



# Appendices

*Did  
you  
know*



What do Intel, America Online, Outback Steakhouse, Apple Computer, Amgen, Ben & Jerry's, Callaway Golf, Staples, Under Armour, Nike, and Federal Express have in common?

All received help from one of SBA's programs.

## APPENDIX 1 – IMPROPER PAYMENTS

### Improper Payments

As required by the Improper Payments Information Act the SBA reviewed its payment programs during FY 2008. From this analysis, the SBA identified the 7(a) guaranty purchase program as a medium risk under IPIA guidelines issued by the OMB. The SBA has also included three other major credit programs in this report in accordance with guidance in OMB Circular A-136, as these programs were previously identified in the former Section 57 of OMB Circular A-11 as subject to improper payment reporting. The four SBA credit programs included in this report are the 7(a) Business Loan Program, the Section 504 Certified Development Company (CDC) Loan Program, the Small Business Investment Company (SBIC) Program and the Disaster Assistance Loan Program. OMB guidance requires that guaranty approvals as well as payments on guaranty defaults be included in improper payment reporting, and 7(a) and CDC guaranty programs were included in this report. Guaranty issuances have historically been included in the reporting for SBIC program improper payments. The SBA reviewed its other programs to assess the risk of improper payments, and determined them to be “low risk” programs. Therefore, the SBA’s four major credit programs are the only programs included in this Improper Payment report.

An Agency should:

1. *Describe the risk assessment(s), performed subsequent to completing its full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through its risk assessments. Be sure to include the programs previously identified in the former Section 57 of Circular A-11 (now located in Circular A-123, Appendix C).*

**Response:** The SBA has four credit programs previously identified under Section 57 of Circular A-11. The credit programs are (1) 7(a) Business Loan Program, (2) Certified Development Company Program, (3) Small Business

Investment Company Program and (4) Disaster Loan program.

The delegation of responsibility for 7(a) guaranty program to SBA’s participating lenders nationwide for the making, servicing and liquidation of 7(a) loans causes a medium risk of improper payments in the guaranty purchase process that is subject to SBA oversight, monitoring and attention to identified discrepancies. As a result, the 7(a) guaranty purchase process has been designated as medium risk under IPIA guidelines. The 7(a) guaranty purchase process utilizes a random selection of purchase disbursements to monitor and report improper payments in 7(a) purchase centers. The 7(a) purchase centers include the National Guaranty Purchase Center in Herndon, Virginia that purchases defaulted 7(a) guaranteed loans as well as centers in Fresno, California and Little Rock, Arkansas that purchase defaulted SBAExpress guaranteed loans. The 7(a) guaranty loan origination process is considered to be low risk with regard to the approval of loans that are deemed to be ineligible for the 7(a) program.

The risk of FY 2008 improper payments in the CDC program is deemed by the SBA to be low due to extensive controls that exist in the loan origination process that include reviews by SBA program and legal professionals. This includes both CDC debenture issuance and financings by CDCs to the small concern.

The SBIC program improper payment risk is minimal due to extensive internal controls, including legal review over guaranty issuance and default purchase activities. The SBIC examination program subjects SBICs to at least a biennial review of the SBICs investments in small business ventures. The SBIC program was previously reported under Section 57 of OMB Circular A-11, and is therefore included in this report consistent with IPIA requirements.

The risk of Disaster improper payment is minimal due to extensive, thorough operational controls over the Disaster application, damage verification, credit review and loan closing activities. Disaster improper payments have historically been well under 1 percent.

II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

**Response:** 7(a) loan purchase statistical sampling follows Appendix C of OMB Circular A-123. The sample size of guaranty purchases reviewed consisted of 186 cases. This sample size is appropriate for a projected improper payments rate of approximately 4.5 percent according to OMB guidance. The sample cases were chosen through a random selection process overseen by SBA's Office of the Chief Financial Officer from all purchases approved during the 12 month period ended March 31, 2008. These included purchases processed at the National Guaranty Purchase Center in Herndon, Virginia, and the Commercial Loan Servicing Centers located in Fresno, California and in Little Rock, Arkansas. Of the 186 purchases reviewed, 62 were from those processed at the NGPC, 45 from Fresno and 79 from Little Rock. Since the minimum sample size of purchases needed to yield an improper payment estimate of 2 percent (with a 90 percent confidence interval of plus or minus 2.5 percent) is approximately 85, SBA used a very conservative approach and employed an even larger sample size equivalent to an improper payments estimate (approximately 4.5 percent) that was almost ten times higher than for the sample size that would have been appropriate for the estimated FY 2008 improper payments rate. The sample size determination is consistent with OMB's guidance based on the formula,  $n \geq 2.706 (1-P)/(0.025/P)^2P$ , where "n" is the minimum sample size and "P" is the estimated percentage of improper payments. Based on aggregate purchase disbursements of \$15,233,784 for the 186 cases selected and improper payments of \$80,739 for these cases, the improper payments rate for 7(a) guaranty purchases was 0.53 percent for FY 2008. SBA's previous improper payments rate was calculated at 0.43 percent for fiscal year 2007, and at 1.56 percent for fiscal year 2006.

The 7(a) loan guaranty purchase and approval reviews were conducted to examine whether the lender complied materially with the 7(a) loan program origination requirements including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The reviews were to determine if the lender (1) originated the loan in a prudent

and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk. A database of all loans approved and disbursed was prepared for the guaranty approval initiative.

The sample size for approved 7(a) guaranteed loans consisted of 110 cases that were disbursed during the year ended March 31, 2008. This sample size is appropriate for a projected improper payments rate of approximately 2 percent according to OMB guidance. These loans were selected by a random process overseen by the SBA's Office of Chief Financial Officer from loans approved through SBA's loan processing centers, consisting of the Standard 7(a) Loan Guaranty Processing Center with dual locations in Sacramento, California and Hazard, Kentucky; and the Sacramento, California Loan Processing Center which handles PLP and SBAExpress loan approvals. The improper payments rate was calculated as 0 percent based on the aggregate gross disbursement amount of \$14,534,311 on the approved loans with no improper payments found.

The Certified Development Company loan guaranty reviews were conducted to examine whether the lender complied materially with the CDC loan program origination requirements including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the CDC loan program. The reviews were to determine if the lender (1) originated the loan in a prudent and commercially reasonable manner; (2) misrepresented or failed to disclose a material fact to the SBA; and/or (3) put SBA's financial interest at risk. A database of all loans approved by CDCs was created for this initiative. The sample size for CDC loans financed by SBA guaranteed debentures consisted of 48 loans that were approved during the 12 month period ending March 31, 2008. This sample size is appropriate for a projected improper payments rate of approximately 1 percent according to OMB guidance. The sample cases were chosen through a random selection process overseen by SBA's Office of the Chief Financial Officer from 504 loans approved at SBA's Sacramento loan processing center and closed at various SBA district offices, with servicing subsequently handled by the Fresno, California Commercial Loan Servicing Center and the Little Rock, Arkansas Commercial Loan Servicing Center. Of the 48 loans

reviewed, 26 files were obtained from the Sacramento Loan Processing Center, 13 from the Fresno, Commercial Servicing Center, 6 from the Little Rock Commercial Loan Servicing Center, and the remaining 3 from 3 SBA district offices. The CDC improper payments rate was determined to be 0 percent based on the aggregate gross approval amount of \$33,871,000 with no improper payments found.

The SBIC program used OMB guidance in Appendix C of Circular A-123 to determine a random sample of 95 SBIC financings by SBIC's having SBA guaranteed leverage. Improper payments were identified when an SBIC examination or a review by a SBIC program analyst found a discrepancy with SBIC program regulations in the sampled financings. About 30 percent of the sampled financings were subjected to an SBIC examination during the year. The rest of the sampled financings were reviewed by SBIC program analysts. The program analysts reviewed term sheets (which include the terms of the financings), Forms 468 financial statements, Forms 1031s reports of individual financings and other material to determine compliance with regulatory requirements. The reviews revealed no improper payments among the financings sampled.

The Disaster program improper payment rate is determined using the Disaster Quality Assurance Review program that reviews the approved loan portfolio annually to identify any deficiency that would result in an improper payment. Following Appendix C of OMB Circular A-123, a sample of 262 randomly selected loans was used. This sample size exceeded the size mandated by OMB guidance considering the anticipated improper payment rate. The scope of the QAR covers three compliance areas: (1) basic eligibility, (2) adherence to relevant laws, rules, regulations and standard operating procedures and (3) creditworthiness. The FY 2008 improper payment rate determined was 0.74 percent.

