SBA MANAGEMENT REVIEW: SBA IG REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SBA

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SBA MANAGEMENT REVIEW: SBA IG REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SBA

WEDNESDAY, OCTOBER 16, 2019

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The committee met, pursuant to call, at 11:31 a.m., in Room 2360, Rayburn House Office Building. Hon. Nydia Velázquez [chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Finkenauer, Golden, Kim, Crow, Davids, Chu, Evans, Schneider, Delgado, Chabot, Balderson, Hern, and Stauber.

Chairwoman VELÁZQUEZ. Good morning. The committee will come to order.

I would like to welcome back before the committee the Inspector General of the Small Business Administration, the Honorable Mike Ware. Today the committee is holding an important oversight hearing, during which we will examine the most serious management and performance challenges facing the SBA. We will also discuss the Office of Inspector General's recommendations for addressing these challenges, as we seek to better understand their underlying causes.

The IG is a nonpartisan, independent watchdog tasked with auditing, investigating, and promoting efficiency at SBA. Simply put, the IG plays a critical role in protecting taxpayers dollars and making sure the agency is fulfilling its mission.

In fiscal year 2019 alone, the IG achieved more than $110 million in recoveries and savings, a fivefold return on investment to the taxpayers. Every year, the IG is charged with reporting to this committee on SBA's top management and performance challenges. This report not only helps with our oversight responsibilities, but also provides SBA with specific recommendations to address these challenges. Unfortunately, many of these issues are longstanding challenges.

One area of persistent concern is the SBA's small business contracting programs. The IG continues to identify critical weaknesses in SBA's oversight of its contracting programs, which exposes them to fraud and abuse. In fact, the IG found that ineligible 8(a) firms continue to compete with and receive federal awards intended to assist disadvantaged small businesses under the 8(a) program. Whether this is due to the streamline application process meant to reduce burdens on applicants or poor management of continued eligibility reviews, it is imperative for SBA to take corrective actions.

Another area of the report that troubles me is that SBA has not implemented a certification process for its women's procurement program given that Congress passed a law in 2015 requiring it to do so. This delay is entirely unacceptable.

I look forward to hearing the ways in which SBA can improve its contracting programs and accelerate the implementation of the women small business certification process.

I am also concerned about SBA's rollout of its "certify.sba.gov" online platform. As of August 2019, SBA has spent approximately $27 million on this system which was supposed to modernize the certification experience for 8(a) and other SBA contracting program participants and offer comprehensive service delivery.

To date, SBA has implemented only limited functionalities and it failed to make any progress in enhancing these functionalities during the last year. There are complaints of unreasonably long help desk delays and significant latent defects in this system. Now we are learning that SBA plans to develop an entirely separate system to monitor 8(a) participants' business development.

SBA has invested a substantial amount of taxpayers dollars in this platform, and I would expect by now to see results from this investment. Unfortunately, it appears that SBA has failed to implement this platform effectively.

It is my goal for today's hearing to shed light on what specific steps SBA is taking to address this serious finding and how SBA intends to deliver a more effective system.

Another issue that requires this committee's close attention is SBA's oversight of its grant programs. Last year, OIG identified "significant systemic deficiencies" in SBA's grant management, including issues regarding the accuracy of grant data, ineffective oversight, and inadequate standard operating procedures. While progress has been made in this area, SBA's oversight of its grant programs remains a significant concern.

Finally, I was pleased to see that SBA has made progress in developing methods to disclose and track loan agent activities on 7(a) program loans. IG investigations have revealed an alarming pattern of fraud by loan agents in the 7(a) program involving millions of dollars.

While I am encouraged by SBA's efforts to implement enhanced loan agent disclosure forms and controls over lender submissions, it is vital that the IG continue to monitor this area closely and identify areas where SBA can continue to improve.

Without a confirmed administrator and even a deputy administrator in place to take the reins of the agency, it is now more critical than ever to ensure the SBA is operating effectively and performing its core goal of reaching and assisting entrepreneurs across this country. I am hopeful we can work together using the IG's expertise and unique insight into the agency to improve the SBA.

I now would like to yield to the Ranking Member, Mr. Chabot, for his opening statement.

Mr. CHABOT. Thank you, Madam Chair.

The Small Business Administration's Office of Inspector General, or SBA OIG, is required to deter, identify, and investigate instances of fraud, waste, and abuse, and inefficiencies in the SBA programs and operations. With an almost $20 million budget for fiscal year 2018, its audits and investigations achieved more than $224 million in monetary recoveries and savings. Contracting and loan fraud investigations not only recouped federal funds, but also resulted in 62 indictments and 43 convictions. We thank you, Mr. Ware, for your efforts to protect American taxpayer dollars and the integrity of SBA programs.

In the first half of fiscal year 2019, OIG issued eight reports with 30 recommendations to improve the agency's programs and operations. Congressional-requested and SBA-initiated reports produce recommendations that often kick off statutory and regulatory relief efforts and reform.

For example, the audit of the SBA's oversight of the SCORE Association issued in April prompted immediate changes within the SCORE organization and SBA's Office of Entrepreneurial Development. It also informed significant reforms outlined in H.R. 4407, the SCORE for Small Business Act of 2019. The SCORE Audit and subsequent reform efforts demonstrate the power and necessity of unbiased oversight conducted by OIG. We thank you for your work to identify and resolve issues in this flagship program.

Since 2001, the OIG has provided a yearly report to Congress which outlines the SBA's management challenges and recommendations to resolve each challenge. Each challenge represents an area in which the agency is vulnerable to waste, fraud, and abuse. When compared with the previous years' reports, it appears that the SBA has not made sufficient progress implementing OIG's recommendations to statutorily mandated programs and functions. The SBA's 8(a) business development program, lender oversight, IT and human capital management have for nearly 2 decades been the SBA's most serious management and performance challenges.

How can we, the Congress, help you to motivate agency reform efforts? That is one of the things that we certainly want to look into, and we thank you again, Mr. Ware, for your leadership at the OIG and commitment to reforming the SBA, and I yield back.

Chairwoman VELÁZQUEZ. Thank you, Mr. Chabot. The gentleman yields back.

If committee members have an opening statement prepared, we ask that they be submitted for the record.

Normally, I go over the timing lights but Mr. Ware, you have been here so many times I do not think I need to explain. You are going to be the only witness here.

Today, we welcome the Honorable Hannibal "Mike" Ware, the Inspector General of the SBA. Mr. Ware was sworn in as the Inspector General in May 2018 and has been an effective leader in his role of rooting out waste, fraud, and abuse in federal programs and promoting more efficient operations at SBA which encompass more than $100 billion in guaranteed loans and nearly $100 billion in federal contracting dollars. He has 28 years of experience within the IG community and has received numerous awards throughout his career, including several awards from the Council of the Inspectors General on Integrity and Efficiency as recognition for his significant work in the Inspector General community.

We welcome Mr. Ware, and you are now recognized for 5 minutes.

STATEMENT OF HANNIBAL "MIKE" WARE, INSPECTOR GENERAL, UNITED STATES SMALL BUSINESS ADMINISTRATION

Mr. WARE. Chairwoman Velázquez, Ranking Member Chabot, and distinguished members of the Committee, thank you for inviting me to testify before you today and for your continued support of the Office of the Inspector General (OIG). I am always proud to represent the dedicated men and women of OIG and to speak to you about their important work.

Last week, my office released its report on the most serious management and performance challenges facing the Small Business Administration in fiscal year 2020. The report identifies eight challenges that span SBA's core programs, otherwise known as the three Cs: capital, contracting, and counseling. The report also identified a challenge in the area of agency management principally related to information technology controls.

I look forward to answering questions and discussing these challenge areas with you this morning, but first, I believe it is important to provide you with context of how the challenges are identified and their importance in the framework of providing oversight to SBA.

Given the identification of Top Management Challenges spans nearly 20 years, there is a robust dialogue surrounding the challenges and a record of corrective actions taken and the persistence of certain challenges.

Since arriving at OIG and taking the helm, I have committed to a collaborative approach for identifying these challenges. I had my first meeting with then Administrator McMahon. I shared my vision of the challenges being identified in a manner that represents a shared perspective. Rest assured, at the end of this process, OIG independently prepares our report and calls the balls and strikes. Consensus is not required to include an issue on our list. That said, collaboration allows OIG to round out its view and possibly learn what we do not know from SBA's leadership perspective of concerns within the programs.

As I sit here today, I can say confidently that SBA program officials do not agree with every assessment of their progress in addressing certain challenges. For us, it is a matter of factual accuracy and building a common understanding of what we are seeing, which is why I value the opportunity to speak with you today.

To operationalize the challenges report, I believe we have an obligation to focus on work in these challenges areas to provide recommendations for corrective action to resolve the root causes. For some areas, challenges will always persist. For example, it is undeniable that responding to disasters will always be a challenge simply because not every variable of a specific disaster can be known or planned for in advance. However, SBA can learn from our oversight work in this area and be better positioned for the next disaster, ensuring assistance is provided timely and efficiently and ensuring controls exist to provide assurance that assistance is going to eligible disaster victims.

I am pleased to share with you that SBA leadership also operationalizes the Management Challenges Report. Implementation of corrective actions is included in executive performance agreements meaning senior leaders within SBA are held accountable for taking concrete steps to address the recommendations within the respective challenges. To this end, OIG's progress assessments which are included within the report are vital benchmarks intended to achieve results. The scoring system is readily discernable by prescribed colors and directional arrow representing the progress trends.

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."

As you can tell, the top Management Challenges Report is an important component of our oversight framework. The report and the associated processes have led to serious management and performance challenges being addressed by the agency leading to their removal from the list.

Most importantly, the effort places a continued emphasis on delivering services to small businesses and disaster victims effectively and efficiently, a goal for which there is universal agreement.

Thank you again for the opportunity to speak to you today, and I look forward to your questions.

Chairwoman VELÁZQUEZ. Thank you, Mr. Ware.

I am very pleased that you did not use the 5 minutes. Now we will have an opportunity to expand on your presentation.

Your office has repeatedly recommended that the SBA implement a Women Owned Small Business Certification program as required under the 2015 NDAA. However, it has been almost 4 years since that law was enacted and SBA has not implemented a certification program. I am also really concerned that a June 2018 OIG audit found that sole source contracts totaling $52 million were awarded to potentially ineligible firms that self-certify as women-owned businesses.

Can you please explain to us, what is the main cause for SBA not having implemented the certification as required by the 2015 NDAA?

Mr. WARE. Thank you. Thank you for the question.

And that question, I am actually glad I received it because it gives me an opportunity to talk about the folks in our office that just yesterday received a CIGIE award for excellence for that very same audit that you just referenced.

I will just tell you where they are currently so you know. At least they have a proposed rule. They did that in May of 2019 to amend the WOSB regulations, rules and regulations. So, I mean, they are way behind the curve but they are making movement in this area. And some of the reasons that we have gotten is that, well, you remember, like you mentioned in your opening, certify.sba.gov was supposed to be the end all, answer all, everything all, and it just has not been. So they were under the impression that this would solve many of their issues and it has failed to do so. Right now it is just serving as a repository.

Chairwoman VELÁZQUEZ. Are you confident that SBA will be on track to implement the final rule by 2020?

Mr. WARE. They have assured us that they will but, I mean, it has been quite a long time. At this point I am past assurances. I would just like to see it done.

Chairwoman VELÁZQUEZ. Let's go to certify.sba.gov. SBA is supposed to allow users to manage their 8(a) program certification. They have spent $27 million on this system, but according to your report, SBA has implemented only limited functionalities, and it looks like for the last year they have not made any progress. Why is it taking this long? My other question is, in your opinion, do you think after spending $27 million, SBA might be abandoning this platform?

Mr. WARE. SBA has basically notified that they are indeed looking to abandon the platform. It has not been able to deliver in a way that it thought it would.

Chairwoman VELÁZQUEZ. What is the main reason for that?

Mr. WARE. That is the million dollar question. There is no real evidence that they have put forth other than at every turn it has not worked. Right now it is just functioning as a repository. When they talk about the functions, limited functions, meaning that you can upload the documents, that is the limited functions for $27 million.

Chairwoman VELÁZQUEZ. After spending $27 million of taxpayers' money this will be the answer to all of the delays that they were facing? My question is, is the fact that we do not have an administrator in place, or a deputy administrator in place playing a role in their delays?

Mr. WARE. Well, I could say this. It is clear that proper leadership is essential for implementing a program of this kind. I would say that Maria Roat and the OC, Office of OCIO, has done a significantly good job in terms of moving on many of the recommendations. They have received awards and they are looking into it, but clearly, the proper level of leadership needs to be in place, even to make a determination as to whether it is time to actually walk away from this or continue to throw good money after bad.

Chairwoman VELÁZQUEZ. In the Caribbean, people are still afraid that another storm, or hurricane, could come their way. The season will be over by the end of November. Based on your audit and your analysis, can you tell us that you feel confident that SBA's, Disaster Relief Program is ready to act? Do they have all of the controls and preparedness in place?

Mr. WARE. I can say this, definitely, as you know, I definitely sympathize coming from St. Thomas with my mother still living there, and my mother is still basically not being able to get over the trauma that the last ones caused. But I can say this, that the Office of Disaster Assistance has made significant strides in terms of their readiness. They are more ready now than they have ever been. It is just that the uncertainty of what will be faced with a storm always gives me some hesitance in talking about this, but I do know that in implementing our recommendations and in working with our office, they have a more trained work force than they have ever had before. They were able to ramp up on a level that they never had before with the last three major storms, and because of that I would say that they have never been in a better position.

Chairwoman VELÁZQUEZ. Does that preparedness correspond to taking into account a Category 1 or a Category 5?

Mr. WARE. Well, you know that we put out these reports that dealt with Harvey, Irma, and Maria, and they were Cat 5s, and bigger then. It is just that we do not have something bigger.

Chairwoman VELÁZQUEZ. Thank you. Thank you.

The Ranking Member is recognized for 5 minutes.

Mr. CHABOT. Thank you, Madam Chair.

Again, thank you for being here, Mr. Ware.

As you know, a number of your recommendations stem from longstanding challenges at the SBA. In some cases, those challenges were identified more than a decade ago. Why has it take so long for the SBA to address these challenges? It is pretty frustrating. I know the Chair is frustrated. I am frustrated. You know, what is taking them so long?

Mr. WARE. So let me explain.

You know I have been in the IG community, February will make 30 years. And so I have been from the first time that the IGs had to put forward this report, I have been working on them. Some of these challenges will never go away because it is the nature of the complexity of the programs that are run across the Federal Government. For example, when I was at Interior, if you look at Interior's report, you would see that, well, insular areas is always going to be a challenge. And then affairs would be a challenge. Energy will be a challenge. Climate will be a challenge. These are the things that they are faced with. It is the same with SBA. So anything that falls within those three Cs. So you are going to have challenges in the credit programs because you are talking $120 billion in guaranteed loans in their portfolio to oversee. So it will always be a challenge. Disaster will always be a challenge. Their contracting programs will always be a challenge.

What we offer in this document is that our work is informing how to challenge shifts and moves to ensure that they are most efficient in our moving of these areas. As a matter of fact, it is those challenges that inform our work, and vice versa, the work informs the challenge.

Mr. CHABOT. Okay. Thank you.

Are there areas where the SBA has taken concrete steps to improve past performance? And if so, are there lessons that we, or more importantly that they should learn from those steps, where they improved things in the past to address some of these current challenges?

