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INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION**

BEFORE THE

**SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT AND REGULATIONS
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES**

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INTRODUCTION

Chairwoman Chu, Ranking Member Spano, 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). In recent years, we have published two audit reports on the SCORE Association (SCORE) and a capping report on our consolidated findings of OIG reports on SBA's grant programs. SCORE is the nation's largest network of volunteer expert business mentors with more than 10,000 volunteers in 300 chapters. In FY 2019, Congress recommended that the Small Business Administration (SBA) use \$11.7 million to award grants to SCORE. SCORE is administered by the Office of Entrepreneurial Education within the Office of Entrepreneurial Development (OED). OED oversees most programs and services that support small businesses' training and counseling needs. OED's programs provide aspiring and current small business owners with a variety of free business mentoring and low-cost training services. The Office of Grants Management (OGM), in collaboration with respective program offices, administers most of SBA's grant programs, including SCORE.

OIG'S ROLE

OIG was established within SBA by statute to promote economy, efficiency, and effectiveness and to deter and detect fraud, waste, abuse, and mismanagement in the Agency's programs and operations. During fiscal year (FY) 2018, OIG achieved more than \$224,472,559 million in monetary recoveries and savings—an elevenfold return on investment to the taxpayers—and made 111 recommendations for improving SBA's operations and reducing fraud and unnecessary losses in the Agency's programs.

OIG audits are conducted in accordance with federal audit standards established by the Comptroller General, and other reviews generally are conducted in accordance with standards established by the Council of the Inspectors General on Integrity and Efficiency. In addition, we coordinate with the Government Accountability Office to avoid duplicating federal audits. We also establish criteria to ensure that the nonfederal auditors that OIG uses (typically, certified public accountant firms) comply with federal audit standards.

OVERSIGHT OF THE SCORE PROGRAM

SCORE is an entrepreneurial development program administered by the Office of Entrepreneurship Education within OED. SCORE is the single cooperative agreement recipient for the program. Established in 1964 as a national, volunteer nonprofit organization, SCORE has been an SBA resource partner for 54 years. SCORE provides business and technical assistance to existing and emerging small business owners nationwide.

OIG's recent work includes two audit reports on SCORE, 19-12 and 17-10, as well as a capping report, 19-02, which identified systemic issues with SBA's financial and performance oversight across its multiple grant programs, including SCORE. We encountered problems with SBA's performance system of record, Entrepreneurial Development Management Information System (EDMIS), during our review of SCORE and other reviews involving programs under the purview

of OED. We found SBA's process to monitor how grant recipients spent federal funds and to assess performance of its grant programs was ineffective. Additionally, OIG recently conducted three criminal investigations for potential instances of embezzlement and whistleblower retaliation violations within the SCORE program, two of which were substantiated and are now closed. We made a total of 27 recommendations to enhance the overall management and effectiveness of SCORE, 13 of which are closed.

In the last 6 years, OIG has completed a large body of work on both OED and veterans business development programs, along with other grant programs outside the purview of this hearing, such as the State Trade Expansion Program, or STEP. Our review of SBA's oversight of SCORE is the most recent work in this program area. This body of work points to systemic issues in the Agency's grants management function. Our reviews of those programs resulted in the issuance of consolidated findings in report 19-02 at the beginning of FY 2019. SBA agreed with our four recommendations to enhance SBA's management and oversight of its grant programs. SBA plans to complete final action on two of the recommendations by September 30, 2019, and the other two by September 30, 2020.

OIG Reviews

Report 19-12, Audit of SBA's Oversight of the SCORE Association

On April 25, 2019, we published 19-12, our most recent report on an entrepreneurial development program. This audit found that program officials did not effectively oversee SCORE's use of federal funds.