### *III. Describe the Corrective Action Plans for:*

*A. Reducing the estimate rate and amount of improper payments for each type of category of error. This discussion must include the corrective action(s) for each different type or cause of error, and the corresponding steps necessary to prevent future recurrence. If efforts are ongoing, it is appropriate to include that information in this section.*

*B. Grant-making agencies with risk susceptible grant programs, discuss what your agency has accomplished in the area of funds stewardship past the primary recipient. Include the status on projects and results of any reviews.*

A. **Response:** The 7(a) guaranty purchase process improper payments plan includes identifying and tracking the reasons for any improper payments discovered in the IPIA reviews, and then making appropriate adjustments to the guaranty purchase process to reduce the purchase error rate in future years. Improper payments in the guaranty purchase process arise from the failure of a purchase processor to identify material lender deficiencies in the handling of the SBA guaranteed loan. Primary reasons noted for the determination that all or a portion of the guaranty purchases identified as improper were:

- failure to identify that lender incorrectly applied liquidation recoveries to interest rather than to the principal loan balance;
- disbursement of purchase amount without required personal guaranty on an unsecured SBAExpress loan;
- lender transcript of account was not adequately analyzed resulting in overpayment of the lender;
- failure to reimburse lender for its proper share of liquidation expenses (underpayment);
- disbursement of guaranty purchase without required SBA Form 1919 for SBAExpress loan.

**Corrective action** procedures followed for the 7(a) guaranty purchase process involve advising the purchase processing team of improper payment determinations and also providing clarification as to the nature of the issues to avoid possible improper payments in the future. In this regard, a fully documented guaranty purchase procedure handbook has been completed, including transcript analysis instructions, and will be updated as needed. This assures consistency in the purchase process and will serve to minimize errors. Other remedial action will be accomplished by:

- identifying and analyzing error patterns;
- communicating error patterns to the centers processing purchases;

- reviewing current policies and procedures to ensure that any error patterns are appropriately addressed in current guidance;
- revising policies and procedures where necessary;
- issuing guidance to the purchase centers on specific issues;
- providing training and
- supplementing center resources where possible to ensure ongoing quality assurance review programs that will identify any emerging patterns or potential problem areas that might result in future improper payments, as well as take action to mitigate these potential problem areas.

7(a) loan guaranty approvals and CDC loan approvals had no improper payments. There appear to be sufficient safeguards in place to prevent improper payments in 7(a) loan processing and 504 loan originations because of multiple reviews that take place when a loan is being processed.

The SBIC guaranty program had no improper payments identified in the above FY 2008 sampling methodology. Over the 3 year period that we have used the sampling methodology, there has only been one instance of a potentially erroneous payment. The SBA expects this minimal number of erroneous payments will continue and has instituted a number of steps to ensure that trend. First, in the early to mid 1990s, more rigorous program standards were instituted. This has led to more knowledgeable fund managers and reduced the likelihood that program fraud would be committed. Second, the SBA requires all fund managers to undergo training on SBIC regulations as a condition for receiving leverage. Almost all SBICs are represented by very knowledgeable service providers who have extensive experience in the program. As part of the licensing process, the SBA conducts extremely detailed background checks on fund managers with both the Office of the Inspector General and the Federal Bureau of Investigation. The SBA also does credit checks on all potential fund managers as part of our due diligence process in licensing. The SBA has a program of auditing licensees on a periodic basis to determine compliance. These steps ensure that only fiscally prudent managers become part of the program.

The Disaster Loan improper payment rate is consistently well below the 2.5 percent and \$10,000,000 thresholds. The

Office of Disaster Assistance will continue its current plan to more fully automate its processes as well as update and continue the Quality Assurance Review of its Processing and Disbursement Center. A new computer system allows SBA to better monitor its loan portfolio. ODA runs reports to address eligibility issues on a regular basis. This ensures that we can address any issues in a timely manner and correct potential erroneous payments early in the process.

**B. Response:** Not Applicable – SBA is not a grant making agency. It's grants do not exceed \$500 million annually.

#### IV. Improper Payment Reporting

- (a) *The table below is required for each re-reporting agency. Agencies must include the following information:*
- all risk susceptible programs must be listed in this chart whether or not an error measurement is being reported;*
  - where no measurement is provided, agency should indicate the date by which a measurement is expected;*
  - if the Current Year (CY) is the baseline measurement year, indicate by either note or by "n/a" in the Prior Year (PY) column;*
  - if any of the dollar amounts(s) included in the estimate correspond to newly established measurement components, separate the two amounts to the extent possible;*
  - include outlay estimates for CY+1, +2 and +3; and*
  - agencies are expected to report on CY activity, and if not feasible, the PY activity is acceptable. (Future year outlay estimates (CY+1 < +2 and +e) should match the outlay estimates for those years as reported in the most recent President's Budget.)*

**Response:** The SBA's report of improper payments is shown in the following table.

Improper Payment Reduction Outlook															
(\$ in millions)															
Program	FY07 <sup>1</sup> \$ Outlays	FY07 IP %	FY07 IP \$	FY08 <sup>1</sup> \$ Outlays	FY08 IP %	FY08 IP \$	FY09 <sup>1</sup> \$ Outlays	FY09 IP %	FY09 IP \$	FY10 <sup>1</sup> \$ Outlays	FY10 IP %	FY10 IP \$	FY11 <sup>1</sup> \$ Outlays	FY11 IP %	FY11 IP
7(a) Guaranty Purchases	610.2	0.43	2.6	1,230.9	0.53 <sup>6</sup>	6.5	840.0	0.50	4.2	830.0	0.50	4.2	880.0	0.50	4.4
7(a) Guaranty Approvals <sup>2</sup>	13,517.0	0.0	0.0	11,739.1	0.0	0.0	12,000.0	0.0	0.0	13,000.0	0.0	0.0	14,000.0	0.0	0.0
CDC Debentures <sup>3</sup>	6,282.0	0.0	0.0	5,245.6	0.0	0.0	6,000.0	0.0	0.0	6,500.0	0.0	0.0	7,000.0	0.0	0.0
CDC Loans Guaranteed <sup>2</sup>	6,282.0	0.0	0.0	5,245.6	0.0	0.0	6,000.0	0.0	0.0	6,500.0	0.0	0.0	7,000.0	0.0	0.0
SBIC Guaranties <sup>4</sup>	2,525.0	0.16	4.0	2,283.0	0.0	0.0	2,100.0	0.20	4.2	1,850.0	0.20	3.7	1,700.0	0.20	3.4
Disaster Loan Approvals <sup>5</sup>	819.7	0.55	4.5	825.8	0.74	6.1	2,004.0	0.70	14.0	1,500.0	0.70	10.5	1,000.0	0.70	7.0

1. Outlays in this report represent the base amount of the program activity related to SBA improper payments; and this amount will differ from the amount reported as outlays in SBA's President's Budget submissions because they include reestimates of subsidy cost, reimbursements to SBA administrative funds and other costs. Outlays for 7(a) Guaranty Purchases are the amount of disbursements for the purchase of defaulted guaranteed loans. Outlays for 7(a) Guaranty Approvals are the amount of new guaranties disbursed by banks and other SBA lending partners. Outlays for CDC Debentures and CDC Loans Guaranteed are approvals irrespective of disbursement, net of approval increases, decreases, reinstatements and cancellations for the current year. Outlay figures for Disaster are loan approvals. Outlay figures for guaranties are the amount of guaranty approvals including increases, decreases, cancellations and reinstatements.
2. Beginning with FY 2007, 7(a) and CDC reporting includes guaranties approved.
3. SBA has zero improper payments assumed for CDC debentures.
4. SBIC Guaranties include SBA guaranties of SBIC investments in small business for SBICs having SBA leverage.
5. Disaster Loan Approvals for FY 2009 and FY 2010 reflect the estimated processing of FY 2008 Gulf Coast hurricanes. FY 2011 reflects a historical average level.
6. The SBA Inspector General (OIG) is currently conducting an audit of the FY08 IPIA process and has raised questions related to the program office's (OFA) conclusion on one of the largest loans in the sample that there was not an improper payment. If it is ultimately concluded that there was an improper payment related to that one loan it could raise the improper payments rate for guaranty purchases to over 10%. The questions by the OIG that are being addressed as part of the audit process underscore the judgment involved in a 7(a) purchase review and the importance of the twin goals of the agency of improved consistency in the guaranty purchase review process and improving the annual IPIA review. OIG's audit will not be complete for some months and we look forward to a discussion of the findings that will contribute to realizing both goals. Based upon the conclusions ultimately reached at the conclusion of the audit process, the guaranty purchase improper payments rate for FY 2008 may be adjusted.

