



**STATEMENT OF**

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**BEFORE THE**

**COMMITTEE ON SMALL BUSINESS**  
**U.S. HOUSE OF REPRESENTATIVES**

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## INTRODUCTION

Chairman Graves, Ranking Member Velázquez, and distinguished members of the Committee, thank you for giving the Small Business Administration (SBA or Agency) Office of Inspector General (OIG) an opportunity to discuss our oversight activities of SBA programs and operations. The SBA was established to maintain and strengthen the nation's economy by protecting the interests of and assisting small businesses, and by helping families and businesses recover from disasters.

The OIG was established within SBA by statute to promote economy, efficiency, and effectiveness and to deter and detect waste, fraud, and abuse in the Agency's programs and operations. Every year, our staff of approximately 104 employees—which includes criminal investigators, auditors and program analysts, attorneys, and support staff—conduct criminal investigations, audits, and other reviews, resulting in numerous indictments, convictions, debarments, monetary payments by fraud perpetrators and many recommendations to the Agency for improvement and elimination of wasteful or inefficient practices.

During Fiscal Year (FY) 2012, the OIG issued 22 reports containing 126 recommendations for improving SBA operations, reducing fraud and unnecessary losses, and recovering funds in FY 2012. In addition, OIG investigators obtained 59 indictments and 59 convictions of subjects who defrauded the government. In all, OIG efforts resulted in more than \$90 million in office-wide dollar accomplishments during FY 2012.

## AGENCY PERFORMANCE

On January 4, 2011, the GPRA Modernization Act of 2010 (the Act) was signed into law (Public Law 111-352). The Act modernizes the Federal Government's performance management framework, retaining and amplifying aspects of the Government Performance and Results Act of 1993 (GPRA) while also addressing some of its weaknesses. On April 9, 2013, the OIG initiated a review of the SBA's compliance with GPRA requirements as described in OMB Memorandum M-11-31, *Delivering an Efficient, Effective and Accountable Government* and OMB Circular A-11, Part 6, *Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports*. The review is in its preliminary stages, and we anticipate publishing our findings later this year.

The Act emphasizes the use of goals and measures to improve outcomes, and requires the Federal Government to adopt a limited number of crosscutting goals, defined as objectives that cut across organizational (such as agency) boundaries. These goals are expected to focus on outcomes in a limited number of crosscutting policy areas, as well government-wide management objectives in the areas of financial management, human capital, procurement and acquisition,

information technology, and real property. The Act also requires agencies to report performance against those goals through a single Federal website.

Effectively measuring performance is important to support agency management resource allocation and other policy decisions to improve service delivery, compliance monitoring and program effectiveness. Importantly, performance measurement, because of its ongoing nature, can serve as an early warning system to management and as a vehicle for improving accountability to the public.

Although we currently have ongoing work to determine the Agency's compliance with GPRA requirements, recently conducted reviews have evidenced concern relative to accountability and performance measurement within certain programs:

- Audit Report 13-15: Briefing Report for the FY 2012 Federal Information Security Management Act Review

This report presents the results of the OIG's Federal Information Security Management Act (FISMA) review of the SBA. Under FISMA, agencies report their compliance with information security requirements. The OIG reports on the effectiveness of the agency's information security program in accordance with OMB criteria. For Fiscal Year (FY) 2012, the OIG was required to report on the following 11 areas: 1) continuous monitoring management; 2) configuration management; 3) identity and access management; 4) incident and response reporting; 5) risk management; 6) security training; 7) plan of actions and milestones; 8) remote access management; 9) contingency planning; 10) contractor systems, and 11) security capital planning.

The OIG found that the SBA continues to show improvement in its IT Security Program. Specifically, the SBA showed improvement in the areas of Incident Response and Risk Management, continues to meet requirements in the area of Security Capital Planning, and needs to make significant improvement in the area of Configuration Management. The OIG also recommended the SBA update its Telework SOP, which contained outdated technical procedures. However, significant concerns remain regarding SBA's IT security operations, and the OIG has a longstanding management challenge to the Agency identifying key concerns.

- Audit Report 13-14: *The SBA's 417 Unauthorized Commitments Impacted Mission-Related Services and Increased Costs*

This report presents the results of the OIG's audit of the Small Business Administration's Unauthorized Commitments. An unauthorized commitment occurs when a government official agency procures goods or services without the necessary authority. The audit objective was to

determine the extent and reasons unauthorized commitments occurred. The OIG determined that the SBA received invoices associated with 417 unauthorized commitments, valuing more than \$1.4 million between November 2010 and May 2012. The OIG found that the total number of unauthorized commitments at the SBA in the last two fiscal years greatly exceeded the total number of unauthorized commitments at six other federal agencies of a similar size. Further, the OIG believes that the 417 unauthorized commitments directly affected the ability of the Agency to procure goods and services for its daily operations legally and efficiently, and limited its ability to provide needed support to small businesses.

The SBA continues to improve its acquisition process and preventing unauthorized commitments, however, transformation of the culture needs to occur. In order to implement a successful culture change, the SBA needs to hold its employees accountable for their actions, have detailed policy and guidance readily accessible to all employees, and provide meaningful training to all employees. The OIG recommended seven actions to improve contract management at the SBA and significantly decrease the total number of future unauthorized commitments.

