

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

Memorandum

To: Members, Subcommittees on Investigations, Oversight, and Regulations, and Economic Growth, Tax, and Capital Access
From: Committee Staff
Date: October 10, 2017
Re: Hearing: “Oversight Improvements Needed: SBA OIG’s Review of the Microloan Program”

On Thursday, October 12, 2017 at 2:00 p.m., the Subcommittees on Investigations, Oversight, and Regulations and Economic Growth, Tax, and Capital Access will meet in Room 2360 of the Rayburn House Office Building for the purpose of examining the Small Business Administration (SBA) Office of Inspector General’s (OIG) audit report on the SBA Microloan Program.

I. SBA’s Microloan Program

SBA’s Microloan Program was established to assist women, low-income, veteran, and minority entrepreneurs.¹ The program’s mission is to “integrate micro-level financing with training and technical assistance for start-up, newly established, existing, and growing small businesses.”²

Under this program, SBA makes direct loans to intermediaries, which then use the proceeds to make small short-term microloans—up to \$50,000—to help eligible small businesses start up and expand.³ The average microloan is about \$13,000.⁴ The microloans can be used as working capital or for inventory, supplies, furniture or fixtures, and machinery and equipment.⁵ These loans cannot be used to pay existing debts or purchase real estate.⁶ Although interest rates vary, the maximum repayment term for a SBA microloan is six years.⁷

¹ U.S. SMALL BUS. ADMIN. OFF. OF INSPECTOR GEN., AUDIT OF SBA’S MICROLOAN PROGRAM 1 (Report No. 17-19) (Sept. 28, 2017), available at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_17-19.pdf.

² U.S. Small Bus. Admin., Office of Economic Opportunity, Microloan Program SOP 52 00 A at 7 (April 28, 2016) available at <https://www.sba.gov/sites/default/files/sops/SOP-52-00-A-Microloan.pdf>.

³ U.S. Small Bus. Admin., Microloan Program, <https://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs/microloan-program> (last visited Oct. 5, 2017); see also U.S. SMALL BUS. ADMIN. OFF. OF INSPECTOR GEN., AUDIT OF SBA’S MICROLOAN PROGRAM 1 (Report No. 17-19) (Sept. 28, 2017).

⁴ U.S. Small Bus. Admin., Microloan Program, <https://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs/microloan-program> (last visited Oct. 5, 2017).

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

The intermediary lenders are nonprofit, community-based organizations, which are supposed to have lending and business management experience.⁸ They are responsible for determining whether a small business is qualified to receive a microloan using SBA's eligibility and program guidelines and its own lending policies.⁹ The Office of Capital Access's (OCA) Microenterprise Development Division is responsible for reviewing intermediary loan requests and reports.¹⁰ Seven financial analysts oversee approximately 140 intermediaries.¹¹

II. 2009 Audit: The OIG Finds that SBA Conducted Inadequate Oversight Over the Microloan Program

On December 28, 2009, the SBA Office of Inspector General released an audit of the Microloan Program.¹² The audit found that SBA had not conducted program oversight, validated the reliability of program data, accurately reported program performance, or established meaningful outcome-oriented performance measures.¹³ The OIG recommended that the Office of Capital Access:

1. Require intermediaries to provide 3 months' worth of bank statements with each quarterly financial report submitted to SBA and revise the review process to include an analysis of the sources and uses of the Microloan Revolving Fund and the Loan Loss Reserve Fund;
2. Develop a staffing plan and hire and train the additional staff required to provide an adequate level of program oversight;
3. Examine, verify, and test microloan data reported by the intermediaries in the Microloan Program Electronic Reporting System (MPERS);
4. Provide guidance to intermediaries and correct the processes for calculating the number of small businesses assisted and jobs created and retained;
5. Develop additional performance metrics to measure the program's achievement in assisting microloan borrowers in establishing and maintain successful small businesses; and
6. Require intermediaries to report in MPERS the technical assistance provided, and then use this data to analyze the effect technical assistance may have on the success of the microloan borrowers.¹⁴

⁸ *Id.*

⁹ U.S. SMALL BUS. ADMIN. OFF. OF INSPECTOR GEN., AUDIT OF SBA'S MICROLOAN PROGRAM I (Report No. 17-19) (Sept. 28, 2017), available at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_17-19.pdf.