*(b) Discuss your agency's recovery of improper payments, if applicable. Include in your discussion the dollar amount of cumulative recoveries collected beginning with FY 2004.*

**Response:** For 7(a) guaranty purchases, SBA has established a recovery target of 85 percent of the aggregate amount of improper payments identified (\$80,739 for the reporting period ended September 30, 2008; this includes overpayments aggregating \$76,441 as well as an underpayment of \$1,977 and a payment of \$2,321 for a purchase with no loan file that could be located for the IPIA review). While SBA will attempt to recover 100 percent of the amounts identified as overpayments (with the exception of the purchase with no loan file), litigation may be necessary in some instances with uncooperative lenders and additional information may be presented which could indicate that all or a portion of a disbursement is not actually improper. Also, decisions may be made when appropriate to accept reasonable settlements of improper payment claims rather than to pursue protracted recovery proceedings. Procedures for recovery of 7 (a) guaranty purchases: SBA will make formal written demand upon and/or engage in discussions with 7(a) lenders it identifies as having received improper payments. If a lender refuses to return a

payment, litigation or other action will be explored if analysis determines that such action will be cost effective and there will be a reasonable chance for the Agency to prevail. The litigation office in SBA's Office of General Counsel will conduct this analysis.

The SBA has a recovery program for the SBIC program and current recovery efforts are very effective. Most regulatory violations are resolved in a fairly short time frame. The resolution can be in a number of ways. The violation may be determined not to be a violation of the regulations after further study. In other instances, the SBIC may be asked to change the terms of the investment in the portfolio concern in a manner that resolves the issue. If the situation cannot be corrected, the SBIC may be asked to divest its interest in the portfolio concern. In very rare instances, the SBIC might be found to be in default of its covenants and transferred to the Office of SBIC Liquidations, where recovery efforts will be implemented. This is a very rare step and has not been necessary for the most part.

The Disaster program has a built in recovery system in the portfolio management by SBA's servicing centers. Disaster loan improper payments were only 0.74 percent which is well below the 2.5 percent target. Each loan contract legally assures recovery of the entire loan (with interest) as soon as the

loan agreement is signed – notwithstanding the circumstances. In addition, the majority of loans made are collateralized that makes them very collectable in the event of borrower default. The collateralized repayment requirements, sophisticated system of checks and balances, and SBA's historical low rate of improper payments (of which all are currently being repaid) clearly provide an effective recovery of Disaster improper payments.

*V. Discuss your agency's recovery auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. In addition complete the table below.*

Agency component	Amount subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amount Identified for Recovery CY	Amount Recovered CY	Amount Identified for Recovery PYs	Amount Recovered PYs	Cumulative Amount Identified for Recovery (CY + PYs)	Cumulative Amount Recovered (CY + PYs)
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Response: The SBA is not subject to the Recovery Auditing Act as annual contract awards do not exceed \$500 million.

*VI. Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.*

**Response:** The improper payment initiative is included in the President's Management Agenda along with the Administrations other management initiatives. The SBA's Strategic Goal Four is to assure SBA programs operate efficiently and effectively, including compliance with PMA initiatives. The SBA's strategic goals are included in annual performance plans for all of its programs as business objectives, and these business objectives are included in employee performance plans. SBA management monitors accomplishment of its business objectives in its performance plan using its performance management process, and action is taken

when progress is not on target. Executive and management bonuses are based on the accomplishment of business objectives included in employee annual performance plans. This management process assures accountability of improper payment follow up for SBA's four credit programs included in this report.

For the SBIC program, operations analysts are evaluated, in part, on the resolution of regulatory violations in a timely manner. They are also evaluated, in part, on responding to requests for clarification on regulations by licensees. Although examiners are not evaluated on the number of violations they uncover, they are evaluated on the number of exams they perform. We believe the assistance provided by SBIC operations analysts and the approximately annual exams for leveraged SBICs provide an incentive to perform within the framework of the regulations.

For the Disaster program, it is important to note that as a part of the annual Quality Assurance Review, the following number and dollar amount of improper payments has been identified:

FY 2003	8 loans for \$96,266 IP loans
FY 2004	11 loans for \$34,089 IP loans
FY 2005	9 loans for \$18,280 IP loans
FY 2006	11 loans for \$125,047 IP loans
FY 2007	9 loans for \$84,290 IP loans
FY 2008	7 loans for \$99,186 IP loans

The majority of improper payment loans identified through annual Quality Assurance Reviews indicate minimal findings of unauthorized and/or ineligible loans. It is also important to note that our annual sample sizes exceed OMB sampling requirements. The SBA's internal controls include the following:

- Disaster related damages are verified onsite by SBA staff. The cost to repair or replace the disaster damaged property is determined by SBA construction analysts. Also, SBA makes appropriate credit checks, verification of income, verification of ownership and checks with FEMA to ensure that federal assistance is not duplicated during loan processing and disbursement of all disaster loan funds. Every secured disaster loan is reviewed by staff attorneys for legal sufficiency. Finally, electronic funds transfer is utilized to prevent lost and stolen checks.



The SBA asserts that its Disaster program internal controls (checks and balances) that have always been a part of its loan making and disbursement function are responsible for the relatively minimal amounts of improper payments amounts designated above. In addition, the Disaster Loan Program, by its very nature, legally obligates the recipient of any disaster loan (including any improper payment portion of a disaster loan) to pay back all the loan funds whether the loan contains any improper payments or not. Not only is there a legally binding contract between the borrower and the SBA to repay the loan, the contract is usually secured by real estate collateral which further strengthens the government's recovery position.

In summary, the collateralized repayment requirements, sophisticated system of checks and balances as well as the Disaster program historical record of low improper payments (of which all are currently being repaid) clearly supports SBA's assertion that its management and operations are responsive to improper payment requirements.

*VII. Agency information systems and other infrastructure*

*A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.*

**Response:** SBA's [7\(a\) program](#) Guaranty Purchase Tracking System supports the 7(a) guaranteed loan purchase process very well, and it is continually updated to enhance the overall integrity of the purchase process. The [504 program](#) software used by the Central Servicing Agent is owned by the SBA. Therefore the Agency has a higher level of control over that software than would typically exist with contractor owned systems. In addition the contractor provides audited financial statements and a SAS 70 report to verify its system. The [SBIC program](#) maintains a data system that tracks exams, exam findings and resolution of exam findings. All individuals are empowered to refer any case of suspected fraud to the Inspector General. The [Disaster loan program](#) does have the information systems and other infrastructure it needs to reduce improper payments to targeted levels and is already well below the improper payment levels the Agency has targeted. For example, ODA is engaged in an ongoing process of developing and has already implemented an integrated, electronic loan processing system to streamline, enhance

and improve the loan-making process. This system will support workflow management, electronic file management and document generation functions. A Quality Assurance Task Force partnered with the Disaster Credit Management System (DCMS) development team to improve the Quality Assurance process with a goal to minimize future improper payments events as much as possible. As a result, many of the business rules that govern the programming of this new system have been designed to help improve the Quality Assurance process. The DCMS will significantly impact the disaster assistance program and the manner in which it delivers services to disaster victims.

*B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its most recent budget submission to Congress to obtain the necessary information systems and infrastructure.*

**Response:** Not applicable.

*VIII. Describe any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.*

**Response:** Not applicable. The SBA does not have any statutory or regulatory barriers limiting improvement to its performance on improper payments initiative.

*IX. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.*

**Response:** In summary, the SBA has a very low level of Improper payments. The following table shows the SBA's FY 2008 improper payments.