Mr. WARE. Right. To be fair, SBA has made significant strides over the past, at least the past 3 years that I have been at SBA. They have made significant strides in just about every area. We have been able to remove one relative to human capital. And again, human capital this year, they have made significant strides. Also, in their IT challenge they have made significant strides. And we argue with them back and forth, well, why can we not be green? And you cannot be green because we found this, we found that. We recognize that you have made significant progress but works till remains to be done in these areas.

Mr. CHABOT. Okay. Could you briefly maybe expand a little bit upon the capital improvement or what was the term you used?

Mr. WARE. Human capital.

Mr. CHABOT. Yeah, human capital improvements that they actually made?

Mr. WARE. So they were lacking standard operating procedures across the board. They just did not have them. And human capital has been identified by GAO, for example, government-wide as one of the major challenges for probably the past, I do not know, 20 years. And they have produced or refreshed 11 different SOPs to address their challenges, which is pretty significant.

In addition, we are not the only ones that oversee their human capital, of course. The Office of Personnel Management does so as well. And they received a pretty positive for the most part report that also had here are some areas for improvement. But one of those is how we replace the over, I think they have 60 percent can retire by 2020. How are you going to fill that skill gap? How are you going to do that? And it is even a higher percentage if you move to 15 and higher. So these are the challenges that they still have to work on.

Mr. CHABOT. Yeah, we certainly need to keep an eye on that.

Broadly speaking, is there anything that either this Committee or Congress in general could do to help your office to more effectively conduct investigations and/or oversight of the SBA?

Mr. WARE. Broadly speaking, I was going to say you have no idea, but you do have an idea how critical it is that we have these kind of hearings where you conduct oversight with us. The way that you have worked with our office in terms of the new appropriation authorizations, the new authorization language, those put a significant amount of sunlight on these programs and lead to change. I mean, instant change. The work that we have done together relative to the grant programs have fixed a lot of the issues that we brought forward in an incredibly short time.

Mr. CHABOT. That is good to hear, so I want to commend the Chair and commend this Committee in a bipartisan way because we really do work in a bipartisan manner on this Committee. So it sounds like we are doing something right. So glad to hear it.

Thank you, and I yield back.

Chairwoman VELAZQUEZ. Thank you. The gentleman yields back.

Now we recognize the gentleman from Colorado, Mr. Crow, Chairman of the Subcommittee on Innovation and Workforce Development for 5 minutes.

Mr. CROW. Thank you, Madam Chair.

And Mr. Ware, thank you for being here today and for your office's work to continue to improve the SBA. We appreciate your professionalism and hard work.

As you are probably aware, Accenture recently released a report showing that 43 percent of cyberattacks are aimed at small businesses costing on average $200,000, with 60 percent of these small businesses going out of business within 6 months of a breach or attack. And in your report you mention that during this fiscal year, the IG made 35 new recommendations in IT security control areas and that overall there were 44 recommendations that were resolved, corrective actions. But you also mentioned that there are other critical issue areas that need to be addressed.

Can you mention the top one or two other areas that keep you awake at night?

Mr. WARE. Well, for us, of course, the information that you just said, that is on the board scrolling on every floor at SBA relative to the number. But one of the things is how they are dealing—how SBA, sorry, deals with their infrastructure, the IT infrastructure. And we spoke about certify.sba.gov and the challenges that they have had with that, and we have continued to push them on the way that they are planning these investments to replace these legacy systems. So that would be one.

And of course, the security of the documents, I mean, of everything that they receive from the public relative to small business, it is critical that they have that well done.

We contract with KPMG to take a look at that, to make sure that they are straight with that. They have grown in terms of improvements in leaps and bounds in that areas but it only takes one. They have just recently received awards. Maria Roat was awarded for her work in FITARA. So in terms of security, they have really come a long way.

Mr. CHABOT. Okay. Thank you.

Madam Chair, I yield back.

Chairwoman VELÁZQUEZ. The gentleman yields back.

The gentleman from Minnesota, Mr. Stauber, Ranking Member of the Subcommittee on Contracting and Infrastructure is recognized for 5 minutes.

Mr. STAUBER. Thank you, Madam Chair, and Ranking Member Chabot for holding this important meeting. And Mr. Ware, thanks for your professional testimony.

Mr. WARE. Thank you.

Mr. STAUBER. I just have a couple of comments here.

You know, as the ranking of the Subcommittee on Contracting and Infrastructure, I have heard about some of the issues highlighted in the 2020 IG reports firsthand during the hearings that Chairman Golden and I have held. Of particular note, we held a hearing about the Women-Owned Small Business Contracting Program, and it seems that the SBA enacted a sole-source authority without implementing a front-end certification program or eradicating the self-certification option. This has only exacerbated fraudulent behavior within the program specifically. $52 million dollars were awarded to potentially ineligible firms and ended up hurting our women small business owners who truly need assistance procuring Federal contracts.

Knowing that this is not unique to the women-owned small business programs, Mr. Ware, could you provide an estimate for how many Federal contracts are awarded to ineligible firms?

Mr. WARE. To provide an estimate would be tough but I know what our work has informed, and our work has informed across these programs that is a significant amount, and that is a significant part of our investigations portfolio in terms of all the arrests and the convictions that we have gotten.

And I will tell you how troubling this is to me on a personal level. I was recently at a volleyball game and I overheard two people talking about how easy it is to get into these small business programs. About how one person had said they had started three of these businesses and might need to get out before it is too late. They do not know who they are sitting next to; right? So these are guys talking about it. It is extremely troubling.

So when we write about these things and we are simply asking for more assurances up front that we are reaching the people who desperately need these services, it is like that. It is significant. I could say that.

Mr. STAUBER. I can say, Mr. Ware, if you were at a hockey game in Minnesota, you would not have heard those comments.

So Mr. Ware, what do you think is the biggest factor contributing to fraud in the Federal procurement place?

Mr. WARE. In the Federal procurement space, the biggest instance is the relative ease that just about anyone can get into, and it is an awful lot of money. It is a big pool.

Mr. STAUBER. Okay. So what remedies can we put in place to reduce the fraudulent activity?

Mr. WARE. These are the recommendations we have been trying to get implemented for years and that they are working with us on. We need up front, internal controls that give assurances to SBA that the right people are getting this. So no more of that self-certification. The proper documents must be in place before you are able to receive assistance from SBA.

Mr. STAUBER. You know, Mr. Ware, you are exactly right. With your experience I was expecting that answer.

I will say this, that you know, you said we have been working on it for years. We know that small business is the engine of our economy, and so from outside this city, when you say we have been working on it for years, what do you think small businesses across this Nation, I mean, they are frustrated with this. And so I appreciate your honesty that you have been working on it, or we have been working on it for years. I think that we need to speed this up because it is affecting Main Street America.

And I will say this, that you had mentioned a couple of things and you had mentioned some big challenges. You used the word "challenge." Great word. I look at it as an opportunity for us. An opportunity to change. And I think you are in the right place to help us out with your experience and your professionalism.

Mr. WARE. Thank you.

Mr. STAUBER. So I look at it as an opportunity to work with us and actually make meaningful legislation today or as soon as practical because when you get outside these walls of Congress, when the statement is made we have been working on this for years, that is extremely frustrating for American small business owners, both men and women. So I think that we have an opportunity I think to work on this and take your report and start making progress, immediate progress on these concerns that we all have.

But I really appreciate your testimony, your professionalism, and Madam Chair. And I yield back.

Mr. WARE. Thank you.

Chairwoman VELÁZQUEZ. Thank you. The gentleman yields back.

Now we recognize the gentlelady from California, Ms. Chu, Chairwoman of the Subcommittee on Investigations, Oversight, and Regulations, for 5 minutes.

Ms. CHU. Thank you.

Mr. Ware, first I would like to ask about disasters and then about human capital management.

Disasters are on my mind. I represent a district in Southern California, and for the last few days we have had a terrible wildfire where 100,000 people had to be evacuated, including our Congress member Bob Sherman. And this is on top of the wildfires that we had throughout California, Northern California and Central California.

So you outline in your report that the SBA established the Express Bridge Loan Pilot Program in October 2017 to quickly extend up to $25,000 to small businesses and presidentially declared disaster areas. The pilot program launched 2 years ago but so far has resulted in only two loans despite the fact that there were 126 major disaster declarations and 33 emergency declarations since October 2017.

So can you tell us how many small businesses applied for loans under this program and why SBA has failed to effectively administer the pilot?

Mr. WARE. Thank you.

I do not have the information relative to how many applied for the program. I can definitely and will certainly get that back to you.

But according to SBA, their lenders have many different ways to get this money to disaster victims and that they are not partnering with them at the rate that was anticipated to get these loans out. They say they just do not have the lenders. That is what they have said.

Ms. CHU. And what could be done to improve the situation?

Mr. WARE. I think that we really need to take a look at, well, they need to take a look with the overseers with whether this is the best way to achieve that outcome. Or if there are other things already in place that are meeting the needs of the people. I really do. Otherwise, there is no other way to know.

Ms. CHU. Well, this seems like a high priority so I hope that you can highlight it even more as far as your challenges.

But there is also the issue of proper training. You talked about SBA's progress in providing proper training but you talk about it in the context of severe hurricanes. And this is for the thousands of reserve staff that it brings on for major disasters. But can you talk about your response to wildfire disasters and the training system? Is it relevant to wildfires or is there any kind of specialist training for that?

Mr. WARE. My understanding is that each disaster is treated the same relative to getting the applications in, processing them as quickly as possible, and from my view, making sure that the proper controls are in place before that money goes out. But it is the same. I do not believe that they have specific training for whether it is a wildfire or it is a hurricane. They treat the disasters pretty much the same. The metrics are the same.

Ms. CHU. Okay. So now let me ask a question about human capital management. Your report found that SBA made substantial progress in addressing human capital management but this Committee has received reports of numerous vacancies within SBA, and it seems particularly problematic in the Office of Field Operations where there are potentially 100 vacancies and then there are vacancies in the Office of Investment and Innovation.

So Mr. Ware, did OIG consider the number of vacancies at SBA in making its findings on SBA's human capital management?

Mr. WARE. So the findings on the Top Management Challenges Report are much more general in terms of what the challenge is. So we specifically entered that only relative to what they have in place to address a challenge that is as you have described. You have a lot of vacancies. You are going to have a lot of turnover due to retirement. What do you have in place in terms of a strategy to mitigate these issues? That we looked into. And they have actually, like I said, 11 new human capital SOPs, some that deal with that. And this is why we gave them the mark that they got in the area. We have not, as part of this, gone into a specific and detailed review of each one of the sections as of yet.

Ms. CHU. It just seems like 100 vacancies is very, very problematic and, you know, requires so much more intervention.

Mr. WARE. Right. So our normal oversight work would address something like the 100 vacancies. The Top Management Challenges Report just talks about the challenge that they have in addressing that.

Ms. CHU. Thank you. I yield back.

Chairwoman VELÁZQUEZ. The gentlelady yields back.

Now we recognize the gentleman from Pennsylvania, Mr. Evans, for 5 minutes. He is the Committee Vice Chair.

Mr. EVANS. Thank you, Madam Chairperson. And thank you for this hearing.

Mr. Ware, according to the OIG report, the SBA currently has no system to assist program officials in monitoring the 8(a) participant business development to assist the effectiveness of the program. To address this, the SBA has formed a tiger team to develop solutions in fiscal 2020.

Mr. Ware, what is a tiger team, and how much progress has this team made in developing solutions to this program?

Mr. WARE. Right. The tiger team is they establish, they are a group of employees that they have identified who could assist in terms of making sure their system works the way it does. We have not yet assessed where they are on that. That is not what the Top Management Challenges does. So we have not gotten to that level of our work yet in that area.

Mr. EVANS. Okay. The 8(a) program has seemingly declined in the number of participants in recent years going from 7,000 in 2010 to about 4,500 participants in 2019.

Mr. Ware, do you believe the application process is a source of decline and participation in the 8(a) program, and is the SBA properly addressing the decline?

Mr. WARE. It is difficult to tell. The work that we have done has not shown that that is the reason. As a matter of fact, they have streamlined the process. So the streamlining of the process was said to be how they would address the root cause of the numbers going down. So I do not believe that that is the process and I our work has not informed yet as to what the cause of the numbers declining is but I do not believe it is definitely not because of any additional controls they have put in place. As a matter of fact, they have relaxed the controls.

Mr. EVANS. The Chairwoman sort of mentioned this when she was talking. The report states SBA has currently spent $27 million on the online certification process, the 8(a) program at 27 to implement the online process for the women-owned. Is this same 27 million, does this cost seem excessive for developing an online certification process?

Mr. WARE. That is a very interesting question. So, well, kind of a deep question, too. Thank you.

Excessive is not something that I would use. It is what is necessary to ensure that they are providing efficient and effective services to small business owners and that the proper controls are in place to ensure it is going to the right recipients. And that they are able to measure progress in a way that informs Congress and informs the public as to whether or not their programs are successful. So I do not know what cost I would put to that but I would say it is excessive for a program that has not worked.

Mr. EVANS. So what would you say to us who represent the taxpayers you are describing then? How would you say that then?

Mr. WARE. I would say that SBA has some work to do to either make a decision as to whether they are going to throw good money after bad or they are going to switch and pivot to a system that provides us the assurances I just laid out.

Mr. EVANS. I yield back the balance of my time, Madam Chairperson.

Chairwoman VELÁZQUEZ. The gentleman yields back.

Mr. Balderson, the member from Ohio who is the Ranking Member of the Subcommittee on Innovation and Workforce Development is now recognized.

Mr. BALDERSON. Thank you, Madam Chairwoman.

Holy cow, bam. Here we go.

Good morning, Mr. Ware, and thank you for being here.

I just, you know, I have got a little bit of update on what the conversation has been here this morning and what we have been talking about during the two to three Committee piece today, so just kind of bouncing back and forth. But my great policy small businessman has been updating me.

You know, we are talking about the disasters you are speaking of. In your testimony, you mention the four core strategic goals for the Small Business Administration. Of these you state that the SBA should be working to strengthen their ability to serve small businesses. Unfortunately, I have been alarmed to routinely hear from constituents on my Small Business Advisory Panel that they do not feel like the SBA is prioritizing them. Specifically, my constituents have mentioned how rural small businesses seem to be forgotten about or underserved.

Your report pinpoints human capital as a major challenge facing the SBA. More specifically you write, "The office is currently planning to assess the effectiveness of SBA's actions to mitigate its workforce challenge risk." And I know that this has been a focus today. But can you kind of turn it around a little bit for the rural piece also?

Mr. WARE. Right. Regarding the rural piece, this is a discussion that we have just begun having in our office because we are hearing the same things. We hear from our hotline. We hear from your constituents about these issues, so the question comes up. I mean, are they really looking at the rural areas? Our work to date has not informed that but I assure you that our work going forward will. It is a discussion that we recently had within our office.

Mr. BALDERSON. Okay. That is good. And my office, and including myself, would be happy to help with you addressing those issues because I think it is a very, very important piece and I know that you understand it is, too, but I think we need to take some action on it.

So I appreciate it and thank you very much, Madam Chair.

Chairwoman VELÁZQUEZ. The gentleman yields back.

The Chair recognizes the gentlelady from Kansas, Ms. Davids, for 5 minutes.

Ms. DAVIDS. Thank you, Chairwoman.

And thank you for being here today to talk to us about this report on the SBA.