- *Audit Report 13-13: Evaluation of SBA's Progress in Reducing Improper Payments in FY 2012*

The objective of this audit was to determine the adequacy of SBA's compliance with IPERA and OMB's implementing guidance. To achieve the audit objective, the OIG determined whether the SBA addressed required provisions, and performed limited testing of compliance with these provisions. The OIG also reviewed the completeness of improper payments disclosures in the SBA's Agency Financial Report for fiscal year (FY) 2012, and assessed the Agency's efforts to prevent and reduce improper payments.

The OIG found that the SBA was generally compliant in meeting the minimum requirements, in accordance with OMB guidance. Further, the OIG found that the SBA's efforts to prevent and reduce improper payments have resulted in significant progress since the FY 2011 assessment. Specifically, the Disaster Assistance Loan Program made progress through the deployment of improved controls and process improvements, which reduced their improper payments rate from 28.4 percent in FY 2011 to 17.9 percent in FY 2012. In addition, the 7(a) and 504 programs improved their testing procedures for loan guaranty approvals. The revised procedures were more robust and led to the identification of more improper payments during the testing process. As a result, the improper payments estimate increased from \$0 in FY 2011 to \$233 million and \$105 million, respectively, in FY 2012. Notwithstanding these accomplishments, further improvement is still

needed in the effectiveness and development of SBA improper payment controls and processes for all of the programs or activities.

The OIG also assessed whether the SBA complied with IPERA reporting requirements, as specified in OMB guidance. This guidance requires a limited review of controls over Agency reporting. This evaluation found that the SBA generally met all the IPERA reporting requirements. However, the Disaster Assistance Loan program was not compliant because their improper payment rate exceeded the 10 percent threshold. In addition, three of the five programs or activities did not achieve their annual reduction targets. The OIG was unable to evaluate the accuracy and completeness of the improper payments rate reported for the Acquisition Program.

- *Audit Briefing Report 13-11: The SBA's Loan Management and Accounting System- Incremental Improvement Projects*

This report presents the results of the OIG's review of the SBA's efforts to modernize its loan management system and migrate off the mainframe environment. Since 2004, a significant challenge facing the SBA is the modernization of the loan accounting process. Specifically, this report addresses issues identified in the planning, management, and oversight of SBA's ongoing migration efforts.

The OIG found that the SBA successfully migrated the data-entry of over 44% of its loan and lending transactions from mainframe data entry to web-based data entry. This was the first step in fully migrating off SBA's legacy mainframe and utilizing updated technology. During the review, the OIG also found that the:

- SBA did not have an incremental improvement project to migrate its newly created COBOL code into production.
- Root Cause Analysis Project was altered from its initially approved project.
- User Interface Migration Project screens were not security tested and validated.
- Quality Assurance and Independent Verification and Validations programs did not exist.

The OIG identified five findings that put the development of this project at risk for not meeting the needs and expectations of the SBA, the Office of Management and Budget (OMB), and Congress. The OIG also issued six recommendations. As discussed below, the OIG has issued a management challenge to SBA regarding LMAS system.

- *Audit Report 13-03: Benefits of Mentor Protégé Joint Ventures are Unknown: Robust Oversight is Needed to Assure Success and Avoid Abuse*

This report presents the results of the OIG's audit on Protégé Benefits from Joint Venture Agreements with Mentors. The audit objectives were to (1) determine the extent to which the joint venture agreement between a mentor and protégé resulted in substantial benefits to the 8(a) participant, and (2) assess the SBA's oversight of Mentor Protégé Joint Venture Arrangements.

The OIG found that the SBA lacked performance measurements for joint venture arrangements and did not effectively oversee 8(a) firms that have joint venture agreements. As a result, the SBA did not have the information necessary to determine whether mentor protégé joint ventures benefitted the 8(a) participant. This lack of information weakened SBA's ability to effectively oversee and assess the development of 8(a) participants with mentor and protégé joint venture agreements and increased the risk of program abuse by participants. The OIG made six recommendations.

- *Audit Report 12-21: Review of SBA's State Trade and Export Promotion (STEP) Grant Program*

This report presents the results of our audit, Review of SBA's State Trade and Export Promotion (STEP) Grant Program, a three year pilot that will end in FY 2014. We reviewed the five largest grants, awarded to California, Pennsylvania, Washington, Michigan, and Illinois, in order to determine whether grant recipients were measuring program performance, as well as the results of those measurements. In addition, we reviewed the overall management and effectiveness of the STEP grant program.

We found that grant recipients' performance measures did not demonstrate whether STEP program goals were achievable. Specifically, grant recipients' metrics were not adequate to measure performance. In addition, SBA personnel did not meet with Congress to identify and clarify the FY 2011 STEP program measures for success. Personnel from the SBA Office of International Trade and the Office of Grant Management awarded a grant to an ineligible applicant, provided untimely and inaccurate responses to inquiries, and failed to enforce grant terms and conditions. The audit team recommended a total of nine specific actions that we believe will improve the accountability and performance of the STEP grant program.