	FY 2008 Improper Payment Rate
7(a) Guaranty purchases	0.53 percent (\$6.5 million)
7(a) Guaranty approvals	Zero percent
CDC Debentures	Zero percent (assumed)
CDC Loans Guaranteed	Zero percent
SBIC Guaranties	Zero percent
Disaster Loan Approvals	0.74 percent (\$6.1 million)



## APPENDIX 2 – CONTACT SBA

### SBA Sites You Can Use

The SBA home page is [www.sba.gov](http://www.sba.gov). All of the program agencies may be accessed from this site. Several of the more frequently visited sites are listed below:

SBA INFORMATION	
Who We Are and What We Do	<a href="http://www.sba.gov/aboutsba">www.sba.gov/aboutsba</a>
SBA Frequently Asked Questions	<a href="http://app1.sba.gov/faqs">http://app1.sba.gov/faqs</a>
Find Your Local Office	<a href="http://www.sba.gov/localresources/index.html">www.sba.gov/localresources/index.html</a>
SBA En Español	<a href="http://www.sba.gov/espanol">www.sba.gov/espanol</a>
Ombudsman	<a href="http://www.sba.gov/ombudsman">www.sba.gov/ombudsman</a>
Online Library	<a href="http://www.sba.gov/tools/resourcelibrary/index.html">www.sba.gov/tools/resourcelibrary/index.html</a>
On Line Training	<a href="http://www.sba.gov/services/training/index.html">www.sba.gov/services/training/index.html</a>

FOR START-UP BUSINESSES	
What is a Small Business?	<a href="http://www.sba.gov/starting/indexwhatis.html">www.sba.gov/starting/indexwhatis.html</a>
Starting Your Business	<a href="http://www.sba.gov/starting/">www.sba.gov/starting/</a>
Start-up Kit	<a href="http://www.sba.gov/smallbusinessplanner/index.html">www.sba.gov/smallbusinessplanner/index.html</a>
Outside Resources and Business Hotlinks	<a href="http://www.sba.gov/hotlist/">www.sba.gov/hotlist/</a>

FOR ESTABLISHED BUSINESSES	
Financing Your Business	<a href="http://www.sba.gov/services/financialassistance">www.sba.gov/services/financialassistance</a>
Contracting	<a href="http://www.sba.gov/services/contractingopportunities">www.sba.gov/services/contractingopportunities</a>
Surety Bond	<a href="http://www.sba.gov/services/financialassistance/suretybond/index.html">www.sba.gov/services/financialassistance/suretybond/index.html</a>
Business Opportunities	<a href="http://www.sba.gov/expanding/">www.sba.gov/expanding/</a>

CONTRACTING WITH THE GOVERNMENT	
Government Contracting	<a href="http://www.sba.gov/GC">www.sba.gov/GC</a>
PRO-Net/CCR:	<a href="http://www.ccr.gov">www.ccr.gov</a>

DISASTER ASSISTANCE	
Disaster Assistance	<a href="http://www.sba.gov/services/disasterassistance">www.sba.gov/services/disasterassistance</a>
Disaster Area Office Locations	<a href="http://www.sba.gov/services/disasterassistance/officelocations">www.sba.gov/services/disasterassistance/officelocations</a>
FEMA Information	<a href="http://www.fema.gov">www.fema.gov</a>

### Phone Numbers to Call

SBA Answer Desk (Toll Free) (800) 827-5722 (TTY: 704-344-6640)  
 Disaster Customer Service Center (Toll Free) (800) 659-2955



## APPENDIX 3 – GLOSSARY OF ACRONYMS AND ABBREVIATIONS

<b>504</b>	<b>504 Certified Development Company Loan Program</b> Provides small businesses with long-term, fixed rate financing for the purchase of land, buildings and long-life capital equipment		cy's PAR (or with the Congressional Budget Justification by those agencies participating in OMB's pilot program).
<b>7(a)</b>	<b>Basic 7(a) Loan Guaranty Program</b> The SBA's primary loan program. Provides general loan financing for a wide variety of purposes. SBA guarantees small business loans for virtually every business purpose.	<b>BATF</b>	<b>Business Assistance Trust Fund.</b> A trust fund in the U.S. Treasury maintained to receive and account for donations made by private entities for activities to assist small business. SBA authorizes BATF disbursements in accordance with the donor's intention to assist small business.
<b>8(a)</b>	<b>8(a) Business Development Program</b> This program assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream.	<b>BD</b>	<b>Business Development</b> The BD office uses SBA's statutory authority to provide business development and Federal contract support to small disadvantaged firms through the use of its 8(a) and 7(j) programs.
<b>A-123</b>	Designation for the Office of Management and Budget Circular on "Internal Control Systems." This circular prescribes policies and procedures to be followed by executive departments and agencies in establishing, maintaining, evaluating, improving, and reporting on internal controls in their program and administrative activities.	<b>BDMIS</b>	<b>Business Development Management Information System</b> Automates the certification and annual review process for the 8(a) program.
<b>AA</b>	<b>Associate Administrator</b>	<b>BLIF</b>	<b>Business Loan and Investment Fund</b> The Treasury fund used to maintain the accounting records of loans approved prior to 1992. It includes activity on direct loans, loan guaranties and defaulted guaranties purchased by the SBA. Loans approved subsequent to FY 1991 are maintained in another set of accounts under Federal Credit Reform Act guidelines.
<b>AFMAC</b>	<b>The Audit and Financial Management Advisory Committee</b> Assists the Administrator in overseeing the SBA's financial operations.	<b>CA</b>	<b>Office of Capital Access</b> (See OCA)
<b>AFR</b>	<b>Agency Financial Report</b> One of three reports that an agency participating in OMB's financial reporting pilot program must issue. The AFR should contain the agency head's message, the MD&A, and links to the Financial Section and Other Accompanying Information Section.	<b>CDC</b>	<b>Section 504 Certified Development Company Debenture Program</b> A participating CDC issues debentures to private investors to finance transactions with small business borrowers. SBA's guaranty covers 100 percent of the debenture financing, and the Agency honors its guarantee to the investor through a single Central Servicing Agency.
<b>APR</b>	<b>Annual Performance Report</b> A report required by the GPRA that presents a Federal agency's progress in achieving the goals in its strategic plan and performance budget and is presented as part of the agen-		

<b>CFO</b>	<b>Chief Financial Officer</b> The Chief Financial Officer is responsible for the financial leadership of the Agency. This includes responsibility for all Agency disbursements, management and coordination of Agency planning, budgeting, analysis and accountability processes.	<b>CRC</b>	<b>Civil Rights Center</b> The CRC administers and enforces various Federal statutes, regulations, and Executive Orders that relate to nondiscrimination and equal opportunity.
<b>CFR</b>	<b>Code of Federal Regulations</b> The codification of the general and permanent rules published in the Federal Register by the executive departments and agencies of the Federal Government.	<b>DAP</b>	<b>Disaster Assistance Plan</b> Executive Order 13411 mandates that the Federal Agencies create a single application that fulfills the information requirements of all applicable Federal Disaster Assistance Programs.
<b>CIO</b>	<b>Chief Information Officer</b> The Chief Information Officer is responsible for the management of information technology for the Agency, including the design, implementation and continuing successful operation(s) of information programs and initiatives.	<b>DCMS</b>	<b>Disaster Credit Management System</b> The electronic system which is used by the SBA to process loan applications for all new disaster declarations.
<b>CLA</b>	<b>Office of Congressional and Legislative Affairs</b> The mission of the CLA is to assist in the development and enactment of SBA legislative proposals and to serve as the liaison for SBA's communications on all legislative and congressional activities with Congress and the agencies that support Congress. The Assistant Administrator for CLA reports directly to the Administrator in carrying out this mission.	<b>DCIA</b>	<b>Debt Collection Improvement Act</b> A Federal law, enacted in 1996, to maximize collections of delinquent debts owed to the government by ensuring quick action and the use of all appropriate collection tools to enforce recovery of debts.
<b>COO</b>	<b>Office of the Chief Operating Officer</b>	<b>DLF</b>	<b>Disaster Loan Fund</b> Assists eligible small businesses impacted by the disasters.
<b>COOP</b>	<b>Continuity of Operations Plan</b> A predetermined set of instructions or procedures that describe how an organization's essential functions will be sustained following a disaster event for up to 30 days and then return to normal operations.	<b>ECCB</b>	<b>Enterprise Change Control Board</b> The ECCB is in charge of the administration of the centralized network accounts for the SBA.
<b>CR</b>	<b>Citizens' Report</b> One of the three new pilot performance information reports, directed at the public.	<b>EEO</b>	<b>Equal Employment Opportunity</b>
		<b>ELA</b>	<b>Electronic Loan Application</b> Simplifies the application process by providing electronic applications..
		<b>FASAB</b>	<b>Federal Accounting Standards Advisory Board</b> Promulgates accounting principles for Federal Government reporting entities.