Last month, this Committee held a management review hearing on the SBIC program and had many concerns and questions about the mismanagement of the program and the decrease in issued licenses, the issues around some of the requirements related to trainings on the regs. The Senate Small Business Committee held a similar hearing earlier in the year as well.

Can you tell me why the SBIC program issues were not addressed in the report that you put together?

In the Top Management Challenges Report?

Uh-huh.

Mr. WARE. It was not specifically addressed. We have not done work on SBICs in a minute. The SBICs are the next up for 2020 in terms of our reports and our work that will inform it.

So our work that we are doing are informing the challenges, and this goes over the 40-year existence of the office in terms of the depth of knowledge that we have in these programs. Strangely enough, when the IG's office was first set up as one of the original 12, SBICs was their primary focus and primary work more than anything else before it was turned over to the agency. But that is the reason why it was not addressed in this body, in this version of the Top Management Challenges.

Ms. DAVIDS. Okay. I just would, I guess when I was looking at the purpose of this specific report that gets done it includes what the report considers the most serious management and performance challenges facing the agency. And based on the testimony that we heard that we heard last month when we were looking at the SBIC program from the current acting director of the program, I would definitely say that there are serious challenges and management challenges there and would just encourage you to please have a look at that. And I think our office is probably going to be reaching out as well.

Mr. WARE. It is up next in 2020.

Ms. DAVIDS. Okay.

Mr. WARE. Mm-hmm.

Ms. DAVIDS. So I know that the IG report does delve into multiple issues around the 8(a) program and we have heard a little bit about the oversight capability and trying to ensure that ineligible firms are not participating in that program.

Can you please talk to me, us, a little bit about how we make sure that we not only increase the number of 8(a) certified programs that are having access to the contracts, but also how we increase the accuracy of the reporting of it?

Mr. WARE. All right. So thanks for that question.

I will start with the accuracy of the reporting, mainly because our work is informed on the accuracy of the reporting. It has to do with their systems. And I have to talk a little bit more about systems because folks keep thinking that this technology is the end all, be all. So whether it is certified SBA, whatever you come up with, it is just technology that is making what should be a good foundational system easier to use. So we need to look into how those systems are put in place, especially in relation to the human side of things that are actually working on these systems.

So when you have a system that is a repository, it is like anything else. It is garbage in, garbage out. And on top of it, some of these systems lose information. So that is the challenge in terms of being accurate with the reporting, a significant challenge that SBA has. But that is where it stems from. And we are challenging SBA to take a look at system more holistically than just an IT fix.

Ms. DAVIDS. And I am just curious because I feel like there are a couple of threads in the report here. Do you think that some of the underlying foundational issues stem from the need for the effective human capital strategies? And we are running out of time, but perhaps you could submit a little bit more information about some specific steps that we need to take to increase the human capital.

Mr. WARE. Thank you.

Ms. DAVIDS. Thank you. I yield back.

Chairwoman VELÁZQUEZ. The gentlelady yields back.

The gentleman from Maine, Mr. Golden, Chairman of the Subcommittee on Contracting and Infrastructure, is recognized for 5 minutes.

Mr. GOLDEN. Thank you, Madam Chair.

Inspector General Ware, thank you for being with us. And I hate to continue to focus on 8(a) but I think that your report here did point out that it is one of two areas where we did not see the kind of progress that we saw elsewhere in fiscal year 2019. And so I think it is important to keep talking about this, particularly as the Chair of the Subcommittee. So I do not think it is harmful to give you more and more opportunities to talk about what we can do about 8(a).

My good friend from Minnesota, the Ranking Member, Congressman Stauber talked about the women-owned business issues as well with some of the self-certification and other things, so I just want to keep giving you some opportunities to tell us what we should be looking into and prioritizing with our oversight, because I think that there is going to be some significant focus on certification in the Subcommittee going forward.

So knowing that, what would you have us focus on? And I do have another question.

Mr. WARE. Sure. I will be quick on this one so you have time.

We made very specific recommendations to SBA on how best to address that. And one of them has to do with, I will read it, "Implement controls so that ineligible firms in the 8(a) program during the continuing eligibility reviews"—because that is one of the areas where we have a major problem with—"and effectively address complaints received regarding 8(a) firms and remove ineligible firms from the 8(a) program timely.

So we have challenged them to meet this recommendation, and right now they have been moving kind of slow. They said that their revisions to the SOP, they have an expected publication of March of 2020. So, but the SOP does not really cover it all, and we are still working with them. When I said earlier that they do not necessarily agree with everything, this is one of those areas, so we have been in, my team and their leadership within Economic Development have been in the back and forth, but that is one of the principal ways.

Mr. GOLDEN. Thank you.

My colleagues on the Committee have pointed out that a prior OIG audit had found that SBA failed to fully document whether 30 out of 48 certified firms that you reviewed were eligible for the 8(a) program. Those are some pretty bad numbers in my opinion. I do not know if you have seen any improvement since then in this regard or if this was just a particularly bad audit. But can you explain how this failure to properly document firms' eligibility for the program impacts your ability to investigate cases of fraud against SBA? Because I do think an important aspect of your work is the ability to fully investigate and root out fraud.

Mr. WARE. I am glad that you brought that up because it brings me to a soapbox issue for me. And hopefully, I do not get on a soapbox too much.

But it harms us in terms of our ability not to investigate but to get a conviction. And what it does is because they did not have the documentation in the files but in many cases, and this is documented, defense attorneys are able to say my client gave everything that they asked for. They either had it right in front of them, they did not put it in the files or whatever it is, but this is our evidence that we have given it. And the court has ruled that SBA had it and still allowed them to continue in the program, or to get in and that the burden was on the agency. And we have been unable to obtain convictions because of this. This is something that we have been working with the agency in terms of drilling down on the importance of making sure that that action is taken on the documentation. And they are moving forward on a lack of documentation. When we said lack of documentation, they were able to remedy the majority of the 30 by obtaining the documentation. But without the documentation, the people should not have been eligible. The documentation had to have come first. Somebody had to review that.

Mr. GOLDEN. Yeah. Because you have mentioned I think several times that at the very least like they have this platform where they can upload the documents but we actually need to cross our T's, dot our I's, and demand the documents.

Mr. WARE. Right. Well, that is all it is, is just upload.

Mr. GOLDEN. Yeah.

Mr. WARE. Right.

Mr. GOLDEN. All right. Thank you. I appreciate it.

Mr. WARE. Sure.

Chairwoman VELÁZQUEZ. The gentleman yields back.

The gentleman, Mr. Hern, from Oklahoma, Ranking Member of the Subcommittee on Economic Growth, Tax, and Capital Access, is recognized for 5 minutes.

Mr. HERN. Thank you, Madam Chairwoman, Ranking Member Chabot, and Mr. Ware, thank you for being here today.

As a small business owner and businessman for the past 34 years, I know firsthand how valuable the Small Business Administration's aid can be. However, I am also aware that the SBA has had wasteful expenditures and mismanaged programs in the past. I think it is part of the bureaucracy, what happens when you get too big, which can be a big determinant to this aid, and therefore, cause damage to small businesses in America.

As a member of Congress who came to Washington help reconcile waste and to eradicate fraudulent abuses of government programs, this is extraordinarily concerning to me. Because of this, I am fully supportive of the SBA's Office of Inspector General and the work they do to improve the integrity and performance and accountability of the SBA. Every program needs that and taxpayers should demand it.

So my first question is, as you know, the 7(a) program is the SBA's flagship program and it helps to be a vital source of capital access for thousands of small businesses, and this program also happens to be under the jurisdiction of the Subcommittee for which I am the Ranking Member.

In April, as part of our Subcommittee work, we held a hearing on the SBA's 7(a) budget proposal and impact to fee structures changes, and in this hearing we reviewed the SBA's concerning request for a $99 million taxpayer provided subsidy to the 7(a) program which has traditionally never received appropriations from Congress. The Chairwoman was adamant that we had accountability for this, and so it is furthering my concerns with the 7(a) program. In your fiscal year 2019 high-risk 7(a) loan review you found noncompliance in five of the eight loans that were studied.

Why has the SBA not fully addressed the material deficiencies that you highlighted? And do you think this noncompliance is part of the reason the SBA is asking for a $99 million subsidy from the American taxpayers?

Mr. WARE. Thank you.

I am not certain if the noncompliance is part of it. I can tell you what our work has informed. And our work has informed that we are catching things when we go in as an audit entity that they should have caught. What we are reviewing in that report that you reference is work that they already did. They already paid out the guarantee. They already did all their assurances. And we are coming in later, which at times is problematic to the banks and everything else because we are now saying you owe this money. You did not do what you were supposed to do. But we are coming in later and seeing glaring things that should have been found if the proper level of review and scrutiny was taken by the agency.

Mr. HERN. Mr. Ware, if I may interject, as that testimony—obviously, you were not here, but that testimony and that quote "need for the $99 million" was based on historical problems and then forecasting those forward. And if we kept doing the same bad behaviors, then we were going to need $99 million. Now, the Chairwoman, again, I am going to go back and give her a lot of credit in saying, do not come back here and ask for that again until you have cleaned up your act. And we have not seen them back, so that must mean their act has not been cleaned up. So I appreciate what you are saying, but historical precedence, if you are making bad decisions and having a default rate that you should not be having, that is setting the tone and the precedent for the trend line to request this appropriation from the taxpayer. And so that is very problematic.

And so judicially, our Full Committee had a hearing in September regarding the SBA-led initiative, the SBIC program, another concern that we all have. Through that hearing, this Committee heard about significant delays coming from the Office of Investment and Innovation as it pertains to SBIC licenses, something else that is very concerning. I mean, ridiculous. I think it was a $1.8 million budget to service 40 loans as I recall. If we could broadcast this in lieu of impeachment conversations there would be an uprising among the taxpayers about the wasteful spending that is going on in this program right now.

Has your office heard about these delays? And will your office investigate this matter?

Mr. WARE. We have heard about the delays, and an audit of the SBIC program will be conducted in the next cycle. So which starts very soon. So in our 2020 cycle. It is something that we met about, particularly after reviewing the testimony on SBIC hearings. So it is next up.

Mr. HERN. Well, again, it is very troubling to see how little had been done for the budget because really, the only amount that the person that was testifying, the director of that particular area could attest to was how much they had spent for his budget. Other than that he could not recall. He was dodging all of the questions that both sides of the aisle had for him. So it was very troubling.

And, again, I thank you so much for what you are doing and I think, again, the taxpayers should demand full accountability, and they are. We need to have more of these hearings and oversight on a lot of things we are doing. So thank you so much.

I yield back.

Mr. WARE. Thank you very much.

Chairwoman VELÁZQUEZ. The gentleman yields back.

The gentlelady, Ms. Finkenauer, the Chairwoman of the Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship from Iowa is recognized for 5 minutes.

Ms. FINKENAUER. Well, thank you, Madam Chair.

And thank you so much, Mr. Ware, for being here again. It is good to see you. And I know as Inspector General, you are absolutely key to helping us identify wasteful spending, weed out fraud, and make sure that agencies run efficiently and effectively like they should.

As members of this Committee, it is part of our job making sure that the Small Business Administration is working like it should. And obviously, the mission of the Small Business Administration and this Committee is to strengthen our economy through our small businesses and every program and process at the Small Business Administration should not only support that mission, obviously, but also be a good use of taxpayer dollars.

And in your report, I know this has been touched on but I want to just again bring it up because it is really important. You mentioned an issue with the Women-Owned Small Business Federal Contracting Program, and I am concerned that this program has been left open to fraud and abuse from what we have seen. Currently, Federal contracts can be awarded to women-owned small businesses without competition. However, the law requires that businesses' eligibility must be certified by a third party such as a Federal agency, a state government, SBA's administrator, or a national certifying entity approved by the administrator. But SBA has gone ahead with awarding these contracts but never set up a certification program. As a result, we now know around $52 million has been awarded to firms that we do not know were eligible to have received a sole-source contract. This is not obviously very good for our small businesses or the taxpayers who expect that their tax dollars be spent responsibility.

And Mr. Ware, can you help us with this a little bit and tell us why do you think the Small Business Administration did not set up a certification process when it began awarding these sole-source contracts?

Mr. WARE. The "why" to that is a little tricky because, I mean, you get various things. Documentation is something different. But they really wanted to get this program going they said and, you know, that is basically what they are measured on. And we are coming in talking about oversight and controls. And hey, this has to go to the right people. We have to make sure that bad actors are not in our program. So it was at the expense of speed.

Ms. FINKENAUER. Yeah. So it was more just about getting something done versus ensuring that it was done in the right way.

Okay. So could you talk a little bit, too, so if we change this, how could swift implementation of a certification program so we get that thing done ensure that Federal contracts go to deserving small businesses?

Mr. WARE. That is what our office is all about. Our office is trying to be proactive in terms of our approach to oversight. So not just coming in on the back end and constantly finding findings and millions of dollars went this way and millions went that way. We are trying to prevent the millions of dollars from going out, which is why this process is so important for them to implement in a timely manner. And we are still working with them on that, and they gave us some dates. They are talking, I think, March 2020, if I remember correctly. So it is looking like we will be making a shift in this area.

Ms. FINKENAUER. So they are taking some of your recommendations to heart?

Mr. WARE. I actually had the exact date of that somewhere in here.

Ms. FINKENAUER. Okay. Well, if you find it later I would love to have it because this is something that matters a lot. I mean, women small business, you know, it is something we care a great deal about on this Committee and making sure that these programs that are set up are actually done in the right way and achieving the objective that we all up here believe in. It is just so important.

So thank you so much for your work and looking into the things that need to be looked into.

And did you find the date?

Oh, I was going to say I saw by your face you might have found that date. That is totally fine if you did not. But just, you know, if you could follow up with that, that would be great. I think this is just, again, something we need to continue to keep our finger on and make sure that these things are getting done and these changes are made so these programs work the way that they should.

Mr. WARE. Okay.

Ms. FINKENAUER. Thank you, Mr. Ware. I really appreciate it. Good to see you.

Mr. WARE. Thank you. All right. Good to see you, too.

Chairwoman VELÁZQUEZ. The gentlelady yields back.

With that, I want to thank Mr. Ware for taking time out of his schedule to be with us today. This committee greatly appreciates the hard work the OIG is doing to identify critical challenges facing the SBA. Your office continues to shine a light on issues that demand attention from the SBA leadership and that demand continued oversight from this committee.

While I am pleased to see progress being made in certain areas, the SBA needs to do more. This committee remains committed to working with the SBA in a bipartisan fashion to ensure these challenges are appropriately addressed.

I do have another question to address to you, Mr. Ware. Does the OIG have trouble receiving documents that it requests from SBA?

Mr. WARE. We do not. We have basically had an issue to deal with when the administration was brand new and we handled it. We have no issues receiving now.

Chairwoman VELÁZQUEZ. Thank you.

Before we conclude, I would like to take this opportunity to express my deep disappointment in the SBA's lack of responsiveness to this committee's inquiries regarding the Women-Owned Small Business Contracting Program and the SCORE program. As I noted in my opening statement today, SBA has unreasonably delayed implementing the women certification process, a process that is required by law. While this delay is troubling, equally concerning is SBA's refusal to provide this committee answers to its legitimate oversight questions regarding this program.

