U.S. Small Business Administration

Office of Inspector General

Strategic Plan

Fiscal Years 2006 - 2011

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Mission

Under the authority and in fulfillment of the Inspector General Act of 1978, as amended (IG Act), the Small Business Administration (SBA) Office Inspector General (OIG) adds value to Agency programs and operations by providing auditing, investigative, and other services to support and assist SBA in achieving its statutory mission. 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.

Vision

In all we do, we strive to identify significant issues and offer recommendations to correct or eliminate problems and fraudulent schemes that adversely impact the efficiency, effectiveness, or integrity of SBA's programs and operations.

Statutory Responsibilities

The OIG is an independent and objective oversight office created within the SBA by the IG Act. The IG Act specifies that the OIG will:

- Promote economy, efficiency, and effectiveness in the management of SBA programs and supporting operations;
- Conduct and supervise audits, investigations, and reviews relating to the Agency's programs and support operations;
- Detect and prevent fraud and abuse;
- Review existing and proposed legislation and regulations and make appropriate recommendations;
- Maintain effective working relationships with other Federal, State and local governmental agencies, and non-governmental entities, regarding the mandated duties of the Inspector General;
- Keep the SBA Administrator and Congress informed of serious problems and recommend corrective actions and implementation measures;
- Comply with the audit standards of the Comptroller General;
- Avoid duplication of Government Accountability Office (GAO) activities; and

- Report violations of law to the U.S. Attorney General.

The SBA OIG also has other significant statutory responsibilities. These include responsibilities under the Small Business Act and the Small Business Investment Act, as well as an increasing number of legislative mandates and Government-wide directives.

Guiding Principles

In carrying out our statutory and other responsibilities, we:

- Deliver products and services of the highest quality, defined by their accuracy, timeliness, fairness, and usefulness to our customers;
- Maintain independent and objective oversight of SBA programs and operations;
- Promote open and honest communication among our staff and with our customers and stakeholders; and
- Encourage a positive work environment that emphasizes mutual respect, teamwork, creativity, personal growth, diversity, and productivity.

OIG Strategic Direction

This Strategic Plan reflects a rethinking of our earlier strategic goals and planning framework in order to focus OIG efforts on identifying the larger systemic problems in SBA's programs and operations. In an era of tight budgets, the OIG must focus on the most significant risks to the SBA and taxpayers, and on the most critical problems with SBA programs and operational processes. Thus, the OIG has developed this Strategic Plan based on recent significant changes in SBA operations and on our assessment of risks associated with delivering SBA programs in this changed environment. This plan is designed to assist SBA in meeting the challenges it faces, and help the Agency to accomplish its mission in the most effective, efficient and economical manner possible, and with the highest level of integrity in Agency programs and operations.

Critical Risks Facing SBA

The OIG's mission necessarily correlates to the most significant risks facing the SBA. As required by law, the OIG each year provides SBA with a summary of the most serious management and performance challenges facing the Agency. Key risks and challenges facing the Agency are summarized below.

Risks of Financial Losses due to SBA's Downsizing, Centralization, and Limited Oversight and Controls

The SBA faces heightened risk of losses and unnecessary payments due to its considerable reliance on the actions of parties outside of the Agency, over which the Agency does not always exercise adequate oversight. This trend has been exacerbated by Agency budget cutbacks and streamlining and centralization initiatives in recent years. For example:

- The 7(a) and 504 programs, which are designed to facilitate loans to small businesses, now rely on more than 5,000 lenders and other entities across the country to make loans, many of which are made without direct SBA oversight. Currently about 80 percent of loans guaranteed annually by SBA are made by SBA lenders under delegated authority. Our review of the Agency's delegation to lenders of virtually all loan processing and administration functions indicates that SBA does not have sufficient controls to detect fraud and prevent unnecessary losses. The OIG has identified Management Challenges relating to the Agency's controls in the guaranty purchase process, oversight of lenders, and efforts to deter fraud by loan agents and brokers.

- Under the Small Business Investment Company (SBIC) program, SBA relies on venture capital firms which it licenses to provide financial assistance to small firms. SBA is exposed to significant losses under this program due to the large dollar amount of Agency obligations, and in recent years has experienced billions of dollars in losses. The OIG has identified a Management Challenge relating to the SBA's oversight of the SBIC program.

- The Disaster Loan Program is another key SBA lending program, which provides direct Federal assistance for non-farm private sector disaster losses. This highly visible program is vulnerable to fraud and unnecessary losses because loan transactions are expedited in order to provide quick relief to disaster victims. The risks to SBA and taxpayer funds is likely to grow in the aftermath of the series of hurricanes in Florida in 2004, and the increased pressures resulting from the devastating Hurricanes Katrina and Rita in 2005.