<b>FBCI</b>	<b>Faith-Based and Community Initiatives</b> This office was created to ensure that faith-based community groups received greater private support, and face fewer bureaucratic barriers.	<b>FHCS</b>	<b>Federal Human Capital Survey</b> A survey administered by OPM, to measure federal employees' perceptions about how effectively agencies have managed their workforces.
<b>FCRA</b>	<b>Federal Credit Reform Act</b> The Federal Credit Reform Act of 1990 was enacted to provide a more realistic picture of the cost of U.S. Government direct loans and loan guaranties. The credit subsidy cost of direct loans and loan guaranties is the net present value of the estimated long-term cost to the government for these credit activities, exclusive of administrative expenses.	<b>FICA</b>	<b>Federal Insurance Contribution Act</b> The act establishing a social security tax, a largely self-supporting program for employees.
<b>FECA</b>	<b>Federal Employees' Compensation Act</b> Provides compensation benefits to federal civilian employees for work-related injuries or illnesses and to their surviving dependents if a work-related injury or illness results in the employee's death.	<b>FMFIA</b>	<b>Federal Managers Financial Integrity Act</b> The act primarily requiring ongoing evaluations and reports on the adequacy of the internal accounting and administrative control systems of executive agencies.
<b>FEMA</b>	<b>Federal Emergency Management Agency</b> Part of the new Department of Homeland Security. It is tasked with responding to, planning for, recovering from and militating against disasters.	<b>FPDS</b>	<b>Federal Procurement Data System</b>
<b>FERS</b>	<b>Federal Employees' Retirement System.</b> A three-tiered retirement plan for Federal employees hired after 1984, composed of Social Security benefits, a basic benefit plan, and contributions to a TSP.	<b>FTA</b>	<b>Fiscal Transfer Agent</b>
<b>FFMIA</b>	<b>Federal Financial Management Improvement Act of 1966</b> A Federal law enacted in 1996, that requires that each agency implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger at the transaction level.	<b>FY</b>	<b>Fiscal Year</b> The SBA fiscal year begins on October 1st and ends the following September 30th.
		<b>GAO</b>	<b>U.S. Government Accountability Office</b> The GAO is the audit, evaluation and investigative arm of Congress. GAO exists to support the Congress in meeting its Constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the American people.
		<b>G CBD</b>	<b>Office of Government Contracting and Business Development</b> G CBD works to create an environment for maximum participation by small, disadvantaged and woman-owned business in federal government contract awards and large prime subcontract awards.
		<b>GWAC</b>	<b>Government wide Acquisition Contract</b>
		<b>HUBZone</b>	<b>Historically Underutilized Business-Zone Program</b> HUBZone programs encourage economic development in historically underutilized business zones through the establishment of federal contract award preferences for small businesses located in such areas.

<b>IP</b>	<b>Improper Payments</b> See IPIA	<b>NAICS</b>	<b>North American Industry Classification System</b> NAICS is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.
<b>IPA</b>	<b>Independent Public Accountant</b> A firm or person, other than the agency's Inspector General who is independent and is engaged to perform the audit of a federal agency or for other purposes.	<b>NGPC</b>	<b>National Guaranty Purchase Center</b> SBA's centralized loan guaranty purchase processing center.
<b>IPIA</b>	<b>Improper Payment Information Act of 2002</b> A Federal law, enacted in 2002, intended to identify and reduce erroneous payments in the government's programs and activities.	<b>NWBC</b>	<b>National Women's Business Council</b> The NWBC is a bi-partisan federal advisory council created to serve as an independent source of advice and policy recommendations to the President, Congress, and the U.S. Small Business Administration on economic issues of importance to women business owners.
<b>IT</b>	<b>Information Technology</b> Includes matters concerned with the design, development, installation, and implementation of information systems and applications.	<b>OCA</b>	<b>Office of Capital Access</b> The Office of Capital Access is responsible for small business program loans, lender oversight, the investment company program, the surety bond program and international trade.
<b>L/LMS</b>	<b>Loan and Lender Monitoring System</b>	<b>OCFO</b>	<b>Office of the Chief Financial Officer</b> The OCFO is responsible for the financial activity of the Agency. This includes Agency disbursements, management and coordination of Agency planning, budgeting, analysis and accountability processes.
<b>LMS</b>	<b>Loan Monitoring System</b> The new loan monitoring system aids SBA in managing its core loan guaranty programs and serves as one of the building blocks in the overall systems modernization project.	<b>OCIO</b>	<b>Office of the Chief Information Officer</b> Supports and provides guidance for SBA's nationwide computer automation and information technology efforts.
<b>MAS</b>	<b>Multiple Awards Schedule</b>	<b>OCRA</b>	<b>Online Representation and Certification Application</b>
<b>MAX</b>	<b>Budget Information System</b> OMB uses the MAX Budget Information System to collect, validate, analyze, model and publish budget and financial information.	<b>OCRM</b>	<b>Office of Credit Risk Management</b>
<b>MD&amp;A</b>	<b>Management's Discussion and Analysis</b> The MD&A is considered Required Supplementary Information for federal financial statements and is designed to provide a high level overview of the Agency.		
<b>MRF</b>	<b>Master Reserve Fund</b> SBA's fiscal and transfer agent maintains this reserve fund to facilitate the operation of the 7(a) secondary market program.		



<b>ODA</b>	<b>Office of Disaster Assistance</b> The ODA promotes economic recovery in disaster ravaged areas. In the wake of physical disasters, SBA's loans are the primary form of federal assistance for non-farm, private sector disaster losses for individuals and businesses.	<b>PART</b>	<b>Program Assessment Rating Tool</b> An OMB methodology developed to assess and improve program performance so that the Federal Government can achieve better results.
<b>OFA</b>	<b>Office of Financial Assistance</b> The OFA administers various loan programs to assist small businesses.	<b>PCECGF</b>	<b>The Pollution Control Equipment Contract Guarantee Fund</b> PCECGF supports the costs associated with the credit portfolio of pre-October 1991 pollution control equipment loans and guaranties being liquidated by the Agency.
<b>OFO</b>	<b>Office of Field Operations</b>		
<b>OGC</b>	<b>Office of General Counsel</b> The OGC provides legal advice for senior management, as well as legal support for all of the Agency's programs, initiatives and administrative responsibilities.	<b>PCIE</b>	<b>President's Council on Integrity and Efficiency</b>
<b>OHCM</b>	<b>Office of Human Capital Management</b> Develops and provides innovative human capital strategies.	<b>PIA</b>	<b>Privacy Impact Assessment</b> Part of the Privacy Impact Statement from the Privacy Act.
<b>OIG</b>	<b>Office of Inspector General</b> The OIG conducts and supervises audits, inspections and investigations relating to SBA programs and operations.	<b>PLP</b>	<b>Preferred Lender Program</b> Program covers certified or preferred lenders that receive full delegation of lending authority.
<b>OMB</b>	<b>U.S. Office of Management and Budget</b> The OMB assists the President in overseeing the preparation of the federal budget and to supervise its administration in Executive Branch agencies.	<b>PMA</b>	<b>President's Management Agenda</b> An administration program to improve the management of the Federal Government in five areas: strategic management of human capital, competitive sourcing, financial management, e-government, and budget-performance integration.
<b>OPM</b>	<b>U.S. Office of Personnel Management</b> OPM is the Federal Government's Human Resource Agency.	<b>QA</b>	<b>Quality Assurance</b>
<b>ORACLE</b>	The Accounting program used by SBA's Administrative Accounting Division	<b>QAR</b>	<b>Quality Assurance Review</b> Quality Assurance Review done by various SBA division personnel.
<b>OSA</b>	<b>Office of Strategic Alliances</b>	<b>SAS</b>	<b>Statement on Auditing Standards</b>
<b>OVBD</b>	<b>Office of Veterans Business Development</b>	<b>SBA</b>	<b>Small Business Administration</b>
<b>PAR</b>	<b>Performance and Accountability Report</b> Reporting that presents financial, budgetary and performance information to OMB, Congress and the public.		