On June 19, a bipartisan letter was sent to Associate Administrator Rob Wong requesting information concerning the Women's Procurement Program, but today, almost 4 months later, SBA has failed to provide any response and it has given no indication of when a response may be expected. Moreover, on July 11, 2019, the Subcommittee on Investigations, Oversight, and Regulations held a hearing titled "SBA Management and Oversight of SCORE," after which questions for the record were submitted to Associate Administrator Allen Gutierrez. Despite an August 1st deadline, the subcommittee has not received a response from the SBA.

Therefore, I would like to submit for the record the June 19, 2019, letter to Associate Administrator Wong and the July 11, 2019, questions for the record on the SCORE program.

Without objection, so ordered.

I request on the record that SBA provide the committee a swift response to its questions. I call on SBA to work with this committee proactively in a bipartisan fashion to address the serious issues facing the agency.

I would ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered.

If there is no further business to come before the committee, we are adjourned. Thank you.

[Whereupon, at 12:42 p.m., the committee was adjourned.]

APPENDIX

HANNIBAL "MIKE" WARE
INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

October 16, 2019

INTRODUCTION

Chairwoman Velázquez, Ranking Member Chabot, and distinguished members of the Committee, thank you for inviting me to testify before you today and for your continued support of the Office of Inspector General (OIG). Since 2001, OIGs across the government have prepared a report that documents what they consider to be the most serious management and performance challenges facing agencies, including a brief assessment of the respective agency's progress in addressing those challenges.[1] OIG publishes its report annually by October 15, providing OIG's independent assessment of the top management challenges facing the U.S. Small Business Administration (SBA). Most recently, OIG published Report 20-01, *Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in FY 2020.*

BACKGROUND

OIG provides auditing, investigative, and other services to support and assist SBA in achieving its mission. As a result of its oversight efforts, OIG provides dozens of recommendations each year to SBA leadership aimed at improving the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. In doing so, OIG provides taxpayers with a significant return on investment as it roots out fraud, waste, and abuse in SBA programs. During fiscal year (FY) 2018, OIG achieved more than $224.5 million in monetary recoveries and savings—an elevenfold return on investment to the taxpayers—and in FY 2019, OIG achieved $110.9 million in monetary recoveries and savings—a fivefold return on investment to the taxpayers.

The mission of SBA under the Small Business Act, as amended, is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and assisting in the economic recovery of communities after disasters. The Agency's strategic plan for FYs 2018–2022 has four core strategic goals:

- Support small business revenue and job growth.
- Build healthy entrepreneurial ecosystems and create business friendly environments.
- Restore small businesses and communities after disasters.
- Strengthen SBA's ability to serve small businesses.

SBA is organized around four key functional assistance areas: financial, contracting, entrepreneurial development, and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman.

SBA's programs are essential to strengthening America's economy; however, the Agency faces a number of challenges in carrying out its mission. Challenges include fraudulent schemes affecting all SBA programs, significant losses from defaulted loans, procurement flaws that

[1] 35 U.S.C. § 3516(d)

allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems. OIG plays a critical role in addressing these and other challenges by conducting audits to identify wasteful expenditures and program mismanagement; investigating fraud and other wrongdoing; and taking other actions to deter and detect fraud, waste, abuse, and inefficiencies in SBA programs and operations.

OIG's annual report on the most serious management and performance challenges facing SBA is a key component of the oversight framework. Our work informs our key stakeholders—the Congress, the Administrator, and the public—of the top challenges, and the work also complements OIG's oversight plans. OIG publishes its annual Audits Division Oversight Plan in January, and most of our discretionary oversight reviews are focused on programs and operations identified as being part of the top management challenge areas. Among other considerations, hotline complaints and congressional interests factor strongly in our planning processes. The remainder of our planned work is conducted pursuant to statutory mandates, such as the Federal Information Security Modernization Act and the Chief Financial Officers Act of 1990.

SUMMARY OF THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING SBA IN FY 2020

OIG approaches its top management challenges reporting mandate with an overall goal to focus attention on significant issues with the objective of working with Agency managers to enhance the effectiveness of SBA's programs and operations. Within each management challenge is a series of recommended actions to meet this objective. 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 is assigned, and the recommended action is designated as "new." 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 2020.

		Color Scores					
		Status at End of FY 2019				Change From Prior Year	
	Challenge	Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting		2				
2	IT Leadership	1	5			1	
3	Human Capital	1				1	
4	SBA Loan Program Risk Management and Oversight	2				1	
5	8(a) Business Development Program		3	2			2
6	Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers	1					
7	Disaster Assistance Program	1	3			1	
8	Grant Management Oversight	3	1				
	TOTAL	9	14	2		4	2

Overall the Agency made progress addressing this year's management challenges. We believe this progress is in large part attributable to the Agency's concerted effort to address outstanding internal control recommendations that are reflected in many component challenge corrective action areas. As a result, the above table identifies 23 of 25 challenge areas as "fully implemented" or having shown "substantial progress." Notwithstanding these efforts, our audits and investigations continue to find the Agency facing significant risks in loan program oversight and controls, oversight of its statutory programs to promote small business development and government contracting, and deploying information technology and related cybersecurity controls.

MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES IN ACTION

OIG's report on management challenges has been recognized by the Association of Government Accountants (AGA). The Certificate of Excellence in Accountability Reporting Program was established by the AGA to improve accountability and impact of an Agency Financial Report (AFR). In 2013, the AGA recognized both the Office of the Chief Financial Officer (OCFO) and the Office of the Inspector General. The OCFO received an award for its AFR, and OIG received the prestigious Special/Best in Class Certificate for the "Inspector General's Summary of Management and Performance Challenges." To attain this award, OIG had to effectively illustrate and communicate program performance, related accomplishments, and future challenges facing SBA.

A critical component of the IG Act of 1978 is to provide vehicles for continuous improvement in agencies' management and program operations. To facilitate improvement, OIG aligns its oversight plans with high risk areas identified in the previous year's management challenges. This effort, coupled with the Agency's efforts, accelerates resolution of the challenges, as corrective actions to close recommendations associated with audit and evaluation reports also assist in addressing the broader identified management challenges.

Another important OIG oversight control is monitoring the status of open recommendations. OIG initiates approximately 80–100 recommendations annually to ensure that the risks identified through its audits and evaluations are adequately addressed. Recently, the Agency enhanced its audit resolution process by actively monitoring and correcting identified improvement areas. As illustrated below, the Agency has reduced its open backlog of audit recommendations in a 5-year period from 199 to 76. To its credit, SBA has prioritized remediation of control weaknesses. The impact of these efforts includes reducing the possibility of fraud and waste, improving operational efficiency, increasing financial reliability and integrity, improving compliance with laws and statutory regulations, and increasing the effectiveness of management oversight.

FY	Beginning Balance	New	Closed	Ending Balance
2014	190	101	92	199
2015	199	80	145	134
2016	134	81	85	129
2017	129	72	119	82
2018	82	111	117	76
2019	76	94	99	71

CONCLUSION

OIG's mission is to provide independent, objective oversight to improve the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Our focus is to keep SBA leadership, our congressional stakeholders, and the public currently and fully informed about the problems and deficiencies in the programs as identified through our work and to promote corrective action in fulfillment of our mission. The management challenge process is an important tool that we hope assists the Agency in prioritizing its efforts to improve program performance and enhance its operations. We also value our relationship with the Congress and note its important role in leveraging our work to oversee SBA. We look forward to continuing to work with the Congress and SBA's leadership in addressing the most serious management and performance challenges facing SBA.

Questions for the Record for the Honorable Hannibal "Mike" Ware
Committee on Small Business
SBA Management Review: SBA IG Report on the Most Serious Management
and Performance Challenges Facing the SBA
October 16, 2019

Chairwoman Nydia Velázquez

1. **During the hearing, you testified that OIG intends to conduct an audit of the Small Business Investment Company (SBIC) program in FY 2020. Please elaborate on the anticipated timeline and scope of this audit.**

   OIG publishes its Audits Division Oversight Plan annually in January. We plan to initiate a review in second quarter FY 2020, which includes a survey phase to gain an understanding of the program, applicable policies and procedures, risk, issues and concerns. The survey will determine the specific objective(s) and scope of the audit.

2. **Is OIG planning to conduct an audit or investigation in FY 2020 that examines the reported widespread vacancies in SBA, including vacancies in the Office of Investment and Innovation and the Office of Field Operations?**

   a. **If yes, please elaborate on the anticipated timeline and scope of this audit.**

   b. **If no, when does OIG intend to conduct an audit or investigation into the reported widespread vacancies?**

      OIG publishes its Audits Division Oversight Plan annually in January. We plan to initiate a review in the third quarter of FY 2020, which includes a survey phase to gain an understanding of SBA's succession plan for mission critical occupations that includes vacancies in the Office of Investment and Innovation and the Office of Field Operations. Once the survey phase is completed, we will determine the specific objective(s) and scope of the audit.

3. **During the hearing, your testimony indicated that SBA's online platform "Certify.SBA.gov" is functioning only as a "repository," and that SBA has notified OIG that they are looking to "abandon" this platform.**

    a. **Based on your understanding, is SBA planning to abandon development, implementation, and operation of this platform entirely**

    OIG understands there has been no further development on the current Certify platform since February 2019, and it will be maintained only until a replacement is launched. In August 2019, SBA's IT governing board elected to change the development direction related to Certify. Current plans call for all new development to be migrated to Microsoft Dynamics 365 as SBA's enterprise customer relation management system. In September 2019, SBA awarded a contract to develop a certification management application.

        i. **If not, which aspect(s) of the platform does SBA intend to continue developing, implementing, and operating?**

        OIG understands SBA may use some of the workflow requirements developed for Certify as a guide. Also, SBA intends to maintain the current HUBZone Map, developed by a different contractor but also a part of the Certify investment.

    b. **Please detail the SBA's rationale for abandoning this platform.**

    A detailed explanation of SBA's rationale is best provided by program officials; however OIG understands SBA's IT governing board reported Certify was unsustainable on a long-term basis due to its architecture of multiple software modules requiring maintenance and development. The SBA Board further reported that maintaining Certify required specialized staff and was cost excessive.

4. **Loan agents are increasingly prevalent in SBA's 7(a) loan program. OIG's FY 2019 report noted that SBA's Office of Credit and Risk Management (OCRM) developed a tracking system on referrals regarding improper loan agent activities to help monitor their involvement.**

    a. **How effective has this tracking system been in identifying bad actors in the system?**

To clarify, the tracking system referenced in the above statement in last year's report only relates to the tracking of referrals made to the SBA's Office of Credit Risk Management (OCRM), not the overall tracking of loan agent involvement to monitor program performance. OCRM implemented this control in FY 2015 to address our concerns reported in OIG Report 15-06. We verified implementation at the time, but this area has not been the subject of additional work performed by our office.

In their FY 2017 Risk Management Oversight Plan, OCRM indicated that they had received 45 lender and loan agent referrals. They reported that as of September 30, 2016, they had resolved 5 cases in FY 2016 and had 40 active cases (18 were under investigation and 22 were pending investigation).

b. Does OCRM consistently act upon referrals regarding improper loan agent activities?

While SBA has provided the OIG with preliminary analysis and Form 159 data collected for loan agents, this area has not been the subject of additional work by our office, so we cannot attest to current OCRM actions.

5. OIG previously recommended that SBA develop a system to assign unique identifiers to 7(a) loan agents. However, SBA has determined that an enhanced loan agent disclosure form (Form 159) is a more optimal way to gather the necessary information. Does OIG believe that the enhanced Form 159 is an adequate replacement for a loan agent registration system?

The information collected via the Form 159 is used by SBA to monitor loan agents' participation in SBA's loan programs. SBA's upcoming Fiscal and Transfer Agent (FTA) contract will require the FTA to develop the application and follow-up controls over 7(a) lender Form 159 submissions, which are oftentimes incomplete or inaccurate. Once implemented, we plan to test the execution of the enhanced controls and the reliability of the 7(a) loan agent data.

Recently, we conducted testing of the loan agent data collected under the electronic submission of the Form 159 implemented in 504 loan program and found it to be reliable. Therefore, we believe that with the correct system controls and oversight in place, the enhanced Form 159 may be an adequate tool to collect loan agent participation in SBA's programs to support the necessary monitoring.

6. **According to OIG's FY 2020 report, preliminary FY 2019 estimates from SBA's statistician indicate the agency met its published improper payment reduction target for 7(a) loan guaranty approvals. However, OIG's report also notes that the FY 2019 preliminary results for 7(a) loan guaranty purchases indicate SBA did not meet its published reduction target. Can you elaborate on this discrepancy?**

   To clarify, there is no discrepancy in the reported statements as they relate to separate aspects of the 7(a) program improper payment reporting. Specifically, SBA publishes separate improper payment rates and reduction targets for 7(a) loan guaranty approvals and 7(a) loan guaranty purchases. Per SBA's Agency Financial Report, improper payment reporting for 7(a) loan guaranty approvals are the amount of new guaranty approvals by banks and other SBA lending partner and 7(a) loan guaranty purchases consider the amount of disbursements for the purchase of defaulted guaranteed loans. In FY 2018, SBA's published improper payment rate was 2.77 for 7(a) guaranty approvals and 3.22 percent for 7(a) guaranty purchases. The published reduction targets were 2.67 and 3.12 respectively.

7. **Has the OIG High Risk 7(a) Loan Review program led to changes in the ways in which SBA provides training to its staff who handle these loans?**

   a. **If yes, please describe these changes.**

      Though recent OIG reviews continue to identify loans with questioned decisions by SBA to pay certain guarantees, we believe that the OIG High Risk 7(a) Loan Review program has led SBA's loan guaranty purchase review office and quality control team to enhance the loan review purchase process and provide additional training to staff. For example, SBA increased the time loan specialists are allowed to review high-dollar/early-defaulted loan files submitted by lenders for guaranty requests. Further, the quality control team incorporates the OIG's results into its loan file review analysis to determine the root causes for identified deficiencies. This analysis helps to identify the training needs for the staff that review the loan files for compliance prior to SBA honoring its guaranty. For instance, the analysis may determine that loan specialists need additional training on cash flow analysis or reviewing business valuations.

8. **SBA's desktop loss verification process facilitated SBA's processing of disaster loan applications after Hurricanes Harvey, Irma, and Maria in a timelier fashion. However, your office recently found that approximately 50 percent of the loans it reviewed in an audit were disbursed by SBA without validating the cause, extent, or cost of damages, and without ensuring that the loans were provided only to individuals impacted by Hurricanes Harvey, Irma, or Maria. What specific steps is SBA taking to ensure its desktop loss verification process is not subjecting the agency to fraud and abuse?**

   Officials from the Office of Disaster Assistance recently informed us that they plan to establish a team to conduct a thorough review of its processes for loss verification, loan processing, and disbursements to address our recommendations to update the system to coincide with the SBA policies and procedures for conducting post desktop reviews, and establish controls to ensure post desktop reviews are conducted for all approved loans $25,000 or less prior to any disbursements of fund. We will continue to monitor SBA's progress in this matter as part of the follow up process to recommendations OIG made in Report 19-23.

9. **Since 2010, there has been a steady decline in the number of firms participating in the 8(a) program – from about 7,000 firms in 2010 to about 4,450 as of August 2019. The Committee is concerned with this trend. What else should SBA be doing to encourage participation while ensuring that only eligible firms become part of the program?**

   Our recent oversight efforts concerning eligibility and continuing eligibility of 8(a) program participants does not inform the question concerning the participation trends. It is our position that ensuring the program has effective controls to detect and prevent ineligible firms from participating is essential for maintaining program integrity and assure growth within its target population.