¹⁰ *Id.*

¹¹ *Id.*

¹² U.S. Small Bus. Admin., Memorandum on SBA's Administration of the Microloan Program under the Recovery Act (ROM-10-10) (Dec. 28, 2009), available at <https://www.sba.gov/sites/default/files/oig/om10-10.pdf>.

¹³ *Id.* at 2.

¹⁴ *Id.*

SBA's management agreed with all the recommendations and stated that it was committed to effective administration of the Microloan Program.¹⁵

III. 2017 Audit: The OIG Continues to Find that SBA Conducted Inadequate Oversight Over the Microloan Program

Less than two weeks ago, on September 28, 2017, the SBA OIG released a new audit of SBA's Microloan Program.¹⁶ The OIG sought to determine: (1) whether SBA effectively implemented actions—specifically OIG's recommendations from the 2009 audit report—to improve program oversight; and (2) the extent that SBA oversight was sufficient to measure program integrity.¹⁷ The OIG determined SBA fell short on both counts. SBA neither effectively implemented all of its recommendations from the 2009 audit report nor conducted adequate program oversight to measure program performance and ensure program integrity.¹⁸

A. SBA Did Not Effectively Implement the OIG's 2009 Recommendations

In its 2009 audit, the OIG made six recommendations. SBA responded that it agreed with the recommendations. But the OIG's 2017 audit found that SBA did not adequately implement all of those recommendations.¹⁹ For example, the OIG recommended in 2009 that SBA examine, verify, and test microloans reported by intermediaries in the Microloan Program Electronic Reporting System (MPERS). SBA uses on-site visits to verify this data.²⁰ The OIG found, however, that SBA did not regularly visit all the intermediaries.²¹ In fact, SBA did not have a formal plan to ensure all intermediaries received a visit.²² Further, the OIG could not find any summary data of the site visits that did occur.²³ This summary data would help analyze noncompliance across the program to help develop, where necessary, action plans for remediation, additional microloan reviews, and increased monitoring.²⁴

The OIG also recommended in 2009 that SBA develop additional performance metrics and collect data related to technical assistance provided to microloan borrowers. These metrics would help better measure the program's success. The OIG's 2017 audit, however, found that some intermediaries were not reporting whether small businesses were still in operation.²⁵ The MPERS is still incapable of capturing technical assistance data.²⁶

¹⁵ *Id.*

¹⁶ U.S. SMALL BUS. ADMIN. OFF. OF INSPECTOR GEN., AUDIT OF SBA'S MICROLOAN PROGRAM (Report No. 17-19) (Sept. 28, 2017), available at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_17-19.pdf.

¹⁷ *Id.* at 2.

¹⁸ *Id.* at 3.

¹⁹ *Id.* at 4.

²⁰ *Id.*

²¹ *Id.*

²² *Id.*

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.*

B. SBA Did Not Conduct Adequate Oversight to Measure Program Performance and Ensure Program Integrity

The OIG's audit determined that SBA's lack of adequate oversight is making it difficult to determine whether the Microloan Program is fulfilling its purpose.²⁷ As part of its audit, the OIG reviewed a statistical sample of 52 microloans approved for approximately \$1 million by 14 intermediaries.²⁸ Based on the data in MPERS, OIG found: (1) 27 loan files did not match the information included in the intermediaries' loan files; (2) 32 loan files did not have adequate evidence that the proceeds were used for the stated purpose; (3) 20 loan files did not have adequate support that the borrower could not get credit elsewhere for loans over \$20,000; (4) 13 loan files showed that the intermediary charged interest rates above SBA requirements; and (5) 7 loan files showed the intermediary charged fees above SBA requirements.²⁹

C. The OIG's 2017 Audit Report Made Four Recommendations

The SBA OIG made the following recommendations to the Office of Capital Access:

1. Continue to improve the information system for effective monitoring of the Microloan Program;
2. Develop a site visit plan to further monitor microloan portfolio performance;
3. Update the standard operating procedures (SOP 52 00A) to clarify requirements regarding evidence for use of proceeds and credit elsewhere; and
4. Update the microloan reporting system manual to reflect current technology capabilities.³⁰

SBA's management agreed with all four recommendations.³¹

IV. Conclusion

SBA's oversight over its Microloan Program fell short. To ensure that the Microloan Program is fulfilling its purpose—to integrate microlevel financing with training and technical assistance for small businesses—it must continue to improve its oversight. This hearing will examine the OIG's audit findings and determine what actions SBA is taking to improve its oversight over the Microloan Program.

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Id.* at 5–6.

³⁰ *Id.* at 8.

³¹ *Id.*