<b>SBAExpress</b>	Provides selected lenders with a 50 percent guaranty on their loans in exchange for the ability to use primarily their own application and documentation forms. This makes it easier and faster for lenders to provide small business loans of \$350,000 or less.	<b>SDB</b>	<b>Small Disadvantaged Business</b> Small business owned and controlled by individual(s) claiming to be socially and economically disadvantaged.
<b>SBDC</b>	<b>Small Business Development Center</b> Delivers management and technical assistance, economic development and management training to existing and prospective small businesses through cooperative agreements with universities and colleges and government organizations.	<b>SMG</b>	<b>Secondary Market Guaranty</b> SMG is the SBA guaranty of timely payment to 7(a) secondary market investors
<b>SBG</b>	<b>Surety Bond Guarantee Program</b> Provides guarantees for bid, performance and payment bonds for contracts up to \$2 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels.	<b>SOP</b>	<b>Standard Operating Procedure</b> Standard Operating Procedures are the primary source of the Agency's internal control.
<b>SBGRF</b>	<b>Surety Bond Guarantees Revolving Fund</b> Provides assistance to small business contractors in obtaining bid, performance and payment bonds for construction, service and supply contracts.	<b>SOX</b>	<b>Sarbanes-Oxey Act 2002</b> The legislation came into force in 2002 and introduced major changes to the regulations of financial practice and corporate governance.
<b>SBIC</b>	<b>Small Business Investment Company</b> Provides equity capital, long-term loans, debt equity investments and management assistance to small businesses, particularly during their growth stages.	<b>SSBIC</b>	<b>Specialized Small Business Investment Company</b> Provides equity capital, long-term loans, debt equity investments and management assistance too socially or economically disadvantaged small businesses.
<b>SBLC</b>	<b>Small Business Lending Companies</b> A group of non-depository small business lending companies listed by Capital Access.	<b>TOP</b>	<b>Treasury Offset Program</b> A centralized debt collection program developed by the Treasury Department's FMS to assist agencies in the collection of delinquent debts owed to the Federal Government.
<b>SBPRA</b>	<b>Small Business Paperwork Relief Act of 1992</b>	<b>WBC</b>	<b>Women's Business Center Program</b> Provides long-term training and counseling to women owning or managing a business, including financial, management, marketing and technical assistance, and procurement.
<b>SCORE</b>	Offers counseling and training for small business owners who are starting, building or growing their businesses. Sponsored by the SBA, SCORE's services are free of charge and are provided by retired or active business volunteers.		

## APPENDIX 4 – OFFICE OF THE INSPECTOR GENERAL AUDIT FOLLOW-UP - DETAIL OF FINAL ACTION ACTIVITY

### Disallowed / Questioned Costs

#### Report # 3-35, National Women’s Business Council (NWBC)

**Summary:** The audit objective was to determine whether NWBC’s expenditures and activities were appropriate and complied with laws and regulations. The audit recommended the CFO recover \$10,000 for an improper cash award issued as a consulting fee.

**Final Action:** \$0.00 collected / \$10,000.00 written off

#### Report # 4-13, Early Defaulted Loan To Ocumed Group, Inc., Roseland, NJ

**Summary:** The audit objective was to determine if the early loan default was caused by lender or borrower noncompliance with SBA’s requirements. The audit recommended the District Director seek recovery from the lender of principal, interest and expenses paid to First International Bank.

**Final Action:** \$0.00 collected / \$767,049.00 written off

#### Report # 4-36, Early Defaulted Loan To Midwest Rotary Maniforms Company

**Summary:** The audit objective was to determine if the early default was caused by lender or borrower noncompliance with SBA’s requirements. The audit recommended the Agency seek recovery of the SBA guaranty repair paid to First International Bank.

**Final Action:** \$0.00 collected / \$740,000.00 written off

#### Report # 7-06, SBA Guaranteed Loan To Just A Cut Lawn Care, Inc.

**Summary:** During an ongoing audit of the guarantee purchase process at the National Guaranty Purchase Center, a problematic loan was identified. The audit recommended the Acting AA/OFA seek recovery of \$28,660 from the lender on the guarantee paid.

**Final Action:** \$14,214.00 collected / \$14,446.00 written off

#### Report # 7-08, Audit Of SBAExpress And Community Express Loan Purchase And Liquidation Process

**Summary:** The audit objective was to determine if the SBAExpress and Community Express Loan Purchase process adequately identified lender deficiencies that would have affected purchase decisions. The audit recommended AA/OFA determine whether lender actions warrant a denial of liability on guaranties associated with loans that were missing documentation, recover money from a lender that awarded a SBA loan to an ineligible company, recover money for two purchased SBAExpress loans for which the lender failed to disclose material facts, obtain evidence from lenders that technical assistance was provided to borrowers, and review \$25.1 million of loans in liquidation and refer to the U.S. Department of the Treasury those loans that are more than 180 days delinquent.

**Final Action:** \$303,741.00 collected / \$25,162,376.00 written off

#### Report # 7-18, OLO Corrective Action Process

**Summary:** The audit objective was to determine whether the Office of Lender Oversight had fully implemented the corrective action process. The audit recommended the Acting Director, OFA, determine the significance of deficiencies associated with the loans described in the audit report and seek recovery through repairs or denials of the guarantees paid.

**Final Action:** \$0.00 collected / \$734,676.00 written off

**Report # 7-23, Guarantee Purchase Process For Section 7(a) Loans At the National Guaranty Purchase Center**

**Summary:** The purpose of this audit was to examine purchase procedures used by the Herndon Center to determine whether they were effective in identifying lender deficiencies. The audit recommended the Acting Director of OFA seek recovery of the guaranties paid on the loans listed in the audit.

**Final Action:** \$7,527.33.00 collected / \$28,879.67 written off

**Report # 8-15, Disaster Loss Verification Process**

**Summary:** The review objectives were to determine whether loss verifications were accurate, the Office of Disaster Assistance provided adequate direction to verifiers, and that the SBA exercised the proper level of oversight. The report recommended ODA issue a Notice to loan officers instructing them not to assign applications to loss verifiers that have been declined during pre-processing of the applications.

**Final Action:** \$0.00 collected / \$10,300.00 written off

**Funds Put To Better Use**

**Report # 4-28, SBA Guaranteed Loan To Wynne Telecom, Inc.**

**Summary:** The objective of this audit was to determine if the lender originated, disbursed and liquidated the loan purchased by the SBA in accordance with established guidance. The audit recommended the Agency seek recovery of the guaranty paid on the loan.

**Final Action:** \$142,549.00 implemented / \$0.00 not implemented

**Report # 4-43, Early Defaulted Loan To Big Z Travel Center**

**Summary:** The objective of this audit was to determine if the early loan default was caused by lender or borrower noncompliance with SBA's requirements to originate, close and liquidate the loan. The audit recommended the Agency seek recovery of the SBA guaranty repair paid to Washington Mutual Bank for the loan.

**Final Action:** \$293,823.00 implemented / \$0.00 not implemented

**Report # 8-10, Annual Credit Reviews For Gulf Coast Hurricane Disaster Loan Disbursements**

**Summary:** The objective of this audit was to determine the adequacy of SBA's monitoring efforts to ensure that the financial status of borrowers had not deteriorated to levels that would adversely impact their loan repayment ability. The audit recommended the Office of Disaster Assistance rescind Notice 07-53 to ensure that credit reviews are performed for loans that are disbursed 12 months beyond the original loan authorization date.

**Final Action:** \$0.00 implemented / \$29,200,000.00 not implemented

### Table III

Tables I & II are in the MD&A section

## Final Action On Audit Recommendations Not Completed Within 1 Year

**October 1, 2007 – September 30, 2008**

### Report # 0-14, 7(a) Service Fee Collections

Program: OCFO

Date Issued: 03/30/00

Management Decision Date: 08/22/00

**Explanation:** The recommendation is to the Chief Financial Officer to establish receivable accounts for 7(a) loan service fees. The SBA implemented a new contract with the 7(a) program fiscal and transfer agent (FTA) on August 1, 2008 that provides for FTA action to collect outstanding loan servicing fees. This final action is expected by 03/31/09.