10. **According to FY 2020 report, OIG audits continue to identify federal agencies that may have received credit towards their small business goals for small disadvantaged businesses and for HUBZone businesses because contracting officers incorrectly reported ineligible firms as either being certified in the 8(a) or HUBZone programs in Federal Procurement Data System (FPDS). Are there any particular safeguards that could be implemented through the FPDS system to prevent this from happening?**

    OIG identified that FPDS may benefit from strengthened controls to prevent Federal agencies' contracting officers from using ineligible NAICS codes. (Report 18-18, *SBA's Women-Owned Small Business Federal Contracting Program,* dated June 20, 2018.) It is our understanding that FPDS captures the contract information after it has already been awarded to a firm, and preventative measures may be more suited for FedBizOps. These systems are owned and maintained by General Services Administration, which may be better positioned to provide further information on the systems' functionalities, capabilities, and/or limitations to ensure information obtained from the systems is accurate for the purposes of agencies' goaling achievement reports.

11. Recently, SBA issued a proposed rule recommending that the $750,000 continuing eligibility standard be used for all economic disadvantage determinations in the 8(a) program. However, the proposed standard does not appear to be based on economic analysis.

a. Is SBA developing objective and reasonable criteria for defining who may qualify as "economically disadvantaged"?

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." However, SBA concluded that the $375,000 net worth standard may not be appropriate because it did not consider "economic disadvantage" as an element of continuing eligibility. Therefore, SBA published a proposed rule in May 2019 to address increasing the "economic disadvantage" to adopt the $750,000 net worth continuing eligibility standard for all economically disadvantaged determinations. SBA has requested comments to the proposed rule on whether the $375,000 or $750,000 net worth standard should be used and plans to use those to determine the definition of "economic disadvantage."

SBA has stated that it received 889 comments and plans to use the comments as proxy for objective and reasonable criteria. Although public comments on proposed regulations provide valuable insight that should improve final product, OIG believes it should not serve as a proxy to an evidence-based policy proposal. SBA has not issued a summary of the comments. It is our opinion that SBA should develop objective and reasonable criteria based on quantitative research and finalize and implement that criteria for determining the threshold where socially disadvantaged individuals face economic disadvantage due to diminished credit and capital opportunities.

b. If not, what reason(s) has SBA provided for why it is moving forward with the $750,000 continuing eligibility standard for all economic disadvantage determinations in the 8(a) program?

In response to Management Challenge #5 Recommendation #1, SBA officials provided the following:

> *"In September of 2017 SBA awarded a contract to SC&A, Inc., to conduct a study to assist [SBA] in defining or establishing criteria for what constitutes "economic disadvantage" for [SBA] program purposes." This study "supported a $375,000 personal net worth threshold for initial 8(a) business development eligibility... [but] failed to consider economic disadvantage as an element of continuing eligibility, and therefore was not an appropriate measure of participation... as an economically disadvantaged business owner... SBA noted the important policy considerations of having uniform economic disadvantage criteria in the 8(a) [business development] and [economically disadvantaged women owned small business] programs. As such, SBA proposed to adopt a $750,000 net worth standard for all economic disadvantage determinations in both programs."*

To develop the criteria, SBA requested the public's input on both thresholds under consideration and has analyzed the comments received, and plans to apply the same economic disadvantage criteria for the 8(a) business development and the economically disadvantaged women owned small business programs for consistency between the programs. OIG reviewed a small sample of the 889 comments received by SBA and identified some form letters from similar interested parties that did not specifically comment on the dollar threshold. Again, we believe SBA should develop objective and reasonable criteria based on quantitative research.

12. OIG's FY 2020 report highlighted grant management deficiencies your office identified in recent reviews of SBA grant programs.

a. What training has SBA instituted to overcome the management deficiencies in the Office of Entrepreneurial Development (OED)?

During FY 2019, SBA implemented an agency wide training plan that identified training requirements for grants management officers, grant officer technical representatives, program managers, and senior executives. Office of Entrepreneurial Development staff are required to complete the curriculum that the Agency deemed appropriate for performing their responsibilities related to the grant programs. SBA identified 13 officials within OED that are required to receive grants management training on a continuous basis.

b. Are the project officers in the district offices trained on the OMB rules and regulations regarding grants management?

SBA did not include district office personnel in the training plan. SBA's program offices with grants management responsibilities should be ensuring district office personnel who are conducting site visits are provided sufficient guidance for conducting their reviews.

c. Are program managers and financial examiners trained on the OMB rules and regulations regarding grants management?

SBA's training program identifies training requirements for program managers responsible for administering grant programs which includes courses covering the Uniform Administrative Requirements for Federal Grants (2 CFR 200). SBA's financial examiners are not included in the Agency-wide grants management training initiative.

d. Have you reviewed these trainings to gauge whether they are sufficient?

The required training is provided by third party vendors, including Management Concepts and National Grants Management Association. These training programs are recognized throughout the Federal government to strengthen grants management competencies and improve workforce skills gaps.

13. OIG's April 2019 audit on the SCORE Association and the EDMIS system lists the problems with data uploads as "Closed" or "Resolved."

a. What concrete steps has SBA taken to address the errors plaguing the EDMIS system?

In our report on SBA's oversight of the SCORE Association (Report No. 19-12) we made two recommendations to address the errors we found in SBA's reporting on the SCORE program results:

- Recommendation 9 - Correct the number of clients trained for FY 2017 for the SCORE program in the updated annual Congressional Budget Justification and Annual Performance Report, and
- Recommendation 10 - Implement procedures to review and reconcile SCORE's achievements reported in its quarterly performance reports to the performance results in the Entrepreneurial Development Management Information System to ensure performance results are accurate and complete.

To address recommendation 9, SBA management provided the corrected number of clients trained for FY 2017 in a submission to OMB. The corrected number of clients trained will appear in the upcoming FY 2021 Congressional Budget Justification/FY 2019 Annual Performance Report expected to be published in 2020. The performance metric had been retired in FY 2019 in favor of an updated metric, so the corrected numbers will appear as a note to the updated metric. We consider this recommendation closed. This recommendation was closed on September 11, 2019.

SBA has not submitted final actions for OIG to review to close recommendation 10. In its official response to the audit report, SBA management stated it plans to modify the terms and conditions in the notice of award to require a quarterly reconciliation with SBA to ensure performance results are accurate and complete. Management plans to complete final action on this recommendation by January 31, 2020.

b. Have you followed up to see if those steps are effective?

SBA has not implemented corrective actions to ensure performance results are accurate and complete.

14. OIG has recommended that SCORE implement training for its chapters, which OED will require. Who is guiding this effort, and how will SBA monitor these training programs?

This recommendation was closed on September 5, 2019. OED management provided training on program income, restricted and unrestricted funds at the SCORE National

Leadership conference during a general session on August 14, 2019. They also attended all 3 break-out sessions on the new centralized accounting system where the topics of program income and restricted and unrestricted funds were discussed in more detail. Further, SCORE provided an online webinar available to SCORE chapter leadership, including chapter treasurers, that discussed program income and restricted and unrestricted funds. In addition, SBA management will present at the seven regional meetings in the spring of 2020, that will include the treasurers and other SCORE chapter leadership. Based on the actions completed, we consider this recommendation closed. Further, SCORE is developing a new centralized accounting system and plans to implement by September 2020. The new system will enable SCORE to report on and monitor chapters use of restricted and unrestricted funds and improve SBA's ability to perform financial oversight.

15. OIG recently completed a review of the Women's Business Center (WBC) in Mobile, Alabama, as part of an audit to determine whether SBA oversight ensures WBCs comply with cooperative agreement financial requirements.

a. Did SBA request OIG to initiate this audit?

No, SBA did not request OIG to initiate this audit. Aside from oversight prescribed by statutory mandates, OIG independently initiates, carries out, and completes its oversight duties and responsibilities.

If yes:

i. What specific steps did OIG take to ensure its investigation of this WBC was independent?

ii. Did OIG document any information regarding or relating to the Mobile, Alabama WBC from the Office of Women's Business Ownership or any other SBA office prior to initiating its audit? If so, please submit this documentation with your responses to these Questions for the Record.

b. If SBA did not request OIG to initiate this audit, what prompted OIG to commence this audit?

OIG seeks to address areas of risk through its oversight work. OIG identified issues within the Office of Entrepreneurial Development regarding SBA's oversight and grants management (Report 19-12, *Audit of SBA's Oversight of the SCORE Association,* Report 18-20, *The Small Business Administration's Boots to Business Program*, and

Report 18-11, *Audit of State Trade Expansion Program*). OIG also recognized that the WBC program had not had a full program review and was a program area for which OIG's Hotline had received complaints. Our previous work in the area of the WBC program was in response to a request from the Senate Committee on Small Business and Entrepreneurship to investigate the extent of delays with the grant disbursement process. (Report 8-05, *Audit of Grant Disbursements to Women's Business Centers,* dated 11/20/2007.) Therefore, we included an audit of the WBC program in our audit plan for FY 2019.

c. **Is it true that the Mobile, Alabama WBC you audited had not received reimbursement from SBA for over one year, causing the WBC to close its office?**

This is not accurate. SBA notified WBC, Inc., it was authorized to drawdown reimbursement payments on the following dates:

South Alabama (SBAHQ-16-W-0019)

- Q1: April 3, 2018 for $24,926.28.
- Q2: May 30, 2018 for $17,152.53.
- Q3, month of April 2018: August 16, 2018 for $8,337.83.
- Q3, month of May 2018: September 19, 2018 for $5,156.35.
- Q3, month of June 2018: April 18, 2019 for $9,126.56.
- Q4: May 31, 2019 for $8,134.40.

Rural Alabama (SBAHQ-17-W-0020)

- Q1: April 17, 2018 for $20,380.65.
- Q2: approximately May 30, 2018 for $12,559.65. Karen Gray withdrew funds from HHS PMS in the authorized amount in June 5, 2018.
- Q3, month of April 2018: August 24, 2018 for $5,734.52.
- Q3, month of May 2018: September 19, 2018 for $3,758.84.
- Q3, month of June 2018: April 18, 2019 for $5,033.53.
- Q4: May 31, 2019 for $6,891.92.

WBC, Inc., was responsible for the accurate completion of its financial reports and timely submission to SBA for SBA's review and determination of allowable expenses for reimbursement. WBC, Inc. was also responsible for matching its federal grant dollars awarded (on a 1:1 ratio). SBA reduced WBC, Inc.'s, reimbursements due to WBC, Inc.'s, failure to match the federal award and due to disallowed costs. WBC, Inc. reimbursement payments were approved and authorized after OWBO received and reconciled WBC, Inc. financial reports, as per the Notice of Award terms and conditions.

We determined that both WBC, Inc., locations in Alabama were closed prior to the FY 2018 Q4 reimbursements. According to statements from the recipient, the South WBC and Rural WBC staff stopped working after June 2018. While we determined that the WBC, Inc., was closed in FY 2018 Q4, SBA still reimbursed the WBC, Inc., for its submitted Q4 expenses. We are still reviewing this information to determine any disallowed costs.

d. Was SBA working with the Mobile, Alabama WBC to resolve the WBC's financial issues prior to the OIG's involvement?

It is our understanding that SBA was in communication with WBC, Inc. personnel prior to the commencement of OIG's review of WBC, Inc. OIG also understands that SBA communicated with WBC, Inc. regarding the Agency's reimbursement decisions. OIG did not intervene, impede, or otherwise direct SBA's communications with WBC, Inc.

16. When auditing an entity, particularly a SBA grant recipient like SCORE or a WBC, do you provide a draft report to the audited entity concerning the findings, conclusions, and recommendations to ensure that the report is balanced, complete, and objective?

a. If not, why do you opt not to present the audited entity's views?

We conduct our audits in accordance with Generally Accepted Government Auditing Standards. Those standards require that we communicate our audit results to appropriate officials with authority to take corrective actions, in this instance the SBA. Consequently, it is SBA's decision concerning the manner in which our results are communicated to external parties including the Agency's resource partners.

In applying those standards, we provide a draft report to SBA concerning findings, conclusions, and recommendations to ensure that the report is balanced, complete and objective. Also, since early communication of findings may be important because of their relative significance and the urgency for corrective follow-up action, during the audit process, and especially during fieldwork, we also keep management informed of findings and/or concerns as they develop through discussions and meetings. These discussions serve two purposes:

- Provide an opportunity for the agency to clarify our understanding of the facts and circumstances surrounding the finding(s) and to correct misunderstandings and inaccuracies, and
- Provide management with areas of concern where improvements may be needed so they can take corrective action as soon as possible.

After the completion of fieldwork, we provide SBA with a discussion draft report to resolve or minimize disagreements on conclusions and recommendations. No formal written comments are due. However, the discussion draft report is used for the exit conference meeting where SBA has the opportunity to provide feedback and discuss the report facts and tone.

After the exit conference, we prepare a formal draft report, considering any revisions resulting from the exit conference and other discussions and management is asked to respond to the draft report findings and recommendations in writing.

17. I understand that the IG must clear any changes to matters affecting client privacy until regulations are implemented by SBA.

a. Has SBA recently requested any changes to these provisions?

We are not aware of any changes initiated by the Agency. However, the OIG has requested that OIG's approval role to be eliminated in the most recent Senate draft of the reauthorization bill for SBA.

i. If yes, what changes were requested?

To inform the legislative process relative to the ongoing reauthorization of SBA programs and operations, OIG requested an affirmative repeal for OIG to review SBA-prepared client surveys, pending the issuance of a rule by SBA. It was noted that the draft reauthorization requires SBA to issue regulations pertaining to client surveys; however, the draft did not repeal the requirement for OIG to review client surveys absent the issuance of such regulations (which is contained in current law). The existing OIG approval requirement places OIG in a program role, and OIG would be significantly challenged to independently or objectively review SBA's use of client surveys given the prescribed OIG approval role. There also is a redundancy factor relative to the prescribed OIG approval in that the Paperwork Reduction Act requires OMB clearance of any surveys that will go to more than nine people. 44 U.S.C. § 3504(c). Nonetheless, OIG's independence concerns are chief.

b. What reasons has SBA provided OIG for why the agency has not implemented any regulations after 14 years?

OIG has not received any justifications related to why the Agency has not implemented any regulations.

Representative Jason Crow

1. **The OIG's FY 2020 report on the top management and performance challenges facing the SBA did not assess SBA's innovation programs, such as the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. I have heard from many of my constituents that they are troubled with the speed at which the Office of Investment and Innovation functions and know that it is severely understaffed. As the Subcommittee Chairman on Innovation and Workforce Development, these issues are particularly concerning to me.**

    a. **Please elaborate on why you did not include this program in your FY 2020 report, as it represents a huge challenge to small businesses in my district.**

    The content of our FY 2020 report is informed by the work performed by our office and other sources, such as the Government Accountability Office and the Congress. OIG performs an extensive annual oversight planning process that considers several factors including analyzing the risks of waste, fraud and abuse within SBA's programs and the potential impact of the work we perform. Based on the extensive work done by GAO in the SBIR/STTR areas, we have not prioritized work in this area to avoid duplication and to provide coverage of other SBA programs.

    GAO also is positioned well to oversee programs spanning multiple government agencies. Since SBIR/STTR funds are granted by the 11 participating agencies independently, any problems with the speed of the program would likely involve the processes at each of the participating agencies as well. Such processes are under the purview of Office of Inspectors General overseeing the respective participating agencies. SBA's role is limited to the administration, policy, measurement, and reporting. SBA does not grant any funds under the programs.

