a) contracts, which caused fewer companies to receive the majority of 8(a) contract dollars and many to receive none. These regulations also 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 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 Congress entrusted SBA to provide when implementing this program. Absent independent analysis of what constitutes economic disadvantage, SBA is not in a strong position to assess public comments.

In 2014, SBA hired an economist to study an alternative to using personal net worth, income, and total assets as the criteria for entering and remaining in the 8(a) Program. However, SBA concluded that the study results were inconclusive and decided not to make any changes to the current criteria. Additionally, the latest draft 8(a) Program SOP excludes equity in a primary residence from the calculation of an individual’s net worth. This exclusion serves as a loophole allowing affluent business owners to shelter wealth in personal real estate, while taking advantage of a program designed to help the socially and economically disadvantaged. Thus, an individual can actually have substantial personal assets (due to an expensive primary residence), but a fairly low net worth.

Number of Actions Accomplished (Green Status) During Past Four Fiscal Years (Challenge first reported in FY 2003)	2012: 0	2013: 0	2014: 0	2015: 0
Recommended Actions for FY 2017				Status at end of FY 2016
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.				<b>Yellow ↑</b>
2. Update and issue the 8(a) Business Development SOP to reflect the March 2011 regulatory changes.				<b>Yellow ↑</b>
3. Establish objective and reasonable criteria that effectively measure “economic disadvantage,” and implement the new criteria.				<b>Red</b>
<b>Green</b> -Implemented	<b>Yellow</b> -Substantial Progress	<b>Orange</b> -Limited Progress	<b>Red</b> -No Progress	

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

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In FY 2015, the dollar amount of SBA's 7(a) loans approvals reached record highs of \$23.6 billion. Additionally, the average amount of 7(a) loans have increased by over 50 percent in the last five years. The majority of these loans are made by lenders with delegated approval authority. Oftentimes, the only opportunity for SBA to review a lenders compliance with SBA requirements is in the event of loan default. 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 2015, the amount of loans sold on the secondary market reached record highs of \$8.5 billion.

### **Inadequate Staffing, Training, and Supervision Have Resulted in Material Underwriting Deficiencies and Improper Payments**

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. For example, a 2014 report ([Report 14-13](#)) noted that SBA management emphasized quantity over quality for 7(a) loan origination reviews and that loan specialists were not provided adequate guidance or training to conduct their 7(a) loan review activities. This resulted in loans that had eligibility and material underwriting deficiencies and eventual losses to SBA. Further, SBA processing centers often have to meet high demands for production with limited resources, resulting in inventory backlogs and a focus on production activities. We noted that a decrease in the number of staff assigned to loan reviews, increase in loan size and complexity, additional center responsibilities and inadequate supervision have also contributed to inappropriate loan decisions, resulting in improper payments. 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. Additionally, in 2008 SBA did not accurately report improper payment rates for its programs because it used flawed sampling methodologies and did not accurately project review findings. In FY 2016, OIG initiated a review of the accuracy of SBA's FY 2015 7(a) loan guaranty purchases improper payment rate that will be completed in FY 2017.

OIG reviews high risk loans purchased by SBA to determine whether lenders' materially complied with SBA requirements or identify suspicious activity. Results to date 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. 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 are 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 loan specialists are generally required to complete loan file reviews within six hours. However, we

believe that SBA should evaluate the time National Guaranty Purchase Center loan specialists have to review complex early-defaulted loans.

**SBA Improved Quality Control Program, but Improvements are Needed to Ensure Timely Implementation of Corrective Actions**

SBA’s Office of Capital Access (OCA) has made significant progress in developing and implementing a quality control (QC) program for all of its loan centers to verify and document compliance with the loan process, from origination to close-out. Additionally, OCA has taken actions to accurately report and reduce improper payments in SBA’s 7(a) Loan Program. OCA has (1) formalized its improper payment sampling, (2) demonstrated that its review process is effective for 7(a) loan approvals, (3) formalized its process to review disputed cases, (4) formalized the recovery process and time standards for 7(a) purchases, (5) developed corrective action plans for 7(a) loans, (6) established repayment ability review requirements that are effective at identifying improper payments, (7) revised improper payment review checklists, and (8) demonstrated recovery from lenders in a timely manner during FY 2015.