### Report # 2-29, Internal Control Over Colson Services Corporation's Contract As Central Servicing Agent For SBA's CDC Program

Program: OFA

Date Issued: 09/16/02

Management Decision Date: 12/12/02

**Explanation:** The recommendation is for the Chief Financial Officer to use the Certified Development Company program trial balance to record Master Reserve Fund items on SBA's financial statements. FASAB standard # 35 became effective for financial periods beginning October 1, 2008. The SBA will conform its reporting to this standard through the addition of the Master Reserve Account to the financial statement footnote on fiduciary activities. A final action is expected by 08/15/2009.

### Report # 2-31, Impact Of Loan Splitting On Borrowers And the SBA

Program: OFA

Date Issued: 09/30/02

Management Decision Date: 04/06/07

**Explanation:** The recommendation is to implement a procedure requiring that lenders absorb all additional costs associated with loans that are split into multiple loans

for the benefit of the lender. A condition will be added to the National Authorization that prohibits a lender from splitting one financing request into two loans. A loan must be made for a sound business purpose that benefits the small business and may not be split into two loans merely to benefit the lender. A final action is expected in October 2008.

### Report # 3-08, SBA's Oversight Of The Fiscal Transfer Agent (FTA) For The 7(a) Loan Program

Program: CA

Date Issued: 01/30/03

Management Decision Date: 10/15/03

**Explanation:** Capital Access has one remaining open recommendation to develop procedures and regulations governing the proper operation of the Master Reserve Fund. These procedures would include how to treat MRF float income and other operational aspects of the fund. A rewrite of the SBA procedures was recently completed and the draft was routed for comments. Revisions were made and it is in final clearance. A final action is expected by 11/30/08.

### Report # 3-26, Microloan Program: Moving Toward Performance Management

Program: Microloan

Date Issued: 05/13/03

Management Decision Date: 08/28/03

**Explanation:** Three recommendations remain open to the Office of Financial Assistance. 1) Work with the Office of Field Operations to establish a task force to develop a system for district office marketing and oversight of the Microloan program. Increased marketing efforts for microloans are currently on hold as funding levels for the program are uncertain. A final action for this recommendation is expected by 03/31/09. 2) Ensure the development of a comprehensive Microloan program SOP. An SOP was put into clearance last year. But, because of discussions about discontinuing funding for the program, the process was put on hold. The final action target date has passed and another has not been determined. 3) Ensure program goals are set and outcome-oriented data, such as information on business status at the time the microloan is paid in full or written off. Principal program goals are set forth in the SBA microloan regulations

and these can only be modified with a regulatory change. With the absence of an approved budget, the Agency determined that it would not be appropriate to request a regulatory change. A final action for this recommendation is expected by 06/30/09.

#### **Report # 3-30, Early Defaulted Loan To 2B Systems, Inc.**

**Program:** CA

**Date Issued:** 06/19/03

**Management Decision Date:** 12/21/04

**Explanation:** The one open recommendation is to the Office Of Financial Assistance to seek recovery of \$630,224, plus accrued interest, from First International Bank on the guaranty paid for a specific loan, less any subsequent recoveries. The Agency is awaiting a legal opinion on the pursuit of litigation since the lender will not voluntarily repay. A final action is expected by 06/30/09.

#### **Report # 4-16, SBA's Administration Of The Procurement Activities Of Asset Sale Due Diligence Contracts And Task Orders**

**Program:** OPGM

**Date Issued:** 03/17/04

**Management Decision Date:** 05/12/04

**Explanation:** There are 21 open recommendations to the Office of Management and Administration. The recommendations are; to revise current procedures regarding set-aside contracts to require information be provided to clearly support the amount of personnel costs to be subcontracted, ensure the amount of subcontracting is reviewed and documented in the contract file, revise procedures to ensure contracting officials review proposals and question any language that indicates contractors are not complying, develop and implement procedures to monitor contractor compliance with the 50 percent rule, obtain an interpretation from the Office of Policy, Planning and Liaison on whether the labor of third party vendors should be considered in determining compliance with the 50 percent rule, refer any potential contract violations to GSA for appropriate action, require FSS contractors classified as small businesses to certify their size to ensure they fit within applicable size standards, ensure GSA ordering procedures are fully complied with for task orders to FSS contracts, ensure all sole source require-

ments of the FAR are complied with, take appropriate action to ensure the contracting officials involved in the decision follow proper procedures, ensure debriefings are conducted in accordance with the FAR, take appropriate action to ensure contracting officials involved in the decision to postpone the debriefing related to the due diligence task order for asset sales conduct future briefings in accordance with requirements, ensure contracting officials provide all potential offerors with any contractor questions and respective SBA answers that clarify ambiguities in the solicitation, develop and implement planning procedures in accordance with FAR Part 7 and issue a Procedure Notice to ensure SBA program officials are aware of procurement planning requirements, ensure written acquisition plans are prepared for all future asset sale due diligence contracts and task orders, develop and issue Agency procedures regarding the content, format and retention of all required contractor performance evaluations, ensure contracting officials receive training, ensure future asset sale due diligence contracts are reported, issue the draft SOP 00 11 2 as soon as possible, and to ensure contracting officials are reviewing the GSA approved price lists when issuing task orders to FSS contracts. The office is reviewing/rewriting SOP 00 11 to ensure that all audit recommendations are incorporated into the final document. This SOP is still in draft format. A final action is expected by 06/30/09.

#### **Report # 4-34, SBA's Process For Complying With The FMFIA Reporting Requirements**

**Program:** OCFO

**Date Issued:** 07/29/04

**Management Decision Date:** 09/09/04

**Explanation:** The two recommendations remaining open are to the Office of the Chief Financial Officer to revise, clear and issue the draft SOP 00 02 3 and clearly define material weakness, as it relates to SBA and at the different levels of management within the Agency. The new Internal Control SOP has been completed and will go out for clearance in October 2008. These final actions are expected to be completed by 12/31/08.

**Report # 4-40, SBA Guaranteed Loan To Elatec Technology Corporation And HK Equipment, Inc.**

Program: OPM

Date Issued: 09/13/04

Management Decision Date: 04/06/07

**Explanation:** This recommendation is to recover from the lender the \$246,460 paid to purchase the guaranty on a loan. This recommendation is being elevated to the Deputy Administrator to determine how to proceed.

**Report # 4-41, Selected SBA General Support Operating Systems**

Program: OCIO

Date Issued: 09/10/04

Management Decision Date: 11/09/04

**Explanation:** There are three open recommendations to the Office of Chief Information Officer. These recommendations are related to systems patches and security fixes, file integrity, firewall risk assessment and monitoring strategy, and router logging and monitoring strategy. Some processes have been developed, documented and implemented. For the remaining process, the OCIO is still working on implementation. Each of these final actions are expected to be completed by April 2009.

**Report # 4-42, SBA's Email System**

Program: OCIO

Date Issued: 09/10/04

Management Decision Date: 11/15/04

**Explanation:** One recommendation remains open to the Office of Chief Information Officer. This recommendation is related to risk assessment of the email environment and email policies. A policy is in draft form. The final action is expected to be completed by 04/06/09.

**Report # 4-44, Summary Audit Of SBA-Sponsored And Cosponsored Events Conducted By District Offices**

Program: OSA

Date Issued: 09/24/04

Management Decision Date: 05/17/05

**Explanation:** Two recommendations are open to the Office of Strategic Alliances. Recommend the OSA develop and issue, in accordance with the OGC, standard operating procedures addressing the SBA-sponsored events and to require that district offices maintain files for SBA-sponsored events and report information to SBA Headquarters. OSA continues to work with OGC to update guidance on Agency outreach activities. The SOP for Gifts to the Agency is in clearance, and after its release, OSA will draft additional guidance on SBA sponsored activities. These final actions are overdue and new target dates have not yet been determined.