- *Report 11-11 - Effectiveness of the Small Business Administration's Surveillance Review Process*

This report presents the results of our audit of the effectiveness of the SBA's Surveillance Review Process. Our audit objectives were to determine whether: (1) SBA's small business and 8(a) surveillance reviews adequately assessed the small business programs of contracting activities; and (2) appropriate action was taken to ensure that areas of non-compliance were corrected in a timely manner.

SBA undertakes on-site visits, known as surveillance reviews, to review procuring agency files to determine, among other things, whether contracting offices are properly awarding and monitoring preferential contracts consistent with applicable regulations. Our review found that SBA had only evaluated a limited number of procuring offices over the past seven years, and did not use a systematic, thorough, or consistent approach in identifying which offices were reviewed or which information was evaluated.

In addition, although SBA delegated its 8(a) execution authority to procuring agencies over 10 years ago, and said that it would monitor procuring agency compliance with 8(a) requirements through its surveillance reviews, our audit of surveillance reviews found that this had not been done. Lastly, there are regulatory limits on subcontracting which serve as an important control to preclude small business set-aside contracts from becoming "pass-throughs" to large businesses. However, our audit found that the SBA review teams generally did not evaluate whether small businesses and 8(a) firms were performing the percentage of work that is required by these regulations. The OIG made 12 recommendations.

The policies and procedures that guide SBA officials in considering OIG-issued reports are set forth in OMB Circular A-50. This Circular appropriately indicates audit follow-up is an integral part of good management and is a shared responsibility of agency management officials and of auditors. For our part, OIG officials are responsible for undertaking independent audits and reviewing the agency's responses to recommendations made in these reports. SBA management officials are responsible for receiving and analyzing OIG reports, providing timely responses, and taking corrective action, where appropriate. OMB Circular A-50 indicates that management officials are responsible for identifying and providing the OIG dates for achieving corrective action as part of their written comments on reported findings and recommendations. Significant disagreements in this process are addressed with the audit follow-up official—the SBA Deputy Administrator.

There are 47 open recommendations associated with the reports highlighted above, several of which recommend establishing meaningful performance metrics and periodically assessing the same. We have noted the increased cooperative efforts with SBA officials to root out fraud, waste, and abuse in SBA programs, and timely implementation of corrective action demonstrates commitment to

improve the effectiveness and efficiency of SBA programs, though challenges persist.

## TOP MANAGEMENT CHALLENGES

While SBA’s programs are essential to strengthening America’s economy, the Agency faces a number of challenges in carrying out its mission, including fraudulent schemes affecting all SBA programs, significant losses from defaulted loans, procurement flaws that allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems. The Agency also faces significant management challenges.

In accordance with the Reports Consolidation Act of 2000, the OIG released its *Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in FY 2013* in October 2012. This report represents our current assessment of Agency programs and/or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, mismanagement, or inefficiencies. Our report is based on specific OIG, Government Accountability Office (GAO), and other official reports, as well as our general knowledge of SBA’s programs and operations.

### Summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2013

		Color Scores					
		Status at End of FY 2012				Change from Prior Year	
	Challenge	Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting	1		2		1	
2	IT Security		3	2			
3	Human Capital		1	3		1	
4	Loan Guaranty Purchase		1				
5	Lender Oversight	1	1	1		1	
6	8(a) Business Development Program		1	1	1		
7	Loan Agent Fraud	1	1			1	
8	Loan Management and Accounting System		1		3	1	3
9	Improper Payments – 7(a) program		2	2		1	
10	Improper Payments – Disaster Loan program		1				
11	Acquisition Management (NEW)						
	<b>TOTAL</b>	<b>3</b>	<b>12</b>	<b>11</b>	<b>4</b>	<b>6</b>	<b>3</b>



Overall, in FY 2012, the Agency made improvements across all the challenges, with the exception of one of the recommended actions under Management Challenge #6 and three of the recommended actions under Management Challenge #8. Specifically, Management Challenge #6—The Section 8(a) Business Development program needs to be modified so more firms receive business development assistance, standards for determine economic disadvantage are justifiable, and the SBA ensures that firms follow 8(a) regulations when completing contracts—remains at a rating of Red or no progress. Management Challenge #8—SBA needs to modernize its Loan Accounting System and migrate it off the mainframe—was downgraded from a rating of Orange, or limited progress, to a rating of Red, or no progress.

The progress on most Management Challenges was notable. The effort made by Agency staff and leadership throughout FY 2012 on the recommended actions demonstrated commitment to improving the Agency's programs and operations. The Agency's efforts are reflected in the overall elevation of Management Challenge ratings.

## **CONCLUSION**

The SBA OIG continues to focus on the most critical risks facing the SBA. Our resources are directed at key SBA programs and operations, to include financial assistance, government contracting and business development, financial management and information technology, disaster assistance, Agency management challenges, and security operations. Using a risk-based approach, we believe our reviews and investigations and ensuing recommendations for corrective action will result in greater effectiveness and efficiency of SBA programs and operations. We value our relationship with this Committee, and with the Congress at large, and look forward to working together to address identified risks and the most pressing issues facing the SBA.