During FY 2016, SBA issued letters to Congressional committees and the Office of Management and Budget regarding its programs, including the 7(a) program, that were not in compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 reporting requirements and its plans for correction. Additionally, in order to improve timeliness, OCA revised its dispute resolution process and established a committee of senior leaders that meets regularly to discuss disputed cases and reach consensus. Nevertheless, OCA still needs to demonstrate that its process over disputed cases ensures adequate and timely resolution, corrective action plans are effective in reducing improper payments, and centers provide quality products and are appropriately staffed with qualified resources that are appropriately trained and supervised.

Actions Accomplished (Green Status) During Past Four Fiscal Years (Challenge first reported FY 2010)	2012: 0	2013	2014	2015
		7(a) Approvals:1 7(a) Purchases: 0	7(a) Approvals:1 7(a) Purchases:1	7(a) Approvals:0 7(a) Purchases:1
Recommended Actions for FY 2017			Status at end of FY 2016	
			7(a) Approvals	7(a) Purchases
1. Reassign responsibility for final approval of disputed denial, repair, and improper payment decisions from the Office of Financial Assistance (OFA) to the Office of Credit Risk Management (OCRM) to ensure an adequate and timely resolution of disputes.		N/A	Yellow	
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.		New	New	

**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**

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The Disaster Loan Program plays 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 2015 year-end disaster assistance loan portfolio balance was \$6.3 billion. Each year, SBA approves hundreds of millions in disaster assistance loans. 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. Unfortunately, the need to disburse such loans quickly poses many challenges and may create opportunities for dishonest applicants to commit fraud.

In FY 2015, the Disaster Loan Program's improper payment rate decreased to 8.13 percent from the 12 percent reported in FY 2014. However, it remains above the threshold for significant improper payments defined by the Improper Payments Elimination and Recovery Act (IPERA) of 2012. Also, we remain 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 and taxes. In addition, SBA did not effectively implement statutory provisions intended to assist in disbursing funds quickly and effectively.

Lastly, the Recovery Improvements for Small Entities (RISE) After Disaster Act of 2015 extended the period for Hurricane Sandy survivors to apply for disaster assistance, increasing the difficulty of loan eligibility determinations due to the lapse in time since the disaster occurred in October 2012. The Act also mandated a new private lender disaster loan program. Historically, SBA has faced challenges standing up private lender disaster programs and has been unable to implement statutory private sector disaster loan programs in the past.

### **Disaster Loans Vulnerable to Fraud**

SBA's disaster loans are vulnerable to fraud and losses because (1) loan transactions are often expedited in order to provide quick relief to disaster survivors, (2) lending personnel hired in connection with a disaster declaration may lack sufficient training or experience, and (3) the volume of loan applications may overwhelm SBA's resources and its ability to exercise careful oversight of lending transactions.

SBA's Disaster Processing and Disbursement Center (PDC) identified and denied fraudulent and improper disaster assistance for secondary residences by reviewing key source documents, such as tax transcripts and insurance policies. Most of the Hurricane Sandy loan fraud allegations investigated by OIG included false eligibility declarations, misuse of proceeds, and submission of false invoices or other false statements. Fraud can occur when a property owner attempts to represent their secondary residence, such as a vacation home, as their primary residence. OIG has worked closely with state and Federal agencies to address residence eligibility fraud and has observed that SBA appears to have been more effective in detecting fraudulent and ineligible disaster assistance applications for secondary residences than other Federal disaster response agencies.

## **Improper Payment Rate Remains Above IPERA Significance Threshold**

The year-end subsidy cost allowance balance for the Disaster Loan Program, while on a downward trend, was \$1.09 billion, or 17.3 percent, of the \$6.3 billion Disaster Direct Loans Receivable balance. This means that SBA is estimating over \$1 billion in net losses on its current disaster loan portfolio. While in FY 2015, the program's improper payment rate decreased to 8.13 percent from the 12 percent reported in FY 2014, it remains above the threshold for significant improper payments defined by IPERA (\$10 million and 1.5 percent of program outlays)—Improper payments were \$24.6 million of the \$302 million in program outlays in FY 2015. 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.