Our audit objectives were to determine whether SBA has effective oversight to ensure SCORE spent federal funds in accordance with cooperative agreement requirements and measured and achieved program goals. To answer our objectives, we reviewed SCORE's FY 2017 federal award of \$10.5 million and the first quarter of SCORE's \$11.5 million FY 2018 award. We judgmentally selected three SCORE chapters and the National SCORE Office for review. We conducted site visits and obtained documentation from the National SCORE Office in Herndon, VA; the Washington, DC, Chapter; the New York City Chapter; and the Greater Seattle Chapter. Additionally, we interviewed personnel and obtained documentation from the Office of Entrepreneurship Education.

We found program officials need to make major improvements to ensure effective oversight of the SCORE program. Program officials did not effectively oversee SCORE's use of federal funds. SCORE commingled federal funds with unrestricted donations and used federal funds for unallowable, unallocable, and unsupported costs. We also found that SCORE inappropriately solicited donations for mentoring services, charged for publication materials that did not include the required SBA acknowledgement statement, and improperly managed funds used for cosponsored activities.

As a result, we questioned \$713,986 of costs that did not adhere to the cooperative agreement requirements or were not properly supported. Also, program officials did not accurately measure or report SCORE's performance goal achievements. Further, program officials established only

one outcome-based performance measure, which limited SBA's ability to assess whether the program achieved its intended purpose.

In addition, we encountered problems with SBA's performance system of record, EDMIS. Program officials reported inaccurate performance results for the number of clients trained and mentored by SCORE in SBA's FY 2019 Congressional Budget Justification and FY 2017 Annual Performance Report. Program officials reported inaccurate performance results for number of clients trained because SCORE uploaded erroneous data to EDMIS due to an incorrect database query.

Program officials told us it was SCORE's responsibility to ensure it uploaded accurate performance data in EDMIS. Prior OIG and the Government Accountability Office reports have identified systemic issues with the performance data reported in SBA's EDMIS system.¹ These technology lapses continue to impact program management.

In addition, regarding financial accounting systems, SCORE relied on more than 300 accounting systems to track federal funds, which affected its ability to perform effective oversight. As a result, of the \$2,127,876 of expense and revenue transactions tested, SCORE used \$713,986 of federal funds, or nearly 34 percent, for questioned or unsupported expenses and revenue.

OIG Recommendations

We made 11 recommendations to improve SBA's oversight of SCORE's use of government funds and its reporting of performance results. Notably, we recommended that SBA implement financial oversight procedures of the SCORE program to ensure the program office enforces the cooperative agreement requirements, require that SCORE chapter leadership are trained on properly generating and using program income, and recover or remedy the unallowable and unsupported costs. SBA should also correct the inaccurate FY 2017 performance results for the SCORE program and implement procedures to prevent future reporting inaccuracies. Additionally, SBA should establish additional outcome-based program goals and measurements to assess whether the program achieved all its objectives.

Summary of Actions Taken by SBA to Close the Recommendations

Based on the documentation SBA provided to OIG demonstrating that it had implemented the recommendations, we closed 3 of the 11 recommendations prior to issuing the report. Specifically, OED implemented new compliance review procedures for SBA SCORE liaisons' annual reviews of SCORE chapters, prohibited SCORE from serving as a fiscal agent for SBA cosponsored activities, and worked with the Office of Management and Budget and SCORE to establish an additional outcome-based performance measure.

¹ SBA OIG Report 17-10, The SCORE Association's Disaster Technical Assistance Grant (March 31, 2017); SBA OIG Report 17-09, Audit of New York Small Business Development Center's Phase 2 Disaster Technical Assistance Grant (March 31, 2017); SBA OIG Report 14-19, Improvements Needed in the SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center (September 29, 2014); and GAO-08-49, Opportunities Exist to Improve Oversight of Women's Business Centers and Coordination Among SBA Programs (November 16, 2007).

Report 17-10, The SCORE Association's Disaster Technical Assistance Grant

The other audit of SCORE that we conducted in recent years is report 17-10. We conducted this audit of the \$840,000 supplemental grant that SBA awarded in FY 2013 to SCORE for disaster technical assistance to determine whether SCORE complied with grant requirements related to federal expenditures and program performance. We found that SCORE did not always comply with financial grant requirements, and we questioned costs totaling more than \$391,000, or 47 percent, of SCORE's Hurricane Sandy grant. We also found that SBA exempted SCORE from submitting quarterly financial and performance reports. The audit report included 12 recommendations to address the questioned costs, improve SBA's oversight over SCORE, and require SCORE to improve internal controls over its SBA-funded grant activities for more compliant financial operations and more compliant and reliable financial and performance reporting.