    It should be noted that a recent GAO report (GAO-19-620) indicated - "Many Agencies Took Longer to Issue Small Business Awards than Recommended." The report identifies the following as provided reasons for the delays:

    - Some agencies use cost reimbursement contracts, which require additional agency review under federal acquisition regulations.
    - Some contracting officers have limited expertise in issuing SBIR and STTR awards and their overall workloads can be heavy.

- Small businesses may be slow to respond to agency requests for information, such as requests for information needed to meet government contracting requirements.

b. Will you commit to working with my office so I can understand, from OIG's perspective, how to best improve management and performance challenges related to SBIR, STTR, and the Office of Investment and Innovation?

Yes. OIG staff are available to meet with you and your staff to discuss specific concerns regarding the SBIR and STTR programs.

Representative Bradley Schneider

1. **I have heard from business owners in my district that federal construction proposals rarely have set-asides for women-owned small businesses (WOSB), which is notable because women-owned businesses have generally been deemed underrepresented in the construction sector.**

    a. **Is SBA providing training across agencies to promote the use of the WOSB program?**

    OIG's recent oversight of the WOSB program, reported in Report 18-18, did not include training SBA is providing across agencies to promote the use of the WOSB program within its scope. The Office of Government Contracting and Business Development is best positioned at this time to provide detailed information regarding its outreach efforts to agencies and its marketing of the WOSB program overall.

    b. **Is there anything else that can be done to promote its use and make sure contracting officers are trained on their use?**

    OIG's recent oversight of the WOSB program, reported in Report 18-18, did not include training SBA is providing across agencies to promote the use of the WOSB program within its scope. The Office of Government Contracting and Business Development is best positioned at this time to provide detailed information regarding its outreach efforts to contracting officers and marketing of the WOSB program overall.

    c. **How can we incentivize the use of the different set-aside programs, including the WOSB program, in certain sectors or industries?**

    OIG's recent oversight of the WOSB program, reported in Report 18-18, did not include training SBA is providing across agencies to promote the use of the different set-aside programs, including the WOSB program within its scope. The Office of Government Contracting and Business Development is best positioned at this time to provide detailed information regarding its outreach efforts to contracting officers and other federal agencies, and its marketing of set-aside programs and the WOSB program overall.

NYDIA M. VELAZQUEZ, NEW YORK
CHAIRWOMAN

STEVE CHABOT, OHIO
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business

2361 Rayburn House Office Building
Washington, DC 20515-6315

June 18, 2019

Mr. Robb Wong
Associate Administrator
Office of Government Contracting and Business Development
U.S. Small Business Administration
409 3rd Street SW
Washington, DC 20416

Dear Mr. Wong:

Thank you for your recent testimony before the House Committee on Small Business. We write to respectfully request additional information and documentation regarding the status of implementing the reforms enacted for the Women Owned Small Business Federal Contracting Program (WOSB program) through the Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015 (2015 NDAA).[1] Furthermore, we urge SBA to take the appropriate actions to comply with the congressional mandate and address the pending deficiencies identified by the Government Accountability Office (GAO) in a timely manner.

As you know, the 2015 NDAA brought significant reforms to encourage the use of the WOSB program and to safeguard its legitimacy. However, GAO issued a report earlier this year stating that the SBA has not yet adopted two out of the three critical changes required by the 2015 NDAA. Specifically, the SBA has not implemented a new certification program, nor has it eliminated the ability for program participants to self-certify eligibility to the program. Additionally, like previous findings from the SBA's Office of Inspector General, GAO found that contracts using a WOSB set-aside were made to ineligible goods and service providers. Lastly, GAO determined that SBA is not providing adequate oversight to third-party certifiers and program participants. These deficiencies, in conjunction with the delays in implementing the statute, have only exacerbated concerns of fraud and abuse with GAO concluding that "SBA cannot provide reasonable assurance that WOSB program requirements are being met and that the program is meeting its goals."[2]

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[1] Pub. L. No. 113-291, §825, 128 Stat. 3292, 3437 (2014).
[2] U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-19-168, WOMEN-OWNED SMALL BUSINESS PROGRAM (2019).

Based on those findings, the Subcommittee on Contracting and Infrastructure held a hearing on May 16, 2019.[3] In this hearing, the SBA stated that the biggest challenges SBA faced in implementing the reforms have been the lack of staffing and funding. Testimony highlighted that SBA is currently creating a blueprint or plan of action for staffing, funding, and technology needs that would provide clarity as to SBA's present and future needs. SBA further indicated that it would have been irresponsible to make any requests for funding or staffing without having this blueprint in place.[4] Moreover, it was stated that this blueprint has led to the creation of the proposed rule for the new certification program, which is estimated to start in June 2021. As discussed in the hearing, the main component of the blueprint was recently completed with the remaining portions, which address GAO concerns, being completed soon. Finally, it was indicated that SBA has begun the process of meeting with third-party certifiers and that a schedule has been established to meet with them regularly and periodically.[5]

While we understand the staffing and funding constraints referenced in the hearing, the costs of implementing provisions to protect the integrity of the program are minor relative to the risk to taxpayers for the $15 to $20 billion spent annually in this contracting space. Moreover, Congress has an obligation to ensure that taxpayer money is safeguarded. Therefore, it is imperative that we resolve all identified deficiencies and move swiftly toward a certification program to ensure the elimination of fraud and abuse.

In order to provide the Committee with the necessary information and allow us to work collaboratively with SBA in the achievement of the aforementioned goal, we respectfully request answers to the following inquiries:

1. During the hearing, June 2021 was given as the date the new certification program would be implemented. Is this date correct? Please provide a detailed progress report on actions taken thus far regarding its implementation and a detailed plan leading to its final implementation.

2. Please provide the complete blueprint or plan of action that SBA has developed, including any additional components or information created or added after the hearing on May 16, 2019.

3. What are the actual costs of implementing the pending reforms mandated by the 2015 NDAA? Please include an itemized list that includes already incurred costs as well as all future costs.

4. What are the staffing and technology needs to implement the reforms in the 2015 NDAA? Please provide an itemized list if those costs are not included as part of your answer to question number 2 or if they can be further segregated.

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[3] *Oversight of the SBA's Women-Owned Small Business Federal Contract Program Hearing Before the Subcomm. on Contracting and Infrastructure of the H. Comm. on Small Business*, 116th Cong. (2019).
[4] *Id.* (statement of Mr. Robb Wong, Associate Administrator of the Office of Government Contracting and Business Development, U.S. Small Business Administration).
[5] *Id.*

5. What is the timeframe to implement the 2015 pending reforms? Please provide a detailed timetable for implementation of the new certification program and elimination of the self-certification process.

6. Please provide the dates, list of attendees and the meeting minutes of the meetings SBA has held with third-party certifiers. Also, please provide the schedule of meetings that the SBA has established to meet with third-party certifiers on a regular basis.

7. Please provide a detailed explanation as to how the SBA intends to address the three deficiencies highlighted by GAO regarding the use of the WOSB program under ineligible codes, oversight of program participants, and oversight of third-party certifiers.

When it comes to federal procurement, women-owned companies too often face an uphill battle. That is exactly why the WOSB Program was established in the first place; to create greater opportunity for female entrepreneurs and a fairer procurement process. The reforms made to the program through the 2015 NDAA were meant to help agencies achieve their statutory goal of five percent of federal contracting dollars being awarded to women-owned small businesses. However, the inaction and lack of oversight by SBA is thwarting Congressional intent and depriving the federal government from the high-quality goods and services that women-owned small business provide.

The Committee appreciates your attention to this matter and respectfully requests your responses by Wednesday, July 3, 2019. If you have any questions about this request please contact Irene Rivera, Counsel to the Committee for the majority, at (202) 225-4038 or Vivian Ling, Counsel to the Committee for the minority, at (202) 225-5821.

Sincerely,

Jared Golden
Chairman
Subcommittee on Contracting and Infrastructure

Pete Stauber
Ranking Member
Subcommittee on Contracting and Infrastructure

Nydia M. Velázquez
Chairwoman
House Committee on Small Business

Steve Chabot
Ranking Member
House Committee on Small Business

CC: Legislative Affairs
CC: Acting Administrator

Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2020

U.S. SMALL BUSINESS ADMINISTRATION ★ OFFICE OF INSPECTOR GENERAL ★

OCTOBER 11, 2019 REPORT NUMBER 20-01

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

Final Report Transmittal
Report Number: 20-01

DATE: October 11, 2019

TO: Christopher M. Pilkerton
Acting Administrator and General Counsel

FROM: Hannibal "Mike" Ware
Inspector General

SUBJECT: Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2020

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's (OIG's) Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year (FY) 2020. 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 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 2020.

Summary of the Most Serious Management and Performance Challenges Facing SBA in FY 2020

		Color Scores					
		Status at End of FY 2019				Change From Prior Year	
	Challenge	Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting		2				
2	IT Leadership	1	5			1	
3	Human Capital	1				1	
4	SBA Loan Program Risk Management and Oversight	2*				1	
5	8(a) Business Development Program		3	2			2
6	Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers	1					
7	Disaster Assistance Program	1	3			1	
8	Grant Management Oversight	3	1				
	TOTAL	9	14	2		4	2

* For challenge 4 recommendation 1, 7(a) was rated green, while 504 was rated yellow. For challenge 4 recommendation 2, 7(a) was rated yellow, while 504 was rated green. For simplicity, they are reflected as green in this table.

Overall the Agency made progress addressing this year's management challenges. We believe this progress is in large part attributable to the Agency's concerted effort to address outstanding internal control recommendations that are reflected in many component challenge corrective action areas. As a result, the above table identifies 23 of 25 challenge areas as "fully implemented" or having shown "substantial progress." Notwithstanding these efforts, our audits and investigations continue to find the Agency facing significant risks in loan program oversight and controls, oversight of its statutory programs to promote small business development and government contracting, and deploying information technology and related cybersecurity controls.

For example, an ongoing OIG audit identified additional significant issues regarding internal control weaknesses for lender oversight. The audit report has been issued to SBA in draft and includes recommendations to address internal control weaknesses and SBA's oversight of lenders. We anticipate receiving SBA's comments and issuing the final report at the end of October 2019.

In summary, 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.

Contents

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 contracts, such as those awarded under the Javits-Wagner-O'Day Act, UNICOR, and some Department of Defense contracts from the small business goaling baseline. SBA asserts that these exclusions should not be considered when calculating the overall 23 percent small business procurement goaling achievement. SBA provides a goaling memorandum each year that identifies the excluded contracting actions and SBA's rationale for each exclusion. While SBA has taken steps to increase transparency in its reporting, these exclusions lead to overstatement of small business goaling achievements. OIG disagrees with SBA's underlying interpretation of the Small Business Act pertaining to the exclusions and asserts that SBA must include the total value of all prime contract awards for each fiscal year in the goaling baseline.

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. If a firm's status as a small business changes after award and it is no longer small or in an SBA preference program, SBA's regulations allow dollars awarded to that firm to be counted as dollars to small business. As a result, agencies continue to receive credit towards achieving their small business procurement goals for some contracts awarded to firms that are either no longer small or in SBA's preference programs. Furthermore, SBA still has not implemented a certification process for the Women-Owned Small Business (WOSB) 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 dollars awarded only to small businesses, SBA should continue to ensure transparency regarding the contracting dollars to businesses that are no longer 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. SBA should also include the value of all prime contracts when calculating the governmentwide small business goaling achievements. By excluding certain contract dollars from the goaling achievements report, SBA 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

Over the last several years, SBA has amended its goaling guidelines and removed many exclusions that existed prior to FY 2013. Further, SBA recently eliminated all exclusions related to contracting actions with nonappropriated funds. In April 2019, SBA added language to its goaling website, which provides a link to the FY 2018 goaling guidelines and explains prime contract awards excluded from the goaling. While this addition aids in the transparency of the exclusions, OIG maintains that the Small Business Act does not provide for excluding prime contract awards when calculating governmentwide small business achievements. Additionally, by continuing to exclude certain types of contracts from the goaling baseline, SBA overstates the federal government small business goal achievements on a percentage basis. We further maintain that exclusions weaken the ability of Congress and other federal policymakers to determine whether the government is maximizing contracting opportunities for small business awards and participation in meeting small business goals. This is evidenced in the General Services Administration FY 2018 Goaling Without Exclusions Report, which reported small business contract expenditure data without goaling exclusions applied, resulting in a small business procurement goal achievement of 22.4 percent—2.6 percent lower than the 25 percent reported by SBA. SBA has made strides in transparency by adding more information to its goaling website and, according to SBA officials, by including new language to its draft FY 2018 Remediation Actions and Analysis Report to Congress. However, OIG disagrees with SBA's underlying interpretation of the Small Business Act. OIG asserts that the statutory language for SBA to report on all small business contracts means the 23 percent goal calculation should not consider any exclusions. By excluding certain contracts, SBA's reports are not an accurate reflection of the percentage of small business participation accomplished. OIG further continues to emphasize that 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

OIG audits continue to identify federal agencies that may have received credit towards their small business goals for small disadvantaged businesses (e.g., those firms certified in the 8(a) program), and for Historically Underutilized Business Zone (HUBZone) firms, 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 Report 14-18, we identified that more than $1.5 billion dollars in FY 2013 contract actions were included towards small business contracting goals, even though the firms were no longer in the 8(a) 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. Similarly, in a September 2018 audit report (Report 18-22), we 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-aide contract obligations in FY 2017 at the expense of eligible disadvantaged firms. In a March 2019 report (Report 19-08), we also found that SBA did not ensure that only eligible firms entered the HUBZone program. We found that 2 of 15 firms we reviewed did not meet the principal office eligibility requirement and 1 of 15 firms did not meet the HUBZone employee residency requirement. These firms received $589,000 in HUBZone contract obligations at the expense of eligible 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 affected 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.

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 grown to be no longer small or have left the program. SBA added these regulations to codify the existing "practice" of the agencies to include these firms even though they were no longer in an SBA preference program or were no longer small. Additionally, in 2006, SBA revised its regulations to address small business size status representations and reporting for long-term federal contracts.[1] Since 2013, SBA has made additional changes to allow procuring agencies to receive credit for dollars awarded to a small business for the first 5 years of a long-term 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. A firm is required to recertify its small status before the end of the fifth year. If the firm is no longer small when it recertifies, the awarding agency must immediately revise all applicable federal contract databases to reflect the new size status and will not receive credit for the additional years. Therefore, in cases where a small business grows to be other than small within 5 years, the procuring agency may exercise options and still count the award as an award to a small business.

OIG contends that more transparent reporting of those awards to firms that grow to be other than small after award is necessary to portray a true picture of the small business goaling achievements. While the regulations allow procuring agencies to receive credit for dollars awarded to firms no longer in SBA preference programs, or that are other than small, by including those contract obligations in the reported small business goals, SBA cannot accurately reflect or measure true program impact. SBA has included additional information in its Small Business Goaling Report to be more transparent; however, it should still consider accurately reflecting 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 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 that 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 has made 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. SBA published a proposed rule in May 2019 to amend its WOSB program regulations and is currently reviewing the public comments it received at the close of the comment period in July

[1] SBA defines long-term contracts as "contracts with durations greater than 5 years (including options), including all existing long-term contracts, Multiagency contracts, Governmentwide Acquisition Contracts, and Multiple Award Contracts." 13 CFR 121.1004(a)(3).