## **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 defaulted loans and additional financial distress to disaster survivors.

In the past, the maximum allowable fixed debt (MAFD), the proportion of a borrower's income that can be safely allocated for home loan debt repayment was generally capped at 40 percent; higher income proportions allocated for debt repayment were considered unaffordable. The revised Disaster Assistance SOP issued in 2015 implemented a tiered approach to the maximum income allocation for home loan debt service ranging from 36 percent for incomes below \$25,000 to 50 percent for incomes of above \$60,000. These limits may be exceeded with supervisory approval, but the SOP does 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 that 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 to train its loan officers to safeguard loan affordability.

## **Statutory Provisions 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. For instance, SBA did not implement statutory provisions of the Immediate Disaster Assistance Program (IDAP), Economic Injury Disaster Assistance Program (EDAP), and the Private Disaster Assistance Programs (PDAP), collectively known as the “Guaranteed Disaster Assistance Programs” mandated by Congress in 2008. These provisions were enacted with the expectation that they would allow SBA to provide expedited disaster loans in partnership with private sector lenders.

In July 2016, SBA prepared a memorandum to notify Congress of the work that management performed to address these provisions. Ultimately, SBA stated that it sought advance public comment on proposed rulemaking for these loan programs and received limited public responses, the majority of which were opposed to implementing the three loan programs. The objections were based on the cost of program participation under the current pricing structure and the lender’s lack of infrastructure to deliver loans that meet SBA standards (such as evaluating eligibility and duplication of benefits); loan terms that include longer maturities than conventional lending practices; the high cost of providing these loans; inadequate collateral security; and their lack of expertise in the home loan sector. Lenders were also concerned that loan guarantees would be denied due to improper eligibility determinations. In its memorandum to Congress, SBA stated that it has improved its disaster assistance delivery channel and is now better equipped to provide more timely disaster assistance. According to SBA, loan processing times now average 8 days, with 94 percent of loan disbursements made within 5 days of closing. SBA has also raised the limits for unsecured disaster loans to \$25,000, which allows a greater amount of money to be disbursed quickly following a disaster.

## **Recovery Improvements for Small Entities (RISE) After Disaster Act Introduces New Risks**

The RISE After Disaster Act, enacted November 25, 2015, introduced new initiatives that may pose additional risks and difficulties for SBA’s loan programs. First, the Act directed SBA to make disaster loans available to Hurricane Sandy survivors for a 1-year period following its enactment—over 3 years after the disaster. Because of the significant time elapsed, SBA may have difficulty verifying whether physical losses and economic injury were attributable to Hurricane Sandy, potentially resulting in ineligible recipients receiving loans. We are currently performing an audit of eligibility controls for applications approved during the RISE After Disaster Act extended eligibility period. Second, the Act introduced a new program—the Express Recovery Opportunity Loan Program, which provides loans up to \$150,000 to disaster survivors from private lenders. Given that SBA has not yet implemented the Guaranteed Disaster Assistance Programs authorized in 2008, SBA is likely to experience difficulties implementing this new program as well.

## **Progress in Meeting this Challenge and Emerging Issues**

SBA’s Office of Capital Access (OCA) has not yet implemented pilots of the Guaranteed Disaster Loan Programs, but has sought public comment on the proposed program rules and informed Congress of the outcome. In FY 2016, the RISE After Disaster Act established a new private lender disaster loan program — the Express Recovery Opportunity loan program and required SBA to promulgate regulations for the loan program within 270 days. SBA has not yet promulgated regulations for this program; therefore, we have included a new recommendation for OCA to do so in this management challenge.



ODA has made progress in ensuring that its workforce is fully trained. ODA has trained its core staff on its SOP and IT system revisions, but ODA stated that it has not been cost effective to provide training to its reserve staff since they are not often mobilized. An emerging issue discussed above is the latitude given loan processing personnel to determine how much of a borrowers income to allocate for debt service. We have included a new recommendation in this challenge for ODA to develop policies that limit borrower debt burdens to appropriate levels and train loan processing personnel on the application of those policies in order to safeguard loan affordability.