Risks to SBA's Performance of Its Statutory Mission to Promote Small Business Development and Government Contracting

The Small Business Act directs the SBA to promote the award of Government contracts to small businesses and firms owned by less privileged groups (such as minorities, service-disabled veterans, women, firms from areas of low economic activity, and others). Recently, Federal agencies have streamlined their acquisition practices by using, for example, multiple award contracts, Federal supply schedules, and credit card purchases, thereby making it more challenging for small businesses to compete. Various studies by the Government Accountability Office (GAO), the OIG, and others have also highlighted flaws in procurement processes and regulations which can result in large businesses performing contracts intended for small businesses. The OIG's Management Challenges address deficiencies in SBA's program management relating to the oversight of small business awards and promotion of business development and procurement opportunities for minority-owned firms.

Risks Associated with the SBA's IT and Financial Management Systems, and Other Internal Operations

The SBA depends on a complex information technology (IT) environment, which includes a number of mission critical systems running on a mix of legacy mainframe, client-server, and minicomputers. The SBA has had difficulty producing reliable and timely financial and management information to support its operations, primarily because of reliance on outdated IT systems that are not integrated. Although the Agency continues its efforts to enhance existing applications, improvements are still required in a number of key programs. Other factors that affect IT infrastructure and increase control risks include: the age of core operating systems; deficiencies with Agency computer security programs; budgetary constraints; consolidation of operations; the complexity of models and programs; increased reliance on third party providers; and failure and/or inability to address OIG audit recommendations.

During Fiscal Years (FY) 2002 and 2003, the OIG, GAO, and SBA's external auditor all noted significant internal control weaknesses that resulted in the Agency being unable to produce reliable, timely, and accurate financial information, including its annual financial statements and the results of past loan asset sales. The Agency has taken steps to improve its financial management and reporting and for FY 2004 received a qualified opinion on its financial statement audit. These efforts have been focused primarily on improving the Agency's models for estimating subsidy costs, improving controls over financial statement preparation, and correcting accounting errors related to loan sales and subsidy cost allowances. FY 2004 was the first full reporting cycle for which these improvements were placed into operation and preliminary reviews of these actions indicate that significant progress has been made. Despite the improvements, however, financial management issues continue to be a major challenge for SBA. The FY 2004 qualified opinion, although better than SBA has received in prior audits, was issued by the external auditors because they could not determine if certain material amounts in SBA's financial statements were reasonable.

The SBA's aging information systems, coupled with changing Federal financial reporting and security standards, increases the risk that the SBA's fragmented financial processes may hinder the capability of the Agency to carry out its mission and maintain the security of its information and assets. The OIG has identified Management Challenges relating to: SBA's financial management and reporting systems which affect its ability to provide reliable, timely and accurate financial information; the Agency's information systems security; SBA's human capital management/transformation strategy; and the Agency's internal directives system.

STRATEGIC GOALS, OBJECTIVES, AND STRATEGIES

***Strategic Goal 1:* Improve the economy, efficiency, and effectiveness of SBA programs and operations**

Objectives

- Identify systemic weaknesses and solutions in critical SBA programs and operations.
- Assist SBA in improving the security over, and accuracy of, its accounting and performance information.

Implementation Strategies

- Conduct audits and reviews of high-risk activities and conduct follow-up reviews to assess implementation.
- Periodically analyze audits and reviews, as well as investigations of complaints and program participants, to identify trends and systemic weaknesses.

- Regularly work with the Agency to identify, update, and resolve the top Management Challenges.

- Focus audits and reviews to identify improper payments, unnecessary losses, and questionable expenditures.

- Respond in a timely and effective manner to inquiries, complaints, and clearances.

- Review proposed and existing Agency legislation, regulations and directives, and provide timely and relevant recommendations to Agency decision makers.

***Strategic Goal 2:* Promote and foster integrity in SBA programs and operations**

Objective

- Detect and deter fraud and other criminal activity, misconduct and abuse.

Implementation Strategies

- Give priority to investigations with a potentially broad systemic impact.

- Assess trends, target areas of greatest vulnerability and gaps in controls, and recommend systemic control improvements.

- Develop proactive investigations to uncover fraud and other wrongdoing.

- Emphasize the use of debarment and other administrative actions to deter fraud and other wrongdoing.