**Report # 5-12, SBA's Information System Controls for FY 2004**

Program: OCIO

Date Issued: 02/24/05

Management Decision Date: 04/18/05

**Explanation:** There are two open recommendations addressed to the Chief Information Officer. Recommend the CIO develop logging procedures for all SBA internal and contractor supported general support systems and major applications. Policies and procedures are complete. Work with systems owners continues for implementation of the requirement. This final action is overdue and a new target date has not yet been determined. Recommend the CIO develop procedures for the administration of and restriction of access to system software. The OCIO has completed the Enterprise Configuration Control Board process. No major changes have been implemented to system software. An upgrade to Excel 2007 is planned. Software compatibility issues are being addressed to complete the installation. This recommendation is expected to be completed by 10/30/08.

**Report # 5-23, SBA's Administration Of Its Special Appropriations Grant**

Program: OA

Date Issued: 09/21/2005

Management Decision Date: 05/01/2006

**Explanation:** There are five open recommendations to the Office of Administration to develop policies and procedures regarding the Agency's grants portfolio, obtain documentation that shows all costs charged to the grant

are allocable and allowable, include guidelines in the grant application instructions that clearly define key personnel, obtain all performance and financial reports as required by the terms of the grant, and consider invoking SBA authority to suspend grantee payments until earlier audit recommendations are addressed. An SOP is being reviewed and rewritten to ensure all recommendations are incorporated into the final document. This SOP is in draft format. This is expected to have a final action by 06/30/09.

#### **Report # 5-28, Review Of SBA Procedures For Cash Gifts**

**Program:** OA

**Date Issued:** 09/30/2005

**Management Decision Date:** 02/23/2006

**Explanation:** The one open recommendation is to the Office of Administration to streamline procedures to obligate funds within five working days after a commitment document is approved. SOP 00 11 is currently being reviewed and rewritten to ensure that the recommendations relating to DPGM procedures are incorporated into the final document. This is expected to have a final action by 06/30/09.

#### **Report # 6-01, Independent Evaluation Of SBA's Information Security Program**

**Program:** OCIO

**Date Issued:** 10/07/2005

**Management Decision Date:** 11/14/2005

**Explanation:** There are two open recommendations to the Office of the Chief Information Officer to require that configuration management plans be incorporated within Certification and Accreditation packages for all SBA systems and to ensure Privacy Impact Statements contain an overall assessment of the system compliance to the Privacy Act. An addendum to the Privacy Impact Assessment (PIA) was developed to allow a more thorough analysis of the PIA. All PIAs will implement these questions as part of the reviewing process. These are expected to have a final actions by 02/20/09.

#### **Report # 6-04, SBA's FY 2005 Financial Statements**

**Program:** OCFO

**Date Issued:** 11/15/2005

**Management Decision Date:** 05/10/2006

**Explanation:** There is one open recommendation to the Office of the Chief Financial Officer to coordinate with the Office of Procurement and Grants Management to implement timely closeout procedures and strengthen monitoring procedures to ensure that all grant undelivered orders are supported by evidence as to their need and validity. A new Oracle report was developed to simplify the reconciliation and close-out process. This report was presented to grant program offices in a training session. The remaining effort may be shifted to the Office of Business Operations, Division of Procurement and Grants Management. This recommendation is expected to have final action by 06/30/09.

#### **Report # 6-07, Review Of The 1502 Reporting Process**

**Program:** CA

**Date Issued:** 12/09/2005

**Management Decision Date:** 04/03/2006

**Explanation:** The two open recommendations are to the Office of Capital Access to revise SOPs related to the 1502 reporting process and offices responsible for correcting reporting errors, and to ensure SBA and lender personnel receive appropriate training regarding the 1502 reporting process. Some of the processes and procedures have changed with the signing of a new Fiscal Transfer Agent (FTA) contract. Following the transition period, the Agency will determine if revisions to the SOP are still required. A number of training methods have been introduced in the new contract which should ensure appropriate personnel receive training on the reporting process. These recommendations are expected to have a final action by 11/14/08.

#### **Report # 6-10, SBA's FY 2005 Financial Statements Management Letter**

**Program:** OCFO

**Date Issued:** 1/18/2006

**Management Decision Date:** 03/06/2006

**Explanation:** There are two open recommendations to the Office of the Chief Financial Officer and one open recommendation to the Office of Capital Access. The recommendations to the OCFO are to work with the Office of



Field Operations to enhance existing controls over the loan charge-off process and to review and update the accounting SOP to include SBA's policies and procedures for processing detailed accounting transactions, including automated and manual journal vouchers. The OCFO continues to work with OFO regarding SBA's internal control over loan liquidation and chargeoff. KPMG issued A Notice of Finding and Recommendation on SBA's loan liquidation and chargeoff process. SBA will conduct audit remediation based on recommendations made by the auditor. This recommendation is expected to have final action by 11/15/08. CA and the Office of General Council have been working with OMB regarding whether the Single Audit Act will apply to Certified Development Companies. Therefore, implementing training is premature until an OMB decision. This recommendation is expected to have final action by 10/31/08. SBA continues to update and use online tables to document its accounting transactions policy and procedures. It was decided to make this a feature of SBA's ELIPS system. The project now rests with the Office of Chief Information Officer. The recommendation is expected to have final action by 06/30/09.

#### **Report # 6-25, SBA's Implementation Of The Improper Payments Information Act (IPIA)**

**Program:** OCFO

**Date Issued:** 06/21/2006

**Management Decision Date:** 07/19/2006

**Explanation:** The one open recommendation is to the Office of the Chief Financial Officer to develop Procedure Notices or SOPs as internal guidance when changes to IPIA requirements are issued by OMB. A new Internal Control SOP has been completed and will go into clearance in October 2008. This is expected to have a final action by 12/31/08.

#### **Report # 6-26, Survey Of The Quality Assurance Review Process**

**Program:** OFA

**Date Issued:** 07/12/2006

**Management Decision Date:** 04/06/2007

**Explanation:** There are four open recommendations to the Office of Financial Assistance to consult with a statistician

to develop procedures for selecting loan samples, update the QAR checklist, develop procedures to be followed when a deficiency is identified during a quality assurance review, and revise the QA plan, as necessary, and fully implement the QAR process. SBA has implemented a statistically valid sampling methodology to select guarantee purchases for review. The checklist is now part of the requirement in SBA's 10 Tab submission process. OFA is formulating a comprehensive Quality Assurance plan for its lending centers, including the National Guarantee Purchase Center. This is expected to have a final action by 12/31/08.

#### **Report # 7-03, SBA's FY-2006 Financial Statements**

**Program:** M&A

**Date Issued:** 11/15/2006

**Management Decision Date:** 01/04/2007

**Explanation:** The one open recommendation is to the Chief Operating Officer, in conjunction with appropriate program officials, to ensure that policies are implemented regarding segregation of duties for FRIS, Oracle, DCMS, and LAS. Program offices adhere to a segregation of duties that reflects the current concept of operations in the LAS environment; OCA serves as the system owner for business loan guaranty functionality, ODA for disaster related functionality and OCFO for loan accounting. The Deputy Administrator/COO will assign these program offices the responsibility of formally documenting the roles and responsibilities to ensure the segregation of duties is addressed in the new LMAS system. This will be achieved by the end of FY 2009 and is expected to have a final action by 09/30/09.

#### **Report # 7-08, Audit Of SBAExpress And Community Express Loan Purchase And Liquidation Process**

**Program:** OFA

**Date Issued:** 12/29/2006

**Management Decision Date:** 01/11/2007

**Explanation:** There are two recommendation to OFA to determine if loan proceeds on the 45 loans sampled during the audit were used in accordance with the terms of the loan authorizations, and to review the 2,729 loans for compliance with SBA rules and regulations and improper payments. The review of all 45 loans has been completed

and the reviewers found adequate documentation of use of proceeds in all files. OFA stills thinks a review of 2,729 is too time intensive to accomplish. They undertook a review of an additional 45 loans and found sufficient documentation of use of proceeds to feel comfortable that the lenders are utilizing adequate judgment. This is expected to have a final action by 03/31/09.

**Report # 7-16, Vulnerability Technology Security Assessment**

Program: OCIO

Date Issued: 03/06/2007

Management Decision Date: 03/07/2007

**Explanation:** There are two recommendation to OCIO regarding reporting of high vulnerability systems and training sessions related to system risks. The Vulnerability Assessment Team meets regularly to assess the resolution of this issue and to ensure that all appropriate users are aware. This is expected to have a final action in October 2008.

## ACKNOWLEDGEMENTS

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