2019. SBA officials stated they were exploring the use of contractors to conduct prescreening in advance of the final rule, which is estimated for June 2020. SBA officials also plan to implement part of the WOSB certification process using certify.SBA.gov. However, this system has limited functionality, and SBA did not make progress in enhancing it for the WOSB certification process in FY 2019. As noted below in Challenge 5, as of August 2019, SBA had spent more than $27 million on this system. 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)	2015: 0	2016: 1	2017: 0	2018: 0

Recommended Actions for FY 2020	Status at End of FY 2019
1. Strengthen controls in SBA preference programs to detect ineligible firms and remove those firms timely 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: Information Technology Controls Need Improvement to Address Cybersecurity Risks

Annually, OIG monitors the effectiveness of the Agency's Information Technology (IT) controls and related cybersecurity processes against control frameworks established by statutory federal guidance, the Federal Information Systems Controls Audit Manual (FISCAM), and the Federal Information Security Modernization Act (FISMA). During the past year, OIG's independent public accountant found the Agency had a significant deficiency in IT security controls and the OIG assessed the Agency as "not effective" against criteria established by FY 2018 Inspector General FISMA Reporting Metrics.

Notwithstanding these assessments, the Office of the Chief Information Officer (OCIO) improved its deployment of IT controls through resolution of outstanding OIG recommendations. OCIO also made improvements in several security areas including access controls, continuous monitoring, and configuration management.

OCIO Made Progress in Deploying FITARA Criteria

The goal of the Federal IT Acquisition Reform Act (FITARA) was to realize long-term cost savings through improved IT risk management, transparency, and more effective IT investment oversight. During this past year, OCIO implemented a human resource planning process to include competency and workforce plans around IT requirements. These efforts resulted in OCIO fulfilling all FITARA workforce development standards. As a result of these efforts, OIG has assessed the FITARA human resource planning requirements as implemented.

In the areas of IT investment oversight and accountability, we identified three areas for improvement. We recommended that OCIO develop a process for capturing performance goal estimates and actual cost savings/avoidance for IT initiatives. We also recommended that cloud migration decisions require approved business cases through SBA's IT governance boards. Moreover, we recommended system owners and contract officers ensure cloud services contracts specify system interoperability, portability, and data ownership. OCIO stated they have implemented controls in these three areas, and we will validate progress in future reviews.

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, we made 35 new recommendations in IT security control areas. OCIO initiated corrective actions that resulted in 44 recommendation being resolved. This effort included 10 from prior fiscal years dating back to 2014. In summary, OCIO demonstrated progress; however, we continue to identify critical control issues in areas such as audit logging, network vulnerability management, access controls, and segregation of duties.

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 FY 2020	Status at End of FY 2019
1. Establish an OCIO human resource planning process that allows full deployment of FITARA.	Green ↑
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] The Office of Personnel Management (OPM), in a recent May 2019 evaluation of SBA's human capital operations, noted that SBA should regularly assess the effectiveness of human capital strategies and workforce plans on addressing gaps and surpluses and use the assessments to adjust strategies and plans.[3] As a result, as noted in the previous year's management challenge, OIG is currently planning 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.

SBA Has Made Progress to Update Human Capital Management Policies

SBA has made significant progress in addressing our recommendation to update its human capital management policies. In addition to updating the policies identified by OIG, SBA also responded to numerous regulatory changes initiated by the White House and OPM resulting in the update of the Telework and the Discipline and Adverse Actions policy and the development of guidance for weather and safety leave provisions. The Agency made the decision to revise the Employment standard operating procedure (SOP) by migrating the sections into separate policies. This decision resulted in the creation of 11 distinct human capital management policies. Since 2009, the Agency has updated and implemented the 11 policies.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 2001, revised in FY 2007)	2015: 1	2016: 0	2017: 1	2018: 0

Recommended Action for FY 2020	Status at End of FY 2019
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.	Green ↑

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] OPM, U.S. Small Business Administration, Human Capital Management Evaluation, dated May 21, 2019.

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 $120 billion loan portfolio originated by lenders and certified development companies that have various degrees of expertise regarding SBA loan program requirements. Most 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 liquidating 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 initiated actions to address identified issues with its oversight of lenders and made progress in implementing a portfolio risk management program. Also, SBA made substantial progress in identifying and tracking third-party agents.

While SBA took actions to address previous concerns regarding its oversight of lenders, an ongoing OIG audit identified additional significant issues regarding internal control weaknesses for lender oversight. The OIG expects to issue this audit at the end of October 2019 with recommendations to improve SBA's oversight of lenders. Additionally, SBA needs to continue 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 further enhance its tracking of loan agents within the 7(a) program.

SBA's 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 2018, SBA took actions to address identified issues with its oversight of lending participants. For example, SBA developed risk profiles and lender performance thresholds, developed an 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 followup process.

However, an ongoing audit found additional significant matters regarding SBA's oversight of lenders. The draft audit report has been sent to SBA, and we anticipate issuing the final at the end of October 2019, recommending actions to address the internal control weaknesses and improve SBA's oversight of lenders.

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.

From FY 2016 to FY 2018, SBA made substantial progress in demonstrating that information from the portfolio risk management program was used to support risk-based decisions, and implementing additional controls to mitigate risks in SBA loan programs. Specifically, 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. SBA also performed an evaluation of the Community Advantage Pilot Program. Based on this analysis, SBA determined that changes were necessary to improve the performance of the Community Advantage Pilot Program. In FY 2019, SBA conducted extensive analyses on 7(a) and 504 loan program performance, which included franchise and industry concentrations and various loan characteristics. Based on these analyses, the 7(a) loan portfolio and 504 loans greater than $2 million were beginning to show signs of declining performance. However, SBA deemed that no action was required apart from continued monitoring of the portfolio performance.

SBA maintains that the current program tracks performance to support risk-based decisions at the portfolio, subprogram, 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 2020 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 approximately $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 was limited.

SBA implemented a process that requires lenders to provide a loan agent disclosure form (Form 159) to SBA's fiscal and transfer agent (FTA) for 7(a) loans. 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. Additionally, the report found that SBA had not implemented tracking of the Form 159 in the 504 loan program.

In response to our loan agent report, SBA stated that it would explore the feasibility of implementing a registration system for the 7(a) program. Subsequently, SBA determined that the optimal way to gather information is the enhanced Form 159. The enhanced Form 159 was approved by OMB and 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 followup controls over 7(a) lender submissions, to ensure that critical fields on each form are completed. SBA expects the enhanced controls to be fully implemented during FY 2020.

In FY 2019, SBA also implemented an effective method of disclosing and tracking loan agent involvement within the 504 loan program. Specifically, SBA requires 504 lenders to electronically submit Form 159 directly into SBA's electronic lending platform. Additionally, SBA provided training to lenders during 2019 on the enhanced Form 159.

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, more than 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 2,900, 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 metrics on LSP participation in SBA's 7(a) program, but oversight is still limited. Specifically, the SBA loan agent performance analysis does not aggregate LSP loan level information in order to identify high risk LSPs. 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 4 Fiscal Years (Challenge first reported in FY 2001)	2015 7(a) loans: 1 504 loans: 1	2016 7(a) loans: 0 504 loans: 0	2017 7(a) loans: 1 504 loans: 1	2018 7(a) loans: 2 504 loans: 1

Recommended Actions for FY 2020	Status at End of FY 2019	
	7(a)	504
1. 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
2. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.	Yellow	Green ↑
3. Enhance the analysis of loan agents to monitor and identify high-risk LSPs.	New	New

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. During FY 2018, SBA implemented additional measures for business opportunities specialists 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 initially designed to aid its monitoring efforts to track 8(a) participants' business development. SBA made previous attempts to revamp its IT systems for monitoring 8(a) firms that have been unsuccessful. SBA's most recent attempt to implement an IT system, certify.SBA.gov, is intended to be a more comprehensive approach to service delivery and broader in scope than just the 8(a) program. It includes the WOSB, HUBZone, and mentor-protégé programs. 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.

Since last fiscal year, SBA did not make progress in enhancing the functionality of certify.SBA.gov for the 8(a) program. As of August 2019, SBA had spent more than $27 million on this system. Program officials stated that the initial goal was to integrate 8(a) business development functions into the certify.SBA.gov platform; however, their strategy changed. In FY 2019, SBA decided to only use certify.SBA.gov as the certification management system and plans to develop a separate system to monitor 8(a) participants' business development outside of certify.SBA.gov. In lieu of an IT system, SBA created a manual workaround for business opportunity specialists to assess the 8(a) participant's individual business development during the annual review and input results in an Excel spreadsheet. This file is retained in the firms certify.SBA.gov case file, which lacks reporting functionality. Currently, SBA has no system to assist program officials in monitoring 8(a) participants' business development to assess the effectiveness of the program. To address this, SBA formed a Tiger Team to develop a solution in 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 5 percent over the previous year through a streamlined application process. Despite the changes to the application process, the program continues to experience a decline in firms participating in the program. As of August 2019, SBA reported the 8(a) program included 4,450 firms, which is a decline of about 10 percent over the 4,903 firms reported participating in the program as of April 2018.

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. For example, SBA no longer required that applicants submit an Internal Revenue Service tax verification form, information about the applicant firm's business structure, and information on tax liens, judgements, or lawsuits. However, shortening the review process by eliminating documents may erode core safeguards that prevented questionable firms from entering the 8(a) program. At the request of SBA's former Deputy Administrator, we conducted a follow-on audit to a report issued in FY 2016 (Report 16-13) 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 questioned the eligibility of 10 of the 30 firms (Report 17-15). Based on the audit, SBA updated its 8(a) program SOP to reinstate the requirement that applicants submit the Internal Revenue Service tax verification form. Additionally, SBA added a requirement to include a statement of difference in the review notes of each application when a final decision to approve or deny a firm's admittance into the program differs from the lower-level reviewer's recommendation.

While the updates to the SOP demonstrate substantial progress in mitigating the risk of ineligible firms being admitted to the program, SBA currently does not have a fully functional information system to assist them in monitoring whether these procedures are operating effectively. SBA is responsible for the integrity of the 8(a) program, and it should 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 Fraud Risk

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. SBA drafted updates to its 8(a) program SOP governing the 8(a) continuing eligibility review process and evaluation standards, as well as the process for removing firms deemed ineligible for program assistance. SBA has submitted its draft SOP for review and expects a final SOP to be implemented early in FY 2020. Until SBA makes improvements and implements corrective actions 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." However, SBA concluded that the $375,000 net worth standard may not be appropriate because it did not consider "economic disadvantage" as an element of continuing eligibility. Therefore, SBA published a proposed rule in May 2019 to address increasing the "economic disadvantage" to adopt the $750,000 net worth continuing eligibility standard for all economically disadvantaged determinations. SBA has requested comments to the proposed rule on whether the $375,000 or $750,000 net worth standard should be used and plans to use those to determine the definition of "economic disadvantage." OIG contends that SBA should develop objective and reasonable criteria based on quantitative research and finalize and implement that 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 4 Fiscal Years (Challenge first reported in FY 2003)	2015: 0	2016: 0	2017: 2	2018: 0

Recommended Actions for FY 2020	Status at End of FY 2019
1. Establish objective and reasonable criteria that effectively measure "economic disadvantage" and implement the new criteria.	Orange ↓
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.	Orange ↓
4. Measure 8(a) Business Development Program participant's progress on achieving its individualized business development goals and assess program effectiveness.	Yellow
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.	Yellow

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 2018, the dollar amount of SBA's 7(a) loan approvals reached $25.4 billion. Most of these loans are made by lenders with delegated approval authority. When a loan goes into default, SBA conducts 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.

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. 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. While OCA made substantial improvements, OCA needs to continue to provide evidence that the developed corrective action plans are effective in reducing improper payments.

OIG established a High Risk 7(a) Loan Review Program to evaluate lender compliance with SBA requirements for high-dollar/early-defaulted 7(a) loans (loans approved for $500,000 or more that defaulted within the first 18 months of initial disbursement). During FY 2019, OIG identified material lender noncompliance in five of the eight loans reviewed, totaling approximately $8.7 million in questioned costs. Although OCA staff completed purchase and quality control reviews on these eight loans, they did not identify or fully address the material deficiencies noted in the subsequent OIG review. Therefore, OCA needs to assess its purchase and quality control reviews to determine why the reviews did not identify or mitigate the lenders' noncompliance with SBA requirements.

SBA Improved Its Quality Control Program to Reduce Improper Payments

OCA has made significant progress in developing and implementing a quality control program for all 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) 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 enhanced improper payments reporting to monitor root causes, identify operational risk, and create corrective action plans for 7(a) loans. Corrective actions included conducting training, collaborating with OCRM, and collecting funds from lenders.

For the FY 2018 improper payments evaluation, OIG found that SBA did not meet its reduction targets for 7(a) loan guaranty approvals for 2 consecutive years. However, preliminary FY 2019 estimates from the Agency's statistician indicate that they met their published improper payment reduction target for 7(a) loan guaranty approvals. FY 2019 preliminary results for 7(a) loan guaranty purchases indicate that SBA did not meet their published reduction target. However, the dollar value of estimated improper payments decreased. OIG did not validate SBA's preliminary improper payment estimates. OCA needs to continue to demonstrate in FY 2020 that the developed corrective action plans are effective to reduce improper payments.

Improvements Needed to Ensure Quality Deliverables and Mitigate Loss

As noted above, OCA has taken actions to accurately report and reduce improper payments in SBA's 7(a) 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.

In FY 2014, OIG established its High Risk 7(a) Loan Review Program to evaluate lender noncompliance with SBA's requirements. OIG uses an internal scoring system to prioritize loans for review based on known risk attributes. This evaluation includes a review of 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 OIG's High Risk 7(a) Loan Review Program, we'd reviewed 27 loans with purchase amounts totaling almost $23.2 million. We 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.

Also, this program identified concerns with change of ownership transactions and SBA's identification 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.

During FY 2019 (Report 19-22), OIG identified material lender noncompliance in five of the eight loans reviewed, totaling approximately $8.7 million in questioned costs. Lenders did not provide adequate documentation to support that the borrowers met requirements related to eligibility, repayment ability, size standards, franchise agreements, business valuations, appraisals, equity injection, and debt refinance. OCA staff completed purchase and quality control reviews on these eight loans. However, these reviews did not identify or fully address the material deficiencies noted in the subsequent OIG reviews.

OCA needs to evaluate its purchase and quality control reviews to determine why the reviews did not identify or mitigate the lenders' noncompliance with SBA requirements.

Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported in FY 2010)	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	2018 7(a) Approvals: 2 7(a) Purchases: 2

Recommended Actions for FY 2020	Status at End of FY 2019	
	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. Conduct an evaluation to determine why material lender noncompliance was not identified or mitigated during purchase and quality control reviews on recently reported high-dollar/early-defaulted loans and implement any necessary improvements to mitigate risks.	N/A	New

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 nonprofit organizations. SBA's FY 2018 year-end disaster assistance loan portfolio balance was $9.6 billion. SBA must continually 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 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 all these programs due to lack of interest by private lenders. In October 2017, 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 was scheduled to run for 3 years, from October 16, 2017, through September 20, 2020.

We also remain 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.