OIG Recommendations

We made 12 recommendations to improve SBA's oversight of SCORE's use of government funds and its reporting of performance results. We recommended that OED recover or bring into compliance \$391,846 in unallowable costs, improve its oversight over SCORE, and require SCORE to improve internal controls over its SBA-funded grant activities for more compliant financial operations and more compliant and reliable financial and performance reporting.

Summary of Actions Taken by SBA to Close the Recommendations

Regarding the \$391,846 in unallowable costs, the program office provided OIG supporting documentation that showed it reviewed the \$153,048 of Sandy funds that were transferred between budget cost categories and ensured OIG these costs were allowable. The program office was able to recover the remaining \$238,798 (recommendations 3–8) from SCORE.

Two of the 12 recommendations remain open. Recommendation 2, “develop and implement policies and procedures to ensure (a) the reallocation of funds between budget cost categories is assessed for the percentage of increases and decreases on a quarterly basis, (b) the SCORE volunteer program uses current standards for internal controls in the Federal Government as a guide, (c) SBA personnel conduct grant closeout procedures for SCORE's disaster grants, and (d) SCORE submits copies of proposed contracts to SBA for approval before executing contracts” remains open.

Recommendation 10, “develop and implement policies and procedures to ensure (a) SCORE provides quarterly financial and performance reports as dictated in the Notice of Award, and (b) future disaster grants awarded to SCORE are issued separate from SCORE's core award to ensure the grant award is reported on separately by SCORE and monitored separately by SBA” also remains open.

SBA agreed with these recommendations and planned to implement final action by September 30, 2018. SBA developed a standard operating procedure (SOP) to govern all components of the

SCORE program. However, as of July 2019, the recommendations are still open pending the final approval of the SOP by the Administrator.

Report 19-02, Consolidated Findings of OIG Reports on SBA's Grant Programs, FYs 2014–2018

From FY 2014 to FY 2018, we issued nine reports reviewing SBA's management of its Small Business Development Centers, SCORE, State Trade Expansion Plan (OED programs), Boots 2 Business (an Office of Veterans Business Development program), and grant recipient compliance with grant requirements. Report 17-10, The SCORE Association's Disaster Technical Assistance Grant, was a part of this capping report. In those reports, we identified significant issues regarding the management of millions of dollars of federal funds allocated for small business expansion and growth, disaster assistance funding, and recovery efforts. Despite the program offices' corrective actions to address OIG's recommendations, SBA's decentralized oversight of the Agency's grant programs hampered agencywide improvements. We found systemic issues with SBA's ability to conduct financial oversight including not enforcing financial reporting requirements, cost category reimbursements exceeding budget, weak financial review procedures, and incomplete supporting financial documents. We also found the following systemic issues regarding SBA's performance oversight: inaccurate and incomplete performance data, incomplete performance documentation, failure to enforce performance reporting requirements, and performance measures lacking outcome results.

OIG Recommendations

We made four recommendations to enhance SBA's management and oversight of its grant programs. First, we recommended that SBA assess its decentralized grants management structure to ensure that it performs comprehensive oversight. Additionally, we recommended that SBA establish effective controls to enforce financial and performance reporting requirements. Further, we recommended SBA develop outcome-based measurements to assess the impact of its programs. Lastly, we recommended that SBA train its grants officers and program personnel on its established grants management oversight procedures.