Finally, ODA has reported substantial progress in reducing its improper payment rate, achieving a rate of 8.13 percent in 2015, and a reduction of almost four percentage points since 2014. In FY 2016, OIG initiated a review of the accuracy of SBA's FY 2015 disaster loan improper payment rate.

Actions Accomplished (Green Status) During Past Four Fiscal Years (Challenge first reported FY 2015)	2012: N/A	2013: N/A	2014: N/A/	2015: N/A
Recommended Actions for FY 2017				Status at end of FY 2016
1. Implement pilot programs of the new guaranteed disaster programs mandated by Congress in 2008.				<b>OCA</b>
2. Promulgate regulations for the Express Recovery Opportunity loan program provided by the RISE After Disaster Act.				<b>Orange</b>
3. Demonstrate that the Agency has adequately trained loan processing resources that can be quickly mobilized in the event of a disaster.				<b>OCA</b>
4. Establish policies that limit borrower debt burdens to affordable levels and train loan processing personnel in the application of those policies.				<b>New</b>
5. Reduce the improper payment rate to 7.29 percent or lower in FY 2016, in accordance with the reduction targets established in the FY 2015 Agency Financial Report.				<b>ODA</b>
				<b>Yellow</b>

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

## **Challenge 8: SBA Needs to Effectively Manage Its Acquisition Program**

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Annually, SBA spends over \$100 million on contracts for goods and services required for the Agency to meet its mission. With decreasing budgets, it is essential that SBA manages its acquisition program in an efficient, effective, and accountable manner in order to ensure the Agency obtains quality goods and services on time and at a fair price. Prior OIG audits have identified instances where SBA was unable to obtain required goods and services in an efficient, effective, and accountable manner. For example, SBA inadequately planned its requirements for procuring IT products and services. SBA also did not comply with Federal regulations when determining whether using interagency acquisitions was the best procurement approach. Additionally, its acquisition SOP does not include procedures on the use of modular contracting for major system acquisitions.

Since this challenge has been reported, SBA has made concerted efforts to monitor the acquisition program and has made improvements by providing training to acquisition personnel, conducting annual advanced strategic acquisition planning, and using the Contract Review Board for making acquisition decisions. Although SBA's improper payment rate for contract disbursements increased for FY 2015 due to administrative and documentation errors, SBA developed a detailed corrective action plan and addressed the root causes of the improper payments. Additionally, SBA's initiatives to interface the contract management system with the financial systems, for the most part, improved user operability of the invoice payment process. In FY 2016, SBA developed an improvement plan to address deficiencies identified in its assessment of the acquisition function. Based on its planned actions, SBA demonstrated substantial progress in addressing the four interrelated areas that are essential for an efficient, effective, and accountable acquisition process. SBA drafted a revised acquisition SOP that is currently under review. When the SOP is issued, it will significantly improve the acquisition function's policies and procedures. Additionally, SBA implemented strategic human capital planning tools to develop training plans and identify future staffing requirements to enhance its acquisition workforce. SBA also has added end-users to the planning team when developing acquisition information system enhancements to improve system functionality and encourage user adoption and plans to include current information on the acquisition division's website for better knowledge management within the acquisition function.

Further, Agency management plans to improve the organization alignment and leadership assessment area by developing a guide to doing business with the acquisition division to clarify the roles and responsibilities of all stakeholders in the acquisition process. SBA also plans for this guide to promote enterprising relationships between the acquisition division and program offices to strengthen the acquisition function strategically within the organization.

In addition to the improvements SBA completed during FY 2016, SBA's planned actions such as: issuing a new SOP, hiring a Senior Procurement Executive, and continuing to implement the improvement plan should improve internal control deficiencies within its acquisition program.



Actions Accomplished (Green Status) During Past Four Fiscal Years <i>(Challenge first reported FY 2013)</i>	2012: N/A (New)	2013: 0	2014: 0	2015: 1
Recommended Actions for FY 2017				Status at end of FY 2016
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.				Yellow ↑
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).				Yellow ↑
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.				Yellow ↑
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.				Yellow ↑
<b>Green</b> -Implemented <b>Yellow</b> -Substantial progress <b>Orange</b> -Limited Progress <b>Red</b> -No progress				