- Expand outreach with lenders and SBA officials to educate them on how to identify and prevent potential fraud and other wrongdoing.

- Provide Agency decision makers with timely background information about program participants and Agency employees to identify potential risks.

- Respond in a timely and effective manner to complaints and referrals.

OIG Operational Strategies

The OIG also uses the following strategies to achieve our goals.

- Attract, develop and retain a highly skilled OIG workforce, and provide them with the tools, services and processes necessary to continuously improve productivity.

- Develop an internal work environment that allows OIG employees to understand how their work is important in meeting OIG strategic goals.

- Ensure that our internal control quality system is adequate and our work products comply with applicable professional standards, by subjecting our operations to internal review, as well as to external "peer" reviews by other Federal OIGs.

- Use our annual planning and budget process to manage OIG operations effectively and efficiently.

- Ensure effective two-way communication with our customers, stakeholders, employees, and interested parties to identify opportunities for improvement.

Anticipated Impact/Outcomes of OIG Efforts Under Strategic Goals

- Reduction of risks to, and increased integrity of, Agency programs and operations
- Resolution of OIG-identified Management Challenges
- Improvement of efficiency and effectiveness in the delivery of SBA programs
- Enhancement of internal controls
- Reduction of fraud and abuse in SBA programs and operations

External Factors That Could Affect Goal Achievement

The achievement of our goals is dependent on a number of external factors. For example, the majority of our work is in response to referrals of suspected fraud, complaints, requests for auditing and investigative services, and an increasing number of statutory and other requirements. Further, decreases in personnel or funding resources would adversely affect achievement. In addition, implementation of OIG recommendations for program improvements rests with the Agency. The OIG also cannot control the results of judicial or administrative proceedings, or collect monetary sanctions imposed by the courts or the Agency as a result of our reviews or investigations. Due to these external factors, actual accomplishments may vary substantially from year to year.

Relationship Between the Strategic Plan and the Annual Performance Plan and Measures

The OIG's Strategic Plan for FY 2006-2011 provides the framework for our planning over this period. This Plan identifies the program issues that the OIG believes are high risk areas and the long-term strategies for addressing these. Using this framework, the OIG plans its annual audit and proactive investigative work to support the Agency in addressing its risks. The annual performance plan will identify the specific activities and accomplishments to be performed within a year that directly contribute to the successful fulfillment of the OIG's strategic goals. The OIG will use the OIG's Semiannual Report and measures and/or indicators detailed in the annual performance plan to determine our success in accomplishing our goals and objectives.

Data Validation and Verification

Designated OIG staff are responsible for collecting, maintaining, and reporting performance data. As appropriate, quantitative data is collected and stored in the OIG's Management Information Systems. Results are reported in accordance with legislative requirements. OIG management will review reported data for consistency with general performance observations. Each year, we will reevaluate whether our measures are effectively designed, useful, and results-oriented. Based on this evaluation, we will determine whether our performance measures should be revised for the next planning cycle.

OIG Organizational Structure

The OIG is composed of the Immediate Office of the Inspector General, and the Auditing, Investigations, Counsel, and Management and Policy Divisions. In addition to headquarters staff, OIG currently has audit staff in Atlanta, Chicago, Dallas, and Los Angeles, and investigative staff in Atlanta, Chicago, Dallas, Denver, Houston, Kansas City, Los Angeles, Miami, New York, Philadelphia, and Seattle.

The Auditing Division performs program performance reviews, internal control assessments, and financial, information technology and mandated audits, and oversees audits by contractors to promote the economical, efficient, and effective operation of SBA programs.

The Investigations Division manages a program to prevent and detect illegal and/or improper activities involving SBA programs, operations, and personnel. The criminal investigative staff carries out a full range of traditional law enforcement functions. The security operations staff ensures that all Agency employees have the appropriate background investigations and security clearances for their duties and conducts the name check program, which provides SBA officials with character-eligibility information on loan applicants and other potential program participants.

The Counsel Division provides legal and ethics advice to all OIG components, represents the OIG in litigation arising out of or affecting OIG operations, assists with the prosecution of civil enforcement matters, processes subpoenas and Freedom of Information and Privacy Act requests, and reviews and comments on proposed Agency policies, regulations, legislation, and procedures.

The Management and Policy Division provides business support (e.g., budget/financial management, human resources, information technology, and procurement) for the various OIG functions, and coordinates legislative, regulatory, policy, and procedural review and analysis. It also prepares the Semiannual Report to Congress and the Report on SBA's Management Challenges and develops OIG strategic and performance plans.

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Organizational Chart