Summary of Actions Taken by SBA to Close the Recommendations

All four recommendations remain open. SBA's OGM has assessed the grant management organizational structure to ensure consistent compliance and comprehensive oversight of all SBA grant programs. Officials are finalizing the results and plans to issue a report this summer. Additionally, OGM plans to issue a new SOP for grants management and implement a new grants management system to address this recommendation. The SOP is currently in its second round of clearance. OGM plans to issue it this summer. Further, OGM is still in the process of requesting approval from its internal stakeholders to move forward on its business request to implement a new grants management system. OGM told us they plan to implement the new grants management system the end of FY 2020. OGM included the training and development plans in its revised SOP, which it plans to issue this summer. It anticipates that training will begin in FY 2020, but it may take until FY 2021 for there to be a budget allocation for training activities.

OIG Investigations

Program officials did not have effective oversight to ensure SCORE established a proper control environment over financial reporting at the chapter level. In addition, SCORE did not foster an environment that promoted transparency and protected whistleblower rights under federal law. Weaknesses in SCORE's internal controls led us to conduct three criminal investigations for potential instances of embezzlement and whistleblower retaliation violations, two of which were substantiated and are now closed. In the two closed cases, chapter leadership could have easily discovered the fraud if they had performed proper oversight of award funds. Relative to the investigation involving whistleblower retaliation, OIG found that a SCORE volunteer was terminated, in part, for assisting the OIG with a criminal investigation.

It is important that SCORE personnel report suspected cases of fraud, waste, and abuse to proper authorities without reprisal. However, SCORE did not advise personnel of their protected options for disclosing evidence of fraud, waste, or abuse, which include the OIG Hotline and program officials. Instead, SCORE discouraged reporting outside of the organization, which contradicted the cooperative agreement requirements that all SCORE principals, employees, and agents report instances of fraud, waste, or abuse to SBA or the OIG Hotline. Moreover, the cooperative agreement terms and conditions contained irregular language that may have reduced the number of potential referrals of fraud, waste, and abuse to OIG by seeking to filter referrals through the program office. Federal law mandates that SBA ensure that award recipients inform their employees, which could include SCORE volunteers, of their rights and remedies to whistleblower protection when reporting fraud, waste, or abuse. Without strong whistleblower protections and clear reporting requirements, SCORE is at risk that more cases of fraud, waste, and abuse will go unreported.

GRANTS MANAGEMENT CHALLENGES

In our recently published report on the most serious management and performance challenges facing SBA in FY 2019, we identified grants management as an Agency challenge for the first time. In FY 2018, SBA administrated more than \$247 million in grants and cooperative agreements to its resource partners and other nonfederal entities to provide technical assistance and training programs to develop small businesses. With recent governmentwide emphasis on grant management reform, it is SBA's responsibility to develop processes and policies to ensure that its grants programs effectively and efficiently accomplish program objectives. However, our reviews of SBA's grant programs, including entrepreneurial development programs such as SCORE, continue to identify systemic issues with SBA's accuracy of grant data for both financial and performance reporting, ineffective oversight, and inadequate SOP.

OGM officials acknowledge that there are systemic issues within its grants management processes and plan to address these issues by implementing a new grants management system, implementing policies to establish an overarching oversight function for all SBA's grants, establishing training requirements for grants officers, and focusing resources on closing out grants to comply with Grants Oversight and New Efficiency Act requirements. Further, an OGM official assessed the grant management organizational structure to ensure consistent compliance

and comprehensive oversight of all SBA grant programs and is finalizing the results, which it plans to issue this summer. It is my understanding SBA is currently updating its SOP pertaining to federal assistance, which seeks to incorporate recommendations made by my office.

CONCLUSION

In recent years OIG has produced two audit reports on SCORE as well as a capping report on SBA's grant management programs. All three reports point to systemic issues in the Agency's grants management function and deficiencies by the Agency for oversight and monitoring of federal funds. This lack of oversight and monitoring coupled with IT issues associated with the Agency's performance system of record, EDMIS, hampered SBA's ability to detect fraud, waste, and abuse in SCORE. It also led to a culture in SCORE in which whistleblowing was discouraged.

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. We value our relationship with this Subcommittee, and the Committee and the Congress at large, and we look forward to working together to address identified risks and the most pressing management challenges facing SBA.