Additionally, disaster loans are vulnerable to improper payments, fraud, and default because loan transactions are often expedited to provide quick relief to disaster survivors. We noted in 2018 that lending personnel hired in connection with a disaster declaration may lack sufficient experience. SBA has made progress in this area. In response to Hurricanes Harvey, Irma, and Maria, Office of Disaster Assistance (ODA) increased trained staff from 800 to its peak of 5,094 in December 2017. They conducted after-action reports to identify successes, challenges, and strategic improvements. To address the improvements needed, ODA provided targeted training to 3,655 lending personnel. ODA asserts that the focused training allowed them to reduce the FY 2018 improper payment rate from the FY 2017 rate, despite the increased staff size. Therefore, we do not have any recommendations regarding training for lending personnel. However, continued diligence in this area is necessary to ensure improved integrity and trust in the federal payment system.

Finally, while the desktop loss verification process contributed to SBA meeting its timeliness goals for disaster applications, controls needed strengthening to mitigate the risk of fraud and ensure program integrity. Specifically, SBA did not always validate the cause and extent of damages and repair and replacement costs prior to disbursing loan funds, relied on reports from the Federal Emergency Management Agency (FEMA) that did not contain pertinent information needed to validate damages and losses reported in the initial loss verification, and loan files did not contain sufficient documentation to support loan-making decisions. Without an adequate loss verification, loans could be made to individuals that do not qualify for the loan or do not have damages that justify the amount of the loan.

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 2008 required SBA to establish three new guaranteed disaster programs using private sector lenders—

the Expedited 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 officials planned to use IDAP as a guide to develop EDAP and PDAP, and until the challenges with IDAP were resolved, it did not plan to implement these two programs. SBA notified Congress that it had sought advance public comment on proposed rulemaking for IDAP and received limited responses, most of which were opposed to their implementation. SBA also reported that its partner lenders chose not to participate. Therefore, SBA sought to cancel program funds and rescission of programs in their entirety. As SBA requested in the Appropriations Act of 2018, Congress cancelled the funds appropriated in the Consolidated Appropriation Act of 2018 for IDAP, EDAP, and Appropriations Act of 2019 repealed the statutory authority of EDAP. SBA has requested rescission of the remaining IDAP and PDAP program in its FY 2020 Congressional Budget Justification. SBA officials expect that Congress will follow the precedent set last year and permanently cancel IDAP and PDAP in the Appropriations Act of 2020. After that, SBA plans to seek congressional support for cessation of program authority for these two 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 5-year disaster eligibility period will cause lenders to shift ordinary Express loans to Recovery Express loans due to the higher guarantee rate, exposing SBA to greater risk and endangering the program. SBA requested rescission of the program in its FY 2019 Congressional Budget Justification and has again requested repeal in the FY 2020 Congressional Budget Justification. Therefore, SBA 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 3 years from October 16, 2017, through September 20, 2020. As of August 13, 2019, SBA has approved or disbursed only two loans for $25,000 each 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: (1) 36 percent for incomes below $25,000 and (2) 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 in July 2015, also diminished the level of authorization required to approve loans that do not conform to the established MAFD percentages.

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 increased the acceptable MAFD to 75 percent for all income levels without the need to provide justification. On May 31, 2018, ODA issued SOP 50 30 9, which incorporated the MAFD provisions of Memo 17-22.

ODA believes that credit score is more of an indicator of default likelihood than any other factor. Further, ODA believes the data supports decreasing emphasis on debt to income (DTI) when ODA is making loan decisions. 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 decide based on these factors, it will use a DTI calculation, allowing up to 75 percent, without justification based on compensating factors. In comparison, it should be noted that Fannie Mae and Freddie Mac allow DTI ratios as high as 45 percent for manually underwritten loans and up to 50 percent on desktop underwritten loans with strong compensating factors on a home mortgage.

Despite ODA's assertion that they can aid an additional 10 percent of disaster loan applicants through the decreased emphasis on DTI/MAFD, it comes at a significant risk. In FY 2018, ODA stated that nearly 22 months have passed since the increase in the MAFD threshold and it has found a minimal impact on the portfolio charge-off rate. However, we have noticed that the data for FY 2019 indicates an increase in the charge-off rate of 3.84 percent, a 27 percent increase over the 3.01 percent for FY 2018. We believe the full effect of this policy change cannot be determined until the loans approved subsequent to the policy change have had sufficient time to perform, which is around FYs 2020 and 2021.

Additionally, ODA's policy change contributed to a significant increase in the percentage of approved borrowers with MAFD over 50 percent, increasing from 18.2 percent in FY 2013 to 28.9 percent in FY 2018. We also noted that the occurrence of Hurricanes Harvey, Irma, and Maria created a large increase in the volume of loans approved and disbursed to applicants with MAFD between 50 percent and 75 percent during the latter part of FY 2017 and all of FY 2018. Specifically, the dollars disbursed to borrowers with MAFD over 50 percent in FY 2018 was $823.2 million, which more than doubled the $390.8 million disbursed to borrowers with MAFD over 50 percent in the 5 previous FYs combined. In 2018, we began an audit of SBA's reliance on the increased MAFD and its effect on the default rate; however, we terminated the project in 2019, as many of the loans had not had time to mature. Therefore, we were unable to assess the effect of the policy change on the default rate. We plan to perform a review of this policy change on the default rate once the loans have had sufficient time to perform.

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 more than 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 Was Reduced to Compliant Level

In FY 2018, SBA's improper payment rate for the disaster loan disbursements decreased from a reported rate of 13.65 percent ($123.38 million) in FY 2017 to 8.91 percent ($274.4 million). SBA determined this decrease was due in part to a greater focus on what makes a payment improper and improving controls over the underwriting and disbursement process. However, we noted that ODA eased controls for one of the root causes attributed to the reported rate being above the acceptable threshold for FY 2017. One cause of the higher improper payment rate during the FY 2017 reporting period was the lack of appropriate justifications for disbursements to borrowers who may not have repayment ability based on a MAFD percentage exceeding SBA's recommended limit. During September 2017, SBA increased the allowable threshold for justifications of loan repayment ability from the standard 40 percent to 75 percent. Additionally, ODA diminished the level of authorization required to approve loans that do not conform to the established MAFD percentages. To effectively reduce disaster loan improper payment rate, ODA should strengthen and implement new controls as opposed to lessening the requirements. SBA should expand corrective actions to proper and complete documentation prior to disbursement in order to significantly lower improper payment rate in FY 2019. We are currently conducting an audit of the improper payment quality control process.

Inadequate Verification of Cause and Extent of Damages

The desktop loss verification process uses a two-pronged approach: an initial desktop loss verification and a post desktop review. The initial desktop loss verification is used to estimate the cost of repairs. Information is gathered and evaluated through telephonic interviews with applicants in conjunction with third-party information, such as tax assessors' websites, Google Earth, and Zillow. Following the initial desktop loss verification, SBA requires a post desktop review to validate the total damage estimates obtained from the initial desktop loss verification.

A critical part of the disaster loan-making process is evaluating the cause and extent of property damages, which provides SBA the information necessary to make appropriate decisions when establishing eligibility for disaster loan funds. In the past, loss verifiers conducted damage assessments solely through on-site inspections. On January 31, 2017, ODA issued Memo 17-06, Desktop Verifications. After increased use of electronic loan applications, SBA implemented the desktop loss verification process to expedite assistance to disaster survivors. The desktop loss verification process contributed to SBA meeting its timeliness goals for processing disaster loan applications for Hurricanes Harvey, Irma, and Maria.

However, controls needed strengthening to mitigate the risk of fraud and ensure program integrity for the loss verification process. Specifically, SBA did not always validate the cause and extent of damages and repair and replacement costs prior to disbursing loan funds. Further, SBA inappropriately relied on FEMA reports that did not contain pertinent information needed to validate damages and losses reported in the initial loss verification, and loan files did not contain sufficient documentation to support loan-making decisions.

As a result, SBA disbursed 36,869 of the 73,313, or 50 percent, loans included in our scope, totaling $594,286,878 of $1.4 billion, without validating the cause, extent, or cost of damages, and there was no assurance that disaster loans were only provided to individuals impacted by Hurricanes Harvey, Irma, or Maria.

We provided four recommendations to strengthen controls to mitigate the risk of fraud and ensure program integrity. Management agreed with two recommendations and partially agreed with the other two. Management plans to explore substitutes to the post desktop review and ensure they contain the appropriate information needed to support the damages estimated during the initial desktop loss verification. Further, management stated that it will implement additional controls to require loss verifiers to provide documentation that sufficiently supports the post desktop review conclusions. We will continue to work with management to seek resolution for the remaining two recommendations.

Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported in FY 2015)	2015: 0	2016: 0	2017: 0	2018: 1

Recommended Actions for FY 2020	Status at End of FY 2019
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. Strengthen internal controls to minimize the risk of charge-offs associated with the increased MAFD threshold.	ODA Yellow
4. Reduce the improper payment rate to meet the reduction targets in FY 2019 in accordance with the FY 2018 Agency Financial Report to comply with the Improper Payments Elimination and Recovery Improvement Act of 2012.	ODA Green ↑
5. Strengthen internal controls to mitigate the risk of fraud and ensure program integrity for the loss verification process.	ODA New

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

Challenge 8: SBA Needs Robust Oversight of Its Grant Management

In FY 2020, SBA budgeted $180 million to administer 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 grants management reform, and a priority initiative to modernize the government in the President's Management Agenda of 2018, it is SBA's responsibility to maximize the value of its grant funding to ensure its grant programs effectively and efficiently accomplish program objectives. In OIG's review of past audit findings (Report 19-02), we identified systemic issues with SBA's accuracy of grant data for both financial and performance reporting, ineffective oversight, and inadequate standard operating procedures. We continue to identify grant management deficiencies in our recent reviews of SBA grant programs.

SBA Has Made Progress to Address Its Grants Management Issues

In FY 2019 SBA conducted an analysis of SBA's organizational structure and determined that SBA needed to centralize its oversight of its grant management. Further, SBA took action to identify, develop, and implement training for all personnel responsible for grants management. On September 24, 2019, the Agency issued its revised SOP for grants management to standardize policies for compliance, management, and administration of all grants awarded by SBA and to apply to all offices within SBA with grant-awarding authority. The SOP, among other things, established the Office of Grants Management as the authority for oversight and compliance of grant policy for the Agency, clarified roles and responsibilities for personnel responsible for grants management, defined warrant authority and training requirements for grants personnel, and established plans and timeframes for incorporating other grant-related policies and procedures into one centralized directive. While the Agency has addressed three of OIG's recommended corrective actions, the Agency needs to continue its efforts to implement the grants management system to enforce compliance and improve oversight and management of the grants program. Without this system, SBA has limited ability to assess the effectiveness of the recently implemented corrective actions.

Grants Management System

SBA continues to rely on its current grant management system to report on its grant programs. The current system requires substantial manual data inputs that are prone to errors. In March 2018 we issued a management advisory memorandum (Report 18-15), in which we reported on material weaknesses identified by an independent accounting firm regarding SBA's controls over the accuracy of data reported in USASpending.gov. Further, in its own internal A-123 review on the grant management process, SBA's internal auditors found that 100 percent of the sampled transactions contained inaccuracies. These data inaccuracies inhibit policymaker's and the public's ability to effectively track federal spending and affects the Agency's ability to report timely, complete, and accurate information as required by the Digital Accountability and Transparency Act (DATA) of 2014.

To modernize its grants management system, during FY 2019, SBA approved funding totaling $2.5 million (over 5 years) to implement grant solutions. SBA believes the investment would help the Agency to

- improve funding management, awarding of grants, processing payments, and closeouts;
- enhance ability to develop accurate performance metrics reporting;

- reduce compliance violations; and
- increase auditability, accountability, and transparency.

SBA is currently in the initial stages of transitioning to the system. In 2019, the Agency entered into an interagency agreement with the Office of Health and Human Services to provide transition analysis, infrastructure setup, and training services. The Agency plans to fully implement the system by October 2020.

Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported in FY 2018)	2015: N/A	2016: N/A	2017: N/A	2018: N/A

Recommended Actions for FY 2020	Status at End of FY 2019
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.	Green
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.	Yellow
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.	Green
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.	Green

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

SBIA
SMALL BUSINESS INVESTOR ALLIANCE

October 23, 2019

The Honorable Nydia Velázquez
Chair
U.S. House Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515

The Honorable Steve Chabot
Ranking Member
U.S. House Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515

Dear Chair Velázquez and Ranking Member Chabot:

Thank you for holding the hearing entitled, "SBA Management Review: SBA IG Report on the Most Serious Management and Performance Challenges Facing the SBA." This hearing is an important oversight function of the Committee as it seeks to improve the efficiency of the SBA's programs.

The SBA's $30 billion Small Business Investment Company (SBIC) program has a track record of growing small businesses and creating jobs. Driven by the private sector and enhanced by the SBA via leverage, SBICs invest in a broad spectrum of companies, industry sectors, and regions of the country. SBICs have a proven track record of growing business, creating jobs, and protecting the taxpayer.

Unfortunately, since the appointment in 2017 of Associate Administrator Joseph Shepard for the SBA's Office of Investment and Innovation (OII), the SBIC program has been plagued with extreme management challenges. The ongoing nature of these challenges has reduced the program's effectiveness to deliver capital to job-creating small businesses and is creating unnecessary taxpayer risks.

Many of the broad issues raised in the Inspector General's report also hamper the SBIC program. However, the last two years of mismanagement by the current Associate Administrator for OII have included more specific problems including:

- prolonged mission-critical staff vacancies;
- unprecedented technology failures;
- bizarre, wasteful, and apparently retaliatory contracting practices;
- Backdating of official documents and regulatory activities;
- direct intervention, leapfrogging over several layers of management, by the Associate Administrator into individual regulatory matters that appear to be retaliatory;
- unnecessary risks to the taxpayer being created by failed leadership;
- failing to respond to Congressional inquiries in a timely and forthright manner; and,
- dysfunctional relationships with the private sector and his own staff.

Since last June, both the House and Senate Small Business committees have held oversight hearings of the SBIC program. This oversight revealed broad bicameral, bipartisan support for the program, but also serious concerns about the mismanagement of this otherwise successful program. The small business investors believe an investigation by the Inspector General into the Associate Administrator's management of the program is needed and overdue.

Finally, we should add that some noteworthy things have happened since this Committee held its SBIC oversight hearing last month:

- While none of the mission-critical positions of Deputy Associate Administrator, Director of Licensing, or the two Area Chief positions have been filled, the Associate Administrator has added several staff in his front office.
- FY 2019 closed with the amount of leverage reserved (a leading metric of future small business investment) down approximately 46% year over year, which means there will be approximately $1.5 billion fewer dollars invested in American small businesses.
- Four SBIC licenses were issued in the two business days after the hearing, representing over 22% of the year's licensing production and an overall reduction in licensing of about 28% for fiscal year 2019.
- The Associate Administrator did not allow any of the OII staff to attend or present information at the year's largest gathering of SBICs and SBICs-in-formation.

While none of the issues now plaguing the SBIC program will be spontaneously cured with the departure of the Associate Administrator, all of them will immediately improve or be on a course for significant improvement. Until then, these problems and risks will continue and grow. The Inspector General needs to investigate the management practices of the Associate Administrator.

SBIA thanks you for holding this hearing to investigate these management challenges, and we look forward to working with Congress, the Inspector General, and the SBA to improve the effectiveness of the Small Business Investment Company program.

Sincerely,

Brett Palmer
President
Small Business Investor Alliance